Pensions Management Institute
Moving pensions forward

Core Unit 1A – Providing for Retirement

Assignment 3 Notes
(Part 3 – State Benefits, NEST and Automatic Enrolment)
Recommended Time: 1 Hour

1. Outline the options available for those individuals wishing to defer payment of their State Pension.

5 Marks

Answer should cover the following:

Individuals must not be receiving certain other State Benefits.

<u>Where State Pension Age is before 6 April 2016:</u>

Higher Pension –

- Increased by 1% for each complete 5 week period deferred.

Lump Sum –

- Period of deferment at least 12 months.
- Taxed lump sum equal to missed pension instalments plus interest.

<u>Where State Pension Age is after 5 April 2016:</u>

Higher Pension –

- Increased by 1% for each complete 9 week period deferred.

No Lump Sum Option

(Relevant section of the manual is Part 3 Chapter 1 Introduction)

2. **Write short notes on Statutory Maternity Leave, Statutory Maternity Pay, Statutory Paternity Leave and Statutory Paternity Pay.**

10 Marks

Answer should cover the following:

Statutory Maternity Leave (SML)

- Employees eligible for SML may take up to 52 weeks maternity leave.

Statutory Maternity Pay (SMP)

- Calculation basis.
- Payable for up to 39 weeks. The first 6 weeks at 90% of their average weekly earnings (AWE) before tax and the remaining 33 weeks at £151.20 pw or 90% of their AWE (whichever is lower).
- Subject to tax and national insurance.

Ordinary Statutory Paternity Leave

- Either one or two consecutive weeks' leave

Statutory Paternity Pay

- Calculation basis. It is £151.20 pw or 90% of their average weekly earnings (whichever is lower)
- Subject to tax and national insurance

(Relevant section of the manual is Part 3 Chapter 2.1.2 and 2.1.3.)

3. **Outline the main types of statutory benefit that may be paid by an employer to an employee including the maximum payment period for each benefit.**

10 Marks

Answer Should cover the following:

- Statutory Sick Pay (SSP) – maximum payment period 28 weeks.
- Statutory Maternity Pay (SMP) – maximum payment period 39 weeks.
- Statutory Paternity Pay (SPP) – maximum payment period 2 weeks.
- Statutory Adoption Pay (SAP) – maximum payment period 39 weeks.
- Statutory Shared Parental Pay (ShPP) – maximum payment period 39 weeks minus any weeks of maternity pay.
- Statutory Parental Bereavement Leave and Statutory Parental Bereavement Pay.

(Relevant section of the manual is Part 3 Chapter 2.1.1 to 2.1.6)

4. **Outline the benefit cap.**

5 Marks

Answer should cover the following:

- Cap introduced in April 2013 on total amount of benefits for working-age people.
- Working age: age 16 to age 64.
- No more benefits than average wage for working families.
- Exemptions In recognition of additional disability needs.
- Will not apply to households receiving working tax credit or the earnings equivalent under Universal Credit

(Relevant section of the manual is Part 3 Chapter 2.2.8.)

5. **Explain the automatic enrolment minimum contribution requirement phasing in transitional arrangements for defined contribution schemes**.

10 marks

Answer should cover the following:

- For Defined Contribution schemes the minimum contribution phasing in period will start with the company's staging date and end on 5 April 2019.
- For the period to 5 April 2018 the minimum total contribution was 2% of Qualifying Earnings (with at least 1% from the employer).
- For the period from 6 April 2018 to 5 April 2019 the minimum total contribution is 5% of Qualifying Earnings (with at least 2% from the employer).
- From 6 April 2019 the minimum total contribution will be 8% of Qualifying Earnings (with at least 3% from the employer).
- Employers may instead certify that their scheme meet the alternative minimum contribution requirements. (Section Part 3 Chapter 3.2.1).

(Relevant section of the manual is Part 3 Chapter 3.2.3)

6. **In relation to automatic enrolment describe "entitled workers" and the employer contribution requirement.**

5 marks

Answer should cover the following:

- UK workers aged between 16 and 75 who do not have qualifying earnings (i.e., are earning less than the lower contribution limit) are known as 'entitled workers.'
- Entitled workers must be informed of their right to membership of a scheme but this need not be a qualifying scheme.
- As they do not have qualifying earnings, the employer contribution requirement is zero.

(Relevant section of the manual is Part 3 Chapter 3.2.1.)

7. List the ways in which a pension arrangement might be contracted-out prior to 6 April 2012 and explain how this changed from 6 April 2012.

5 marks

Contracting out has not been available since April 2016 when the new State Pension came into effect.

List should include:

- Contracted Out Money Purchase Scheme (COMP.
- Contracted Out Mixed Benefit Scheme (COMB).
- Appropriate Personal Pension (APP)/Stakeholder.
- Contracted Out Salary Related Scheme (COSR).

From 6 April 2012 contracting out on a money purchase basis was abolished.

Between 6 April 2012 and 5 April 2016, the only contracted out schemes have been COSRs.

From 6 April 2016 contracting out abolished.

(Relevant section of the manual is Part 3 Chapter 1.2.1.)