A picture containing company name

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**Core Unit 3 - Running a Workplace Pension Scheme**

Mock Examination Notes

Recommended Time: 2 Hours

1. **Describe the requirements of trustees and administrators in relation to a computerised system used for the purposes of managing a pension scheme.**

**(10 marks)**

Answer should cover:

Trustees and administrators using any computerised system must ensure the system provides the appropriate level of:

* Reliability:
* Administration providers (whether ‘in house’ or ‘third party’ providers) should have:
  + Contingency plans in place covering the possibility of a systems failure;
  + Service agreements with systems providers covering systems recovery time;
  + Arrangements for the backing up of data;
  + Disaster recovery plans to mitigate the risks of catastrophic events;
* Flexibility:
  + systems must be flexible enough to accommodate changes in scheme design and legislation;
  + administrators should have agreements in place with systems providers covering systems
  + changes and developments;
* Security
  + Data Protection Act 2018 governs storage and processing of personal data;
  + Trustees must register with the ICO as the ‘data controller’ and provide a statement explaining the
  + arrangements they have to keep members’ personal data secure.
  + Administrators are ‘data processors’ as they process data on behalf of the trustees;
  + Trustees must be satisfied that:
    - systems used by their administrators have adequate safeguards to keep member data secure;
    - the trustees and their administrators comply with the data protection principles;
  + Practical measures should be used when transferring or sharing data electronically eg. encryption codes;
  + If members are given direct access to their data and benefits, the interface should be clear and fool-proof.

Relevant section of the manual is Part 1 Chapter 1.2.

1. **Explain why the amount of standard Lifetime Allowance (LTA) used at an individual’s first Benefit Crystallisation Event (BCE) remains constant once calculated. Using a simple worked example, illustrate the impact of this concept when calculating the total amount of standard LTA used when a second BCE is triggered.**

**(5 marks)**

Answer should cover:

* % used up at any BCE remains constant year by year despite changes to standard LTA in subsequent tax years;
* Ensures individuals face same real aggregate LTA on total pension rights built up with tax relief, irrespective of:
  + When they choose to take their pension benefits and the type of benefits they become entitled to;
  + Whether benefits are taken from one scheme or from multiple schemes;
* Simple worked example (3 marks).

Relevant section of the manual is Part 4 Chapter 2.2.

1. **Explain why action has been taken to combat pension scams, and outline the main changes made to the Code of Good Practice on Combatting Pension Scams in version 2.2 of the Code and the principles on which the Code is based.**

**(15 marks)**

Answer should cover:

*Why action was necessary (5 marks)*:

* Pension scams on the increase - scammers now targeting those wanting to access their DC pension savings as well as those seeking to liberate defined benefit pensions;
* Scammers use a range of tactics to tempt members to invest pension savings with them, including directing them to transfer into small (often one or two member) occupational schemes to avoid scrutiny from regulators;
* Pensions industry called for guidance to help share good practice and help reduce the risk of successful scams;
* Pension Scams Industry Group formed to develop a Code of Good Practice on Combatting Pension Scams for use by all in the industry;
* Code updated and reviewed regularly.

*Main Changes (5 marks)*:

* Update on TPR’s and FCA’s initiatives to tackle pension scams;
* Revised Action Fraud reporting guidance;
* TPR/FCA ScamSmart campaign and TPR Threat Assessment update;
* Additional Determinations from The Pension Ombudsman (TPO);
* The rise of claims management firms;
* Recent legal developments both in the UK and overseas;
* Additional case studies.

*Principles of the Code (5 marks)*:

* Purpose:
  + - Provides industry guidance to share good practice and reduce risk of successful pension scams;
    - Sets industry standard for dealing with transfers from UK registered pension scheme to another registered pension scheme or QROPS;
* 3 principles:
  + - Raising Awareness (Principle 1) - Trustees, providers and administrators should raise awareness of

pension scams amongst members and beneficiaries of their scheme;

* The assessment process (Principle 2) - Trustees, providers and administrators should have robust,

but proportionate, processes for assessing whether a receiving scheme may be operating as part of a

pension scam, and for responding to that risk;

* Awareness of current scam strategies (Principle 3) - Trustees, providers and administrators should

generally be aware of the known current strategies of the perpetrators of pension scams in order to

inform the due diligence they need to undertake and refer to the warning flags as indicated in TPR’s

Guidance, FCA alerts and Action Fraud.

Relevant section of the manual is Part 6 Chapter 3.2.

1. **List the information that would typically require to be held on the pension record of a deferred member of a defined benefit scheme, to ensure that the revaluation of their benefits could be applied correctly.**

**(5 marks)**

Answer should cover:

* GMP in respect of pre 6 April 1997 contracted-out service (split between GMP earned before and after 6/4/88);
* excess pension earned before 6 April 1997 split between elements subject to compulsory revaluation and those that are not;
* pension earned from 6 April 1997 to 5 April 2005;
* pension earned from 6 April 2005 to 5 April 2009;
* pension earned from 5 April 2009 to 5 April 2016;
* pension earned after 5 April 2016.

Relevant section of the manual is Part 3 Chapter 2.8.

1. **Describe the legislation in place in relation to Data Protection and describe the requirements of that legislation.**

**(20 marks)**

Answer should cover:

*Data Protection Legislation (5 marks):*

* Trustees/managers of schemes and administrators must comply with their obligations under Data Protection Legislation;
* European Union General Data Protection Regulation (EU GDPR) effective 25 May 2018 - enacted in UK through the Data Protection Act 2018 (DPA 18);
* EU GDPR replaced EU GDPR following Brexit – legislation almost identical;
* DPA 18 makes provision for the regulation of the processing of personal data relating to individuals, including the obtaining, holding, use or disclosure of such personal data, and also applies to any personal data held or processed on a pension scheme administration system;
* Personal data defined as any information relating to an identified or identifiable natural person - identification may be done directly (for example, name) or indirectly (for example, using a number that can be used to look up a name). Range of personal identifiers - a member’s IP address, name, address, national insurance number and email address;
* DPA 18 also covers “special categories of personal data” which replaces what was known as sensitive personal data – subject additional protection. Includes items such as health and sexual-orientation;
* Fines for not complying with legislation - both data controller and the data processor may be fined in the event of a data breach.

*Six data protection principles under DPA (5 marks)*:

* Lawfulness, fairness and transparency – there should be a lawful reason to collect the data and it should be clear to the individual what data is collected and why;
* Purpose limitation – data should only be used for the purpose for which it is collected;
* Data minimisation – only data that is necessary should be collected;
* Accuracy – data should be accurate and where necessary kept up to date;
* Storage limitation – data should be kept no longer than necessary. Most data collected by pension schemes is likely to be needed for very long periods;
* Integrity and confidentiality – data should be kept securely.

*Roles and Responsibilities (5 marks)*:

* DPA 18 applies to “controllers” and “processors” - definitions are broadly the same as under the Data Protection Act 1998;
* data controller determines the purposes and means of processing personal data - responsible for demonstrating compliance with the data protection principles;
* data processors process the data on behalf of the data controllers;
* Trustees/managers are data controllers - have ultimate responsibility for the data as data controllers, decide matters such as the reason to collect the data, what data is collected and how long to keep the data;
* Pensions administrators are data processors - process the data on behalf of the trustees/managers, can justifiably be given access to virtually all information regarding a member, deemed necessary for performing their duties;
* Other parties such as an employer representative may also be interested in pension scheme data. Trustees/managers must also comply with the principles of DPA 18 when deciding what information to disclose to such third parties.

*Rights of Individuals (5 marks)*:

* under DPA18, individuals have a number of rights - includes the right to have access to their data;
* subject access request – request by individual to access their data;
* information requested should be provided within 1 month at no cost;
* if requests manifestly unfounded or excessive, in particular because of their repetitive character, trustees/managers may either:
  + charge a reasonable fee taking into account the administrative costs of providing the information or communication or taking the action requested; or
  + refuse to act on the request
* it is the responsibility of the trustees/managers to demonstrate the manifestly unfounded or excessive character of the requests.

Relevant section of the manual is Part 1 Chapter 2.3.

1. **In relation to automatic enrolment (AE), outline what “DC Certification” is, and briefly describe the minimum contributions and the requirements relating to charges.**

**(10 marks)**

Answer should cover:

* When AE introduced, existing DC schemes based contributions on salary definition other than qualifying earnings;
* Employers certify that DC scheme used for AE duties to ensure adequate contributions made;
* Alternative quality requirement – based on scheme’s definition of pensionable salary – can’t be less than basic pay;
* Employers can certify up to 18 months in advance;
* Must re-certify at least every 18 months - sooner if ‘significant change’ e.g. M&A, change in contribution level;
* Minimum contributions:
  + Minimum total 8%, including 3% employer – salary definition is qualifying earnings;
  + Minimum total 9%, including 4% employer – salary definition is Set 1-basic pay;
  + Minimum total 8%, including 3% employer – salary definition is Set 2-basic pay (aggregate across scheme);
  + Minimum total 7%, including 3% employer – salary definition is Set 3-gross earnings;
* Charges:
  + Requirements laid down by:
    - Contract-based scheme - FCA’s policy statement PS15/5;
    - Trust-based scheme - Occupational Pension Schemes (Charges and Governance) regulations 2015;
  + Charges on qualifying scheme’s default investment fund capped at 0.75% of funds under management;
  + If no AMC structure, overall effect of charge structure must be equivalent to maximum 0.75% charge;
  + From April 2016, schemes could no longer use an Active Member Discount.

Relevant section of the manual is Part 2 Chapter 1.8.

1. **Outline the key requirements relating to the timing of pension contributions.**

**(10 marks)**

Answer should cover:

* Pensions Act 1995 - trustees of DB scheme must draw up a schedule of contributions showing what contributions should be paid to the scheme and when they should be paid;
* DC schemes - trustees must prepare, maintain and revise from time to time if necessary, a payment schedule showing the contributions payable to the scheme and when they should be paid;
* amount to be paid will also be contained in the policy documentation or trust deed and rules of the scheme;
* contributions usually expressed as either fixed sum or a percentage of earnings;
* percentage of earnings - the scheme/trustees may need employer to confirm salaries;
* contributions as a percentage of pay - employer decides which elements of pay are pensionable;
* Pensions Act 1995 - requires that employer must pay any employee contributions including AVCs, to the trustees by:
  + 22nd of the month following the month the contributions are deducted from members’ pay, paid electronically, or
  + 19th of the following month if paid by other means;
* breach if the regulations:
  + if contributions not paid to trustee bank account within above
  + where either a schedule of contributions or payment schedule is in place and the payment date is missed, even if the 19th / 22nd date is met;
  + breach may require to be reported to TPR;
* trustees must check that both the correct amount of contributions is paid and that they are paid on time;
* if TPA maintains the bank account, trustees must agree with TPA how receipt of contributions will be monitored and who is responsible for ensuring that the correct amount is paid.

Relevant section of the manual is Part 5 Chapter 1.3.

1. **Explain the annuity options that may be available to a member of a defined contribution scheme, including what is meant by an Enhanced Annuity, and describe the requirements relating to annuity documentation.**

**(15 marks)**

Answer should cover:

*Annuity Options (5 marks)*:

* Several options available which can offer members greater flexibility over future income, for example:
  + Taking a pension commencement lump sum and having a reduced annuity
  + An annuity that provides for a spouse or dependant’s pension on the member’s death
  + A flat rate annuity or one that increases in payment to counter the effects of inflation.
  + Annuity with attached guarantee period – balance of pension payments due to end of the period paid out on death;
* Scheme rules may determine type of annuity the member may buy;
* Scheme Rules may still include requirements that have been removed from legislation.

*Enhanced annuity (5 marks)*:

* More favourable annuity rates given and therefore higher rate of income paid (on same fund value);
* Applies to members who suffer from certain medical conditions;
* Provider expects member to live for a shorter period than average;
* State 2 examples of applicable medical conditions (2 marks) from:
  + Smokes, and has done so for a significant amount of time;
  + Takes regular medication;
  + Suffers from chronic asthma;
  + Has high blood pressure;
  + Has recently undergone major surgery;
  + Suffers from diabetes;
  + Has ever suffered a serious illness such as cancer, stroke, or multiple sclerosis;

*Annuity documentation (5 marks)*:

* Annuity rates guaranteed for a limited period therefore paperwork needs dealt with promptly to enable prompt disinvestment and payment of funds;
* Member usually required to provide (state 4 out of the following 5):
  + An application form;
  + Medical questionnaire;
  + Original birth certificate;
  + Spouse/dependant’s birth certificate (and marriage certificate) if a spouse/dependant’s pension is also being provided;
  + If the annuity is being set up in the trustees’ name, the trustees will also be required to complete the application form.

Relevant section of the manual is Part 3 Chapter 3.5.

1. **List the key areas included in the TPR’s guidance on automatic enrolment, found on the TPR’s website.**

**(10 marks)**

Answer should cover:

* A simple step by step guide to help employers meet their responsibilities;
* A guide for business advisers to help them guide their clients through the automatic enrolment;
* Requirements and the process of setting up and running a new scheme;
* Detailed guidance on each aspect of the automatic enrolment requirements:
  + 1. Employer duties and defining the workforce
  + 2. Getting ready
  + 3. Assessing the workforce
  + 3a. Postponement
  + 3b. Transitional period for schemes with defined benefits
  + 3c. Having completed the assessment
  + 4. Pension schemes
  + 5. Automatic enrolment process
  + 6. Opting in, joining and contractual enrolment
  + 7. Opting out
  + 8. Safeguarding individuals
  + 9. Keeping records
  + 10. Information to workers
  + 11. Automatic re-enrolment.

Relevant section of the manual is Part 2 Chapter 3.4.