

Case Study Assignment Module 6

Scenario – Stage 1

Your team is responsible for administering a Defined Benefit (DB) pension scheme (contracted-out prior to 6 April 2016) for a company which is a multi-employer scheme as the shop chain has sold a number of franchises around the UK and also in Europe. You normally have contact with the HR departments of those franchises. The smaller franchises tend to deal with their member HR admin in-house (posting in leaver notifications on handwritten forms), and the larger ones outsource the work to an HR company which notifies you of leavers through a monthly interface.

Some of the smallest franchises have fewer than 10 members per site and although in the past they have had significant turnover of staff, you haven't had any correspondence from those sites for some months.

You receive a call from Mr Bates who is a member of the Cambridge branch of Fresco. He says that he left the company two months ago, is disappointed that he hasn't heard from you and wants to know on the phone what options he has for his pension including how much his transfer value would be. You check the member's records and find that you have not received any notification from the employer of his exit from the Scheme.

Question 1: How should you deal with the call initially? (5 marks)

Scenario – Stage 2

Whilst on the call, you examine Mr Bates' records and note that he is 55 years old and divorced. He has 23 months service with the scheme and was earning £16,000 p.a. when he left though he received a one-off bonus of £1,500 a few months ago. Mr Bates has paid regular contributions since the last renewal and had contracted-out NI earnings prior to 6 April 2016. Mr Bates was also paying 2% of his salary into a Defined Contribution (DC) AVC policy with the Prudent Life Insurance Company. The policy is in the name of the Trustee.

Mr Bates had enquired about making a transfer into his pension plan 6 months ago, but you had to refuse the request since transfers-in are not allowed under the scheme rules for members with less than two years' service.

Mr Bates vents his frustration with the employer but says that he would like to know broadly what his options are.

Question 2: What are the main options available to Mr Bates? (4 marks)

Question 3: What should you do next? (5 marks)

Scenario – Stage 3

You have now received the leaver form from the Franchise's HR department and calculated the figures for Mr Bates and sent the leaver options to him. Mr Bates calls to ask why you have made tax and other deductions from his contributions; he expected to get back the full value including the employer's contributions.

You haven't completed this piece of work yourself, so you look up the member record and see the refund laid out on the paperwork as shown below.

Your contributions (excluding AVCs) £1,409.50

Interest paid £52.87

Value of AVCs £306.60

Total gross contributions £1,768.97

Less deductions:

Contracted out amount (£310.29)

Tax at 20% (£291.74)

Net refund £1,166.94

**Question 4: How do you explain the breakdown of the refund to Mr Bates?
(5 marks)**

Scenario – Stage 4

Mr Bates expresses surprise that he is being offered early retirement benefits and says that he does not fully understand the options. You have quoted the following to Mr Bates:

- full annual pension of £230.40 per annum plus a contingent dependant's pension of £115.20 per annum; or
- a Pension Commencement Lump Sum of £1,152 and a reduced annual pension of £172.80 per annum plus a contingent dependant's pension of £115.20 per annum; or
- a fully commuted pension on grounds of triviality equal to £3,916.80 net (£4,608 before tax).

The pension has been calculated based on 23 months' service and reduced for early payment. The dependant's pension is payable only in the event of the member's death before his dependant.

Mr Bates says it seems obvious that he should take the commuted option so cannot understand why he should consider the others.

**Question 5: what are the key merits and demerits of each option that should be communicated to Mr Bates?
(15 marks)**

Option 1 - Full pension: (Merits - 4 marks) (Demerits - 1 mark)

Option 2 - PCLS and reduced pension: (Merits - 4 marks) (Demerits -1 mark)

Option 3 -Trivial commutation: (Merits - 3 marks) (Demerits - 2 marks)

**Question 6: Given what you know about Mr Bates' personal situation, what other factor might affect his choice?
(1 mark)**

Scenario – Stage 5

Mr Bates calls you a few days later and elects to take the commuted value. He explains that he used to work for another retail company a number of years ago and he recalls having a pension with them, but he doesn't know where it is. He asks us if your company can help him locate the pension.

He also advises that someone has mentioned to him that if he has other pensions, he will not be able to take the commuted value.

Question 7: How should you respond to Mr Bates? (5 marks)

Scenario – Stage 6

Mr Bates returns completes all the relevant paperwork and sends in his birth certificate as requested. On examining the birth certificate, you note that his date of birth is not consistent with that held in your scheme records. Mr Bates appears to be only 54 years old and will not reach age 55 for another four months. You contact Mr Bates and explain that you have discovered a discrepancy. He confesses that he noticed that his last benefit statement showed the date incorrectly but he never got round to contacting the employer about this.

Question 8: How should you respond to Mr Bates? (4 marks)

Scenario – Stage 7

Mr Bates is clearly very unhappy and he has not given any thought to a transfer. He realises that retirement benefits or a transfer value are better than a refund because he effectively gets the value of the employer contributions. He is not expecting to start his new job for another two months as he deliberately took some time out for personal reasons. He is angry that valuable time has been wasted and it is not his fault. He asks for more time and asks whom he should contact to make a formal complaint.

Question 9: How should you respond to Mr Bates? (6 marks)

Total 50 Marks

APPENDIX - EXTRACT FROM THE RULES

BENEFITS ON LEAVING PENSIONABLE SERVICE

4.0 Application of this Rule

This Rule 4 applies to a Member who (otherwise than by death) leaves Pensionable Service before reaching his Normal Retirement Date with less than two years' Pensionable Service.

4.1 Entitlement to Deferred Benefits

On leaving Pensionable Service before Normal Retirement Date, a Member shall be entitled to Deferred Benefits in accordance with this Rule 4 if either:

- (a) he has completed two years Qualifying Service; or
- (b) he is someone on whose behalf the Trustees have accepted a transfer payment from a personal pension scheme; or
- (c) is aged fifty-five or older at the date of leaving.

4.2 Eligibility for an early retirement pension

On leaving Pensionable Service before Normal Retirement Date, a Member shall, if he is aged at least 55 years, have the additional option to take his retirement benefits early. The benefits payable shall be calculated in accordance with the Rules in Section 2 with regard to his actual pensionable service and final pensionable salary to the date of leaving, reduced by a factor provided by the Scheme Actuary from time to time. In all other respects, the pension benefit will be subject to the Rules in Section 2 including entitlement to trivial commutation.

4.3 Refunds of Contributions

4.3.1 This Rule applies to a Member who, on leaving Pensionable Service, has less than two years' Pensionable Service.

4.3.2 A Member to whom this Rule applies may receive a refund of his contribution but subject to the following provisions.

(a) in addition to the refund of contributions, the Trustee shall pay to the Member an amount of interest equal to compound interest on his ordinary contributions at the rate of 6% per annum, calculated in such manner as the Trustees decide.

(b) the Trustees will pay a contributions equivalent premium in accordance with Section 55(2) of the Pension Schemes Act 1993 and the contributions refundable under this Rule will be reduced by the amount permitted by Section 61 of that Act.

4.3.3 Where the Member has completed at least three months Qualifying Service he has the option of either receiving a refund of contributions under Rule 4.3.2 or taking a transfer of his benefits to another scheme or arrangement selected by the Member in accordance with the provisions of Chapter V of Part IV of the Pension Schemes Act 1993 (Early Leavers: cash transfer sums and contribution refunds). On payment of a transfer under the Rule, the Trustees and the Scheme shall be discharged from all liability to which the transfer relates.

4.3.4 If a Member does not accept the option of a transfer within six months of the Trustees sending him notice of that option (or any longer period allowed by the Trustees) a refund of contributions less relevant deductions will be paid automatically under Rule 4.3.3.