

Defined Contribution Arrangements

Assignment 4 Notes

(Section 5 – Individual Arrangements and Section 6 – New and Future Legislation)

Recommended Time: 3 hours

1. **You are a Benefit Consultant and one of your clients has asked you to explain the differences between a Self Invested Personal Pension and a Small Self Administered Pension Scheme (SSAS). Write a paper for the client explaining any similarities and highlighting any differences.**

20 marks

Style: Briefing paper

Answer should cover:

Similarities

- Member directed pension schemes – Both schemes allow flexibility in the choice of investments. Ideal for individuals who want more control over their investments.
- Contributions – Contribution limits and the Annual Allowance apply universally to all pension savings that a member makes so apply equally to both a SIPP and a SSAS.
- Benefits – Both schemes are money purchase so the same options apply at retirement – annuity, scheme pension, UFPLS or FAD, as well as the transfer option. A PCLS of 25% of the fund may also payable (apart from for an UFPLS where there is an automatic 25% tax free element).
- Investment regulated pension schemes –restrictions on taxable property.

Differences

- Occupational versus personal – A SSAS is a company pension scheme where the members are trustees and determine the investment policy. A SIPP is a personal pension where the member can make own decisions on investment policy.
- Eligibility – All members of a SSAS have to be trustees so they tend to be used by smaller companies and their controlling directors. SIPPs, because they are individual policies rather than an occupational pension scheme, are much less restrictive.
- Investments – SSAS has more flexibility than a SIPP when it comes to investments. A SIPP cannot make loans, whereas a SSAS can (so long as the relevant conditions are met) although the 5% restriction on investments in the shares of the sponsoring employer that applies to SSASs does not apply to SIPPs.
- Regulation – A SSAS falls within the remit of the Pensions Regulator whereas a SIPP is covered by the FCA.

(The relevant sections of the Study Manual are Part 5 Chapter 1.3 and Part 5, Chapter 2.3)



2. Describe the latest initiatives underway designed to tackle pension scams.

10 marks

Answer should cover:

- Ban on pensions cold calling – power to introduce set out in the Financial Claims and Guidance Act 2018 in March 2018; regulations to enforce the ban still outstanding at the time of writing.
- Making it more difficult to open small schemes/SSASs – the Finance Act 2018 effective from 6 April 2018 provides HMRC with power to register/deregister pension schemes where the sponsoring employer is a dormant company making it more difficult for such schemes to be opened in the first place unless there is a genuine active employer.
- Limiting the condition for a statutory right to a transfer to an occupational pension scheme – no legislation yet but the intention is that the member would need a genuine employment link with regular earnings in order to be able to transfer and the employer would need to have agreed to participate in the scheme.

Students should be awarded extra marks for noting any developments that have happened since the time of writing (July 2018).

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

3. Outline the key features of an Employer Financed Retirement Benefit Scheme and explain the changes which were made with effect from 6 April 2011.

15 marks

Answer should cover:

- Contributions are not subject to the Annual Allowance.
- Benefits are not tested against the Lifetime Allowance.
- Employer does not receive any tax relief on contributions to an EFRBS until benefits start to be paid to and taxed on the employee.
- Benefits are liable to income tax.
- There is also a National Insurance contribution charge unless retirement benefits are drawn as at least 75% pension (i.e. the lump sum is restricted to 25% as it is for registered schemes) and the member has ceased to work for the employer.
- Member is neither taxed nor subject to National Insurance contributions on employer contributions.
- Death benefits are subject to Inheritance Tax.
- Any investment returns and capital gains will be taxed.
- Where the employee has been taxed on contributions as they were made and no further contributions were made after A-Day, then benefits can be paid as a tax free cash sum and the member's death benefit lump sum will retain an exemption from inheritance tax.
- From 6 April 2011, employees are required to pay income tax and National Insurance contributions on any reward, recognition or loan in connection with the employee's employment. This is deemed to include funded EFRBS and removes the tax advantageous status of funded EFRBS going forward from 6 April 2011. Funded EFRBS that had closed to new members and were closed to accrual at 5 April 2011 are not affected by the changes.

(The relevant section of the Study Manual is Part 5, Chapter 1.4)



- 4. The new Finance Director has emailed you to ask for information about Executive Pension Plans. Set out some short notes explaining what an Executive Pension Plan is and why some companies may have chosen to set one up.**

15 marks

Style: Short notes, informal

Answer should cover:

- What they are – money purchase registered pension schemes; historically operated on a contracted in basis; up to the employer who joins and what level of contributions are paid; subject to same tax rules as other registered schemes so Annual Allowance will apply (and perhaps the Tapered Annual Allowance/Money Purchase Annual Allowance) .
- How they are set up – trust, master trust or exchange of letters.
- Appeal – complete flexibility as to who joins (can be used for execs, controlling directors but can be extended to others); flexibility in the benefits provided (only pension, top up, death in service, ill health); can be used as a vehicle to pay pension contributions from bonuses with the tax advantages that come with pension contributions but subject to the normal Allowances (Annual Allowance/Lifetime Allowance);confidentiality;

(The relevant section of the Study Manual is Part 5, Chapter 1.2)

- 5. The Trustees of the XYZ Defined Contribution Pension Scheme have asked how the introduction of the pensions dashboard will impact their scheme. Write a paper addressing their question.**

20 marks

Style: Briefing paper, formal

Answer should cover:

- The purpose of the dashboard.
- Basic elements – Digital Identity, User Interface and Pension Finder Service
- Target timeframe for introduction – 2019 but may change.
- Schemes that do participate will need to supply a minimum data set. Minimum data set to include sufficient information to allow an individual to find their pension, basic scheme information and contact details.
- Phased roll out expected and what additional information may be displayed as part of this, for example, amount of benefit and supporting information needed for retirement planning.
- A lot is unknown – at time of writing participating in the pensions dashboard is not mandatory; exact data requirements have not been published. Still waiting on the feasibility study.
- Good quality record keeping will be essential for the success. Challenges with legacy DC schemes.
- Students should be awarded extra marks for noting any developments that have happened since the time of writing (July 2018).

(The relevant section of the Study Manual is Part 6, Chapter 1.2)

- 6. Describe the categories of individuals who could have taken out a Retirement Annuity Contract.**

5 marks

Answer should cover:

- Self-employed (including a partner of a professional partnership).
- An employee who worked for an employer that did not provide a company pension scheme.



- An employee who was not eligible to join his employer's pension scheme.
- An employee who had additional earnings from a second job that was non-pensionable. For example, a dentist who had additional earnings derived from a private practice, in addition to his NHS salary.
- Persons must have taken out their RAC before 1 July 1988.

(The relevant section of the Study Manual is Part 5, Chapter 2.4.2)

7. Briefly outline who a data processor is and the obligations they have under GDPR.

5 marks

Answer should cover:

- Data processor is the person doing the processing on behalf of the data controller, for example, the third party administrator.
- Obligations include:
 - Maintain a written record of processing activities carried out for each data controller.
 - Designate a data protection officer if required.
 - Appoint a representative (when not established in EU)
 - Notify the controller of data breaches without undue delay.

(The relevant section of the Study Manual is Part 6, Chapter 1.3)

8. Describe the retirement benefits that could be payable from a personal pension scheme.

10 marks

Answer should cover:

- Available from age 55 unless protected pension age.
- No maximum age.
- Pension income - Lifetime annuity, drawdown.
- Pension income is taxable under PAYE.
- Option for 25% PCLS.
- Flexible options could be available – UFPLS, Flexi-Access Drawdown, flexible annuities.
- Small lump sum under £10,000 possible but trivial commutation not possible.

(The relevant section of the Study Manual is Part 5, Chapter 2.1.4)