**Defined Contribution Arrangements**

**Assignment 4 Notes**

*(Section 5 – Individual Arrangements and Section 6 – New and Future Legislation)*

*Recommended Time: 3 hours*

# You are a Benefit Consultant and one of your clients has asked you to explain the differences between a Self-Invested Personal Pension and a Small Self-Administered Pension Scheme (SSAS). Write a paper for the client explaining any similarities and highlighting any differences.

**20 marks**

Style: Briefing paper including introduction, bullet points, subheadings, conclusion etc.

Answer should cover: Similarities.

* + Member directed pension schemes – Both schemes allow flexibility in the choice of investments. Ideal for individuals who want more control over their investments.
	+ Contributions – Contribution limits and the Annual Allowance apply universally to all pension savings that a member makes so apply equally to both a SIPP and a SSAS.
	+ Benefits – Both schemes are money purchase, so the same options apply at retirement – annuity, scheme pension, UFPLS or FAD, as well as the transfer option. A PCLS of 25% of the fund may also payable (apart from for an UFPLS where there is an automatic 25% tax free element).
	+ Investment regulated pension schemes –restrictions on taxable property. Both SIPPs and SSASs are not supposed to invest in certain kinds of property known as ‘taxable property’ (i.e., Residential property and in most forms of tangible moveable property). When they do, they are subject to punitive tax measures.

Differences

* + Occupational versus personal – A SSAS is a company pension scheme where the members are trustees and determine the investment policy. A SIPP is a personal pension where the member can make own decisions on investment policy.
	+ Eligibility – All members of a SSAS must be trustees so they tend to be used by smaller companies and their controlling directors. SIPPs, because they are individual policies rather than an occupational pension scheme, are much less restrictive.
	+ Investments – SSAS has more flexibility than a SIPP when it comes to investments. A SIPP cannot make loans, whereas a SSAS can (so long as the relevant conditions are met) although the 5% restriction on investments in the shares of the sponsoring employer that applies to SSASs does not apply to SIPPs.
	+ Regulation – A SSAS falls within the remit of the Pensions Regulator whereas a SIPP is covered by the FCA.
	+ Prior to 6 April 2006 every SSAS had to have a Pensioneer Trustee. However, this was removed by the Finance Act 2004. The 5% limit on investment in the sponsoring employer’s shares now applies regardless or whether or not all members are trustees.
	+ Loans can still be made to the sponsoring employer but should not exceed 50% of the market value of the scheme’s assets.

(The relevant sections of the Study Manual are Part 5 Chapter 1.3 and Part 5, Chapter 2.3)

# Describe the latest initiatives underway designed to tackle pension scams.

**10 marks**

Answer should cover:

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* + The value for money (VFM) framework sets out metrics and standards to assess value for money across defined contribution (DC) pension schemes. The framework has been developed to ensure that member outcomes are front and centre when decisions about people’s savings are made. It will allow comparisons between different schemes’ costs and charges, investment performance and service standards. In Spring 2024, the FCA will consult on detailed rules for a new value for money (VFM) Framework for DC workplace pensions. This follows earlier joint papers with Department for Work and Pensions (DWP) and the Pensions Regulator (TPR) on such a framework.
	+ The VFM framework has been deliberately designed to shift the focus from cost to longer term value and aims to ensure transparency and delivery of VFM in the market.
	+ The FCA is responsible for the regulation of contract-based defined contribution schemes and is working alongside the DWP and TPR to ensure the new framework is consistent across all DC schemes.

(The relevant section of the Study Manual is Part 6, Chapter 1.4)

# Outline the key features of an Employer Financed Retirement Benefit Scheme (EFRBS) and explain the changes which were made with effect from 6 April 2011.

**15 marks**

Answer should cover:

* + Former unapproved arrangements (FURBVS and UURBS) were renamed EFRBSs with effect from 6 April 2006
	+ EFRBSs are not subject to the pension’s taxation regime.
	+ Contributions are not subject to the Annual Allowance.
	+ Employer does not receive any tax relief on contributions to an EFRBS until benefits start to be paid to and taxed on the employee.
	+ Benefits are liable to income tax.
	+ There is also a National Insurance contribution charge unless retirement benefits are drawn as at least 75% pension (i.e., the lump sum is restricted to 25% as it is for registered schemes) and the member has ceased to work for the employer.
	+ Member is neither taxed nor subject to National Insurance contributions on employer contributions.
	+ Death benefits are subject to Inheritance Tax.
	+ Any investment returns and capital gains will be taxed.
	+ Where the employee has been taxed on contributions as they were made and no further contributions were made after A-Day, then benefits can be paid as a tax-free cash sum and the member’s death benefit lump sum will retain an exemption from inheritance tax.
	+ From 6 April 2011, employees are required to pay income tax and National Insurance contributions on any reward, recognition, or loan in connection with the employee’s employment. This is deemed to include funded EFRBS and removes the tax advantageous status of funded EFRBS going forward from 6 April 2011. Funded EFRBS that had closed to new members and were closed to accrual on 5 April 2011 are not affected by the changes.

(The relevant section of the Study Manual is Part 5, Chapter 1.4)

# The new Finance Director has emailed you to ask for information about Executive Pension Plans. Set out some short notes explaining what an Executive Pension Plan is and why some companies may have chosen to set one up.

#  15 marks

Style: Short notes, informal Answer should cover:

* + What they are – money purchase registered pension schemes; historically, operated on a contracted in basis; up to the employer who joins and what level of contributions are paid; subject to same tax rules as other registered schemes so Annual Allowance will apply (and the Tapered Annual Allowance being of relevance for high-income individuals).
	+ Any contributions in excess of the Annual Allowance are subject to a tax charge.
	+ Once an individual takes any money purchase benefits in any scheme flexibly then the Money Purchase Annual Allowance will apply to all future contributions to any of their money purchase schemes, including any money purchase EPP.
	+ How they are set up – trust, master trust operated by a specialist provider or exchange of letters.
	+ Appeal – complete flexibility as to who joins (can be used for execs, controlling directors but can be extended to others);
	+ flexibility in the benefits provided (only pension or top up);
	+ can be used as a vehicle to pay pension contributions from bonuses with the tax advantages that come with pension contributions but subject to the Annual Allowance.
	+ Can allow the executive to choose the exact proportion of pension contribution in relation to total earning and can be used by an employer to invest very substantial sums with relative confidentiality.
	+ Provides death in service and ill-health early retirement benefits.

(The relevant section of the Study Manual is Part 5, Chapter 1.2)

# The Trustees of the XYZ Defined Contribution Pension Scheme have asked how the proposed introduction of the consolidation of small pots may impact their scheme. Write a paper addressing their question.

**20 marks**

Style: Briefing paper, formal

Answer should cover:

* + In its July 2023 response to the consultation which looked at addressing the growth of deferred small pots in the automatic enrolment workplace pensions market, the Department for Work and Pensions has said it will work to encourage consolidation to solve the problem of small, deferred pension pots rather than pursue the “pot follows member” approach.
	+ The DWP concluded that: the “pot follows member” approach risked situations where a saver would take a pension from a well-performing scheme into a poor performing one when they moved jobs, due to the frequency of transfers likely required as part of a pot follows member approach, this would require their scheme to become more liquid and reduce their capacity to invest in illiquid assets.
	+ The multiple default consolidator model is the optimum approach to addressing the deferred small pots challenge and has the potential to provide greater net benefits to members, ensuring that members eligible deferred pots are consolidated into one scheme, although consolidation will not eliminate the future flow of deferred small pots, it will result in a significant reduction in the current stock of deferred small pots, whilst also enabling the consolidation of future deferred small pots created.
	+ In a second part consultation in 2023, the DWP outlined a number of proposals in relation to consolidation:
	+ the core framework for a multiple consolidator approach; that a central clearing house be created to act as a central point informing schemes where to transfer a member's eligible deferred pot; a solution to enable a member to make an active choice in relation to which consolidator they would like their deferred pots to be transferred to; a pot would be eligible for automatic consolidation 12 months after the last contribution was made into the pot. how a consolidator would be allocated in cases where a member does not make an active decision which it anticipates being the majority of cases:
	+ Option A would be to allocate all small pots between the providers who meet the criteria to be a consolidator at a level proportionate to their market share;
	+ Option B would be given the likelihood that a member will have a deferred pot already with a consolidator scheme, this scheme would be allocated as the members consolidator scheme; forming an industry group in late 2023 working with interested parties to explore the design and implementation of the default consolidator framework.

(The relevant section of the Study Manual is Part 6, Chapter 1.2)

# Describe the categories of individuals who could have taken out a Retirement Annuity Contract.

 **5 marks**

Answer should cover:

* + Self-employed (including a partner of a professional partnership).
	+ An employee who worked for an employer that did not provide a company pension scheme.
	+ An employee who was not eligible to join his employer’s pension scheme.
	+ An employee who had additional earnings from a second job that was non-pensionable. For example, a dentist who had additional earnings derived from a private practice, in addition to his NHS salary.
	+ Persons must have taken out their RAC before 1 July 1988.
	+ They were introduced in 1956.

(The relevant section of the Study Manual is Part 5, Chapter 2.4.1 and 2.4.2)

# Briefly outline The Pension Regulator’s new General Code of Practice.

 **5 marks**

Answer should cover:

* + Came into force 28 March 2024.
	+ Sets out TPR’s new governance requirements
	+ Consolidates ten of existing codes of practice into a single web-based code.
	+ Governance requirements following IORP II
	+ Gap analysis

(The relevant section of the Study Manual is Part 6, Chapter 1.3)

# Describe the retirement benefits that could be payable from a personal pension scheme.

**10 marks**

Answer should cover:

* + Available from age 55
	+ Unless a protected retirement age and those with a special occupation (e.g., sportsmen) where a retirement age lower than the minimum was accepted and can be retained so long as the member takes all benefits at the same time.
	+ No maximum age.
	+ Pension income - Lifetime annuity, drawdown.
	+ Pension income is taxable under PAYE.
	+ Option for 25% PCLS if a lifetime annuity or drawdown pension is selected.
	+ Flexible options could be available – UFPLS, Flexi-Access Drawdown, flexible annuities.
	+ Small lump sum under £10,000 possible but trivial commutation not possible
	+ .

(The relevant section of the Study Manual is Part 5, Chapter 2.1.4)