Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

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Core Unit 2 – Regulation of Retirement Provision

Assignment 4 Notes

(Part 5 – Governance Requirements and Part 6 – Current Issues)

Recommended Time: 1 Hour

1. **List some key risk indicators for trustees and members to spot pensions liberation scams.**

5 marks

Answer should cover:

Some key risk indicators for trustees and members to spot a scam include:

- newly established schemes with little or no formal documentation;
- cold calling or unsolicited text or emails;
- pressure to force through the transfer quickly;
- encouragement to take cash and reinvest it;
- claims to allow access to pension before age 55; and
- transfers of money into an overseas investment.

(Relevant section of the manual is Part 6 Chapter 2.1)

2. **Outline the Statutory Right To Transfer.**

5 marks

Answer should cover:

- Section 94 of PSA 1993 provides a right for a member of an occupational scheme who has ended his pensionable service to take a cash equivalent transfer value (CETV).
- Section 95 provides that the transfer payment may only be made to an occupational scheme, personal pension schemes or annuity contract.
- Additionally, under section 169 of the Finance Act 2004 a transfer will only be an authorised payment if it is a ‘recognised transfer’.
- If relevant statutory requirements satisfied, right to take a CETV within the statutory timescale (can be extended in certain limited circumstances by the Pensions Regulator)
- From 6 April 2015, trustees or providers cannot make a transfer payment relating to DB benefits of £30,000 or more to a DC arrangement unless the member has first taken independent financial advice.

(Relevant section of the manual is Part 6 Chapter 2.2)

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3. **Describe the key governance requirements for trustees in the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and define "core financial transactions".**

10 marks

Answer should cover:

The key governance requirements in the regulations for trustees will be:

- core financial transactions must be processed promptly and accurately;
- the value of costs and charges borne by members must be assessed;
- a statement of investment principles governing decisions about investments for the purposes of the default arrangement must be prepared;
- default arrangements must be designed in the members' interests and kept under regular review;
- the scheme deed and rules must not restrict the choice of administrators, fund managers or advisers to the scheme; and
- a chair of trustees (the Chair) must be appointed with responsibility for signing off an annual statement describing how the governance requirements have been met.

Core financial transactions are defined as including, but not being limited to:

- investment of contributions to the scheme;
- transfers of assets into and out of the scheme;
- transfers between different investments within the scheme; and
- payments from the scheme to or in respect of members.

(Relevant section of the manual is Part 5 Chapter 1.1.5)

4. **List the ways in which a pension arrangement might be contracted out prior to 6 April 2012 and outline how this changed in April 2012 and in 2016.**

5 marks

Answer should cover:

Prior to 6 April 2012, there were four ways in which a pension arrangement might be contracted out:

- Contracted out Salary Related (COSR) Scheme;
- Contracted -out Money Purchase (COMP) Scheme;
- Contracted out Mixed Benefit (COMB) Scheme; and
- Appropriate Personal Pension (APP) / Stakeholder.

From 6 April 2012 contracting out on a money purchase basis was abolished. From that date, the only contracted out schemes have been COSRs. In 2016 contracting out on a defined benefit basis (COSRs) ceased.

(Relevant section of the manual is Part 6 Chapter 1 Introduction)

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5. **Provide some examples of the types of charges that might apply in a DC scheme.**

10 marks

Answer should cover:

- Annual Management Charge
- Fund Switches and Bid/Offer Spread
- Policy fees
- Allocation Rates
- Initial and Accumulation Units
- Charges on transfers

(Relevant section of the manual is Part 5 Chapter 1.5.1)

6. **Outline five areas of UK pension law which are currently subject to EU law and where UK law may diverge from EU regulations following the withdrawal of the United Kingdom from the European Union.**

10 marks

Answer should cover:

Five of the following areas of UK pension law which are currently subject to EU law:

- **Scheme funding** The current technical provisions funding regime derives from the IORP Directive.
- **Investment** Some of the investment requirements (including limits on employer-related investments and the requirement to diversify) derive from IORP.
- **GMP equalisation** The Government position that GMPs must be equalised is based on EU law.
- **Equal treatment** There are unlikely to be major changes here on policy grounds.
- **TUPE transfers** There will be scope for the Government to amend or relax the TUPE requirements and to give more clarity on early retirement (Beckmann) issues.
- **PPF** The PPF was established to fulfil the UK's obligations under the EU Insolvency Directive.
- **Sex based annuity factors** It is an EU requirement for annuity providers (but not occupational pension schemes) to use gender-neutral actuarial factors.
- **Data protection** It is likely that current data protection legislation will remain in place (as well as new requirements equivalent to those under the EU General Data Protection Directive).

(Relevant section of the manual is Part 6 Chapter 3.1)

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7. **The Pensions Regulator's Code of Practice on "governance and administration of occupational trust-based schemes providing money purchase benefits" (the "Code") came into force on 28 July 2016. Outline five of the six specific areas of good practice that are covered by guidance.**

5 marks

Answer should cover five of the following:

The six guides provide more detail and best practice in the following areas:

- **Trustee board**
- **Management skills**
- **Scheme Administration**
- **Investment governance**.
- **Value for members**
- **Communicating and reporting**.

(Relevant section of the manual is Part 5 Chapter 1.8.2)