



Defined Contribution Arrangements

Assignment 1 Notes

(Part 1 – Defined Contribution Scheme and System Design)

Recommended Time: 3 hours

- 1. You act as Secretary to the Trustees of a trust-based DC scheme. A newly elected Member Nominated Trustee (MNT) has contacted you and is keen to learn the various areas of legislation that have impacted the design of DC schemes. Draft a memo responding to the MNT's query.**

30 marks

Format: In the style of a memo including: to, from, date and subject.

Style: A memo can be less formal than a letter or report.

Answer should cover:

- Brief introduction
- Stakeholder pension arrangements
- Tax simplification (A-Day) and taxation of savings
- Abolition of DC contracting out
- Automatic enrolment
- Money purchase definition
- TUPE
- DC flexibilities and transfers

(The relevant section of the Study Manual is Part 1, Chapter 1.3)

- 2. Describe the key features of the Single Tier State Pension and the changes to the State Pension Age introduced by the Pensions Act 2014.**

15 marks

Answer should cover:

- Available for those reaching SPA after 6 April 2016. Those reaching SPA before 6 April 2016 were eligible for the previous two-tier State pension.
- 35 qualifying years of NICs; those with fewer receive a proportionally reduced amount.
- A minimum number of qualifying years is required which will usually be 10 years.
- Increased annually by at least the increase in the general level of earnings.
- NICs made by the self-employed count in the same way as those paid by employees.
- It is not possible to derive or inherit pension from a spouse or civil partner.
- It is still possible to defer claiming the State pension in return for a higher weekly amount; however, there is no longer the option for individuals to receive a lump sum deferred payment instead.



- Transitional arrangements
- Pensions Act 2014 brings forward the increase from 66 to 67 eight years earlier than it was originally timetabled. The increase will be phased-in between 2026 and 2028.
- Secretary of State to review whether the rules around the SPA are appropriate, given life expectancy and other relevant factors, and to prepare and publish a report at least every six years on the outcome of the review.
- The Government has confirmed its intention to increase SPA from age 67 to 68 between 2037 and 2039 but has not yet brought forward legislation to enact this change.

(The relevant sections of the Study Manual are Part 1, Chapter 1.4.1, 1.4.2 and 1.4.3)

3. Summarise the main features of Automatic Enrolment.

10 marks

Answer should cover:

Main features of Automatic Enrolment

- Brief outline of the requirements and when they were introduced.
- Phased employer staging.
- Opting out and automatic re-enrolment.
- TPR penalties for non-compliance.
- Description of a qualifying DC scheme including Qualifying Earnings.
- Certifying money purchase schemes.
- Contractual enrolment as an alternative.

(The relevant section of the Study Manual is Part 1, Chapter 1.3.5)

4. Explain some of the potential drawbacks and benefits of individuals having real-time access to their member records.

15 marks

Answer should cover:

Potential drawbacks:

- Some schemes felt that it was a risk to allow members to see out of date or incorrect data held on their member records.
- Security concerns – hackers, viruses, data protection etc.
- Stand-alone system to get round security concerns only one way; members could see their details but could not update their personal records

Benefits for schemes:

- Reducing the number of queries from the membership.
- Allowing a degree of self administration, lightening the administration burden of the administrator.
- Encouraging members to alert the scheme more frequently to changes to their personal data.
- Giving a greater degree of transparency, as members can see exactly what has occurred on their accounts.

(The relevant section of the Study Manual is Part 1, Chapter 3.5.5)



5. You are the Pensions Manager of XYZ Ltd who runs a bundled DC scheme. You have been contacted by a member of the XYZ Ltd Pension Scheme who has asked you to explain the difference between a bundled arrangement and an unbundled arrangement. Write a letter responding to the member's query.

20 marks

Format: In the style of a letter including: address, date, correct salutation and subject heading.

Style: Formal but answering the member's query in as clear and concise terms as possible.

Answer should cover:

Bundled arrangements:

- Services provided by a single company.
- Combined fee.
- Attractive for employers looking to control costs.
- Can accept employer and/or employee contributions (regular or single premium) then invested.
- Funds managed by the provider or, increasingly, external links offered with access to other investment managers.

Unbundled arrangements:

- Managed by the trustees, who may choose to outsource.
- Tend to be of a size to warrant more control by the trustees.
- Scheme trustees can monitor investment performance and make changes to their investment manager.
- Advantage is trustees have greater control over choice of providers but need to have sufficient governance procedures in place.

(The relevant sections of the Study Manual are Part 1, Chapter 2.8.1 and 2.8.2)

6. The chair of trustees for the XYZ scheme has emailed you to ask for information on Straight Through Processing (STP). Set out a response explaining the process and how the adoption of STP could improve the administration process.

10 marks

Answer should cover:

- What is STP
- How STP compares to manual processes
- Benefits of STP

(The relevant section of the Study Manual is Part 1, Chapter 3.8)