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

**Assignment 4 Notes**

(Part 5 – Treasury Management)

Recommended Time: *2 hours 30 minutes*

1. **Outline the relevance of tax codes in relation to pensions in payment and how a pensioner’s tax code is determined, including a simple worked example.**

**(10 marks)**

Answer should cover:

* tax code is a reference used to calculate amount of Income Tax to deduct from the pension;
* issued by HMRC to inform schemes amount of tax-free income pensioner should receive – personal allowance;
* amount of pension in excess of the personal allowance subject to Income Tax;
* HMRC write to pensioners informing of their new tax code for that tax year, before start of tax year;
* can also obtain tax code from payslips or P60 received after the end of each tax year;
* Process HMRC use to determine a pensioner’s tax code:
  + Calculate all the tax allowances to which the individual is entitled;
  + Calculate level of income on which tax has not been paid, and any taxable employment benefits;
* tax code based on the pensioner’s tax allowances, but reduced by the income on which tax not paid;
* tax codes consist of numbers which show how much income an individual can have before tax due and a letter informing individual’s situation and how that affects their tax-free Personal Allowance;
* standard personal allowance for 2024/25 tax year is £12,570;
* Worked example (3 marks).

Relevant section of the manual is Part 5 Chapter 3.4.

1. **The overpayment and underpayment of benefits from occupational pension schemes usually happens as a result of either a mistake, for example, benefits being incorrectly calculated, or late notification of a death.**

**Explain the duty of trustees in relation to overpayments and underpayments, outlining the ways in which overpayments can be recovered and the factors a member must demonstrate in order to avoid repaying overpaid benefits back to the scheme.**

**(10 marks)**

Answer should cover:

* Trustees must immediately rectify any underpayments and ensure the right level of benefits is paid;
* Trustees have a duty to recover any overpayment that has been made to a beneficiary/member as they must act in the best interest of all members of the scheme;
* The main ways of recovering overpayments are:
  + Receiving a lump sum from the beneficiary/member;
  + Recovering the overpaid amount from future pension instalments - trustees must give sufficient notice before correcting the pension;
  + Reimbursement by the sponsoring employer under an indemnity in the scheme rules
  + If the mistake was by a third party, consider recovering the loss from them
* The beneficiary/member must show:
  + That it was not possible for them to be aware that a mistake had occurred;
  + There was a direct link between their decisions or expenditure and the mistake;
  + Their decisions or expenditure are irreversible;
* The scheme may be limited on how far back they can go to reclaim any overpayments from the member - the limitation period is six years.
* The general rule is that the limitation period on a claim starts running once the trustees have discovered the mistake or could with reasonable due diligence have discovered it.

Relevant section of the manual is Part 5 Chapter 3.8.

1. **Describe the requirements in relation to the operation of a trustee bank account, and outline why cash management is a key responsibility for trustees.**

**(15 marks)**

Answer should cover:

*Bank Account Requirements (10 marks)*:

* Pensions Act 1995 - statutory requirement for trustees of occupational pension schemes to open and maintain a trustee bank account, unless exempt;
* Bank account necessary to evidence separation of employers’ and employees’ contributions;
* Separation enables payments made directly to the trustees of:
  + Employee and employer contributions;
  + Special payments - transfer values, special employer contribution, donations and bequests and any monies made payable to trustees unless transferred directly to the investment manager;
* Bank must be formally appointed by the trustees;
* Trustees evidence operation of bank account by establishing mandates with the bank covering the authority levels for the drawing or transfer of monies from the account for:
  + Payments to beneficiaries;
  + Transfers out of members’ benefits;
  + Payment of contributions to investment managers;
  + Payment of expenses;
* Trustees required to evidence the granting of authorities within the trustees’ minutes;
* Review of the authorities should be carried out annually;
* Normally two signatories required for instruction to bank and that a majority would be required to effect significant transfers of money to other funds or to effect disinvestments from the fund managers;
* terms of operation of the bank accounts, including charges, should be recorded in the trustees’ appointment letter, which should be reviewed regularly;
* Appointed TPA may be given a requirement to invest the contributions in a timely manner and operate the trustee bank account;
* Majority of TPAs will operate individual accounts for each client and for separate schemes of those

clients.

*Cash Management (5 marks)*:

* trustees must ensure that there are sufficient funds in bank account to meet scheme’s

expenses and expected benefit payments;

* trustee bank account should not run out of funds or incur unnecessary overdraft charges;.
* future income and expenditure must be predicted accurately.
* cash flow projections undertaken at least monthly to include all expected income/expenditure;
* requires close relationship required with insurers/investment managers/administrators;
* trustees must make a decision on the interest earned from members’ contributions, if account is interest bearing:
  + some DC schemes use the interest earned to offset any administrative fees or other expenses;
  + where trustees feel the interest belongs to members, they may wait until it has accumulated and then allocate it to members as a special contribution.

Relevant section of the manual is Part 5 Chapters 1.1 and 1.2.

1. **List the information that must be retained on pension scheme records under the Registered Pension Schemes (Provision of Information) Regulations 2006 (as amended).**

**(5 marks)**

Answer should cover:

• Any monies received by or owing to the scheme;

• Any investments or assets held by the scheme;

• Any payments made by the scheme;

• Any contracts to purchase a lifetime annuity in respect of a member of the scheme;

• The administration of the scheme.

Relevant section of the manual is Part 5 Chapter 1.4.

1. **Describe the requirements of the Pensions Act 1995 in relation to the trustees’ report and accounts, and outline the four fundamental accounting concepts and their application in relation to pension scheme accounts.**

**(20 marks)**

Answer should cover the following:

*Report and Accounts (10 marks)*:

* Must comply with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013;
* Must include, in respect of the scheme year applicable:
  + names of the trustees during the scheme year;
  + provisions of the scheme;
  + number of beneficiaries and active, deferred and pensioner members;
  + DB schemes - percentage increases made (on top of legislative requirements) to pensions in payment and deferred pensions, and statement clarifying discretionary increases;
  + names of the trustees’ professional advisers, bank, custodians, other persons or organisations

who have acted or were retained by the trustees, and any changes;

* + statement as to whether the accounts have been prepared and audited in accordance with the

Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996;

* + details on who has managed the scheme investments and extent of any trustee delegation;
  + copy of any statement made on the resignation or removal of the auditor or actuary and made in accordance with regulations made under section 47(6) of the 1995 Act (professional advisors);
  + DC schemes - statement which the trustees are required to prepare in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996;
* Must be signed within 7 months of scheme year end.

*Accounting Concepts (5 marks)*:

* Going concern – the enterprise is assumed to be continuing in operation at a similar scale for the foreseeable future;
* Consistency – there is a consistency of accounting treatment of like items within each accounting period and from one period to the next;
* Accrual – revenue and costs are accrued, i.e. recognised for accounting purposes as they are earned or incurred (regardless of when received or paid). This leads to the idea of ‘matching’ revenues against the costs incurred in earning them;
* Prudence – this leads accountants to bias their reports, when faced with incomplete knowledge or uncertainty. They will set aside something for an uncertain liability but will not anticipate an uncertain gain

*Applying the concepts to pension scheme accounts (5 marks)*:

* Going concern - any clause in a scheme’s Trust Deed and Rules enabling the employer to terminate or suspend support for the scheme at short notice is to be ignored. A particular scheme could be closed to further accrual in the future but it must be assumed to be a going concern. This means the scheme is assumed to continue and is not undergoing a wind-up;
* Consistency - no particular exceptions for pension schemes;
* Accrual - the concept of accrual within a DC scheme is far more simplistic than in a DB arrangement. The matching of revenue and costs is more straightforward because, with the payment of contributions over to the investment manager, the liability ceases and there is no requirement to accrue for future benefit payments;
* Prudence- within a DB pension arrangement, the concept of prudence is one of the most debated, i.e. whether assets should be viewed at the lower or upper end of the market value. With a DC scheme, the problems surrounding future liabilities do not exist.

Relevant section of the manual is Part 5 Chapters 2.1.1 and 2.1.3.

1. **List five types of lump sum death benefit payments which are tax-free if paid before age 75 (although this may be subject to certain conditions), but which are taxed as income through pay as you earn if paid on or after age 75.**

**(5 marks)**

Answer should cover 5 of the following:

* Defined benefits lump sum;
* Uncrystallised funds lump sum;
* Pension protection lump sum;
* Drawdown pension lump sum;
* Flexi-access drawdown fund lump sum;
* Annuity protection lump sum.

Relevant section of the manual is Part 5 Chapter 3.7.4.

1. **Outline the tasks required in the setting up of a pensioner payroll, the records that must be kept by the trustees or their payroll provider, and the process used for trustees to inform HMRC about PAYE payments.**

**(15 marks)**

Answer should cover:

*Setting up a Payroll (5 marks)*:

* Register as an employer with HMRC and get a login for pay as you earn (PAYE) Online;
* Choose your payroll software to record member details, pension amounts, calculate deductions, and report to HMRC;
* Collect and keep records;
* Tell HMRC about your scheme members;
* Record pension payments, make deductions and report to HMRC on or before the first payment date.

*Record Keeping – any 5 of the following (5 marks)*:

* Different elements of pension, when they commenced and how and when they are increased;
* Any pension review dates e.g. for ill health, children’s pensions or step up pensions;
* Details of the spouse’s/civil partner’s benefits;
* Member’s bank account, address and tax details;
* Any continued life cover payable on early retirement;
* The date any guarantee period ends;
* The percentage of the LTA used up by the member through BCEs in the scheme;

*Notifying HMRC (5 marks)*:

* Real Time Information - trustees must, as part of their payroll process, tell HMRC about PAYE payments at the time they are made, rather than just once a year at payroll year end;
* PAYE should still be processed in the same way but pension schemes will need to submit payroll information to HMRC on or before the date any payments are made;
* The information should be submitted using Full Payment Submission (FPS);
* Payroll providers have developed software that generate the required reports that contain the payroll information that needs to be submitted online to HMRC.
* If the scheme does not have to make any payment in a particular tax month, there will be no FPS to send to HMRC - scheme must notify HMRC of this by sending an Employer Payment Summary (EPS) by the 19th of the following tax month.
* HMRC will levy a penalty against a pension scheme if FPS late or number of FPSs not received, or if EPS not submitted when required:
* The amount of the penalty depends on number of members in receipt of payments from the scheme.

Relevant section of the manual is Part 5 Chapters 3.1 to 3.3.

1. **A Statement of Recommended Practice (SORP) sets out the formal guidelines relating to financial statements and disclosures and recommends areas that an attaching trustee report should cover.**

**List the types of pension arrangements that a SORP covers and the types of arrangement the SORP excludes.**

**(10 marks**)

Answer should cover:

* SORP covers:
* Occupational DB and DC schemes;
* Fully insured schemes;
* Earmarked schemes;
* Employer financed benefit schemes ;
* Schemes in wind up;
* Overseas schemes;
* Trust-based stakeholder schemes.
* SORP excludes:
  + Unfunded schemes;
  + Group Personal Pensions;
  + Free standing AVC arrangements;
  + Non trust-based stakeholder schemes.

Relevant section of the manual is Part 5 Chapter 2.1.2.

1. **Describe the key features of an Event Report.**

**(10 marks)**

Answer should cover:

* several events that scheme administrators must report to HMRC if they occur in a registered pension scheme during a tax year;
* event report is used to submit these reportable events for the tax year to which they relate;
* event report split into two categories:
  + Reportable fund movements – these arise when certain payments are made from a pension scheme, such as unauthorised payments, payment of a serious ill-health lump sum and cessation of an ill-health pension;
  + Reportable changes – these arise when there are changes in the details about a registered pension scheme such as a change in legal structure of the scheme or completion of wind up of a scheme;
* event report must be submitted electronically using Pension Schemes Online;
* must be submitted no later than 31 January after the end of the tax year to which it relates;
* two exceptions to 31 January deadline:
  + Transfers to a qualifying recognised overseas pension scheme must be reported to HMRC within 60 days of the transfer (using form APSS 262);
  + HMRC must be notified of the date on which the wind up of a scheme is completed within the earlier of three months of completing the wind up or the last day on which an event report is due;
* HMRC have powers to levy penalties on scheme administrators who fail to report, or who report late or inaccurate information.

Relevant section of the manual is Part 5 Chapter 1.7.