Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

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Core Unit 3 – Running a Workplace Pension Scheme

Assignment 2 Notes

(Part 3 – Benefits and Communication)

Recommended Time: 1 Hour

1. **Write short notes on the Overseas Transfer Charge.**

10 marks

Answer should cover:

- Any transfers to a QROPS requested on or after 9 March 2017 are potentially subject to an Overseas Transfer Charge.
- The Overseas Transfer Charge is 25% on the total transfer value (after any Lifetime Allowance Charge has been deducted).
- There are a number of exemptions under which the charge is not payable and the scheme administrators should check whether any apply before making the transfer payment.
- Example exemptions – for example the member being resident for tax purposes in the same country in which the QROPS is based; or resident for tax purposes in the EEA and the QROPS is based in the EEA
- If none of the exemptions apply, then the Overseas Transfer Charge is payable.
- The administrator of the transferring scheme must deduct the charge prior to paying the transfer to the QROPS and pay the charge to HMRC via the quarterly Accounting For Tax return.
- If an exemption applies the administrator of the transferring scheme must inform the member and the receiving QROPS and set out which exemption has been met.
- If an exemption applies based on the member's residence for tax, and the member's status changes before the end of five complete tax years following the transfer, then the charge will then become payable.
- Conversely, if none of the exemptions applied at the time of the original transfer, and a charge was paid, but the member subsequently became resident in a country which means that one of the exemptions would apply, then HMRC will refund the Overseas Transfer Charge.
- In order for the refund to be paid, the change in residency must occur prior to the end of the fifth complete tax year following the original transfer.

Relevant section of the manual is Part 3 Chapter 2.2.5

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2. **Summarise the conditions that must be met before a trivial commutation lump sum can be paid.**

10 marks

Answer should cover:

Permitted from age 55 (before 6 April 2015 other age limits applied) provided that

- All the DB benefits from the chosen scheme or schemes are commuted
- The member must have some LTA available
- If more than one arrangement is to be commuted, all commutations must take place within a twelve month period
- The value of all the member's pension rights cannot exceed £30,000 on the nominated date
- A Trivial Commutation Lump Sum must extinguish a member's entitlement to defined benefits under the scheme.

Relevant section of the manual is Part 3 Chapter 3.8

3. **Explain the difference between an earmarking order and pension sharing.**

5 Marks

Answer should cover:

Earmarking Orders	Pension Sharing
Introduced under Pensions Act 1995	Introduced by the Welfare Reform and Pensions Act 1999
Part or all of the member's benefits to be paid to the ex-spouse when the member retires or dies.	Actual transfer of benefits from the member to the ex-spouse. This results in a reduced pension benefit for the member, and the ex-spouse being entitled to a pension benefit in their own right

Relevant section of the manual is Part 3 Chapter 5.1 & 5.2

4. **List the functions of an actuary.**

5 marks

Answer should cover:

Legislation sets out which functions must be carried out by the scheme actuary. Examples include

- Advice to the trustees on the funding of the scheme, including the valuation of the liabilities of the scheme and advice on the future contributions required to meet the statutory funding objectives
- Advice to the trustees on the method and assumptions to use to calculate cash equivalent transfer values
- Provision of actuarial certificates
- Advice on early and late retirement factors and cash commutation factors

Relevant section of the manual is Part 3 Chapter 6.1.1

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5. **Briefly explain the various methods that can be used to revalue the GMP element of a deferred pension.**

5 marks

Answer should cover:

- Section 148 orders (previously called Section 21 orders) which is known as full rate revaluation
- Fixed rate
  - varies from 4% to 8.5%
  - set at the date the member left contracted out employment
- Limited rate (full rate revaluation capped at 5% a year)
  - Schemes may only use this method for members who left before 6 April 1997.

- Following cessation of contracting out from 5 April 2016, Trustees were given a one year window to amend their scheme provisions to the revaluation of a member's GMP benefits to date of leaving rather than 5 April 2016.

Relevant section of the manual is Part 3 Chapter 1.4.2

6. **List the key disclosure requirements that schemes must satisfy so that they do not breach the disclosure regulations.**

10 marks

Answer should cover:

Disclosure regulations detail what information is to be provided, to whom and within what timescales. Some of the areas covered are:

- Basic scheme information
- The scheme's annual report
- Member benefit statements
- The annual Summary Funding Statement
- The Statement of Investment Principles (SIP), the Actuarial Valuation and the Schedule of Contributions (or Payment Schedule)
- Pensions flexibilities

Relevant section of the manual is Part 3 Chapter 7.2

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7. **Outline the key features of a scheme pension**

5 marks

Answer should cover:

A scheme pension is typically provided by a DB arrangement although they can be paid in respect of DC arrangements. Scheme pensions must:

- Be payable for the life of the member
- Be paid at least annually
- Not be capable of being reduced year on year (except in limited circumstances)
- Paid directly by the Scheme Administrator, or by an insurer chosen by the Scheme Administrator

Where a scheme pension is paid in respect of a DC arrangement, the member must have been given the opportunity to select an alternative annuity provider. This is known as the Open Market Option.

Relevant section of the manual is Part 3 Chapter 3.4.1