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Core Unit 2 – Regulation of Retirement Provision

Assignment 4 Notes

*(Part 5 – Governance Requirements and Part 6 – Current Issues)*

*Recommended Time: 2 Hours*

# Why are effective member communications important, what makes member communication effective and what constitutes good practice when communicating with members?

**15 marks**

Answer should cover:

*Importance*:

* If members do not understand their pension scheme, then they may not appreciate its value or realise how it can help them to save for their retirement;
* Trustees/managers and employers have a shared interest in seeing that:
  + members are engaged and motivated to plan for their eventual retirement;
  + the scheme is effective in attracting, motivating and retaining employees;
  + time and resources are not taken up by ineffective communications exercises;
  + legislation is complied with;

*Effectiveness:*

* qualities recognised by TPR:
  + impact – to get the members’ attention;
  + clarity – so the members are able to understand it;
  + accuracy – so members receive full and reliable information;
* getting the balance between these qualities right is key.

*Good practice*:

* having a clear communication plan;
* identifying the best way to communicate;
* tailoring communications to the audience;
* remembering the needs of all different categories of members;
* being open and honest;
* avoiding jargon;
* choosing the correct time to engage.

(Relevant section of the manual is Part 5 Chapters 1.7.1 to 1.7.3)

# List five controls trustees should have in place to ensure their relationship with their advisers remains robust and professional.

**5 marks**

Answer should include 5 of the following:

* information or advice given to them is fully understood and acknowledged;
* they understand what information the adviser needs to fulfil their role;
* any fee basis is appropriate and that it is documented;
* members are receiving value for money for services available;
* advisers are aware of their accountability to trustees for advice given; and
* they understand the complaints procedures for advisers and service providers.

(Relevant section of the manual is Part 5 Chapter 1.2.8)

# In relation to the governance of a defined contribution workplace pension scheme, describe the considerations of employers and/or trustees when selecting and appointing advisers and service providers, and outline the requirements for ensuring their services are well managed.

# Answer should include:

**20 marks**

# *Selection and Appointment*:

# evaluate the suitability of all advisers and service providers prior to their appointment to ensure they will satisfy the needs of the workplace pension scheme;

# request a scope of services, remuneration basis and evidence of how they provide good service, innovative ideas, tailored solutions etc.

# trustee/employer may also use a professional adviser to assist them in selecting a service provider;

# there should be a clear and comprehensive contract in place setting out terms for appointment of advisers or service providers, which will include a number of

# scope of the work required;

# standard of care to be adhered to and service level agreements;

# extent of trustees’/employer access to key personnel and dedicated teams;

# data protection and security arrangements in place;

# limitations of liability;

# fees - agreed fees, basis for calculating fees and additional charges

# agreement on delegating functions; and

# agreement on terminating the appointment.

# *Management of the Services*:

# ensure adequate controls in place to ensure their relationship with advisers and service providers remains robust and professional;

# Trustees should ensure that:

# information or advice given to them is fully understood and acknowledged;

# they understand what information the adviser needs to fulfil their role;

# any fee basis is appropriate and that it is documented;

# members are receiving value for money for services available;

# advisers are aware of their accountability to trustees for advice given; and

# they understand the complaints procedures for advisers and service providers.

# *Monitoring and Reviewing Services*:

# trustees/employers should continually monitor performance of their professional advisers/providers;

# each professional adviser/provider should be reviewed regularly;

# if problems are identified, trustees/managers may give the professional adviser/provider a set period of time to rectify the situation;

# if the trustees/managers are not satisfied with a service they may choose to consider appointing a replacement professional adviser/provider;

# trust-based workplace scheme - trustees remain responsible for the management and administration of the scheme, and therefore the services of advisers/service providers;

# employer will work closely with any provider/adviser to establish an effective governance framework;

# decisions made by advisers/service providers need to be made following an appropriate procedure

# monitoring may be measured against any agreed service levels.

(Relevant section of the manual is Part 5 Chapters 1.2.7 to 1.2.9)

# Outline five areas where the of UK pension law which are currently subject to EU law and which may diverge from UK law as a result of the UK withdrawing from the EU.

**10 marks**

Answer should cover 5 of the following with a short description of each:

* Scheme funding - the current technical provisions funding regime derives from the IORP Directive;
* Investment - some of the investment requirements (including limits on employer-related

investments and the requirement to diversify) derive from IORP;

* GMP equalisation - the Government position that GMPs must be equalised is based on EU law. It may

therefore be that this issue could disappear;

* Equal treatment - there are unlikely to be major changes here on policy grounds;
* TUPE transfers - there will be scope for the Government to amend or relax the TUPE requirements

and to give more clarity on early retirement (Beckmann) issues;

* PPF - the PPF was established to fulfil the UK’s obligations under the EU Insolvency

Directive;

* Sex based annuity factors - it is an EU requirement for annuity providers (but not

occupational pension schemes) to use gender-neutral actuarial factors;

* Data protection - it is likely that current data protection legislation will remain in place.

(Relevant section of the manual is Part 6 Chapter 3.1)

# Outline the two ways HMRC supported employers and scheme providers with assistance in managing the termination of contracted-out scheme membership.

**10 marks**

Answer should name the 2 methods and state at least 4 key points for each:

* Technical support to employers and scheme providers:
  + publicising the new procedures being put in place in preparation for ending contracting out
  + issuing countdown bulletins to administrators and providers;
  + collecting Scheme Contracted out Numbers (also known as “SCONs”) from employers;
  + collecting SCONs will enable the automatic closure of all contracted out scheme memberships from December 2016;
  + no need for schemes to return their contracted out certificates to HMRC;
* Scheme reconciliation service (SRS):
  + HMRC developed a reconciliation service to ensure individual contracted out records are correct;
  + Employers and pension providers could use a self-serve portal to obtain information about accrued GMPs;
  + allows pension scheme administrators to reconcile their membership and GMP data against the records held by HMRC;
  + gives a list of contracted out periods and GMP data for members who have left contracted out employment;
  + includes early leavers, pensioners, widows, widowers and surviving civil partner;
  + available to all defined benefit schemes that have contracted out rights preserved within the scheme.

(Relevant section of the manual is Part 6 Chapter 1.2.6)

# As a result of the UK’s withdrawal from the EU, there are a number of areas where this may impact on UK pension law. List five areas of UK pension law where UK law may diverge from EU regulations.

**5 marks**

Answer should cover 5 of the following:

* Scheme funding;
* Investment;
* GMP equalisation;
* Equal treatment;
* TUP transfers;
* PPF;
* Data protection.

(Relevant section of the manual is Part 6 Chapter 3.1)

# Briefly describe the types of charges that might apply in a defined contribution scheme and give a brief description of each.

**15 marks**

Answer should include:

*Charges:* any 5 of the following charges, with a short description of each (10 marks):

* Annual management charge;
* Fund switches and bid/offer spread;
* Policy fees;
* Allocation rates;
* Initial and accumulation units;
* Transferring a pension fund.

*Charge cap* (5 marks):

* effective 6 April 2015;
* charge cap of 0.75% (current rate as of 2022/23) imposed on default arrangements in DC schemes used by the employer in relation to at least one worker as a qualifying scheme in order to discharge its automatic enrolment obligations;
* charge cap encompasses all member-borne deductions paid to the pension provider or another third party, excluding transaction costs;
* charge cap applies to:
* members who contribute to a default arrangement from 6 April 2015; and
* all those members’ funds within the default arrangement, regardless of whether the contributions were made before or after 6 April 2015.

(Relevant section of the manual is Part 5 Chapters 1.5.1 and 1.5.2)

# Outline the key features of an effective risk management strategy .

**10 marks**

Answer should cover:

* Effective strategy allows risks to be identified before they escalate;
* Areas that would normally be covered within a risk management framework include ensuring that:
  + - the internal controls and monitoring process are robust and timely;
    - the financial systems are adequate to minimise and extinguish the risks of fraud or misappropriation of

scheme assets;

* + - investment strategies are monitored and reviewed;
    - administrators have the requisite skills to deliver a good quality service evidenced by regular

stewardship reporting, monitoring of service level agreements, performance appraisals and strict

authorisation procedures;

* + - scheme advisers are regularly reviewed and having in place a conflict-of-interest policy;
    - the IT platform has the capabilities to meet administrative needs which could include online member

access;

* + - the scheme is managed effectively with a clear communications programme; and
    - the scheme delivers value for money and good outcomes for members.
  + Monitor the controls to these risks on an ongoing basis to ensure:
    - the relevant information is provided to the trustees/managers, and that it is understood, reviewed and challenged if necessary;
    - If something fails the internal controls, the trustees/managers need to take corrective action

to remedy the error and reduce the risk of it happening again.

(Relevant section of the manual is Part 5 Chapter 1.6)

# Briefly outline how the Pensions Act 2021 has impacted five current issues relating to retirement provision.

**10 marks**

Answer should cover:

* Pensions Dashboard – Act introduced statutory requirements to facilitate the operation of pensions dashboards through which individuals will be able to access information about their pension arrangements;
* Security and Sustainability in DB schemes – Act imposes new duty on DB scheme trustees to determine and keep under review an investment strategy specifying funding level the trustees intend to have achieved and the investments they intend to hold at specific dates;
* Climate Change in Trustees’ Investment Strategy – Act will allow Parliament to make regulations requiring trustees to ensure effective governance is in place in relation to the effects of climate change;
* New Civil Penalties – Act allows tPR to issue a fine of up to £1m, as it enables the issue of further regulations increasing the maximum level of the fine;
* Collective Money Purchase Schemes – Act creates a new framework for establishing and administering CMP schemes which will operate in a similar way to defined contribution schemes.

(Relevant section of the manual is Part 6 Chapters 4.1, 4.3, 4.4, 4.5 and 4.6)