Sample Exam Questions

Defined Contribution Arrangements

Instructions:

- This is only a sample paper and therefore consists of 30 multiple-choice questions.
- Choose the correct answer from the options (A, B, C, or D).

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1. **Which of the following is most likely to be offered in a Defined Contribution (DC) scheme designed by a paternalistic employer?**
    - A) A limited selection of investment funds
    - B) Employer contribution rates of 1.5 x the employee contribution rate
    - C) Statutory minimum employer contributions
    - D) Matching employer contributions
2. **The definition of 'Qualifying Earnings" for automatic enrolment purposes includes:**
    - A) Basic pay and other types of earnings
    - B) Basic pay only
    - C) Basic pay and overtime only
    - D) Basic pay and bonus only
3. **Under automatic enrolment legislation, a worker who is aged 21 and has Qualifying Earnings of £25,000 would be classed as:**
    - A) An Eligible Jobholder
    - B) A Non-entitled Worker
    - C) An Entitled Worker
    - D) A Non-eligible Jobholder
4. **Which of the following statements best describes a Group Personal Pension?**
    - A) A trust-based arrangement where the trustees have a contract with the provider
    - B) The employer must legally maintain a robust governance structure
    - C) A contract-based arrangement where the member has an individual contract with the provider
    - D) The costs and investment risk are borne by the employer
5. **One of the main advantages to an employer of a Master Trust arrangement is:**

- A) The employer can retain control of the choice of investments
- B) The trustees choose the contribution rates on the employer's behalf
- C) The employer can select its own preferred advisers
- D) It is a low-cost solution that has a strong governance framework

6. **Collective Defined Contribution Schemes (CDCs) were first introduced by:**
   - A) The Pension Schemes Act 2021
   - B) The Pension Regulator'ss Single Code of Practice
   - C) The Pensions Act 2014
   - D) The Finance Act 2023

7. **The meaning of the term 'lifestyling' in relation to a DC scheme is:**
   - A) Allowing members to choose their own investment funds throughout their scheme membership
   - B) Moving funds gradually into less volatile investments as the member approaches retirement age
   - C) Enabling members to take a break from contributions if they are under financial pressure
   - D) Increasing the level of employer contributions in the 5 years preceding the members retirement age

8. **Where a scheme provides information via its 'intranet':**
   - A) All scheme members have the facility to update their personal details
   - B) The data held is less secure than if it was provided via an internet website
   - C) Only active employees can view the information
   - D) Employees can have real time access to scheme information

9. **The core component of the Pensions Dashboard that facilitates the finding an individual's pension savings is known as:**
   - A) Pension Tracing Service
   - B) Dashboard User Interface
   - C) Digital Identity
   - D) Pension Finder Service

10. **The Scheme Return provides detailed scheme information to:**
    - A) The Financial Conduct Authority
    - B) The Pensions Regulator
    - C) HMRC
    - D) The Scheme Administrator

11. **The formal guidelines relating to an occupational DC scheme's financial statements and disclosures are set out in a:**
    - A) Statement of Investment Principles
    - B) Event Report
    - C) Statement of Recommended Practice
    - D) Trustees' Report

12. **Where a DC scheme provides death benefits, separate insurance not required if the death benefit provision only consists of:**
    - A) The return of the value of the member's fund
    - B) Spouse pensions payable on death
    - C) Death in service lump sum benefits
    - D) Children's pensions payable on death

13. **The maximum amount of tax privileged savings in a DC scheme for the 2024/25 tax year is:**
    - A) 100% of the member's taxable earnings
    - B) £40,000
    - C) £60,000
    - D) £215,000

14. **The Money Purchase Annual Allowance (MPAA) is triggered in a DC scheme when:**
    - A) Contributions exceed £10,000 annually
    - B) The member accesses flexible benefits such as drawdown
    - C) Only employer contributions are made
    - D) The member reaches age 75

15. **A Statutory Money Purchase Illustration is not a requirement for:**
    - A) Members within 2 years of their Selected Retirement Age
    - B) A defined benefit (DB) scheme which has money purchase AVCs
    - C) Members of contract-based DC schemes
    - D) Schemes which have both DB and DC sections

16. **When a member leaves a DC scheme with at least 30 days' qualifying service:**
    - A) They must be granted a deferred benefit with the option to transfer their benefits at a later date
    - B) They can choose to either transfer their benefits or receive a refund of their contributions as they are not entitled to a deferred benefit
    - C) Their fund value remains in the scheme and the value at their date of leaving remains fixed until they draw the benefits ot transfer them out of the scheme
    - D) They are not able to change their investment choices after they leave the scheme

17. **In a DC scheme, a member's statutory right to transfer benefits out of one scheme into another applies:**
    - A) Up until the member reaches the scheme's Normal Pension Age
    - B) Where the Scheme Rules do not provide a right to transfer
    - C) To all of their benefits up to and beyond the scheme's Normal Pension Age
    - D) Only if the member transfers all benefits out of the scheme at the same time

18. **In a DC scheme, Flexi-Access Drawdown allows members to:**
    - A) Draw income from a drawdown fund, subject to a maximum annual limit
    - B) Draw down income without triggering the Money Purchase Annual Allowance
    - C) Draw down income regularly on a tax-free basis
    - D) Draw the maximum Pension Commencement Lump Sum immediately and defer taking income from their drawdown fund

19. **When a trust-based DC scheme is winding up due to the insolvency of the employer:**

- A) An insolvency practitioner takes over responsibility for paying scheme benefits
- B) The trustees can make a bulk transfer without member consent, based on the advice of an independent professional
- C) The trustees can make a bulk transfer to an Authorised Master Trust, provided the consent of the members is obtained
- D) The market value of any scheme assets invested in the employer's business are protected by the trust

20. **Which of the following areas of information are not legally required to be included in a DC scheme's Annual Chair's Statement?**
    - A) The extent to which good value for members has been achieved
    - B) The amount of AVCs paid into the scheme
    - C) The extent to which the trustees have met the legislative requirements of 'Trustee Knowledge and Understanding
    - D) Core financial transactions

True/False Questions: Defined Contribution Arrangements

For each question, select the correct answer from the following options:

- **(A)** Both True
- **(B)** Only (i) True
- **(C)** Only (ii) True
- **(D)** Both False

21**.** **(i)** Automatic enrolment in DC schemes requires the employee to contribute at least a minimum percentage of their qualifying earnings.
(ii) Employees enrolled under automatic enrolment requirements are not permitted to opt out of the pension scheme.

22**.** **(i)** Salary sacrifice contributions in a DC scheme can reduce the employee's National Insurance contributions.
(ii) Contributions made under a salary sacrifice arrangement are considered employer contributions.

23**.** **(i)** Target-date funds maintain a fixed asset allocation throughout the investment period.
(ii) A target-date fund in a DC scheme automatically adjusts its asset allocation as the member's retirement date approaches.

24. (i) In a DC scheme, members bear the investment risk associated with their pension savings.
(ii) In a contract-based DC scheme the employer guarantees a minimum return on investments.

25. (i) A bundled arrangement is attractive to employers who seek to control scheme costs.
(ii) A bundled arrangement allows the trustees to exercise greater control over the choice of providers.

26. (i) In a DC scheme, members can purchase an annuity to convert their pension pot into a guaranteed income for life.
(ii) A DC scheme member can transfer their benefits to another pension arrangement immediately before retirement to secure more attractive annuity rates.

27. (i) All DC scheme providers must offer the Pensions Advice Allowance to members.
(ii) Members of DC schemes can only use the Pensions Advice Allowance once in any tax year.

28. (i) When a member of a DC scheme moves their fund from one investment to another, there is no charge for doing so.
(ii) When a member of a DC scheme moves their fund from one investment to another, there is always a fee, which is a percentage of the fund value that is switched.

29. (i) The Finance Act 2024 abolished the Lifetime Allowance.
(ii) The Finance Act 2024 introduced the Lump Sum Allowance.

30. (i) It is a legal requirement for trustees of a DC scheme to ensure that core financial transactions are processed promptly and accurately.
(ii) The DC scheme's risk register is a legally binding document.

ANSWER KEY

1. **Which of the following is most likely to be offered in a Defined Contribution (DC) scheme designed by a paternalistic employer?**
    a. A) A limited selection of investment funds
    b. B) Employer contribution rates of 1.5 x the employee contribution rate

c. C) Statutory minimum employer contributions

d. D) Matching employer contributions

Answer: B

2. **The definition of 'Qualifying Earnings" for automatic enrolment purposes includes:**

a. A) Basic pay and other types of earnings

b. B) Basic pay only

c. C) Basic pay and overtime only

d. D) Basic pay and bonus only

Answer: A

3. **Under automatic enrolment legislation, a worker who is aged 21 and has Qualifying Earnings of £25,000 would be classed as:**

a. A) An Eligible Jobholder

b. B) A Non-entitled Worker

c. C) An Entitled Worker

d. D) A Non-eligible Jobholder

Answer: D

4. **Which of the following statements best describes a Group Personal Pension?**

a. A) A trust-based arrangement where the trustees have a contract with the provider

b. B) The employer must legally maintain a robust governance structure

c. C) A contract-based arrangement where the member has an individual contract with the provider

d. D) The costs and investment risk are borne by the employer

Answer: C

5. **One of the main advantages to an employer of a Master Trust arrangement is:**

a. A) The employer can retain control of the choice of investments

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Answer: D

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Answer: A

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   Answer: B

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   Answer: C

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   a. A) Pension Tracing Service

   b. B) Dashboard User Interface

   c. C) Digital Identity

   d. D) Pension Finder Service

   Answer: D

10. **The Scheme Return provides detailed scheme information to:**

    a. A) The Financial Conduct Authority

    b. B) The Pensions Regulator

c. C) HMRC

d. D) The Scheme Administrator

Answer: B

11. **The formal guidelines relating to an occupational DC scheme's financial statements and disclosures are set out in a:**

    a. A) Statement of Investment Principles

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    Answer: C

12. **Where a DC scheme provides death benefits, separate insurance not required if the death benefit provision only consists of:**

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    Answer: A

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Answer: B

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    Answer: A

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    Answer: A

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    Answer: C

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Answer: D

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    Answer: B

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    d. D) Core financial transactions

    Answer: B

True/False Questions: Defined Contribution Arrangements

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(A) Both True

(B) Only (i) True

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    Answer: D

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    Answer: A

23. **(i)** Target-date funds maintain a fixed asset allocation throughout the investment period.
    (ii) A target-date fund in a DC scheme automatically adjusts its asset allocation as the member's retirement date approaches.

    Answer: C

24. **(i)** In a DC scheme, members bear the investment risk associated with their pension savings.
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    Answer: B

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    Answer: A

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    Answer: C

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    Answer: D

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