**Core Unit 3 – Running a Workplace Pension Scheme**

**Assignment 1 Notes**

(Part 1 – Design and Part 2 – Automatic Enrolment)

Recommended Time: *2 hours 30 minutes*

1. **List the advantages to an employer of using middleware as an automatic enrolment tool.**

**5 marks**

Answer should cover 5 of the following:

* single overarching process removes requirement for the associated HR, payroll and pensions

administration tasks to be carried out manually;

* employer and their workforce will see a single joined up, end to end process;
* management information should be available from one place;
* In–house system development costs to meet the employer duties for automatic enrolment currently

out of reach for most small to medium employers;

* support available where changes are required as a result of legislative change or a change in the

dynamics of an employer’s workforce;

* depending on nature of workforce, automatic enrolment requirements can be complicated and

the expertise to develop a system may put a strain on available human resources.

Relevant section of the manual is Part 1 Chapter 2.2.

1. **Outline the criteria that must be met in order for a scheme to be treated as a qualifying scheme for the purposes of automatic enrolment.**

**15 marks**

Answer should cover:

# *DB schemes (5 marks)*

# Pre 6 April 2016: contracted out on Reference Scheme Test basis, or provide benefits equivalent or better than test scheme;

# Test scheme gives pension payable from greater of SPA or 65 of 1/120th x final qualifying earnings x service;

# CARE can be qualifying scheme if benefits equivalent to test scheme standard;

# From a April 2015, alternative DB routes for meeting qualifying condition introduced:

# Cost of accrual test – cost of benefit accrual used to determine whether scheme qualifies;

# Shared risk test – shared risk scheme may test against minimum contributions for a qualifying DC scheme.

# *DC schemes (10 marks):*

# Different criteria for occupational DC and contract-based DC schemes;

# Occupational DC scheme:

# there must be an employer contribution;

# the overall contributions paid must be equivalent to at least 8% of qualifying earnings in the pay

# reference period;

# the employer must contribute an equivalent of 3% of qualifying earnings in the pay reference period;

# there must be a default investment fund and the charge for this may be no greater than the equivalent of 0.75% of the value of the fund per annum.

# Contract-based DC schemes:

# same minimum contribution rates and default investment fund charge cap as for occupational DC schemes;

# UK schemes must be subject to regulation by the Financial Conduct Authority (FCA);

# operations for UK schemes must be carried out by a person authorised under Section 19 of the

# Financial Services Market Act 2000;

# only defined contribution benefits may be provided;

# there must be a legally binding obligation on the employer to pay minimum contributions in respect of the jobholder to the provider;

# direct payment arrangements must exist for the employer to collect and pay over contributions to the provider.

# Relevant section of the manual is Part 2 Chapters 1.1 and 1.2.

1. **Explain the requirements and responsibilities for trustees that are expected to be introduced by the new Single Code of Practice.**

**20 marks**

Answer should cover:

*General code of practice:*

* Since March 2024, 10 of the 15 codes have been consolidated into a single code of practice, known as the ‘General Code’. The codes which fall outside of the scope of the General Code are 2, 3, 10, 12 and 15. As well as the consolidation of the various codes, the General Code has introduced new governance responsibilities for trustees of both Defined Benefit and Defined Contribution schemes. The new code introduced a requirement for trustees to establish and maintain an effective system of governance (ESOG), which should be proportionate to the size, nature and complexity of the scheme. It should provide the trustees with oversight of the day-to-day operations of the scheme and assurances that the scheme is operating correctly and in accordance with the law, and should include processes and procedures relating to:

• The trustees’ policies on meetings and decision-making, remuneration, knowledge and understanding, risk management, conflicts of interest, continuity planning and appointment of advisers and service providers

• Investment governance, including decision-making, investment monitoring, stewardship, and climate change

• Administration, including contributions and financial transactions, scheme data and record-keeping, and IT systems and cyber-security

• Communication and disclosure to members.

Once established, policies should be reviewed at least every three years, to ensure they are functioning as intended

*Own risk assessment:*

* trustees of schemes with more than 100 members must carry out and document an own risk assessment (ORA) of:
  + how well the ESOG is working;
  + the way risks are managed;
* schemes must prepare and sign off their first ORA within 12 months of the code coming into force;
* ORA should then be reviewed annually;
* trustees may need to expand their risk assessments to meet the new requirements;
* ORA must to be in writing, signed by the chair, and must cover:
  + How the trustees assessed the effectiveness of their policies and procedures, and the outcome;
  + The governing body’s policies;
  + Risk management processes;
  + Investment governance;
  + Administration;

*Other new requirements - any 5 of the following with a short description of each (10 marks)*:

* Remuneration policy – establish written remuneration policy and review at least every three years. It should cover those involved in running the scheme or carrying out key functions (including any outsourced providers) and should explain the decision-making process for the various levels of remuneration and why they are appropriate;
* Policy on appointment of advisers and service providers – covering approach for the selection, appointment, management, replacement of their advisers and service providers. Review every 2 years;
* ESG and climate change – Trustees should consider Environmental, Social and Governance (ESG) matters in their investment decision-making process. Document and maintain processes to identify and assess climate change risks and opportunities;
* Stewardship – Trustees should identify how to exercise the rights and responsibilities relating to the investments they hold and ensure they are familiar with their investment manager’s stewardship policies;
* Data and IT – Trustees should implement policies to ensure scheme data is complete, up to date and held securely. They should also assess and manage cyber risks, including an assessment of service providers’ internal controls and cyber security processes. A cyber incident response plan should also be put in place;
* Knowledge and understanding – There are significant updates to the existing Trustee knowledge and understanding code of practice, which are likely to filter through to the trustee toolkit.

Relevant section of the manual is Part 2 Chapter 3.2.

1. **Although online switching is becoming a more common facility for members of defined contribution schemes, outline the reasons why, in practice, real time online switching is not a standard approach.**

**10 marks**

Answer should cover:

• Trustees/managers are wary of members making a decision and this being implemented without the

administrators first having sight of the action, due to:

* Concern that dealing cycles may not be understood by the members, eg, concept of time out of the market if the switch is between fund managers;
* Members may not understand there is a cut off time for requesting the switch or a day’s cycle is missed;
* Members may not understand that the price on the screen won’t be the price used for the deal;
* The trustees could be charged per transaction and unlimited switching could increase the costs of

administration considerably;

* Technology solutions can be costly ;
* Technology is a major barrier because:
  + Interfaces between pensions administration systems and investment dealing systems are rare, unless responsibility for the administration and investment management are with the same provider and they have developed integrated systems. Where they do exist, it often only works if the different funds are on the same platform.
  + Until recently, there was an unwillingness to take responsibility for building or paying for the

integration between the different platforms. This, however, is starting to change with the advent of straight through processing.

* + Until recently, there was no industry standard means of communicating electronically between

investment managers and different administration platforms. Indeed, some providers have not yet adopted straight through processing.

* + Members may not have access to the internet or may lack confidence in making decisions in this way.

Relevant section of the manual is Part 1 Chapter 4.4.2.

1. **Describe the basic data required to be held on the computer system of a defined contribution scheme to enable the successful administration of contributions and units.**

**15 marks**

Answer should cover:

* for each type or ‘stream’ of contribution the administration system should hold a record of:
  + contribution rate – i.e. whether a percentage of salary or a fixed monetary amount;
  + amount of contribution received;
  + units purchased for each investment relative to that ‘stream’;
* contribution ‘stream’ relevant to member varies depending on nature of scheme and member’s circumstances, but can include:
  + Employee regular contributions;
  + Employer regular contributions;
  + Additional Voluntary Contributions;
  + Any employer special contributions received (e.g. from salary sacrifice or bonus sacrifice);
  + Transfers in received;
* administration system should also hold for each member:
  + Date contributions are received
  + Date contributions are invested
  + Transaction history of units bought and sold such as where:
    - Contributions have been invested for the member;
    - There has been a switch in investment funds following a change in the member’s investment strategy or as a result of lifestyling;
    - The member’s unit allocation has been rebalanced so that the monetary value of the unit holding between each investment fund matches the member’s investment strategy;
    - There has been a disinvestment, either in part or in full, due to a transfer (e.g. pension sharing order) or the member crystallising benefits;
  + Unit prices for each fund for any date on which investment or disinvestment transactions take place
* system may also be required to hold separate investment holdings, which can result from processing short service refunds to members where the employer investment amount is not disinvested. These amounts are often held as a balancing item and may be referred to as an ‘unallocated account’.

Relevant section of the manual is Part 1 Chapter 1.4.2.

1. **The Pensions Regulator (TPR) has issued guidance about the data that pension schemes need to hold on their records. Outline the key features of the TPR’s guidance and list the common data for all schemes.**

**10 marks**

Answer should cover:

* Features (3 marks):
  + Schemes must hold date that is common to all schemes (”common data”);
  + Data quality should be reviewed on an annual basis;
  + Data scores expected to be submitted annually in the scheme return;
* Types of common data (7 marks - answer should include 7 of the following):
  + NI Number
  + Surname
  + Forename/initials
  + Sex
  + Date of birth
  + Date started pensionable service/policy/contributions
  + Expected retirement date/ target retirement date
  + Membership status
  + Last status event
  + Address
  + Postcode

Relevant section of the manual is Part 1 Chapter 1.1.

1. **An employer’s automatic enrolment duties include providing certain information to their workers within prescribed time limits. Outline the requirements in relation to the information for jobholders about being automatically enrolled, re-enrolled or joining a workplace pension scheme.**

**5 marks**

Answer should cover:

* Enrolment information must be given no later than six weeks after:
  + the eligible jobholder’s automatic enrolment date (in the case of automatic enrolment), or
  + the jobholder’s automatic re-enrolment date (in the case of automatic re-enrolment) or
  + enrolment date (in the case of opt-in);
  + the date enrolment will occur;
  + the value of any contributions payable and tax relief available on them;
  + the right to opt-out, including the process and timescales for doing so and their right to opt back in.
* If scheme employer uses for AE is a personal pension scheme, employer must also provide information about the terms and conditions of the scheme.

Relevant section of the manual is Part 2 Chapter 1.12.1.

1. **Outline the key features of qualifying earnings, for the purposes of automatic enrolment.**

**10 marks**

Answer should cover:

* Gross earnings between the upper and lower contribution limits;
* When calculating qualifying earnings, the following are included:
* basic salary or wages;
* commission;
* bonuses;
* overtime;
* Statutory Sick Pay;
* Statutory Maternity Pay;
* Ordinary or Additional Statutory Paternity Pay;
  + Statutory Adoption Pay;
* Upper and lower limits £6,240 and £50,270 (2024/25 tax year)
* Significant gap between upper and lower limits to avoid those earning just over the earnings trigger being enrolled only to receive very low contributions.

Relevant section of the manual is Part 2 Chapter 1.5.

1. **Explain the main features of the operation of a Master Trust, and outline the requirements for Master Trust authorisation.**

**10 marks**

Answer should cover:

*Main features (5 marks)*:

* Collection, reconciliation and central functions – central clearing house responsible for collecting contributions through employers, handling employer queries, keeping records of contributions and ensuring contributions allocated to correct funds;
* Administration of member accounts – the administrator maintains the account for the individual, handles queries, provides information about their account;
* Investment and fund management – the fund manager invests contributions on behalf of the member;
* Accessing pensions savings - when a member retires, they are able to access their retirement benefits;
* From 6 April 2015 - savers have more retirement options as result of pension freedoms (optional for schemes to offer these).

*Authorisation (5 marks)*

* Master Trusts are required to comply with duties set out in Pension Schemes Act 2017;
* Master Trust authorisation overseen by TPR - aims to ensure Master Trusts continue to run in best interests of their members;
* From 1 October 2018, Master Trust pension schemes had six months to apply for authorisation from TPR in order to continue operating;.
* Master Trusts that either did not apply for authorisation or did not obtain approval have been required to exit the market;
* Going forward, all new Master Trusts must apply for, and obtain, authorisation from TPR before they can operate.

Relevant section of the manual is Part 2 Chapters 2.2 and 2.3.