**Defined Benefit Arrangements**

**Assignment 1**

*(Part 1 – Scheme Design and Part 2 – Day to Day Administration)*

*Recommended Time: 3 hours*

1. **Your Company uses its DB scheme for the purposes of automatic enrolment. A new employee has queried why they will be enrolled into the Company’s pension scheme without giving their consent. Outline how becoming a scheme member operates for automatic enrolment schemes and non-auto enrolment schemes.**

**10 marks**

Relevant section of the manual is Part 2 Chapters 1.1.1 and 1.1.2

Format: descriptive

Answer should cover:

* Auto enrolment and its requirements from the jobholder such as importantly, the jobholder must not be required to provide information to join or remain a member of the scheme.
* Treatment of employees with HMRC protection. The requirement to automatically enrol all eligible jobholders excludes employees with enhanced protection, fixed protection 2012, fixed protection 2014 or fixed protection 2016. This is because an individual with any of these forms of protection would lose that protection if they joined a new pension scheme. There is also no requirement to automatically enrol eligible jobholders with primary protection, individual protection 2014 or individual protection 2016 as members with protected tax status are not the target audience for automatic enrolment
* Contractual enrolment-this authority will be included as part of a contractual agreement between the employee and the employer – for example it may be included within the terms of the contract of employment. This is referred to as contractual enrolment.
* Application process for non-auto enrolment schemes -for non-automatic enrolment schemes, membership can be by application or automatic. Some companies may automatically enter employees into a non-automatic enrolment pension scheme when they first become eligible
* Key differences between automatic and contractual enrolment -under contractual enrolment the employer must get the employee’s consent to put them into the pension scheme and to deduct any member contributions from their salary. Automatic enrolment does not require the employee’s consent to enrol them into the scheme or to deduct any member contributions

1. **You are an in-house pensions administrator for a logistics company. An operative has asked you to meet with him to discuss his options as he has health problems and is** **considering retiring early. He is aged 54, his Normal Pension Age under the scheme is 60 and the scheme was contracted-out.**

**Write an aide memoir for the meeting, covering the information you will give him about retiring early, including any key differences between early retirement and retirement at NPA.**

**20 marks**

Relevant section of the manual is Part 2 Chapters 3.1.1, 3.1.5 and 3.1.6.

Format: notes/bullets

Answer should cover:

* Minimum pension age and protected pension age
* Potential for and requirements of ill-health retirement before minimum pension age-If an employee is suffering ill health before NPA, he may be eligible for an ill health early retirement pension from the scheme. The scheme rules will define the conditions that must be met for this benefit to be provided and it may be subject to the trustees’ consent. Ill health pensions are often augmented either as of right in accordance with the scheme rules, or at the discretion of the trustees and/or the employer.
* Early retirement benefit calculation and reduction
* Impact of GMP on early retirement-GMPs are not payable before GMP payment age. Therefore, a check must be made to ensure that the expected pre-6 April 1997 pension that will be in payment at GMP payment age will be at least equal to the GMP at that age.
* Key differences between early retirement and normal retirement-benefits are generally calculated in the same way as for retirements at NPA using pensionable service up to date of leaving but are usually reduced (or ‘discounted’) for early retirement.
* Benefit options at retirement – lump sum/residual pension

1. **You are the Pensions Manager in a public sector organisation. You have been asked to provide a training session to new starters in the Pensions Department about the key features of public service pension schemes. Prepare a presentation for the training session.**

**20 marks**

Relevant section of the manual is Part 1 Chapter 1.6.

Format: slides or similar presentation format, clearly headed sections

Answer should cover:

* Governing legislation/statute
* Benefit structure and Public Service Pensions Act 2013 introduced new public service CARE schemes for civil servants, the judiciary, local government employees, teachers, health service workers, fire and rescue workers, members of police forces, and the armed forces
* Funding basis -with the exception of the schemes for local government employees, the public service schemes are unfunded
* Public Sector Transfer Club - which is designed to ensure that when a member of one ‘Club’ scheme transfers benefits to another ‘Club’ scheme, the service credit granted by the receiving scheme is broadly equivalent to the member’s service in the transferring scheme, irrespective of any change in earnings between the two employments
* Impact on private sector schemes - the existence of public sector schemes can also have a direct impact on private sector employers, particularly in light of the increasing trend for public sector employers to ‘outsource’ services to the private sector

1. **A member who has recently left pensionable service emails to advise you that they would like to transfer their benefits out of the scheme. Prepare a reply to the member explaining how transfer values are calculated, the information the member will be given and what information is required from the receiving scheme.**

**10 marks**

Relevant section of the manual is Part 2 Chapter 4.2.5.

Format: Email format with appropriate headers

Answer should cover:

* Who is responsible for determining the transfer calculation basis?
* Governing legislation
* Types of cash equivalent and how these are calculated
* Guarantee period and statement of entitlement
* Statutory discharge

1. **You manage a scheme that offers DC AVCs and also includes a small, closed group of members who pay DB AVCs. The scheme auditor has asked you to explain the key objectives of the administration of DC AVCs and DB AVCs. Write a brief paper for the auditor providing this information and highlighting the key differences between the administration of DC and DB AVCs.**

**10 marks**

Relevant section of the manual is Part 2 Chapter 2.2.1 and 2.2.2.

Format: no preferred format – list or paragraph acceptable

Answer should cover:

* Deduction of DC and DB AVC contributions and payment to the AVC provider or scheme
* Investment of contributions
* Contribution changes and disinvestments
* Settlement of DC AVC benefits, the AVCs are included when the member’s main scheme benefits are settled (the member can take the AVCs at a different time to their main scheme benefits if permitted under the scheme rules)
* The benefits secured by DB AVCs including allowance for the benefits secured by the DB AVCs (e.g., added years) when their benefits become payable

1. **You are a Pensions Consultant for a Company who is looking to reduce its pension scheme costs. Your client has asked you to outline the changes they could consider making to the structure of its final salary scheme. Write a paper outlining the options available, how these changes would reduce costs and the implications on member’ benefits.**

**20 marks**

Relevant section of the manual is Part 1 Chapter 1.5.

Format: formal paper with introduction, clear sections for each option, summary/conclusion and recommendation.

Answer should cover:

* Why companies restructure DB schemes
* 4 options available –

• Continue running a DB scheme but reduce the benefit accrual for future service and/or increase members’ contributions to share the cost of the scheme more equitably between the employer and members. For example, lowering the rate of future accrual from 1/60 to 1/80, raising the NPA or counting only basic salary as pensionable pay for future accrual

• Close the scheme to new members and set up a new DC arrangement, to limit the risk of open-ended costs for the employer to existing members only

• Close the scheme to new entrants and to existing members for future accrual but allow benefits for existing members earned up to the date of closure to be linked to future pensionable salary and offer both types of member entry to a new DC scheme. Preventing future accrual has a greater impact on controlling funding than just excluding new members. This option usually needs an amendment to the scheme rules, which in turn is subject to both Sections 67 and 67I of the Pensions Act 1995 which basically prevent changes that worsen accrued rights

• Close the scheme to all future accrual and wind it up. This option is most likely to apply when an employer becomes insolvent, in which case a new DC scheme may not be offered at all.

* Consultation requirements
* Automatic enrolment implications enrolment

1. **Outline the process of involved in an annual update of scheme records for active members.**

**10 marks**

Relevant section of the manual is Part 2 Chapter 2.8.

Format: descriptive

Answer should cover:

* When the update would take place and why it is required-An annual update of records usually takes place at the end of the ‘scheme year’. The employer must ensure that all relevant information concerning every member is given to the administrator. There is a legal requirement on employers to provide any information requested by schemes for the calculation of members’ pension input amounts
* What information is updated-members’ records with new salary information following salary reviews etc. provides administrators with the details needed to calculate benefits and to provide insurers with the data required for insured benefit renewals and re-broking exercises
* Reconciliation of information
* Ad hoc events-Although the annual renewal exercise represents the core update of scheme records, administrators also need to update records on an ad hoc basis when certain events occur, such as new entrants and leavers, retirements or deaths of existing members, changes of members’ marital status, address or other data