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Core Unit 1A – Understanding Retirement Provision

Mock Examination Notes

Recommended Time: 2 Hours

1. **Since the introduction of the Finance Act 2004, explain how choices on retirement have widened and members are able to take their benefits more flexibly.**

**10 Marks**

Answer should cover the following:

* Finance Act 2004 (modified by FA05) – capped income drawdown
* Varying amounts of income each year, contrast to regular instalments of annuities
* Capped drawdown – maximum amount of income that can be taken in any year – limited to regulations.
* Member doesn’t run down fund too quickly
* No minimum that must be taken
* Finance Act 2011 – flexible drawdown
* No longer an active member and satisfied the minimum income requirement
* No limit to drawdown
* Taxed as pension income in the normal way
* MIR – no danger to the State purse
* MIR – include state pensions, scheme pensions, annuities and state benefits / overseas pensions
* Changed pension conception that it should provide an income for life
* Further changes – 6 April 2015 – money purchase benefits could be used
* Once reached NMPA, flexible access pension savings subject to scheme rules
* Changes led to rules on guidance and advice
* July 2020 the WPC launched a 3-part inquiry into the impact of the pension freedoms.

(Relevant Section of the manual is Part 1 Chapter 1.4.4)

1. **Your pensions manager has asked you to write a report on the developments in the State pension provision. You should make reference to Lord Turner’s 2005 Pension Commission report and the first independent report issued by John Cridland CBE.**

**20 Marks**

Answer should cover the following:

* State pensions are not pre-funded – pay as you go basis
* Amount taken from tax and NI paid that year
* Very susceptible to demographic changes – age dependency ratio
* Increasing longevity and falling birth rates have put state pensions under strain
* Lord Turner’s 2005 Pensions Commission report announced its intention to reform state retirement benefits
* Pensions Act 2007 – changes to eligibility, linking BSP increases to earnings, S2P to flat rate
* BSP Increases – in line with average earnings. Triple lock
* S2P to reduce in 2 stages – in time converted to flat rate. Subsequently removed altogether
* PA 95 – SPA for women to gradually increase to align with men
* PA 2011 – SPA ages increased
* PA 2014 – periodic review of future increases
* First independent report – John Cridland CBE – recommended a timetable for increasing SPA. Further review needed before legislative changes
* Further review carried out in December 2021 and must be completed March 2023.
* Oct 2019, High court dismissed claims of discrimination – does not treat women any less favourably than men. Supreme court refuse to hear the case.
* New state pension – PA 2014. Flat rate single tier
* Reach SPA on or after 6 April 2016
* Rate set in regulations each year
* Increased in line with earnings, although triple lock generally still applies

(Relevant Section of the manual is Part 1 Chapter 2.2)

1. **As a benefit consultant you have been asked to prepare a briefing paper setting out the alternative options which can boost retirement income in addition to pensions.**

**20 Marks**

Answer should cover the following:

ISAs

* Introduced April 1999
* Exempt from paying tax on income
* Originally, two limits – one to cash and one to overall limit (cash & stocks & shares)
* 1 July 2014 – NISA, Cash not subject to a separate lower limit. Currently £20k
* April 2016 – IFISA introduced – making peer-to-peer loans qualifying investments
* Contributions paid out of taxed money, and no further taxation.
* Help to buy ISAs – 1 December 2015, help those saving for their first home
* LISAs – April 2017 – alternative means of saving for those under 40. Deposit for a house or retirement savings. Contribute up to £4000 per year up to age 50. One LISA per year, £20,000 contribution limit, can transfer savings from other ISAs. Withdrawal charge

Corporate Wraps

* Employees to contribute through their payroll into a choice of ISAs, pensions and investment accounts.
* Active interest in medium & long-term financial affairs
* More financially educated
* Encourage better outcomes at retirement
* Maximise tax breaks
* Flexibility
* Money can be transferred

Property

* Provides diversification
* Physical asset to spread risk – growth asset
* Not mirror short term volatility as expected with equities or gilts
* Buy to let – buy a property to rent out. Real asset, known income, real-world appeal, common view that it is a good investment. Exposed to downturns in the property market, can go wrong due to lack of expertise, risk of extended rental voids, difficult to sell / exchange, extra tax charges.
* Downsizing
* Equity release
* SIPPs

 (Relevant Section of the manual is Part 1 Chapter 2.3)

1. **List the scenarios where an individual or company must be authorised by a regulator in relation to pensions.**

**10 Marks**

Answer should cover the following:

* Give advice on; or
* Arrange transactions of (for example, making arrangements with a view to assisting another person to complete a deal); or
* Deal in (for example, buying or selling investments); or
* Manage (for example, managing the assets of another person) certain products, including the following:
* Insurance policies such as group pension contracts, personal pension plans, section 32 buy outs and Freestanding Additional Voluntary Contributions (FSAVCs), and other long-term assurance products with an investment element;
* Additional Voluntary Contributions (AVCs);
* Investment options in pension schemes;
* Group life assurance policies (and some individual policies);
* Group permanent health insurance or income protection policies (and some individual policies)

(Relevant Section of the manual is Part 1 Chapter 2.4.5)

1. **A senior manager in your HR department is looking at the current policy around statutory employment benefits. He has asked you to write a report with details of the available benefits to employees of the company.**

**20 Marks**

Answer should cover the following:

Statutory Sick Pay

* Unable to work due to sickness or disability
* Employers must make payments to at least a minimum level
* First 28 weeks
* Flat rate - £99.35
* Off sick 4 consecutive days
* Subject to Income tax & NI

Statutory Maternity Leave & Pay

* Eligible employees – up to 52 weeks leave
* Paid up to 39 weeks
* First 6 weeks – 90% of average weekly earnings before tax
* Remaining 33 weeks - £156.66 pw or 90% of AWE, whichever lower
* Subject to Income tax & NI

Statutory Paternity Leave & Pay

* Eligible employees – one or two weeks consecutive leave
* Paid - £156.66 pw or 90% of AWE, whichever lower
* Subject to Income tax & NI

Statutory Adoption Leave & Pay

* Eligible employees – take up to 52 weeks leave
* Paid - £156.66 pw or 90% of AWE, whichever lower
* Paid up to 39 weeks
* Subject to Income tax & NI

Shared Parental Leave & Pay

* Partners can share leave
* Mother must take a minimum of 2 weeks maternity leave following the birth ( 4 if works in a factory)
* Partner can then take rest of 52 weeks (up to max of 50) as shared parental leave
* And take the rest of the 39 weeks pay (max of 37)
* Paid at the rate of £156.66 pw or 90% of average earnings, whichever is lower
* Subject to Income tax & NI

Statutory Parental Bereavement Leave & Pay

* 6 April 2020
* Following a death of a child under the age of 18 or stillbirth after 24 weeks of pregnancy
* Entitled to 2 weeks leave irrespective of length of service
* Subject to certain conditions – entitled to statutory parental bereavement pay
* £156.66 pw or 90% of average weekly earnings, whichever is lower.

Employer’s reclaim of statutory benefits

* Employment Allowance April 2014
* Businesses and charities can currently claim an annual discount of £3,000 on NICs bill
* Reclaims can be offset against NICs or tax without limit
* 3 April 2011 – employers can then claim back either 92% of any payment or 103% if they qualify for small employer’s relief.

(Relevant Section of the manual is Part 3 Chapter 2.1)

1. **In your role as a benefit consultant, you have been asked to prepare a paper on NEST. Your paper needs to include an explanation as to what NEST is, the framework behind it, the charges involved, the investment options and what benefits are available to members.**

**20 Marks**

Answer should cover the following:

* Satisfy automatic enrolment requirements
* National Employment Savings Trust
* Responsibility of running the scheme – NEST corporation
* Large multi-employer occupational DC pension scheme
* One of a number of master trusts
* NEST received authorisation by TPR in 2019
* Large scale – low average charge
* Portability characteristics of personal pensions
* Complement rather than compete with existing quality pension provision
* Restrictions now removed regarding contributions & transfer ins
* Acts as a Trustee Corporations, with powers to manage the scheme
* Trustee takes the key strategic decisions, delegates all executive and operational functions to management board
* PA 2008 – scheme orders for NEST’s establishment, administration and management. Changes require approval from Parliament as well as consent from the trustees
* NEST rules can only be changed by either the trustees after consultation with the panels and other interested parties or with consent of the trustees
* AMC of 0.3% of the member’s fund
* Charge on contributions of 1.8%
* Default options are called Retirement Date Funds – one for every year a member could choose to take their money out
* Invest in pooled funds
* Diversified set of asset classes
* Provides a range of other fund choices
* Subject to same decumulation rules as other pension schemes under FA 2004
* Lifetime annuity was believed to be the most appropriate product for most members
* Transfer their funds for income drawdown for example.
* Appointed a panel of providers for annuities – limited range of annuities with certain conditions – quotes in real time, competitive rates, and for pots of £1500 or above.

(Relevant Section of the manual is Part 3 Chapter 3.3)