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

**Assignment 3 Notes**

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

**Recommended Time: 2 Hours**

1. **Write brief notes on why a scheme may ‘contract-out’ of the state pension and what it entails.**

**10 Marks**

Your answer should cover the following:

* Contracting out on a money purchase – prospect of investing NI savings to achieve higher benefits than the S2P given up.
* DB schemes – prospect of providing the contracted-out benefits at a lower cost than the NI rebate received.
* COSR – the employer took on the liability of providing earnings related benefits of least a minimum level – GMP. In broad terms, the additional state pension the member would have otherwise been entitled to. The scheme would also provide the excess.
* Different rules apply to GMP and excess, i.e. revaluation, increases, the earliest date it comes into payment & commutation.
* Ceased on 6 April 2016 & HMRC no longer provide statements.
* HMRC set a deadline to reconcile GMP data by March 2019.
* While no longer to contract-out, the rules governing GMPs still remain in force.
* DC scheme – the reduction of NICs was paid into the scheme by NI rebate. The rebates and investment returns – protected rights.
* PRs were subject to additional restrictions.
* Following the abolition of contracting out on a money purchase basis in 2012, the distinction has little significance now.

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

1. **Explain the term ‘pension credit’.**

**10 Marks**

Your answer should cover the following:

* 6 October 2003
* Replaced the Minimum Income Guarantee
* Targeting pensioners on low & modest incomes
* 2 elements – Guarantee Credit payable from female SPA & Savings Credit payable from male SPA.
* Claimed by one member of a couple, not both.
* Guarantee Credit is means tested – undrawn pension rights will be taken into account.
* Where they have spent all their pension pot for the purpose of securing an entitlement, they will be treated as deliberately depriving themselves of capital and still be treated as being in possession of that capital.
* 2024/25 - £218.15 per week if single, £332.95 per week if have a partner.
* Savings Credit – on modest incomes and attained male SPA.
* Provides an income of 60p for each £1 of income between a lower limit and Guarantee credit.
* Lower limit - £189.80 per week if single, £301.22 per week if have a partner.

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

1. **As a HR manager you have been asked to write a report on the benefits available as a legal requirement by the employer.**

**20 Marks**

Your answer should be in the format of a report and cover the following:

Statutory Sick Pay

* Employee unable to work due to sickness or disability the employer must make payments for the time off sick to at least a minimum level.
* First 28 weeks must make statutory payments.
* Flat rate of £116.75 per week after been off work for at least 4 consecutive days.
* Pay through the payroll
* Tax & NI deducted in the usual way.

Statutory Maternity Pay & Leave

* Eligible employees – take up to 52 weeks
* Maternity pay – can be paid for up to 39 weeks:
* First 6 – 90% of average weekly earnings
* Remaining 33 weeks - £184.03 per week or 90% of AWE (the lower of).
* Subject to tax and NI

Statutory Paternity Pay & Leave

* Those eligible can choose to take either one or two weeks leave.
* Pay is either £184.03 per week or 90% of AWE (the lower of)
* Subject to tax and NI

Statutory Adoption Pay & Leave

* Those eligible can take up to 52 weeks
* £184.03 per week or 90% of AWE (the lower of) – for up to 39 weeks
* Subject to tax and NI

Shared Parental Pay & Leave

* Partners can share the leave if both eligible for SPL and can choose how much each will take
* The mother must take a minimum of 2 weeks maternity leave following birth
* Either partner can take the rest of the 52 weeks
* Can take the rest of the 39 weeks’ pay
* ShPP is at the rate of the lower of £184.03 per week or 90% of AWE

Statutory Parental Bereavement Pay & Leave

* 6 April 2020
* Following the death of a child under 18 or stillbirth after 24 weeks of pregnancy
* Up to two weeks regardless of their length of service
* Statutory Parental Bereavement Pay - £184.03 per week or 90% of AWE. (the lower of)

(Relevant sections of the manual are Part 3 Chapter 2.1.1, 2.1.2, 2.1.3, 2.1.4, 2.1.5 & 2.1.6)

1. **Explain the term ‘Employment and Support Allowance’.**

**10 Marks**

Your answer should cover the following:

* Limited capacity to work because of illness or disability but who are not getting SSP
* Contribution based
* Dependent of a number of factors, including age and income circumstances
* Paid by the Government
* Non-means tested
* Undergo a Work Capability Assessment by the DWP
* 2 groups – work-related activity group (£90.50 per week) and support group (£138.20 per week)
* If Claimant gets a pension that pays more than £85 per week, the ESA will be reduced by half over the £85 limit.

(Relevant section of the manual is Part 3 Chapter 2.2.3)

1. **The scheme is looking to fulfil its automatic enrolment requirements by NEST. Please draft a report explaining the idea of NEST and how this is possible. Explaining the key concepts, charges and benefits payable.**

**20 Marks**

Your answer should be in the format of a report and cover the following:

* The AA regime requires employers to automatically enrol workers who satisfy the earnings and age criteria into a qualifying scheme
* For employers without their own pension scheme, NEST may be used
* National Employment Savings Trust
* NEST corporation responsible for the running of the scheme
* A very large multi-employer occupational DC pension scheme
* One of a number of master trusts
* Employers participate but don’t actively appoint or remove trustees
* Large scale – set-up costs can be spread over a long period and recovered from large funds. Low average charge
* Portability characteristics of personal pensions
* Charging structure is an annual management charge of 0.3% of a member’s fund
* Charge on contributions of 1.8%
* Must accept any employer who wishes to use the scheme to fulfil their AA duties
* Must also accept all the employees eligible and also all those that are not eligible but opt-in
* Self-employed are permitted to join NEST
* Subject to the Finance Act 2004
* Lifetime annuity most appropriate product
* Also transfer out to make use of other options such as drawdown
* Buy an annuity at retirement through the open market option
* NEST have appointed a panel of providers who will offer a limited range of annuities for members.

(Relevant section of the manual is Part 3 Chapter 3.3)

1. **Outline the main features of automatic enrolment and who is eligible.**

**15 marks**

Your answer should cover the following:

* Eligible jobholders must be automatically enrolled if they are not already in a qualifying scheme
* May opt-out within one month of being enrolled
* Automatically re-enrol eligible jobholders every 3 years
* Employers can postpone their obligation by up to 3 months starting from when the individual becomes eligible
* Duty now applies to all employers on which their first worker begins to be employed
* 3 categories of worker, eligible jobholder, non-eligible jobholder and entitled worker.
* Eligible jobholder – age between 22 and SPA and earning more than an earnings trigger
* Workers with qualifying earnings who earn less than the trigger (non-eligible jobholders) have to be informed of their right to membership of such a scheme
* Workers aged between 16 and 75 who do not have qualifying earnings are known as entitled workers. Informed of their right to membership but employer not required to contribute.

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

1. **What is the incapacity benefit and how does short-term incapacity benefit distinguish from long-term incapacity benefit.**

**15 Marks**

Your answer should cover the following:

* Disability or illness commenced before 27 October 2008
* Replaced by the Employment and Support Allowance for new claimants
* Can be short-term or long-term
* Short-term – no entitlement to SSP. Payable at the rate of £104.85 per week for a maximum of 28 weeks
* Tax-free
* Higher rate £124.00 per week is payable from week 29 to week 52. Potentially taxable. Only applicable if over SPA.
* Long-term – payable from week 53, £138.90 per week
* If under age 45 when first become unable to work, they can claim an Incapacity Age Addition
* An additional adult dependents allowance is payable if the claimant partner is over the age of 60 or the claimant has dependent children.
* Ceases on resumption of work or considered capable of work.

(Relevant section of the manual is Part 3 Chapter 2.2.2)