



## Core Unit 3 – Running a Workplace Pension Scheme

### Assignment 3 Notes

(Part 4 – Allowances)

Recommended Time: 1 Hour

#### 1. List the 13 BCEs.

10 marks

Answer should cover:

The 13 BCEs are:

BCE1	Where funds are designated to provide a member with a drawdown pension
BCE2	A scheme pension coming into payment
BCE3	An increase to a pension in payment exceeding certain permitted annual indexation levels (broadly, the greater of 5% and the increase in the Retail Prices Index)
BCE4	A member of a money purchase scheme buys a 'lifetime annuity' from an insurance company
BCE5	A member of a defined benefit arrangement reaching age 75 without having put a scheme pension into payment
BCE5a	A member of a money purchase arrangement reaching age 75 with unused funds still in a drawdown pension fund or a flexi-access drawdown fund
BCE5b	A member of a money purchase arrangement reaching age 75 with unused funds
BCE5c	A member dies before their 75th birthday and unused funds remaining at death are designated, on or after 6 April 2015 but before the end of a two-year period, to a dependant's flexi-access drawdown pension or nominee's flexi-access drawdown pension
BCE5d	Where a member dies before their 75th birthday and unused uncrystallised funds remaining at death are used to provide entitlement to a purchased dependants' or nominees' annuity. The death must be on or after 3 December 2014 with the entitlement arising on or after 6 April 2015 but before the end of a two-year period.
BCE6	The payment of a Pension Commencement Lump Sum or certain other lump sums
BCE7	Payment of most lump sum death benefits on the death of a member
BCE8	The transfer of pension rights to a Qualifying Recognised Overseas Pension Scheme
BCE9	Miscellaneous events as set out in regulations, principally certain lump sum payments which do not fall under BCE6 for technical reasons.

(Relevant section of the manual is Part 4 Chapter 2.1)



2. Write a brief note on scheme pays.

10 marks

Answer should cover:

- The member is liable for any Annual Allowance charge that may be due.
- From 2011/12 and following tax years, member has the right to require the scheme to pay the charge on their behalf.
- The conditions that need to be satisfied if the member is to have the right to require the scheme to pay are:
  - The member's Annual Allowance charge liability for the tax year must exceed £2,000
  - The pension input amount under the scheme must exceed the general Annual Allowance for that year – the tapered annual allowance is ignored for the "Scheme Pays" conditions test.
  - The member must make the request by means of an irrevocable election made in a prescribed form. The deadline for this is 31 July after the end of the following tax year.
  - Where the member has an Annual Allowance liability but one or more of the above conditions is not satisfied, the scheme can decide voluntarily to pay the member's charge on his behalf.
- In return, the scheme will make a commensurate reduction to his/her benefit entitlement.
- In this case, the Scheme Administrator (normally the trustees or manager of the scheme) and the member have a joint and several liability for the charge.

Relevant section of the manual is Part 4 Chapter 1.4

3. Write a short note on Fixed Protection 2016 and Individual Protection 2016

10 Marks

Answer should cover:

**Fixed Protection 2016**

- Introduced as a result of the reduction in the standard LTA to £1 million from 6 April 2016.
- Allows members to protect benefits up to a value of £1.25 million.
- Restrictions apply on future contributions and benefit accrual and these are broadly similar to those in place for fixed protection and fixed protection 2014.
- There is no deadline for when individuals can apply for fixed protection 2016.
- Individuals cannot apply for fixed protection 2016 if they already have primary protection, enhanced protection, fixed protection or fixed protection 2014.

**Individual Protection 2016**

- Introduced as a result of the reduction in the standard LTA to £1 million from 6 April 2016.
- Allows individuals to protect accrued benefits at 5 April 2016, providing the value exceeds £1 million, by providing a personalised LTA equal to either the value of the accrued rights at 5 April 2016 or the standard LTA if higher.
- As with fixed protection 2016, there is no deadline for when individuals can apply for individual protection 2016.
- Individuals cannot apply for individual protection 2016 if they already have primary protection or individual protection 2014.

(Relevant section of the manual is Part 4 Chapter 3.4 & 3.5)



4. Summarise the transitional provisions that were in place for the 2015/2016 tax year in respect of the pension input period and the annual allowance.

5 marks

Answer should cover:

- Following Summer Budget 2015 transitional provisions were in place for the 2015/16 tax year, which in broad terms were:
- All 2015/16 pension input periods ran on until 5 April 2016
- The pension input period was split into two periods:
  - A pre alignment tax year that ran from the start of the pension input period to 8 July 2015, and
  - A post alignment tax year that ran from 9 July 2015 to 5 April 2016
- An annual allowance of £80,000 applied for the 2015/16 tax year (plus carry forward from three previous tax years), but with a maximum of £40,000 for the post alignment tax year

(Relevant section of the manual is Part 4 Chapter 1)

5. Explain how the pension input amount for a DB or Cash Balance scheme is calculated.

5 marks

Answer should cover:

- The value of a person's benefits (i.e. their accrued benefit) at the end of the pension input period is compared with the value of their benefits at the end of the previous pension input period.
- Subject to certain adjustments, the difference is the pension input amount for the period.
- For inputs relating to the 2010/11 and earlier tax years, for the purpose of valuing the pension benefits at the start and end of the pension input period, a factor of ten is used.
- Adjustments are made to the figures to take account of any transfers in or out of the scheme and also any pension debits or credits resulting from a divorce.
- Where a member of a DB scheme is no longer an 'active member', and so is no longer accruing benefits, there is a further adjustment that ensures that the normal annual revaluation given in such circumstances to protect against erosion by inflation does not contribute to the total pension input amount.
- For inputs relating to the 2011/12 and later tax years, 10 is replaced by 16 as the valuation factor, and the inflation protection is extended to active members.
- Deferred members whose benefits' revaluation does not exceed the increase in the CPI (or any higher rate written into the scheme rules as they stood on 14 October 2010) will be deemed as having no pension input amount value of the pension rights is taken as the fund value at the time of crystallisation

(Relevant section of the manual is Part 4 Chapter 1.2)



6. Summarise the changes made to the Annual Allowance as a result of the Budget presented on 8 July 2015.

10 marks

Answer should cover:

- For the majority of individuals, the AA remains at £40,000.
- With effect from 6 April 2016, a tapered AA was introduced for high earners, and for some their AA may now be as low as £10,000.
- To check whether an individual is subject to the tapered AA, two income tests apply:
  - Testing whether the threshold income, which is broadly total taxable income, is greater than £110,000, and
  - Testing whether the adjusted income, which is broadly taxable income plus all pension savings, is greater than £150,000
- For those who pass both the above income tests, the AA reduces by £1 for every £2 of income above £150,000, subject to a minimum AA of £10,000. This is known as the tapered Annual Allowance.

(Relevant section of the manual is Part 4 Chapter 3.7.2)