



Core Unit 1A – Providing for Retirement

Mock Examination Notes *Recommended Time: 1 Hour*

1. Write short notes on ISAs.

5 Marks

Answer should cover the following:

- Introduced April 1999.
- Tax-privileged savings vehicle.
- Contributions paid out of taxed income but no further taxation (e.g., on investment or withdrawing funds).
- Four types – Cash / Stocks and Shares / Innovative Finance/Lifetime.
- Can save in all four types during a single tax year but cannot contribute to more than one of each category in any tax year.
- Overall contribution limit £20,000 for 2017/18 onwards including any amount paid to a Lifetime ISA.

(Relevant section of the manual is Part 1 Chapter 2.3.1.)

2. What is an Independent Governance Committee?

5 Marks

Answer should cover the following:

- Providers of workplace contract-based schemes required to operate an IGC from 6 April 2015.
- Providers with small and less complex workplace personal pension schemes can establish a Governance Advisory Arrangement instead of an IGC.
- Act in interests of policy holders independently from the provider.
- Assess value for money.
- Provide communication to scheme members and employers.
- Report on quality standards.
- Chair of IGC responsible for publishing annual report.

(Relevant section of the manual is Part 2 Chapter 1.15.)



3. What is a CARE scheme?

5 Marks

Answer should cover the following:

- Career Average Revalued Earnings scheme major examples in the private sector have included schemes sponsored by Tesco and the Co-Operative Group. And following the Public Services Pensions Act 2013 most public sector pension provision will be made through CARE schemes in the future such as the Teachers' Pension Scheme.
- Benefits reflect earnings throughout the period of membership.
- A simple example to illustrate revaluation...there is an example in the manual as per the section below.
- For employer measure of predictability and control over costs. In a final salary scheme the liability depends on future earnings and date of leaving which is difficult to predict but with CARE the earnings are known.

(Relevant Section of the manual is Part 4 Chapter 2.1.3.)

4. Outline the role of an insurance company in the provision of services to pension schemes.

10 Marks

Answer should cover the following:

- Provision of contract-based schemes such as personal pensions and stakeholder schemes.
- Provision of Insured Schemes and trust-based schemes.
- Investment vehicle or individual insurance contracts, Trustee services including administration and communication, insurance services.
- Insurance of some or all benefits such as lump sum death benefits.
- Provision of annuities such as the open market option.
- De-risking exercises – insurance type solutions ...buy-out of benefits or using conventional insurance policies such as annuities or longevity swaps.
- As an AVC provider.

(Relevant sections of the manual are: Part 2 Chapter 1.21 and Part 4 Chapter 2.2.1 & 2.3.4.)



5. Write short notes on contracting-out and why it was done.

10 Marks

Answer should cover the following:

- Person gave up part of their State Additional Pension entitlement in return for a National Insurance rebate (both employer and employee).
- Certain conditions had to be satisfied:
 - Minimum level of pension benefits; or
 - Investment proceeds for a minimum level of contribution.
- Prior 6 April 2012 COSR/COMP/COMB/APP
- Between 6 April 2012 and 5 April 2016 COSR only:
 - Distinction between protected-rights and non-protected-rights little practical significance.
- From 6 April 2016 contracting out abolished:
 - Members of former COSRs retain rights to GMPs.
- Reasons for contracting out:
 - DC – prospect of investment returns to receive higher benefits than given up.
 - DB – prospect of providing guaranteed benefits at a lower cost than rebate received.

(Relevant sections of the manual are Part 3 Chapter 1.2.1 & 1.2.2).

6. Outline the main features of the New State Pension.

5 Marks

Answer should cover the following:

- For those reaching State Pension Age after 5 April 2016.
- Full State Pension payable to individuals with 35 or more qualifying years.
- Reduced rate for those with between 10 and 35 qualifying years.
- Self-employed will be eligible.
- Set above basic level of Guarantee credit.
- Receipt can be postponed.
- No lump sum option.
- Rate of increase 1/9th of 1% for each week postponed.

(Relevant section of the manual is Part 3 Chapter 1.4.)



7. Compare and Contrast an Occupational Pension Scheme and a Personal Pension Scheme.

10 Marks

Answer should cover the following:

- Occupational pension schemes & personal pension schemes must be registered with HMRC to benefit from favorable tax treatment.
- Occupational pension schemes established by employer for benefit of employees.
- Most occupational schemes established under trust.
- DB or DC.
- Trustees.
- Most scheme - Employee contributions deducted from gross earnings and offset against member's taxable earnings. Exception is NEST.

- Personal pension schemes individual arrangements between an individual and an insurer.
- Personal pension schemes can be set up under irrevocable trusts or if provider is an authorised insurance company or friendly society, can be established by deed poll.
- DC only.
- IGCs.
- Employee contributions deducted from net earnings.
- Provider reclaims basic tax from HMRC – “relief at source”. Higher rate tax relief claimed through tax assessment.

(Relevant section of the manual is Part 4 Chapter 1.)