**Core Unit 2 – Regulation of Retirement Provision**

**Assignment 1 Notes**

*(Part 1 – The Taxation and* Regulation *of Retirement Provision)*

*Recommended Time: 2 Hours 30 minutes*

1. **List the responsibilities of the Financial Conduct Authority (FCA) and five of the main principles the must consider under the Financial Services and Markets Act 2000.**

**10 marks**

Answer should include:

*Responsibilities (5 marks):*

* banking supervision;
* authority for listing on the London Stock Exchange;
* investment services regulation;
* mortgage and general insurance regulation;
* taking action to prevent market abuse.

*Principles - 5 of the following (5 marks):*

* Efficiency and economy - the FCA must use its resources efficiently and economically;
* Proportionality - any burden or restriction that imposed on a person or activity must be proportionate to the expected benefits, taking into account the costs to firms and consumers;
* Consumer responsibility - consumers should take responsibility for their decisions;
* Senior management responsibility - a regulated firm’s senior management is deemed responsible for that firm’s activities and is held responsible for the risk management and controls within the firm.
* Openness and disclosure - FCA should ensure that relevant market information about regulated persons is published, in order to reinforce market discipline and improve consumers’ knowledge about their financial matters;
* Transparency - the FCA should exercise its functions as transparently as possible.

(Relevant section of the manual is Part 1 Chapter 3.5 and 3.5.1)

1. **Describe the key features of the two main types of transitional arrangements implemented to protect the benefits of individuals who had bult up pension rights before 6 April 2006 which exceeded the new Lifetime Allowance.**

**10 marks**

Answer should cover:

* Primary Protection:
  + Only available if value of pension rights exceeded the Standard Lifetime Allowance at A-day (£1.5m);
  + Individual given a Lifetime Allowance Enhancement Factor (LAEF);
  + 1 + LAEF = Value of pension Rights at A-Day divided by £1.5m
  + Standard Lifetime Allowance replaced with Personal Lifetime Allowance;
  + Personal LTA = Standard LTA x (1 + LAEF)
  + When BCE occurs, Personal Lifetime Allowance used;
* Enhanced Protection;
  + Available regardless of the value of pension rights at A-day;
  + Benefits can grow without limit and without attracting tax charges;
  + Permitted increase in benefits broadly in line with RPT or fixed at 5% pa;
  + Further relevant benefit accrual after 5 April 2006 not permitted otherwise Enhance Protection is lost;
* Individual could register for both Primary and Enhanced Protection;
* Enhanced takes priority – Primary would only be triggered if Enhanced Protection was lost.

(Relevant section of the manual is Part 1 Chapter 2.2)

1. **Outline the responsibilities of the National Insurance Contributions and Employer Office (NIC&EO).**

**5 marks**

Answer should include:

* ensuring compliance with National Insurance-related legislation;
* collecting National Insurance contributions;
* administering the contracted-out system;
* maintaining accurate National Insurance accounts;
* providing information about National Insurance.

(Relevant section of the manual is Part 1 Chapter 3.4.1)

1. **The Pensions Regulator (TPR) is the UK regulator of workplace pension schemes.**

**Outline the TPR’s statutory objectives, its key priorities for trustee pension scheme governance, and briefly describe 5 of the powers of TPR.**

**20 marks**

Answer should include:

*Statutory Objectives (5 marks):*

* to protect the benefits of members of workplace pension schemes;
* to promote and improve understanding of good administration of workplace pension schemes;
* to reduce the risk of situations arising that may lead to claims for compensation from the PPF;
* to maximise compliance with the duties relating to automatic enrolment imposed on employers and

to ensure adherence to the safeguards that protect employees which are introduced by Pensions Act

2008 in connection with automatic enrolment; and

* to minimise any adverse impact on the sustainable growth of an employer DB funding functions only).

*Key priorities for trustee pension scheme governance – 5 of the following (5 marks)*

* trustees’ ‘knowledge and understanding’ (of the relevant law, of investment and, for defined benefit

schemes, of funding);

* identifying and managing conflicts of interest;
* for defined benefit schemes, monitoring of the ‘employer covenant’ (i.e., the financial ability of the

employer to meet its obligations to the scheme);

* the appointment and review of advisers;
* administration processes;
* choosing investments;
* governance during wind-up;
* risk management and internal controls; and
* providing value for members.

*TPR Powers – 5 of the following with a short explanation of each (10 marks):*

* Investigating schemes;
* Tougher Pensions Regulator powers and related criminal offences;
* Putting things right;
* New Criminal Penalties;
* Inspection and Interview Powers;
* Provision of False or Misleading Information to TPR or Pension Trustees Provision of Information to TPR;
* Provision of fines to Pension Trustees;
* Acting against avoidance.

(Relevant section of the manual is Part 1 Chapter 3.2, 3.2.1 and 3.2.2)

1. **List the conditions required for a death-in-service lump sum death benefit arrangement to qualify as an Excepted Group Life Scheme.**

**5 marks**

Answer should include 5 of the following:

* lump-sum benefits can only be paid for deaths before the age of 75;
* all members must have the same benefit formula;
* if the policy is cancelled it must not have a cash value and only unused premiums may be refunded;
* benefits must be set out in the policy;
* only lump sums can be paid;
* only individuals, charities and trusts set up for individuals may receive a benefit, not other insured persons, unless they are a dependent or relative of the deceased; and
* the EGLS must not be used for the main purpose of tax avoidance.

(Relevant section of the manual is Part 1 Chapter 1.6.3)

1. **Outline the core purposes of the Bank of England, and briefly explain the role and responsibilities of HM Treasury and the changes introduced by the Finance Act 2012 relating to the regulation of financial services firms.**

**15 marks**

Answer should cover:

*Bank of England (5 marks)*

* Ensure monetary stability:
  + stable prices and confidence in the currency;
  + decisions delegated to the Monetary Policy Committee;
  + setting monetary policy is the responsibility of the Bank;
* Contribute to financial stability:
  + detecting and reducing threats to the financial system;
  + pursued through Bank’s financial and other operations;
  + surveillance and policy roles delegated to the Financial Policy Committee.

*HM Treasury (10 marks)*

* UK Government department responsible for the regulation of the financial services industry;
* Operates under the authority of the Chancellor of the Exchequer;
* HM Treasury is responsible for:
* public spending;
* financial services policy;
* strategic oversight of the UK tax system;
* the delivery of infrastructure projects;
* ensuring the UK economy is growing sustainably;
* FSA 2012 came into force 1 April 2013;
* Changes include:
  + Bank of England given responsibility for oversight of the UK financial system as a whole through new Financial Policy Committee established within the Bank);
  + Prudential Regulation Authority (PRA) set up as new regulator of safety and soundness in the financial services sector;
  + PRA operates under the Bank of England, to supervise all firms that manage significant risks as part of their business;
  + Financial Conduct Authority established as the new business regulator for financial services – to protect consumers and supervise all firms
  + clarifying the Government’s responsibilities in a financial crisis by giving the Chancellor of the Exchequer powers to direct the Bank of England where public funds are at risk and there is a serious threat to financial stability.

(Relevant section of the manual is Part 1 Chapter 4.2.2 and 4.2.1)

1. **List the changes to the Annual Allowance introduced by the Finance Act 2011, and the circumstances in which the money purchase annual allowance would be triggered.**

**10 marks**

Answer should include:

* Changes in Finance Act 2011 *(5 marks):*
  + Changes effective 6 April 2011;
  + Reduction made to the Annual Allowance;
  + Annual Allowance Charge changed from 40% to, in most cases, the individuals marginal rate of tax;
  + Exemption removed from Annual Allowance for individuals with Enhanced Protection or who take all their benefits;
  + Introduction of “carry forward” of unused Annual Allowance from previous 3 years to offset tax charge.
* MPAA triggered where an individual *(5 of the following – 5 marks):*
* draws down funds from a flexi-access drawdown fund;
* receives an uncrystallised funds pension lump sum;
* converts a pre-April 2015 drawdown fund to a flexi-access fund and then takes drawdown;
* takes more than the permitted maximum for capped drawdown;
* receives a ‘stand-alone lump sum’ from a money purchase arrangement where the individual was

entitled to primary protection but not to enhanced protection;

* has received a pre-6 April 2015 payment from a flexible drawdown fund;
* has become entitled to a payment under a flexible annuity contract;

(Relevant section of the manual is Part 1 Chapter 1.4)

1. **Outline the role of the Financial Services Compensation Scheme (FSCS) and the types of financial losses it offers protection against.**

**10 marks**

Answer should cover:

* independent body, set up under the Financial Services and Markets Act 2000 (FSMA);
* UK’s statutory fund of last resort for customers of financial services firms;
* Can pay compensation to consumers;
* FSCS must first declare that the provider or adviser is in default. i.e., firm is unable, or likely to be unable, to pay claims against it, generally because the firm has stopped trading and has insufficient assets to meet claims, or is in insolvency;
* FSCS will conduct an investigation to establish default;
* Protects consumers who have incurred financial loss when regulated firms unable to pay claims against them:;
* Claims must relate to:
  + deposits
  + life and general insurance policies
  + investment business (on or after 28 August 1988)
  + advice and arranging of mortgage business (on or after 31 October 2004);
  + insurance intermediation (general insurance and pure protection contracts, for business conducted on or after 14 January 2005

(Relevant section of the manual is Part 1 Chapter 3.6)

1. **Describe what is meant by a “Qualifying Recognised Overseas Pension Scheme” (QROPS) Outline its key features and the changes to the QROPS system that were introduced by the Finance Act 2017.**

**15 marks**

Answer should cover:

* *QROPS and key features (10 mark*s*);*
* QROPS introduced by Finance Act 2004 with effect from 6 April 2006;
* Purpose is to prevent tax privileges being abused where a member transfers benefits out of a registered pension scheme;
* Act laid down rules that restrict where the transfer could be paid to;
* If the destination was overseas transfer has to go to a QROPS in order to be an authorised transfer;
* Scheme manager must give HMRC undertaking to inform them when the scheme made a payment out in respect of the member so HRMC could ensure the payment was taxed accordingly.
* Broadly speaking, where funds originated from a UK registered scheme then the recipient would be taxed in the same way as if they had been paid direct from the UK scheme, irrespective of whether the recipient was resident or ordinarily resident in the UK at the time;
* Main exception is where member was resident in a country that had a double taxation agreement with the UK and where the pension was taxed in the host country;
* HMRC publishes list of schemes accepted as a QROPS;
* Administrator of a UK registered scheme could check the status of the receiving arrangement when a member had requested a transfer and avoid the possibility of a scheme sanction charge arising on account of the scheme making an unauthorised transfer.
* *Finance Act 2017 (5 marks)*
  + Transfers to a QROPS requested on or after 9 March 2017 will be taxed at a rate of 25 per cent (the “overseas transfer charge”) unless at least one of the following conditions apply:
    - both the individual and the QROPS are in the same country after the transfer;
    - the QROPS is in one EEA country and the individual is resident in another EEA country after the transfer;
    - the QROPS is an occupational pension scheme sponsored by the individual’s employer;
    - the QROPS is an overseas public service pension scheme, and the individual is employed by a participating employer;
    - the QROPS is a pension scheme established by an international organisation and the individual is employed by that organisation.

(Relevant section of the manual is Part 1 Chapter 1.6.2)