**Core Unit 3 – Running a Workplace Pension Scheme**

**Assignment 2 Notes**

(Part 3 – Benefits and Communication)

Recommended Time: 1 Hour

1. **Explain the Overseas transfer charge.**

Answer should cover:

Any transfers to a QROPS requested on or after 9 March 2017 are potentially subject to an Overseas Transfer Charge of 25% on the total transfer value (after any Lifetime Allowance Charge has been deducted). There are a number of exemptions under which the charge is not payable and the scheme administrators should check whether any apply before making the transfer payment.

* The transfer is exempt from the Overseas Transfer Charge if any of the following conditions are met;
* The member is resident for tax purposes in the same country in which the QROPS is based;
* The member is resident for tax purposes in the EEA and the QROPS is based in the EEA;
* The QROPS is an occupational pension scheme and the member is an employee of a participating employer and is participating in that scheme as a result of that employment;
* The QROPS is a scheme in respect of an international organisation (for example the European Union) and the member is an employee of a participating employer and is participating in that scheme as a result of that employment; or
* The QROPS is an overseas public service pension scheme and the member is an employee of a participating employer and is participating in that scheme as a result of that employment.

If none of the exemptions apply, then the Overseas Transfer Charge is payable. The administrator must deduct the charge prior to paying the transfer to the QROPS and pay the charge to HMRC via the quarterly Accounting For Tax return

Where one of the exemptions applies the administrator of the transferring scheme must inform the member and the receiving QROPS and set out which exemption has been met.

If an Overseas Transfer Charge was not payable due to the member being a tax resident either in the same country as the QROPS, or in the EEA while the QROPS is also based in the EEA, and the member’s status changes before the end of five complete tax years following the transfer, then the charge will then become payable. Conversely, if none of the exemptions applied at the time of the original transfer, and a charge was paid, but the member subsequently became resident in a country which means that one of the exemptions would apply, then HMRC will refund the Overseas Transfer Charge. In order for the refund to be paid, the change in residency must occur prior to the end of the fifth complete tax year following the original transfer.

**10 marks**

1. **Explain the conditions that must be met before a trivial commutation lump sum can be paid.**

Answer should cover:

A member may commute one or more of his/her pension arrangements at any time from the age of 55 (before 6 April 2015 the minimum age was 60 and prior to 6 April 2011 an upper age limit of 75 applied), provided that:

* All the DB benefits from the chosen scheme or schemes are commuted
* The member must have some LTA available
* If more than one arrangement is to be commuted, all commutations must take place within a twelve-month period
* The value of all the member’s pension rights cannot exceed £30,000 on the nominated date, which may be any date within three months of the start of the commutation period. The valuation methodology is set out in legislation. The actual amount paid to the member is determined bythe scheme and may be more or less than this.
* The member can choose the nominated date, but if no date is chosen, a default nominated date is chosen by the trustees and is taken as the first day of the commutation period
* A Trivial Commutation Lump Sum must extinguish a member’s entitlement to defined benefits under the scheme. Payment of any DC benefits is paid as an Uncrystallised Fund Pension Lump Sum. Any benefit commuted outside these circumstances will be treated as an unauthorised payment and suffer the attached tax charges

**10 marks**

1. **List the types of benefits that may be payable on the death of a scheme member.**

Answer should cover:

* Death in Service before NPA
* Death in Service after NPA
* Death in Early Retirement before NPA
* Death in Retirement after NPA
* Members who die following Flexible Retirement
* Deferred Pensioners

**5 Marks**

1. **List the factors that determine what benefits become payable and in what circumstances when an active member leaves pensionable service.**

Answer should cover:

* The factors that determine what benefits become payable and in what circumstances are:
* Whether the scheme provides defined benefits or money purchase benefits
* Whether the member has opted out of the scheme as a result of being automatically enrolled, or enrolled following their request to opt in
* How much ‘qualifying service’ (see below) the member has completed
* Whether the scheme is contributory or non-contributory for members
* Whether the member has any contracted out benefits in the scheme
* The rules of the scheme, for instance whether early retirement is available

**5 marks**

1. **Explain Pension Sharing.**

Answer should cover:

Pension sharing on divorce was introduced by the Welfare Reform and Pensions Act 1999. For divorce proceedings commencing on or after 1 December 2000, some or all of a member’s pension can be shared with an ex-spouse. ‘Earmarking’ can still be applied instead, however pension sharing is now a far more common approach.

Unlike ‘earmarking’, pension sharing requires the actual transfer of benefits from the member to the ex- spouse. This results in a reduced pension benefit for the member, and the ex-spouse being entitled to a pension benefit in their own right. The reduction in the member’s pension is known as a pension debit and the new pension rights for the ex-spouse is known as a pension credit.

The scheme policy on divorce will determine whether the ex-spouse or civil partner will be entitled to use their pension credit to secure a deferred pension in the scheme, or whether they must transfer this benefit to another suitable arrangement.

Trustees of a scheme are entitled to recover any additional costs they incur in the implementation and administration of a pension sharing order. The scheme will normally issue a schedule of charges to the affected parties prior to receiving the final order. The pension sharing order will normally specify whether the member and/or the ex-spouse will meet the charges. The charges can either be paid direct to the scheme or the benefits of the member/ex-spouse can be reduced to meet the charge. The trustees can determine which of these methods is available to the member/ex-spouse, and whether these charges must be met before the order can be implemented.

1. **Marks**
2. **List the types of functions that should be carried out by the scheme actuary.**

Answer should cover:

* Advice to the trustees on the funding of the scheme, including the valuation of the liabilities of the scheme and advice on the future contributions required to meet the statutory funding objectives
* Advice to the trustees on the method and assumptions to use to calculate cash equivalent transfer values
* Provision of actuarial certificates

The actuary would also provide advice on early and late retirement factors and cash commutation factors.

In addition, other actuarial services can be obtained by appointing a firm of consulting actuaries or by appointing a firm of pension consultants which employs its own actuaries.

**5 marks**

1. **Briefly explain what makes member communications effective.**

Answer should cover:

TPR has stated its belief that effective communications should have the following qualities:

* Impact – to get the members’ attention
* Clarity – so the members are able to understand it
* Accuracy – so members receive full and reliable information

It is important that the right balance is struck between these qualities

**5 marks**