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

**Assignment 3 Notes**

**(Part 3 – State Benefits, NEST and Automatic Enrolment)**

**Recommended Time: 2 Hours**

1. **Explain the term ‘triple lock’ in relation to the state pension.**

**5 Marks**

Your answer should cover the following:

* Government commitment to annually increase the state pension;
* Greater of average earnings, price inflation (CPI) & 2.5%;
* Not guaranteed as legislation only provides increases in line with average earnings;
* 2022/23 Government suspended earnings element – COVID;
* March 2022, secretary of State for Work and Pensions confirmed the triple lock will be honoured.

(Relevant section of the manual is Part 3 Chapter 1 - Introduction)

1. **As a pension consultant, you’ve been asked to draft a briefing paper on ‘Contracting-out’. The paper needs to include an overview of contracting-out and the reasons why many schemes chose to operate on this basis.**

**20 Marks**

Your answer should cover the following:

* Only available before April 2016;
* Not available since new State pension came into effect;
* Gave up part or all of their state additional pension entitlement;
* NI reduction;
* Broadly equivalent benefit;;
* Restricted to members of private pension schemes that met certain conditions;
* Minimum level of benefits / investment proceeds of a minimum level of contributions in lieu of S2P;
* Prior to 6 April 2012, number of ways in which a pension scheme might contract out: COMP, COMB, APP, Stakeholder pension scheme or COSR;
* From 6 April 2012 contracting out on a money purchase basis was abolished.
* From 6 April 2016, abolished altogether;
* On a money purchase basis, the prospect of investing the NI savings to achieve higher benefits than the S2P given up;
* On a DB basis, the prospect of providing the contracted-out benefit in the scheme at a lower cost than the value of the NI rebate received;
* COSR – Employer took on the liability of providing earnings related benefits – GMP;
* GMP – benefits otherwise would have received by the additional State pension;
* Occupational pension scheme would also provide benefits in excess of GMP;
* Different rules would apply for GMP and excess – increases, NPA, commutation;
* Ceased on 6 April 2016, HMRC stopped tracking GMPs, no longer issued statements;
* Schemes no longer need to advise HMRC of movement of contracting-out benefits;
* Members can still retain rights to GMPs, and regulations apply differ to those of non-GMPs;
* Conversion is available to simply benefits technical problems with this;
* Equalisation of GMPs;
* Contracted out on a money purchase basis – reduction in NICs paid into the scheme by way of NI rebate;;
* Rebates with investment return form member’s total fund known as protected rights;
* However, since the abolition of protected rights, little distinction between protected and non-protected rights.

(Relevant section of the manual is Part 3 Chapter 1.2.1 & 1.2.2)

1. **Provide an outline of the pension credit and the income payable.**

**10 Marks**

Your answer should cover the following:

* Introduced on 6 October 2003;
* Replaced the Minimum Income Guarantee;
* Targeted pensioners on low and modest incomes;
* Two elements – Guarantee Credit & Savings Credit;;
* Claimed by one member of a couple;
* Means-tested benefit – undrawn pension rights are taken into account;
* Deprivation rule - spent the proceeds of their pension pot – deliberately depriving themselves of capital – still in possession of capital – notional figure. Although not apply if spent reducing a debt or spent reasonable in the circumstances;
* 2022/23 – £182.60 pw if single;
* £278.70 pw if they have a partner;
* Savings Credit – reward those on modest incomes who have saved for their retirement;
* Paid to those who have attained the male SPA and made some provision towards retirement;
* Maximum savings credit 2022/23: £14;.48 pw if single;
* £16.20 pw if have a partner;
* Reaches income of the level of the Guarantee Credit, the Savings Credit tapers off
* The new State pension has been purposefully set at a level above the Guarantee Credit for a single person;
* Savings Credit does not apply to those reaching SPA after 5 April 2016.

(Relevant section of the manual is Part 3 Chapter 1.3)

1. **In your role as a benefit consultant, prepare a report explaining the universal credit and the welfare system it is replacing.**

**20 Marks**

Your answer should cover the following:

* A single payment for people who are looking for work or on a low income;
* Help claimants and their families to become more independent;
* Simplify the benefits system by bringing together several working-age benefits into a single payment;
* Starting from October 2013, Universal Credit was rolled out across the UK in stages over several years;
* Certain non-means-tested benefits remain;
* Available to people who are in work and on a low income, as well as to those who are out of work;
* Most people are expected to apply online and manage their claim through an online account;
* Universal Credit is responsive – as people on low incomes move in and out of work, they will get ongoing support, giving people more incentive to work for any period of time that is available;
* Most claimants on low incomes will still be paid Universal Credit when they first start a new job or increase their part-time hours;
* Claimants receive just one monthly payment, paid into a bank account in the same way as a monthly salary;
* Support with housing costs goes direct to the claimant as part of their monthly payment;
* As incentives to work and to reduce reliance on benefits, individuals are expected to agree to various requirements such as work preparation and keeping in touch with the labour market as a condition of continuing to receive benefits;
* Universal Credit will replace: Income Support; Income-based Jobseeker’s Allowance; Income-related Employment and Support Allowance; Housing Benefit; Child Tax Credit; and Working Tax Credit;
* The following non-means-tested benefits are outside Universal Credit and will remain in place: Contributory Jobseeker’s Allowance; Contributory Employment and Support Allowance; Disability Living Allowance; Child Benefit; Bereavement benefits; Statutory Sick Pay; Statutory Maternity Pay; Maternity Allowance; and Industrial Injuries Disablement Benefit;
* There is a withdrawal rate of 55% (to be applied to employed earnings net of tax, National Insurance and pension contributions). This was initially 65% then reduced to 63% from 10 April 2017 to 23 November 2021 and set at 55% since then;
* The withdrawal rate is intended to provide sufficient incentive to work. In addition, there will be a system of ‘disregards’ to enable some groups to earn varying amounts according to their circumstances before the taper starts to apply. In calculating the amount of earnings to be taken into account in Universal Credit, 100% of contributions to an occupational or personal pension are disregarded.

(Relevant section of the manual is Part 3 Chapter 2.2.1)

1. **What is automatic enrolment? Your answer should include details on the main features, the eligibility requirements and the type of schemes that can be used to fulfil these requirements.**

**20 Marks**

Your answer should cover the following:

* Overcome evidence of inertia in people’s savings decisions;
* If enrolled, then there is the assumption that most will not opt-out;
* Greater support for the lower earners, help them save for retirement;
* Hoped for a significant increase in the number of individuals savings for retirement;
* All eligible jobholders must be automatically enrolled into a qualifying pension scheme;
* May opt-out within one month of joining;
* The employer has a duty to re-enrol eligible jobholders every 3 years;
* Employers can postpone their obligation to enrol by up to 3 months starting from the date the individual becomes eligible;
* However, during this 3-month period they must be informed of their right to opt-in.
* Introduced in stages for existing employers;
* Larger employers were staged first;
* Duties now apply to all new employers;
* Employers providing DB or hybrid qualifying schemes were able to defer their enrolment obligations until 1 October 2017, provided they could opt in any time;
* Eligibility – 3 classes of workers, eligible jobholder, non-eligible jobholder and entitled worker;
* Eligible jobholders – aged 22-SPA, earning more than earnings trigger;
* Non-eligible jobholders – earnings less than the earnings trigger as are workers aged between 16 & 22 or between SPA and 75;
* Entitled workers – aged between 16 and 75 who do not have qualifying earnings.
* Qualifying earnings – gross earnings including sick pay and statutory maternity / paternity and adoption pay. For 2022/23 – between £6,240 pa and £50,270 pa and the earnings trigger £10,000 pa;
* 2017, Government confirmed intentions to make changes in mid – 2020’s – reduce lower age limit to 18 and calculate minimum contributions from the first pound earned;
* Qualifying schemes – DC scheme, statutory minimum levels of contributions must be paid or must meet the alternative qualifying requirements for DC scheme;
* For a DB scheme to be treated as a qualifying scheme, it must either satisfy a test scheme standard, or it must meet the alternative quality requirements for DB schemes. A test scheme for a scheme providing a pension at retirement is one that gives a pension payable from age 65 (or the member’s SPA if higher) of 1/120 of final qualifying earnings (averaged over the final 3 years of service) for each year of service. However, the test scheme differs for schemes that provide a sum of money to be made available for the provision of benefits;
* Possible to use a CARE scheme – must meet additional requirements relating to the revaluation of benefits;
* Prior to the abolition of contracting-out, DB scheme also satisfied the quality requirement where it related to jobholders in contracted-out employment;
* From 1 April 2015, two alternative tests were introduced for a DB scheme to satisfy the qualifying criteria. One is based on the cost to the scheme of the future accrual of active members’ benefits and the other is intended to allow DB schemes that satisfy certain conditions and that meet the minimum requirements for DC occupational schemes to be used for automatic enrolment.

(Relevant section of the manual is Part 3 Chapter 3.2.1)

1. **Your pension scheme has just been set up and is subject to the automatic enrolment requirements. Write a paper explaining the difference between what automatic enrolment means for employees and what it means for employers.**

**20 marks**

Your answer should cover the following:

Employees:

* Eligible jobholders are automatically enrolled if they are not already in a qualifying scheme;
* Includes temporary and part-time employees;
* Other jobholders are able to opt into a qualifying scheme;
* DC arrangements are required to have minimum contributions of 8% of qualifying earnings, of which at least 3% are employer contributions;
* Contributions attract tax relief in the usual way;
* Alternatively, some employees are automatically enrolled into DB schemes;
* For low earners who may not otherwise be saving into a pension, there has been a concern that they will not get value for money from any contributions they make because of the potential impact on means-tested State benefits. This concern has been addressed partly by the application of the earnings trigger and partly by the decision to deliver a State pension from 2016 at a level above which most means-tested benefits are not payable (meaning that anything that an individual receives from private pension saving over and above the State pension is unlikely to impact significantly on any means-tested benefits);
* There has also been concern that those earning between the earnings trigger and the threshold for income tax could lose out on tax relief in schemes, such as occupational schemes, that give tax relief on net pay (with the pension contribution deducted before tax is calculated). Those saving via personal pensions do not lose out because tax relief is given at source;

Employers:

* Automatic enrolment has increased pension scheme take-up rates (i.e. the percentage of employees who participate in the scheme);
* Many more employees have been given access to a pension scheme to which their employer contributes. Previously, there was no legislative requirement for an employer to contribute to a pension scheme for any of its employees (in the past, employers were required to designate a stakeholder scheme but not to contribute it);
* Secondly, it is believed that many employees who would not have actively chosen to join a pension scheme have nevertheless remained in one when automatically enrolled. However, working against this may be that some of the workforce, particularly young workers and low earners, feel that they cannot afford to make pension provision when they have other more immediate demands on their finances;
* Although the take-up rates have increased generally, they vary from employer to employer, depending on various factors including the type of scheme provided and the demographic profile of its workforce

(Relevant sections of the manual are Part 3 Chapter 3.4 & 3.5)

1. **Since April 2015, what restrictions have been introduced on the charges that apply to defined contribution schemes?**

**10 Marks**

Your answer should cover the following:

* Charge cap introduced under the Pensions Act 2014 - restricts the charges that can be levied on members’ funds in a default arrangement in a DC qualifying scheme to 0.75% p.a. of funds under management;
* Some schemes do not have to operate a simple Annual Management Charge type structure – for example the initial charging structure used by NEST combines a 0.3% AMC with a 1.8% charge on contributions paid in. Provided that the overall effect of such an arrangement is deemed to be broadly equivalent to the effect of an annual charge of 0.75% or lower, it will be acceptable;
* A default arrangement is any fund that members are put in if they do not express a preference and also any fund in which broadly 80% of members are invested where they do have to make a decision. Once an arrangement has become subject to the cap, the cap will continue to apply even if it subsequently ceases to satisfy the definition of a default;
* The FCA made equivalent rules to implement a charge cap on default funds for automatic enrolment in contract-based schemes;
* From April 2016 a ban applies to member-borne charges or commission in a DC qualifying scheme - This ban prevents charges from being levied on a member’s funds to pay an adviser for services given to the member. The first phase of the ban applies to new charging arrangements or those which are varied or renewed after April 2016.The second phase of the ban, relating to arrangements entered into before 6 April 2016 was introduced from 1 October 2017;
* Pensions Act 2014 also banned so-called active member discounts in DC qualifying schemes;
* From the year ending after 1 October 2021, certain performance fees are ignored when calculating a charge under a single charge structure;
* From 6 April 2022 there is a de minimis pot size of £100 below which the flat fee element of a combination charge cannot be charged to members.

(Relevant section of the manual is Part 3 Chapter 3.2.5)