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

**Mock Examination Notes**

**Recommended Time: 2 Hours**

1. **Your client is an employer looking to set up a trust-based pension arrangement for its employees. Prepare a short paper outlining the key considerations for the employer when deciding whether to select a Trust or a Master Trust arrangement, comparing both types of arrangement.**

**20 Marks**

Your answer should cover 10 of the following considerations and a brief narrative for each to note the similarity or difference between the two types of scheme:



(Relevant Section of the manual is Part 4 Chapter 3.9)

1. **List five industry guides that are intended to help trustees communicate with members, giving suggestions for good practice, stating briefly what each guide covers.**

**5 Marks**

Your answer should list 5 of the following:

* DWP’s Automatic enrolment and pensions language guide;
* tPR’s Communicating and reporting guide;
* FCA’s discussion paper Smarter consumer communications;
* European Insurance and Occupational Pensions Authority (EIOPA) 2016 report on Good practices;
* The Association of British Insurers’ Making retirement choices clear;
* Pensions Management Institute’s (PMI) glossary of Pensions Terminology.

(Relevant Section of the manual is Part 1 Chapter 2.4.4)

1. **Write brief notes on the key features of a collective defined contribution scheme.**

**10 Marks**

Your answer should cover the following:

* The Pension Schemes Act 2021 – collective money purchase schemes;
* commonly referred to as collective defined contribution (CDC) schemes;
* new pension scheme option - available from 1 August 2022;
* single employers or groups of connected employers;
* April 2023 - authorisation of the first CDC scheme – Royal Mail Collective Pension Plan.
* DWP Consultation on extending opportunities to multi-employer whole-life schemes and decumulation CDC arrangements;
* CDC schemes pool risks and costs between members, rather than each member having their own individual pot;
* offer a targeted – but not guaranteed – level of income in retirement, with the flexibility to adjust benefits if circumstances require. The employer benefits from fixed-cost defined contributions and is not required to pay additional contributions to ensure that the funding for a level of benefits remains on target.
* 1 August 2022 - tPR’s code of practice on the authorisation and supervision of CDC schemes came into effect;
* trustees may be asked to submit a supervisory return;
* must notify tPR of significant events that might affect scheme’s ability to continue meeting the authorisation criteria.

(Relevant Section of the manual is Part 4 Chapter 2.2.2)

1. **You have been asked to present a training session on the powers of the Pensions Regulator. Prepare a short presentation.**

**25 Marks**

Your answer should be in the format of a short slide deck covering the following:

TPR’s powers (4 marks):

* defined in statute;
* three broad categories:
  + investigating schemes - how it gathers information to identify and monitor risks;
  + putting things right - what it can do where problems have been identified; and
  + acting against avoidance - how it will ensure that employers do not sidestep their pension obligations.

Investigating schemes (6 marks):

* collects data through an annual scheme return. It also expects to receive reports of significant breaches of the law from whistleblowers, and reports of notifiable events from trustees and employers;
* The Pension Schemes Act 2021:
  + creates the structure for expanding these events and the information required;
  + not yet been fully implemented;
  + stronger penalties for failure to notify are already in place.
* trustees/scheme managers also responsible for notifying tPR promptly of changes to registrable information eg scheme’s address, details of trustees, or the types of benefit provided by the scheme;
* expects to receive reports where a scheme is unable to comply fully with the scheme funding framework;
* can demand relevant documents (or other information) from trustees and employers, among others;
* The Pension Schemes Act 2021 broadened TPR’s powers to permit it to require a broad range of people to attend an interview; and extended the grounds on which TPR can inspect premises.

Putting things right (10 marks):

* range of options available where TPR decides that action must be taken to protect the security of members’ benefits;
* action taken will depend on the circumstances of the problem;
* examples of the regulatory action:
  + issue an ‘improvement notice’ to individuals or companies, or a ‘third party notice’, requiring specific action to be taken within a certain time;
  + take action, on behalf of a scheme, to recover unpaid contributions from the employer if the due date for payment has passed;
  + where a wind-up is pending and members’ interests may be at risk, it can issue a ‘freezing order’;
  + freezing order temporarily halts all activity within the scheme, so that it can investigate concerns and encourage negotiations;
  + imposing a schedule of contributions on a scheme
  + prohibition of trustees who it does not consider to be fit and proper persons for the role;
  + imposition of fines where breaches have occurred; and
  + prosecution of certain offences in the criminal courts.

Acting against avoidance (5 marks):

* powers to act where it believes that an employer is deliberately attempting to avoid its pension obligations, leaving the PPF to pick up its pension liabilities;
* to protect the benefits of scheme members and to reduce the PPF’s exposure to claims for compensation, TPR may issue any of the following:
  + Contribution notices — where there is a deliberate attempt to avoid a statutory debt, these allow it to direct that those involved must pay an amount up to the full statutory debt either to the scheme or to the Board of the PPF;
  + Financial support directions — these require financial support to be put in place for an underfunded scheme where it concludes that the sponsoring employer is either a service company or is insufficiently resourced.
  + Restoration orders — if a transaction involving the scheme’s assets has been undervalued (for example assets sold to some connected party at a price that is less than what would be expected from a genuine arm’s length transaction), these allow it to take action to have the assets (or their equivalent value) restored to the scheme.

(Relevant Section of the manual is Part 2 Chapter 1.1.1)

1. **You are an in-house Pensions Manager. You have received an email from an employee asking for information about the new State Pension.**

**Write a reply, outlining the key features.**

**15 Marks**

Your answer should be in the form of an email and should cover the following:

New State Pension (10 marks):

* For those reaching SPA after 5 April 2016, BSP and the State additional pensions replaced by a new flat-rate pension;
* set above the basic level of the Guarantee Credit and so Savings Credit not generally available;
* individuals who reached SPA before 6 April 2016 receive pension under the

previous rules, whether or not they actually claimed their pension before that date;

* payable to individuals with 35 or more qualifying years who reach SPA on or after 6 April 2016;
* qualifying years determined in the same way as under the BSP, derived from National Insurance contributions either paid, treated as paid or credited on earnings of at least 52 times the Lower Earnings Limit.
* reduced rate of new State Pension is payable to individuals with between 10 and 35 qualifying years;
  + reduced rate - 1/35 of the full rate for each qualifying year;
  + based on the 2023/24 rate of £203.85 per week as the full rate, a worker would earn £5.82 per week in State Pension for each qualifying year;
* self-employed also eligible for the new State Pension;
* increased weekly pension amount available to individuals choosing to defer new State Pension beyond SPA;
* no lump sum option;

Qualifying years before 6 April 2016 (5 marks):

* allowance made for the State Pension already accrued;
* achieved by comparing the total of the BSP and S2P accrued for qualifying years up to 5 April 2016 with what the new State Pension would be based on the same qualifying years;
* greater of the two then becomes the individual’s Starting Amount;
* if Starting Amount lower than the new State Pension at its full rate (i.e. based on 35 or more qualifying years) then, the individual can use future qualifying years to accrue further pension under the new rules, up to the level of the full rate of State Pension.
* if Starting Amount exceeds the full rate of new State Pension, the excess is a “protected payment”.
* excess will be increased (in line with prices) but no further pension can be earned through future qualifying years.

(Relevant section of the manual is Part 3 Chapter 1.4)

1. **Over the last 25 years a number of important factors have contributed to successive generations not making sufficient savings.**

**Briefly describe the various factors that are considered as obstacles to voluntary savings.**

**10 Marks**

Your answer should cover the following (2 marks for each of the 5 below):

* Rise in the welfare state - largely removed the threat of absolute poverty;
* Affordability – cost of living has an impact. The need for food, clothes, rent/mortgage, transport, loan repayments, bills and child-related costs all decrease the amount of disposable income that can be used for savings/pensions.
* Behaviour – individuals tend to prioritise their immediate needs before thinking longer term e.g. an annual holiday or a new car can often be an attractive reason to use disposable income/savings;
* Culture – a persistence of the ‘spend now, pay later’ culture which developed in the credit boom years of the 1980s, contrasting with more of a savings culture of past generations;
* economic and demographic factors were far less favourable than had been believed,

and were forecast to get worse:

* Longevity was forecast to rise significantly, resulting in longer expected periods of retirement that would somehow need to be financed; and
* It appeared that long term investment returns were unlikely to be as high as had been believed previously.

(Relevant Section of the manual is Part 1 Chapter 2.1.1)

1. **In relation to automatic enrolment, explain what is meant by the term “qualifying scheme” and outline its minimum requirements.**

**15 Marks**

Your answer should cover the following:

* scheme used for auto-enrolment and alternative requirements;
* employer must auto-enrol employees who satisfy the earnings and age criteria into a qualifying scheme;
* qualifying scheme - broadly a HMRC-registered occupational or personal pension scheme that meets certain minimum quality requirements;
* minimum requirements differ depending on the type of pension scheme:
* DC scheme:
* must meet the alternative quality requirements for DC schemes, OR
* statutory minimum levels of contributions must be paid:
  + contributions of at least 8% of qualifying earnings;
  + at least 3% must be paid by the employer) OR it;
* certification:
  + allows DC scheme to confirm it meets alternative quality requirements;
  + applies where definition of qualifying earnings and pensionable salary are different;
* DB scheme:
  + must meet the alternative quality requirements for DB schemes, OR
  + must satisfy a test scheme standard;
* test scheme for a scheme providing a pension at retirement gives pension payable from age 65 (or SPA if higher) of 1/120 of final qualifying earnings (averaged over the final 3 years of service) for each year of service;
* test scheme differs for schemes that provide a sum of money to be made available for the provision of benefit;
* CARE scheme - must also meet additional requirements relating to the revaluation of benefits;
* prior to abolition of contracting-out on 6 April 2016, DB scheme also satisfied the quality requirement where it related to jobholders in contracted-out employment;
* 1 April 2015 – two alternative tests introduced for DB schemes:
  + cost to the scheme of the future accrual of active members’ benefits;
  + allows 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)