Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

Floor 20, Tower 42
25 Old Broad Street
London EC2N 1HQ
T: 020 7247 1452
F: 020 7375 0603
W: www.pensions-pmi.org.uk

Taxation, Retail Investment and Pensions

Assignment 2 Notes

(Part 1 – The UK Pension System Chapters 7-13)

Recommended Time: 3 Hours

1. Write a short note on tax charges on Unauthorised Payments

10 Marks

Answer should cover:

- Brief description of unauthorised payments
- tax charges payable by the Scheme Administrator and/or the member.
- up to four tax charges:
    - the Unauthorised Payments Charge – a tax charge at a rate of 40%, based on the value of the unauthorised payment;
    - the Unauthorised Payments Surcharge – where 25% or more of the value of a member's benefits is paid out in the form of an unauthorised payment an additional tax charge at a rate of 15% will be due, based on the value of the unauthorised payment;
    - the Scheme Sanction Charge – a tax charge on the Scheme Administrator. The scheme sanction charge is due on most unauthorised payments - exceptions - tax rate is normally 15% of the value of the payment, but this increases to 40% if HMRC have been unable to recover the unauthorised payments charge from the recipient;
    - a Deregistration Charge (rare) – if a scheme pays out more than 25% of its assets in the form of unauthorised payments in any year then it may have its registration withdrawn. In this case a deregistration charge will be applied equal to 40% of the value of the scheme's assets.

Relevant section of the manual is Part 1 Chapter 7.5.1

10 marks

2. **Outline the Statutory Right To Transfer.**

5 marks

Answer should cover:

- No statutory right to transfer rights earned before 6 April 1988 if member leaves pensionable service without leaving employment
- DB leavers with at least one year to NRD have statutory right to transfer the Cash Equivalent Transfer Value to another suitable pension arrangement
- From 6 April 2015, trustees or providers cannot make a transfer payment relating to DB benefits of £30,000 or more to a DC arrangement unless the member has first taken appropriate financial advice
- Members with DC or other flexible benefits have a statutory right to a transfer right up to point benefits are taken.
- If members have more than one benefit type they have a separate right to transfer the benefits from the different categories

Relevant section of the manual is Part 1 Chapter 10.2

5 marks

3. **Write a short note on earmarking orders.**

5 Marks

Answer should cover:

- Pension attachment orders (generally referred to as “earmarking orders”) introduced under the Pensions Act 1995
- Part or all of the member’s benefits to be paid to the ex-spouse when the member retires or dies.
- England and Wales - earmarking orders may be made against pension payments and lump sums
- Scotland - only lump sum benefits can be earmarked.

Relevant sections of the manual are Part 1 Chapter 13.1 and 13.2

5 marks

4. **List the information you require from a transferring arrangement.**

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 1 Chapter 10.1

10 marks

5. **Write short notes on “Benefit Crystallisation Events” (BCEs) and list five BCEs.**

10 marks

Answer should cover:

A BCE is an event in a registered scheme which triggers a test of the member’s benefits against the Lifetime Allowance. Each time a test is made, part of the person’s Lifetime Allowance is deemed to be used up. If there is insufficient Lifetime Allowance remaining at the time of the test, then a Lifetime Allowance charge will become payable.

There are 13 BCEs. These are:

BCE1	Assets being put into ‘drawdown’ or ‘income withdrawal’
BCE2	A scheme pension coming into payment.
BCE3	An increase to a pension in payment exceeding certain permitted annual indexation levels (broadly, the greater of 5% and the increase in the RPI).
BCE4	Using the assets of a money purchase scheme to buy a ‘lifetime annuity’ for a member from an insurance company.
BCE5	A member of a defined benefit arrangement reaching age 75 without having put a scheme pension into payment.
BCE5A	A member of a money purchase arrangement reaching age 75 with funds still in drawdown.
BCE5B	A member of a money purchase arrangement reaching age 75 with funds that have not been put into drawdown and which have not been used to buy an annuity / scheme pension.
BCE5C	On or after 6 April 2015, uncrystallised funds are designated for drawdown by a dependent or nominee.
BCE5D	On or after 6 April 2015, a dependent or nominee becoming entitled to an annuity purchased using uncrystallised funds.
BCE6	The payment of a Pension Commencement Lump Sum, Uncrystallised Funds Pension Lump Sum or certain other lump sums.
BCE7	Payment of most lump sum benefits on the death of a member.
BCE8	The transfer of pension rights to a Qualifying Recognised Overseas Pension Scheme.
BCE9	Miscellaneous events as set out in regulations, principally certain lump sum payments which do not fall under BCE6 for technical reasons.

Relevant section of the manual is Part 1 Chapter 7.3.1

10 marks

6. **List the options that may be available to a member when they retire at normal pension age.**

10 marks

Answer should cover:

Options available to the member depend on the type of benefits the member has and the scheme rules, options can include

- A Scheme Pension
- A Lifetime Annuity
- A Pension Commencement Lump Sum (PCLS)
- Trivial Commutation Lump Sum
- Income Withdrawal
- Short Term Annuities
- Uncrystallised Funds Pension Lump Sum

Relevant section of the manual is Part 1 Chapter 11.3-11.7

10 marks

7. **Outline the taxation changes introduced at A-Day and their impact on existing schemes.**

15 marks

Answer should cover:

- A-Day = 6 April 2006
- One single tax regime
- No limit on pension savings – only on the amount of tax relief that can be received
- Previous limits on contributions and benefits replaced by Annual Allowance and Lifetime Allowance
- Annual Allowance initially £215,000 - £40,000 from 2014/15
- Lifetime Allowance initially £1.5m - £1m from 2016/17
- Annual Allowance charge and Lifetime Allowance charge
- Benefit Crystallisation Events (BCEs)
- Earliest Age for retirement age 55 (some exceptions) with effect 6 April 2010
- Tax Free Cash sum of up to 25%
- Transitional Arrangements

Relevant sections of the manual are Part 1 Chapter 7.1, 7.3, 7.4 and Chapter 11.8

15 marks

8. **John Brown (aged 48) is leaving his company's contributory defined benefit scheme after 6 months' of service. Describe the options that might be available to him and any conditions that would apply.**

15 marks

Answer should cover:

- Statutory entitlement to a refund
- May have interest added
- May have deducted the Certified Amount (employee's share of the Contributions Equivalent Premium (if the scheme was contracted-out prior to 6 April 2016)
- Tax is deducted
- Member may be entitled to vested benefits / a preserved pension etc. under the scheme rules
- Statutory entitlement to a cash transfer sum.
    - Trustees may leave open or
    - after a reasonable period (usually 3 months) option may lapse and refund of contributions paid.
- If have a deferred pension option member entitled to a Cash Equivalent Transfer Value
- If have transfer in from a personal pension or have DC benefits from 1 October 2015 refund / cash transfer sum not available.

Relevant section of the manual is Part 1 Chapter 9.3.3

15 marks

9. **A US based company with global operations is reviewing its benefit programme. You have been asked to provide certain information commonly provided in the UK. Give a description of the benefits that might typically be received in connection with the death of a member of a registered pension scheme differentiating between those arising from a Defined Contribution (DC) scheme and those from a Defined Benefit (DB) scheme.**

20 marks

Answer should cover:

Death in service:
- DB & DC - Multiple of salary as a lump sum
- Return of fund (including any Additional Voluntary Contributions (AVCs)) (DC)
    - Used to provide a lump sum and/or
    - Pension to deceased's family or dependants.
- Dependant's Pension in accordance with scheme rules

Death in Deferment:
- Return of fund (including any AVCs) (DC)
    - Used to provide a lump sum and/or
    - Pension to deceased's family or dependants.
- Typical Lump Sum benefits (DB)
    - Return of member contributions (including any AVCs)
- Dependant's Pension equal in accordance with scheme rules

Death in Retirement:

- Dependent on options selected on retirement and period since retirement (DC)
    - a lump sum and/or
    - Pension to deceased's family or dependents.
- Dependent on period since retirement (DB)
    - Lump Sum balance of 5 year guarantee and/or
    - Pension to deceased's family or dependents in accordance with scheme rules

In a DB scheme, dependant's pensions only payable if there is an eligible recipient in accordance with the rules of the scheme and often reduced if the dependent is more than a defined number of years younger than the member.

Relevant section of the manual is Part 1 Chapter 12

20 marks