Case Study Assignment Module 5

Scenario - Stage 1

You are working on a helpline for a trust-based DC scheme sponsored by a large employer. You receive a call from Danny Jones, a new employee who has been automatically enrolled into the pension scheme and is aware that he has a finite window to opt-out. He tells you that his friend has a personal pension plan and thinks this is more versatile than a company scheme so he wants to know if there are any advantages to be gained over a personal pension plan, by joining the scheme. He also wants to know if this is a once and for all decision.

Question 1: What are the main advantages you should make Mr Jones aware of? (10 marks)

Question 2: How would you respond to Mr Jones' question about the once and for all decision? (3 marks)

Scenario - Stage 2

Mr Jones is keen to pay contributions at a higher rate than the minimum and asks how he can get tax relief and whether he can get more tax relief from a personal pension plan.

Question 3: How should you respond to Mr Jones? Consider the methods by which tax relief can be given and to what type of arrangements they apply. (5 marks)

Scenario - Stage 3

Mr Jones sees the benefits in paying extra contributions, but is unsure how much he should pay into the scheme.

Question 4: What factors should Mr Jones be considering when deciding how much he should be paying and what he might use to help him decide? (5 marks)

Scenario - Stage 4

Mr Jones has received a communication from the scheme to confirm his enrolment. He notes that he has been enrolled into the default fund, which features a lifestyling glidepath. Mr Jones has also noted that the scheme offers a range of funds as an alternative to the default fund. He asks if he should consider switching contributions to one or more of the other funds offered. He asks what you would do in his position.

Question 5: How would you explain to Mr Jones the circumstances in which a lifestyle fund is used, and why this may not be the best option for him.

(8 marks)

Question 6: How would you respond to Mr Jones question about what you would do? (4 marks)

Scenario - Stage 5

Mr Jones advises that he has two small deferred pensions from previous employments. He thinks one is in a defined benefit scheme. He explains that he would like to transfer these to the new scheme so that he has all his benefits in one place.

Question 7: What are the key factors Mr Jones should bear in mind when considering whether to transfer the two deferred benefits into the new scheme and how might these differ between DB and DC? (4 marks)

Scenario – Stage 6

Before ending the call, Mr Jones mentions that he has just moved in with his girlfriend and want to know how the life assurance benefits would be paid if he were to die in service and if there is anything else he should do or know about.

Question 8: How should you respond to Mr Jones? (7 marks)

Scenario – Stage 7

Mr Jones has subsequently asked the scheme administrator to investigate a transfer of his former scheme benefits and he has received a transfer value quotation. He is unsure whether or not to transfer the DB benefits into the DC Scheme and wanted to understand what he should consider before making his decision.

Question 9: How should you respond to Mr Jones? (4 marks)

Total 50 Marks

APPENDIX – Key Features of the Pension Scheme

Scheme information

The Scheme is a defined contribution arrangement.

The scheme has a default retirement age of 65 for all members but members can elect to retire at any age between 55 and 74 years.

There are 12 separate investment funds plus a lifestyle arrangement.

The sponsor meets the cost of the management of scheme though the investment manager returns are net of charges.

Members who join the scheme are covered for a lump sum death benefit of four times their pay (twice as much as for non-members) and there are insured arrangements in place for those members of the scheme who become too sick to continue working.

<u>How do I join the Scheme?</u>

The scheme is a qualifying scheme for Automatic enrolment.

An employee receives a welcome pack when they meet the eligibility criteria. The pack contains information about the pension scheme and confirms the date on which enrolment will occur. It confirms that contributions will be invested in the default fund. The welcome pack describes in detail the full range of funds offered, and explains the procedure should members wish to switch. The pack also contains details of how to apply to the scheme for an opt-out form for those who do not wish to remain a member.

Members are requested to provide proof of age and advise whether they are married or in a civil partnership. Original documents are requested for verification purposes.

Employees who opt out or leave the Scheme, have a lower level of life cover from the stand-alone Life Assurance scheme and sick pay benefits.

<u>Contributions</u>

The minimum contribution rate is 3% of basic salary but a member can pay as much as they want subject to the Annual Allowance each year.

The company matches member's contributions up to a maximum of 7% of basic pay.

The Company in conjunction with the scheme administrator has provided a modelling tool so that members can model benefits at retirement based on different retirement ages and contribution rates. This tool is available on the Company Intranet.

<u>Investment of contributions</u>

Members can choose from 12 different investment funds with varying degrees of risk. Each fund has been allocated a risk score by the Investment Adviser to help members choose.

The online pension page accessible through the Company Intranet has a questionnaire to help members assess their attitude to risk so that this information can be mapped across to the choice of funds.

The default fund features a lifestyling strategy which assumes that members will decumulate at age 65. Members may select an alternative age if they choose.

Re-joining

Jobholders who chose to opt into the Scheme may do so no more frequently than annually.

All eligible jobholders who are not members of the Scheme will be automatically re-enrolled in the Scheme every three years.

Providing evidence of health

Employees will have no entitlement to death in service or disability benefits until the insurance companies have reviewed and accepted the evidence of health. In some cases, the insurance companies may impose a restriction on the benefits or require additional annual payments. The benefits cannot be guaranteed in these cases.

Evidence will begin with the completion of a health questionnaire and may include a medical examination.

Application will be processed in accordance with the requirements of the Equality Act 2010.

Transferring benefits into the scheme

The scheme will accept transfer values at the discretion of the trustees. No transfer values are allowed if they contain any element of GMP.