



Core Unit 3 – Running a Workplace Pension Scheme

Mock Exam Notes

Recommended Time: 1 Hour

1. Calculate the income tax paid by a pensioner who is in receipt of a monthly pension of £809 and has a tax code of 893L.

5 marks

Answer:

| | | |
|------------------------------------|---------|---------------------------|
| Tax-free allowance for the year is | £8,930 | (that is, 893 x 10) |
| Monthly Tax-free allowance is | £744.17 | (that is, £8,930/12) |
| Monthly Taxable amount is | £64.83 | (that is, £809 - £744.17) |
| Monthly Income tax paid is | £12.96 | (that is, £64.83 x 20%) |

(Relevant section of the manual is Part 5 Chapter 3.3)

2. Summarise the minimum contributions and available alternative quality requirements DC schemes must satisfy to be a qualifying scheme for automatic enrolment.

10 marks

Answer:

The minimum contributions and available alternative quality requirements are summarised below:

| Salary definition | Minimum total contribution | Minimum employer contribution |
|--|----------------------------|-------------------------------|
| Qualifying earnings (earnings between £5,876 and £45,000 in 2017/18) | 8% | 3% |
| Gross earnings | 7% | 3% |
| Basic pay (if basic pay is at least 85% gross pay) | 8% | 3% |
| Basic pay (if not at least 85% gross) | 9% | 4% |

(Relevant section of the manual is Part 2 Chapter 1.9)



3. **List the information you required from a transferring arrangement when processing a transfer of benefits into a scheme.**

10 marks

Answer should cover:

- The member's personal details
- The name of the transferring scheme
- The type of arrangement
- Whether any contracted out benefits are included in the transfer value
- Pensionable service details
- Whether the transfer contains a transfer in from a previous scheme and, if so, details of this
- Value of member's benefits and contributions included in transfer, including any AVCs
- Current transfer value and whether any guarantee period applies
- Statement of equalisation for pensionable service post 17 May 1990 (if applicable)
- Confirmation of any court orders on the member's benefits

(Relevant section of the manual is Part 3 Chapter 2.1)

4. **List the factors that determine the benefits payable, and in what circumstances, to early leavers.**

5 marks

Answer should include:

The factors that determine what benefits become payable and in what circumstances are:

- Whether the scheme provides defined benefits or money purchase benefits
- Whether the member has opted out of the scheme as a result of being automatically enrolled, or enrolled following their request to opt in
- How much 'qualifying service' the member has completed
- Whether the scheme is contributory or non-contributory for members
- Whether the member has any contracted out benefits in the scheme
- The rules of the scheme, for instance whether early retirement is available

(Relevant section of the manual is Part 3 Chapter 1.1)



5. Explain the key legislative changes that have been introduced to charges that applied to DC Schemes.

10 marks

Answer:

The Government has introduced a number of legislative changes to charges applied in DC schemes, which are intended to provide “greater protection for people who have been defaulted into private pension saving”. The changes have been implemented in stages:

- **April 2015** - A charge cap on the default arrangements of qualifying DC workplace pension schemes was introduced. A ban on consultancy charges in all qualifying DC contract-based schemes was also introduced.
- **April 2016** – Providers were prevented from levying charges which could be particularly inappropriate for people who have been automatically enrolled in their employer’s scheme. The key legislative changes were:
 - Active member discounts (AMDs) were banned in qualifying DC workplace pension schemes; and
 - A ban on consultancy and commission charges in new trust-based schemes and qualifying contract-based schemes
- **October 2016** – A ban on consultancy and commission charges in existing trust-based schemes.
- **April 2017** – A 1% cap on early exit charges for all (including workplace) DC contract-based schemes. Early exit charges that were already set below the 1% cap may not be increased.
- **October 2017** – A 1% cap on early exit charges for all members of an occupational pension scheme who joined their scheme before 1 October 2017. The cap will not apply to members who join their scheme on or after 1 October 2017 as no early exit charges may be imposed on these members.

(Relevant section of the manual is Part 6 Chapter 3.3.4)

6. List the key tasks that must be completed when setting up a pensioner payroll.

5 marks

Answer:

The tasks that must be completed are:

- Register as an employer with HMRC and get a login for pay as you earn (PAYE) Online
- Choose your payroll software to record member details, pension amounts, calculate deductions, and report to HMRC
- Collect and keep records
- Tell HMRC about your scheme members, and
- Record pension payments, make deductions and report to HMRC on or before the first payment date

(Relevant section of the manual is Part 5 Chapter 3.1)



7. **Outline the key features of Individual Protection 2014.**

5 marks

Answer should include:

- Introduced as a consequence of the reduction in the LTA from £1.5million to £1.25 million from 6 April 2014.
- Individuals could protect the value of their accrued benefits as at 5 April 2014, subject to a maximum of £1.5 million.
- Applications for individual protection 2014 must have been received by HMRC by 5 April 2017.
- Unlike fixed protection, members with individual protection 2014 can still accrue further benefits and pay DC contributions, but the additional benefits above the protected amount will be subject to the Lifetime Allowance charge.
- Individuals could not apply for Individual Protection 2014 if they already had primary protection.

(Relevant section of the manual is Part 4 Chapter 3.3)