EXAMINERS REPORT CORE UNIT 2 REGULATION OF RETIREMENT PROVSION – OCTOBER 2019

Q1. On a scheme merger, set out the circumstances which would allow a bulk transfer of assets and liabilities without members' consent. (8 marks)

The relevant section of the manual was Part 4, section 1.9.1.

This question was poorly answered with a number of candidates getting less than half the marks. Most candidates mentioned the need to check whether such a transfer is permitted by the scheme's rules, but not other conditions that need to be met such as that the schemes either need to apply to employment with the same employer or resulting from a financial transaction between the employers or the employers are broadly in the same corporate group. Most candidates understood that the benefit being granted in the receiving scheme needs to be broadly no less favourable than those given up in the transferring scheme, although a number of candidates only described this as benefits needing to be the same rather than no less favourable. A few correctly mentioned the requirement for an actuarial certificate. Another point, that was mostly missed, was that that the trustees of the transferring scheme should consider whether the bulk transfer would adversely affect the security of the accrued rights.

Q2. The Pensions Liberation Industry Group issued a voluntary industry code of practice in 2015 on combating pension scams. Write notes on the voluntary code and its 3 principles. (7 marks)

The relevant part of the manual was Part 6, section 2.3

Most candidates were able to demonstrate some knowledge about pension scams as it remains a topical issue during day to day pensions administration. This question was concentrating on the 3 principles of the voluntary code issued in 2015. Points to include were; trustees making members aware of pension liberation scams, having robust but proportionate processes for assessing transfer requests for potential scams and being aware of the methods used by liberators and ensuring appropriate due diligence. Whilst most candidates were able to list the 3 principles, but further notes were lacking. Further points that could have been mentioned were; the due diligence the Trustees could conduct into the registered status of the receiving arrangement, employment links and scheme documentation and also if a material risk is identified the trustees should consider if the member has a right to a transfer.

Q3. When exercising their investment powers, there are six principles under the Pensions Act 1995 and Investment Regulations 2005 that trustees should follow. Outline these principles. (9 marks)

The relevant part of the manual was Part 2, section 2.11.3.

Candidates struggled with this question, with a few not attempting to answer. A number of candidates incorrectly wrote about other investment related principles that are set out in the manual, such as the content of the Statement of Investment Principles or defined contribution principles. Those who had studied the manual and correctly identified the correct principles, scored well. Some of the principles to mention were; Scheme assets being invested in best interest of members, power of investment must be exercised in a manner calculated to ensure security, quality, liquidity and profitability of the portfolio and assets should be properly diversified.

Q4. Explain how a person's pension rights are valued for Lifetime Allowance purposes. you should cover money purchase rights, defined benefit rights and "pre-commencement pensions". (8 marks)

The relevant part of the manual was Part 1, Section 1.3.2.

Candidates generally scored well on this question and candidates that had not attempted or scored low on the other questions made a good attempt at this. The vast majority of candidates were able to explain how both defined contribution and defined benefit pension rights are valued. Most also understood the meaning of "pre-commencement pensions", being a pension that was put into payment under the old tax regime pre 6 April 2006, and how to value this. A number of candidates set out example calculations to help answer the question. Where some candidates did fall down was in getting the various multipliers for valuing benefits mixed up and also confusing with Annual Allowance valuations.

Q5. Defined Contribution arrangements can be structured as "bundled" or "unbundled" arrangements. List the advantages of each. (10 marks)

The relevant part of the manual was Part 5, section 1.2.5

There was quite a variation of scores on this question. Some of the points to include on advantages for bundled arrangements were; there being one point of contact, use of standard communications and easier to negotiate terms. Some of the advantages of unbundled arrangements are being able to choose best of breed for service providers, wider range of investment options and use of bespoke communications. The question asked for the advantages of each arrangement. Some candidates also listed disadvantages, although in some cases the relevant points were still made as the disadvantages of one arrangement are the advantages of the other. Some of the points missed were that; for bundled arrangements online assess for members is easier and for unbundled that in depth admin reports can be produced.

Q6. Write brief notes on the four main features of a Trust and explain why those features make a Trust well suited for occupational pension provision. (8 marks)

The relevant part of the manual was Part 2, section 1.1.

Most candidates demonstrated at least a basic knowledge of this subject, listing the main features of a Trust, but did not write much about why these features were well suited for occupational pension provision. Most candidates identified the feature of the separation between legal owner of the property and the beneficiaries. The other 3 features were less mentioned, these were; Trustees must use the Trust property in accordance with the purpose for which it was created, Trust property is separate from the Trustees' private property and property of the settlor, i.e. person who created the Trust and the Trust only be enforced by the beneficiaries unless the settlor specifically reserves the right to enforce the Trust when created. Very few candidates covered that the assets of the Trust are separate from the assets of the sponsoring employer and cannot be accessed by creditors if the employer becomes insolvent.

A few candidates wrote instead about the three certainties for a valid trust.

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