**Core Unit 1A – Understanding Retirement Provision**

**Assignment 1 Notes**

**(Part 1 – Providing for Retirement)**

**Recommended Time: 2 Hours**

1. **Name the act of legislation that governed occupational pension schemes for most of the last 100 years and outline the main principle it introduced.**

**5 marks**

Your answer should cover the following:

* The 1921 Finance Act;
* EET Principle;
* Contributions are Exempt from tax;
* Investments built up are largely Exempt from tax;
* Pensions are payable subject to Tax;
* Scheme established under trust; and sole purpose had to be the provision of annuities to be eligible for tax treatment.

(Relevant section of the manual is Part 1 Chapter 1.4.1)

1. **Explain the term ‘pension freedom’ and how this could impact members at retirement.**

**10 marks**

Your answer should cover the following:

* Finance Act 2004 – capped income drawdown;
* Allowed members to take varying amounts each year but maximum limited each year to ensure funds did not run down too quickly;
* No minimum;;
* The Finance Act 2011 introduced further choices – flexible drawdown
* No longer an active member and satisfied the minimum income requirement;
* No limit on drawdown amount they could take each year;;
* Taxed as pension income in the normal way;
* MIR – no danger of depleting their funds and fall back on state benefits;
* Initially set at £20k;
* Further changes brought in on 6 April 2015 – from age 55 to access their funds flexibly subject to scheme rules. Applied to cash balance and money purchase;
* Necessary changes were contained in the Taxation of Pensions Act 2014;
* Changes led to rules on guidance and advice to be provided for those seeking to take benefits or transfer to money purchase arrangements.

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

1. **You are a Pensions Consultant and have been asked to write a report on the different types of pension schemes available to employers to provide retirement provision for their employees.**

**20 marks**

Your answer should cover the following:

Employer sponsored benefits

* Established under trust, by an Act of Parliament or on a contract basis;
* Most members would expect to receive pay-related benefits on a final salary basis;
* Increasing number now receive on a money-purchase or defined contribution basis – based on contributions paid in, investment return and prices of annuities at the time of retirement.

Public Sector Pension Schemes

* Are divided between statutory and non-statutory schemes;
* Statutory schemes have their provisions contained in Statute, statutory order, or instrument;
* Non-statutory are mainly those of nationalised industries and usually established by Trust Deed and Rules.

Personal / Individual benefits

* Most are on a money-purchase basis / DC basis;
* Also pay AVCs or take out FSAVCs;
* FSAVCs – insured arrangements that usually unconnected with any particular pension scheme which individuals can increase their retirement provision subject to certain limits;
* Came into existence when there were restrictions on members of occupational pension schemes being concurrently with personal pensions. These restrictions no longer apply and many FSAVCs have been converted into personal pensions.

Stakeholder Pensions

* Benefits in a money-purchase basis;
* Meet certain requirements including flexible contract terms and a cap on charges;
* Between October 2001 and October 2012, every employer with 5 or more employees had to provide access to such a scheme unless they offered an employer sponsored arrangement which all qualifying employees could join;
* No requirement for employers to contribute;
* Now largely overtaken by automatic enrolment and the requirement to designate ceased to apply from 1 October 2012.

(Relevant sections of the manual are Part 1 Chapters 1.6.1 to 1.6.4)

1. **Outline the importance of the Pensions Act 2007 and the Pensions Act 2008.**

**10 marks**

Your answer should cover the following:

Pensions Act 2007

* reforms to the State pension system in light of the demographic changes;
* Schedule for increasing the state pension ages;
* Provided for the basic state pension to increase by reference to average earnings and eased the qualifying criteria;
* The Act also created the Personal Accounts Delivery Authority to advise on the introduction of a new, simple, low-cost pensions savings vehicle – NEST;
* Extend the benefits of workplace schemes to those currently without access.

Pensions Act 2008

* measures aimed at encouraging greater private savings;
* Duty on employers to automatically enrol eligible workers into a qualifying workplace pension scheme;
* Most measures came into effect from 2012;
* Broadened the remit of PADA giving it powers to enable it to establish NEST.

(Relevant sections of the manual are Part 1 Chapters 1.7.1 & 1.7.2)

1. **There is a growing concern that people are not savings enough for retirement. You have been asked to write a report on the factors that may have contributed to this and your views on the possible high-level solutions for this.**

**20 marks**

Your answer should be in the format of a report (with introduction, main headings, conclusion/recommendation) and should cover the following:

* Rise in the welfare state, largely removed the threat of absolute poverty;
* Affordability;
* Behaviour;
* Culture;
* Economic and demographic factors were far less favourable;
* Longevity;
* Long term investments not producing the high returns as once predicted;
* 2002 – Government set up the Pension Commission in 2005 – concluded people were not making rational decisions about long-term savings without encouragement or advice;
* Complexity of the pension system – confusion and mistrust;
* Means-testing increased both complexity and reduced the incentives to save via pensions;
* COVID-19 pandemic;
* Moving away from unfunded State provision and favouring a privately funded alternative;
* Encouraging people to save more;
* Encouraging more people to save – automatic enrolment.

(Relevant sections of the manual are Part 1 Chapters 2.1.1 & 2.1.2)

1. **Pensions are only one form of retirement income. Explain how ISAs and property can be used as alternative savings vehicle for providing an income at retirement.**

**20 marks**

Your answer should cover the following:

ISAs

* Introduced in April 1999 and are tax-privileged savings vehicles
* Exempt from paying tax on income received within their ISA
* Originally, there were two limits that applied to ISAs: one limit applied to the maximum that could be invested in a cash ISA, and higher limit applied to the maximum that could be invested overall, i.e. to a cash ISA and Stocks & Shares ISA combined.
* 1 July 2014 the New ISA (NISA) was launched. Simpler product, but there remained two types (cash and stocks & shares). From this date, the cash ISA is not subject to a separate lower limit, the total annual subscription limit can be allocated between a Cash and a Stocks and Shares ISA as decided by the individual.
* April 2016 the Innovative Finance ISA (IFISA) was introduced, making peer-to-peer loans qualifying investments for the first time. Increase the choice and flexibility available to ISA investors, encourage the growth of peer-to- peer lending and improve competition in the banking sector by diversifying the available sources of finance. Providers need to apply for regulatory permissions from the FCA.
* Contributions are paid out of taxed income, but no further taxation is applied.
* April 2017 – the Lifetime ISA (LISA). Means of saving for those under 40, allowing individuals to use their funds to provide a deposit for a first home or to save for retirement. Between the ages of 18 and 40 can open a LISA and contribute up to £4,000 each tax year (post- tax) until they reach 50. Contributions are eligible for a 25% government bonus paid shortly after the contribution, and savings can be withdrawn at any time, but may be subject to a charge. It is only possible to pay into one LISA in each tax year; any contributions sit within the overall £20,000 ISA contribution limit; individuals can transfer savings from other ISAs as a way of funding their Lifetime ISA. The transferred savings count towards the £4,000 threshold but do not affect the £20,000 limit

Property

* Physical asset that enables investors to spread their risk by investing in an asset class that is a growth asset, which in the long term would be expected to be immune to inflation and which should not mirror short term volatility expected of assets such as equities or and gilts;
* Buy to let:
  + Provides a known income;
  + Commonly held as a good investment as house prices always seem to increase;
  + Disadvantages, a focus on short-term capital gains can leave you expose to downturns in the property market
  + Individual investments can go wrong due to lack of expertise
  + Risk of rental voids
  + Asset difficult to sell or exchange.
  + Increasing government taxes
* Downsizing:
  + Sell home on retirement for a cheaper property, releasing capital to fund retirement.
* Equity Release:
  + Homeowners use their home to generate a lump sum or regular income – loan secured on home or sell part and live in home for retirement;
  + Danger of overestimating capital and underestimating the cost of retirement.

(Relevant sections of the manual are Part 1 Chapters 2.3.1 & 2.3.4)

1. **List the key points relating to effective communication with pension scheme members.**

**5 marks**

Your answer should cover the following:

* Be clear about the purpose;
* Agree the target audience;
* Should be clear, helpful and relevant;
* Should be timely;
* Suitable method of delivery;
* Should provide the information they need throughout the course of scheme membership.

(Relevant section of the manual is Part 1 Chapter 2.4.1)

1. **Outline the basic structure of the disclosure regulations for occupational pension schemes.**

**10 marks**

Your answer should cover the following:

* Information on joining & updated when it changes;
* Members can request certain scheme / actuarial information ;
* Trustee’s report annually and available on request;;
* Information on leaving / retiring;
* Summary funding statement must be given to all members, normally annually to all non-money purchase benefits
* Annual benefit statements automatically in respect of money purchase benefits and on request for non-money purchase benefits;
* Large benefits – pension savings statement;
* Lifetime allowance when a benefit crystallisation event occurs
* Information on specific events;
* Transfer ‘safeguarded benefits’ over £30,000, informed of the requirement for independent advice has been received before making a transfer for the purpose of accessing benefits flexibly;
* 1 June 2022 – pension wise where a member transfers flexible benefits.

(Relevant section of the manual is Part 1 Chapter 2.4.2)