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

**Assignment 2 Notes**

**(Part 2 – Parties Involved)**

**Recommended Time: 2 Hours**

1. **List the governance themes covered in the 21st century trusteeship campaign.**

**10 Marks**

Your answer should cover the following:

* Good governance;
* Clear roles and responsibilities;
* Clear purpose & strategy;
* Skills & experience;
* Trustee training & improving your knowledge;
* Advisers & service providers;
* Managing conflicts of interest;
* Managing risk;
* Meetings & decision-making;
* Value for members.

(Relevant section of the manual is Part 2 Chapter 1.1.2)

1. **Your pension scheme is going through an insolvency event. The pensions manager has asked you to write a report on the Pension Protection Fund, covering the eligibility criteria and the possible compensation payable.**

**20 Marks**

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

Eligibility:

* PPF Came into effect from 6 April 2005;
* Applies to DB and hybrid schemes;
* Qualifying insolvency event occurs on or after 6 April 2005;
* Assets are not sufficient to fully buy out the members benefits otherwise payable by the PPF with an insurance scheme;
* Otherwise wound up;
* Run as a closed scheme.

Compensation:

* Scheme’s assets and liabilities transferred to PPF;
* 100% of accrued benefits for those over NPA;
* 100% ill health or survivor’s pension;
* 90% of accrued benefits subject to an overall cap depending on the member’s age and date of commencement of benefits but following the Hughes ruling, the cap no longer applies;
* CPI indexation capped at 2.5% for service post 5 April 1997;
* 50% spouse’s pension on death;
* Long service – maximum benefits increased from 6 April 2017
* Court orders impacting the level of PPF benefits;
* Hampshire ruling – at least 50% of accrued benefit;
* Pensions-Sicherungs-Verein VVaG v Bauer, which related to the German equivalent of the PPF - where a sponsor become insolvent, a reduction in the amount of occupational retirement benefits paid to a former employee is disproportionate (even at the 50% level under the Hampshire ruling) if it would bring the former employee below a defined poverty threshold;
* Hughes v PPF - the PPF compensation cap constitutes unlawful discrimination on the grounds of age, and that the different treatment of those above and below NPA was not objectively justifiable;
* July 2021 - Court of Appeal ruled on the related Hughes and Hampshire cases - PPF compensation cap is unlawful and has to be disapplied, but that the PPF’s approach to determining whether a member’s PPF compensation is at least 50% of the value of their original scheme benefits is appropriate. The PPF has confirmed that none of the parties involved will appeal the ruling further;
* Hybrid schemes - the Pension Protection Fund regulations set out the procedure for discharging money purchase benefits within schemes that are eligible for the PPF.

(Relevant sections of the manual are Part 2 Chapters 1.7.1 to 1.7.3)

1. **Write short notes on the Financial Assistance Scheme, which includes details on the eligibility and compensation available.**

**10 Marks**

Your answer should cover the following:

* Set up by the Government to provide financial assistance to members of schemes that do not qualify for the PPF & have lost pension rights because scheme wound up and insufficient assets to cover liabilities;
* The scheme, must in most cases, have started to wind up between 1 January 1997 and 5 April 2005;
* Some special circumstances in which schemes could qualify if winding up commenced before 27 March 2014;
* Originally the employer must be insolvent or no longer exist or a compromise agreement had been reached;
* Eligibility widened to include underfunded schemes where there was no employer debt at the time wind up commenced;
* Members are eligible as are surviving spouses or civil partners who died after the scheme started to wind up;
* Compensation similar to PPF – member’s pensions will receive 90% subject to a cap;
* Payable from NRA although can apply for early retirement on ill-health grounds but only up to 5 years before NRA;
* Compensation reduced for early payment;
* Any pension accrued after 6 April 1997 will be increased each year by CPI capped at 2.5 per annum.

(Relevant sections of the manual are Part 2 Chapter 1.8.1 & 1.8.2)

1. **List what is involved in the National Insurance Contributions and Employer Office collecting and recording National Insurance contributions.**

**10 Marks**

Your answer should cover the following:

* Ensuring compliance with National Insurance-related legislation;
* Collecting National Insurance contributions;
* Administering the legacy contracted-out system;
* Maintaining accurate National Insurance accounts;
* Providing information about National Insurance - deals with enquiries relating to:
	+ Class 1 National Insurance rates and thresholds;
	+ Statutory Payments;
	+ Married Women’s Reduced Rate Election;
	+ National Insurance statement requests;
	+ Class 2 and 3 National Insurance;
	+ Employment Histories.

(Relevant section of the manual is Part 2 Chapter 1.10.2)

1. **Your manager has asked you to differentiate between the responsibilities held as a trustee of a scheme and the responsibilities held as a secretary to the trustees. Draft a report outlining the responsibilities for both roles.**

**20 Marks**

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

 Trustees:

* Legal owners of the assets of the scheme
* Scheme administered in accordance with relevant legal and regulatory requirements (for DB schemes - ensuring that the scheme meets the statutory funding objective);
* Employer’s and members’ contributions are paid on time;
* Members’ benefits are paid on time and in accordance with the trust deed and rules of the scheme;
* Prepare a triennial actuarial valuation and to put in place a schedule of contributions, a statement of funding principles and annual funding report and any recovery plan (DB schemes only);
* Payments schedule (defined contribution (DC) schemes only);
* Prepare a statement of investment principles for their scheme (where the scheme has 100 or more members);
* Put in place an internal disputes resolution procedure;
* Ensure that they do not discriminate against members on grounds of age, sex, race, religious belief, disability and sexual orientation in the operation of their scheme;
* Pay cash equivalent transfer values;
* Provide members and prospective members with certain prescribed information before they join the scheme and at various times during their membership of the scheme;
* From April 2015 (if the scheme has DC benefits), appoint a Chair who is responsible for signing a statement on how the scheme complies with the governance standards and charge controls.

Secretary to the Trustees:

* Organising trustees’ meetings; this includes giving notice to the trustees and preparing the agenda for the meetings;
* Ensuring that the trustees’ meetings are quorate and that any decisions that are taken comply with the requirements set out in the scheme’s trust deed and rules (or the articles of association where there is a corporate trustee);
* Producing the minutes of the trustees’ meetings;
* Filing the scheme’s annual return and overseeing the preparation of the scheme’s annual report and accounts;
* Ensuring that the necessary formalities are complied with on the appointment and removal of trustees or the directors of a corporate trustee;
* Ensuring that the information required by the Pension Protection Fund in connection with the calculation of the scheme’s PPF levy (and any PPF contingent assets) is filed on time each year and that the levy is paid;
* Liaising with trustees’ advisers on administrative matters.

(Relevant sections of the manual are Part 2 Chapter 1.14.1 & 1.14.2)

1. **Prepare a briefing paper explaining the role of investment managers. Please include details of what should be included in the terms of engagement when Trustees appoint an investment manager.**

**20 Marks**

Your answer should include the following:

* Trustees ultimately responsible for the investment of scheme’s assets but in practice most will delegate to investment managers;
* Authorised by the FCA;
* FCA requires investment managers to comply with a large body of rules – minimum asset levels & members of a compensation scheme or have indemnity insurance arrangements in place;
* Should be appointed in writing;
* The terms of engagement should include the following:
	+ Trustees’ investment objectives;
	+ particular market restrictions;
	+ particular investment restrictions;
	+ warnings of investment that are difficult to realise;
	+ details of how to terminate the agreement;
	+ arrangements for communicating with the trustees;
	+ special warnings where investment is made in futures and options;
	+ special rules for portfolios managed on a discretionary basis;
* Terms of engagement will set the terms and conditions – reviewed by legal advisers;
* Trustees must carry out a competitive tender before appointing fiduciary managers and must set strategic objectives for investment consultancy;
* Trustees who delegate their investment functions are not responsible for the acts and defaults of investment managers in the exercise of those functions provided the investment manager has the appropriate knowledge and experience and they are carrying out their work competently and complying with the relevant legislation;
* Seek reports on a regular basis to monitor the progress of the investment manager.

(Relevant section of the manual is Part 2 Chapter 1.20)

1. **Outline the role of an insurer in relation to a pension scheme.**

**10 Marks**

Your answer should include the following:

* Provide contract-based schemes – personal pensions & stakeholders;;
* Also have a role in trust-based schemes;
* Trust based scheme – may choose to insure some or all benefits under scheme with an insurer. May also purchase annuities to secure some or all of the member’s benefits;
* DB scheme – policy issued in the name of the trustee – relationship will be contractual, and the trustee will be able to sue the insurer to enforce the terms of the policy;
* Some circumstances – issued in the name of the beneficiaries (scheme is being wound up). Beneficiaries can directly enforce the policy;
* Policy originally issued in the name of the trustee may be assigned to the beneficiary – beneficiary can then enforce the policy;
* Not assigned, beneficiary still can enforce under the Contracts (Rights of Third Parties) Act 1999. – However normally excluded under the terms of the policy;
* Trust based scheme – may use an insurer to provide an AVC facility where members can top-up their contributions to increase retirement provision;
* Insurer will issue various communications, but the trustees have ultimate responsibility.
* DC schemes – purchase of annuity usually through an insurer offering competitive rates.

(Relevant section of the manual is Part 2 Chapter 1.21)