



Core Unit 3, Examiners' Report – October 2021

There were two parts to the question paper:

- Part One consisted of 50 multiple choice questions
- Part Two consisted of seven short answer questions

Part One – Multiple choice questions

There were 50 questions, each correct answer being worth 1 mark. There were two types of question, as follows:

- 40 questions where candidates select one correct answer from a choice of four possible answers, and
- 10 questions where candidates are given two statements and must determine whether both are true, the first is true and the second is false, the first is false and the second is true, or both are false.

The questions were broadly representative of the entire syllabus.

Learners achieved good scores on the multiple-choice questions, with scores ranging between 25 and 47 marks out of 50.

Part Two – Short answer questions

Average scores for Part 2 of the paper were lower than for Part 1. Overall, the standard of answers was good. The best answered question was Question 3 and the question which attracted the lowest average score was question 2.

- 1. Describe the investment related activities that trustees normally delegate to external providers. (10 marks)**

This was one of the less well answered questions although 9 candidates did manage to score maximum marks. Most were able to identify the different providers that activities might be delegated to. Marks were lost because candidates failed to give enough detail on the investment related activities being delegated. To gain full marks candidates needed to cover the following:

Investment managers
Responsible for day to day investment decisions
If properly appointed trustees not responsible for poor decisions
Investment advisers
Guidance on asset allocation and benchmarks taking into account nature of liabilities



If more than 100 members trustees must prepare a statement of investment principles and must obtain / consider advice

Custodians

Manage part of assets eg share certificates/ property deeds

Aim is to reduce risk of loss or fraud

If overseas investments are held its usual to have sub custodian(s)

Investment monitoring

Performance of insured contracts / managed funds

Compare with other funds

The relevant section of the manual was Part 3 Chapter 6.

- 2. Computerised systems used to hold member data must provide the appropriate level of reliability, flexibility and security. Explain what this means in practice. (10 marks)**

This was the least well answered question although 6 candidates still managed to score maximum marks. The following points should have been included in the answer.

Reliability
Contingency plans to cover system failures
Service agreements covering systems recovery time
Arrangements for backing up data
Disaster recovery plans to mitigate catastrophic events
Flexibility
Accommodate changes in scheme design and legislation
Agreements with providers covering systems changes and developments
Security
Storage / processing personal data covered by DPA2018
Trustees must register with Information Commissioner as data controller and provide a statement explaining arrangements in place to keep member data secure
Administrators are data processors
Trustees must ensure safeguards are in place to keep data secure and administrators comply with data protection principles
Encryption for sharing / transferring data electronically
If members can access data / benefits interface should be clear and fool proof

The relevant section of the manual was Part 1 Chapter 1 (1.2)

- 3. Explain the process HMRC use to determine a pensioner's tax code.
A pensioner receives a pension of £2,000 per month (gross) and has a tax code of 1250L. Calculate how much income tax would be deducted from their pension (you should show how you have**



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worked out the answer). (8 marks)

This question was the best answered with 15 candidates scoring maximum marks. A few candidates lost marks because they failed to answer the first part of the question. The answer below is based on a monthly calculation. Some candidates calculated the tax on an annual basis and were still able to obtain maximum marks.

Process to determine tax code
Calculate all tax allowances individual is entitled to
Calculate income on which tax hasn't been paid and any taxable employment benefits
Tax code is based on tax allowances reduced by income on which pensioner has not paid tax
Calculation
Personal allowance for year: $1250 \times 10 = 12500$
Monthly tax-free allowance: $12500/12 = 1041.67$
Monthly taxable income: $2,000 - 1041.67 = 958.33$
Monthly tax: $958.33 \times 20\% = 191.66$

The relevant section of the manual was Part 5, Chapter 3 (3.5).

4. Outline the transitional provisions that applied to the Annual Allowance for the tax year 2015/16 and explain why they were needed. (7 marks)

The standard of responses to this question was mixed. 10 candidates scored maximum marks but 3 failed to score any marks. Many candidates lost out on marks because they failed to explain why the transitional provisions were needed.

Summer budget 2015 announced alignment of pension input periods to tax year with effect from 6 April 2016. Transitional provisions needed to achieve alignment.
All 2015/16 pension input periods (PIPs) ran on to 5 April 2016
PIP split into 2 mini PIPs
Pre-alignment tax year from start of PIP to 8 July 2015
Post-alignment tax year from 9 July 2015 to 5 April 2016
Annual Allowance of £80k applied for the tax year 2015/16
Plus carry forward from previous 3 years
Max of £40k applied to post alignment tax year

The relevant part of the manual was Part 4 Chapter 1 (1.7).



- 5. The National Cyber Security Centre has published 10 steps to cyber security to help organisations like pension schemes protect themselves in cyber space. Briefly outline the 10 steps. (10 marks)**

The quality of responses to this question was generally good with 15 candidates achieving maximum marks. The following points should have been covered in the answer:

Risk management regime
Secure configuration – apply security patches
Network security – filter out unauthorised access and malicious content. Monitor and test controls
Managing user privileges – limit user privileges and monitor user activity
User education and awareness – policies to cover acceptable and secure user use. Awareness / training
Incident management – response and disaster recovery policies and procedures
Malware prevention
Monitoring - systems and networks
Removable media controls
Home and mobile working – policies to support remote access to systems applicable to users and service providers

The relevant section of the manual was Part 6 Chapter 3 (3.9)

- 6. List the supervisory criteria a contract-based scheme must meet in order to be a qualifying scheme for automatic enrolment. (5 marks)**

The quality of answers to this question was generally good with 13 candidates achieving maximum marks. A few candidates made the mistake of detailing minimum contribution criteria. This was not required for the answer to the question which was specifically focussed on supervisory criteria for contract-based schemes. Examiners were looking for candidates to include the following points:

UK schemes must be subject to FCA regulation
Operations for UK schemes must be carried out by a person authorised under section 19 of the Financial Services Market Act 2000
Only DC benefits may be provided
Legally binding obligation on the employer to pay minimum contributions in respect of jobholders to the provider
Direct payment arrangements must exist for the employer to collect and pay over contributions to the provider.

The relevant section of the manual was Part 2 Chapter 1 (1.2).