Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

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Defined Contribution Arrangements

Mock Examination Notes

(Recommended Time: 3 hours)

1. **As the Pensions Manager for ABC Ltd, you have been asked to write a paper for the Board of Trustees describing the different ways that members of a DC scheme can (subject to scheme rules) access their benefits following the introduction of the pension flexibilities from April 2015, including the new transfer rules, potential tax and Annual Allowance implications for the member and where members can obtain guidance.**

20 marks

Format: Introductory Paragraph, detailed information of each subject area, summary and conclusions

Style: Formal and assuming some knowledge of the subject

Answer should cover:

- Types of scheme affected.
- Minimum Pension Age.
- FAD.
- UFPLS.
- Lifetime annuity and PCLS.
- Flexible annuities.
- MPAA.
- Transfer rights under MP arrangements.
- Pension Wise.

(The relevant section of the Study Manual is Part 1, Chapter 1.3.8)

2.Explain in what circumstances a pension savings statement must be provided to a member of a registered pension scheme and list the items that the statement must include.

10 marks

Answer should cover:

- When a PSS must be issued (where PIA exceeds the standard annual allowance or where the member has triggered the MPAA and the PIA exceeds £10,000).
- Deadline for issue is 6 October following the end of the relevant tax year.
- List of the four items to be included in the PSS.

(The relevant section of the Study Manual is Part 2, Chapters 2.2.8)

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3. You have been asked to present a paper to the directors of a company on the advantages of setting up a new SSAS with particular focus on the flexibilities and restrictions currently in place on the investment of funds associated within this type of arrangement.

20 marks

Answer should cover:

- A brief commentary on the main attractions of a SSAS including the opportunity to invest in the company.
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- Commentary to include:
    - Investment in taxable property
    - Permitted investments without restrictions
    - Permitted investments with restrictions
    - Possibility of loans to companies participating in the SSAS, third parties and individual members

(The relevant section of the Study Manual is Part 5 Chapters 1.3.3 and 1.3.4)

4. A trustee of the scheme has contacted you, as the Pensions Manager, asking about pension scams. Write them a letter describing the common features of pension scams and action being taken by public bodies to combat it, including any plans for future changes.

25 marks

Format: Letter – address; date; main body; appropriate signature

Style: Communication appropriate for a trustee. Reasonably formal.

Answer should cover:

<u>What a pension scam is</u>

- Also known as 'pension loans' and 'pension liberation'.
- The transfer of a member's pension savings that will allow them to access funds before age 55.
- Companies make money by charging members a fee or by taking money direct from their pension savings.
- Company representatives or advisers may be pushy and promise members a loan or advance or cash back. May offer to share commission.
- Some members willing, other victims.
- Any early access to pension funds will result in HMRC tax charges.

<u>Action by public bodies</u>

- The Pensions Regulator, HMRC and the Financial Conduct Authority.
- Produced guidance for members, trustees/managers and pension professionals in attempt to combat the growing trend.
- Body called Action Fraud for reporting.
- HMRC's revised approach to scheme registration process and how it will confirm the registration status of a scheme following a request from a scheme administrator.

<u>Future plans</u>

- Three areas for direct intervention – ban on cold-calling, limiting statutory transfer right conditions and making it more difficult for fraudsters to open small pension schemes.

(The relevant sections of the Study Manual are Part 3, Chapter 1.4.4, Part 2, Chapter 1.1.1 and Part 6, Chapter 1.4)

5. Write brief notes setting out how master trusts are to be regulated. Your answer should cover:

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- **Legislation and regulatory responsibility**
- **Authorisation criteria**
- **Authorisation process**
- **Provision of information requirements**
- **Requirements for 'triggering events'**

25 marks

Answer should cover:

- Legislation and regulatory responsibility – Pension Schemes Act 2017 is the legislation (and some of these provisions may not be in force). TPR has oversight for the new regime. Master trusts will be required to demonstrate to TPR that they meet certain key criteria on establishment and on an ongoing basis
- Authorisation criteria – fit and proper running the scheme (including trustees and scheme funders), scheme is financially stable, scheme funder meets specified criteria, systems and processes are sufficient to ensure that it is run effectively and the scheme has an adequate continuity strategy. A prohibition will apply if the criteria are not met.
- Authorisation process – an application will be necessary. TPR may levy a fee. A Code of Practice will be introduced setting out what TPR will consider before granting an application. TPR will have 6 months to consider an application (including existing schemes and the 6 months will run from when the law comes in). If the scheme becomes authorised it is added to a published list. If an application gets declined, then the applicant is notified with the reason why.
- Provision of information - TPR must be furnished with business plan, continuity strategy, scheme accounts and the scheme funder's accounts. These latter two must be sent to TPR within two months of them being obtained and within nine months of the end of the financial year respectively. There will be a requirement for those involved in the master trust to notify TPR of any significant events which are set out in regulations.
- Requirements for triggering events – set out what a triggering event is (warning or determination notice to withdraw authorisation; scheme acting without authorisation; insolvency event for the scheme funder; scheme funder ending the arrangement with master trust; a decision or event which results in the scheme commencing wind up; the decision of the trustees to pursue a continuity option) and the requirements (notification to TPR and employers; need to pursue a continuity option and to prepare and submit an implementation strategy).

(The relevant section of the Study Manual is Part 4, Chapter 1.4 and Part 6 Chapter 1.1)