

Core Unit 2 – Regulation of Retirement Provision

Mock Examination Notes

(Recommended Time: 1 hour)

1. Identify three statutory duties with which trustees must comply.

5 marks

Answer should cover:

A description of three of the following:

- Duty of care
- Payment of tax
- Disclosure
- Notifiable events
- Statement of investment principles
- Actuarial valuations (DB schemes)
- Payment schedule / schedule of contributions
- Recovery Plan
- Member Nominated Trustees / Directors
- Internal Dispute Resolution Procedure
- Bank account
- Cash equivalent transfer value
- Report material breaches of law.

(Relevant section of the manual is Part 2 Chapter 2.7.2)

2. Outline the role of the Pension Protection Fund (PPF).

5 marks

Answer should cover:

- PPF came into effect from 6 April 2005
- Applies to both DB and hybrid schemes – not DC
- Qualifying solvency event and not sufficient scheme assets to fully buy out benefits scheme will go into PPF
- PPF provides compensation
 - 100% if over NPA / ill-health or survivors pension
 - Otherwise 90%
 - Subject to an overall cap
 - Limited indexation of benefits

(Relevant section of the manual is Part 1 Chapter 3.3)



3. Identify the various ways in which an employer can reduce the amount of any section 75 debt that it has to pay.

10 marks

Answer should cover:

- If S75 debt triggered on or after 6 April 2008
- Debt payable by a departing employer can be reduced by entering into
 - A withdrawal arrangement
 - An approved withdrawal arrangement
 - A scheme apportionment arrangement
 - A flexible apportionment arrangement
 - A regulated apportionment arrangement
- Under certain circumstances the departing employer may also be able to benefit from a “relevant transfer deduction”

(Relevant section of the manual is Part 4 Chapter 1.8.1)

4. Outline the Lifetime Allowance and its development in recent years.

5 marks

Answer should cover:

- Allowance of total pension rights a member may accrue in their life in a tax favourable environment
- Introduced at £1.5 million for 2006/7, gradually increasing to £1.8 million for 2010/11
- Gradually decreased from £1.8 million for 2011/12 to £1 million from 2016/17
- Transitional arrangements giving protection
 - Fixed, Primary, Enhanced, Individual
- If benefits exceed lifetime allowance additional tax payable – Lifetime Allowance Charge

(Relevant sections of the manual are Part 1 Chapter 1.3 & 2.2)

5. Identify three exemptions to age discrimination legislation that are relevant for pension schemes.

5 marks

Answer should cover:

A description of three of the following:

- minimum and maximum ages for admission to a scheme
- minimum level of pensionable pay (not above LEL)
- age related criteria in actuarial calculations
- minimum entitlement age for benefits
- specified ages for drawing benefits early without reduction or late with an enhancement
- ill health pensions based on prospective service
- age related contributions to occupational DC or workplace personal pension schemes where the aim is to equalise benefits or make them more nearly equal

(Relevant section of the manual is Part 3 Chapter 1.4.4)



6. Outline what trustees must do in order to comply with the requirements of the Pensions Act 2004 in respect of Trustee Knowledge and Understanding.

5 marks

Answer should cover:

- The TKU requirement, must have appropriate knowledge and understanding of
 - Law relating to pensions and trusts; and
 - Principles relating to scheme funding and investment of scheme assets
- Must also be conversant with their scheme's governing documents
- Trustees need to undertake regular training and keep a record of the training that they receive.
- New trustees have a six month "grace period" to get up to speed

(Relevant section of the manual is Part 2 Chapter 2.9)

7. Explain 'Scheme Pays.'

5 marks

Answer should cover:

- Member is liable to an Annual Allowance Charge (AAC)
- Member can request scheme pay charge on their behalf subject to certain conditions:
 - Member's AAC liability for the tax year must exceed £2,000
 - The member's pension input amount under the scheme must exceed the Annual Allowance;
 - and
 - The member must make an irrevocable declaration
- The member's benefit entitlement will be reduced

(Relevant section of the manual is Part 1 Chapter 1.4.4)



8. Outline the main features of the Pension Regulator's Guidance on Record Keeping.

10 marks

Answer should cover:

TPR published detailed regulatory guidance in 2010 aimed at trustees, providers and administrators on the testing and measurement of member data. The guidance categorises the data into three types:

- Common Data — this is data that is necessary and applicable to all members of all schemes. Its absence is likely to mean that the member cannot be identified or traced, or their benefits calculated with any degree of certainty (for example name, date of birth, sex, address, membership status).
- Conditional Data — the nature of this data is will vary from scheme to scheme and will depend on many factors including scheme type and design, a member's status in the scheme, system design and events that have occurred during their membership of the scheme.
- Numerical Data — numerical information regarding members' records that will help put the results of other measures into perspective.

Trustees/managers should ensure that a data review exercise is carried out at least once a year, including an assessment of the accuracy and completeness of the above types of data. They are required to put in place a data improvement plan to address poor quality data. Such a plan should have a defined end date within a reasonable timeframe.

Relevant section of the manual is Part 5 Chapter 1.8.1