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

**Mock Examination Notes**

Recommended Time: 1 Hour

1. **Explain the ways in which charges can be applied and collected from a scheme.**

Answer should cover:

* The unit price set by the investment manager can be adjusted to take account of their charges
* The charge can be deducted from new money invested so that, for example, 99% of the contributions would be invested, and 1% retained by the investment manager
* The charge can be deducted from the member’s ‘pot’ either based on a fixed monetary amount, or as a percentage of fund which in turn can be capped at a fixed amount In the past, the level of charges could vary according to the status of the member – active or deferred member (former employee). However, from 6 April 2016, active member discounts were banned.

It is common for a scheme to apply more than one type of charge at the same time and so an administration system will need to be flexible enough to allow for this as well as being able to vary the rate of charges being applied potentially at an individual level.

**10 marks**

1. **Briefly explain Straight Through Processing (STP).**

Answer should cover:

STP is the ability for two computer systems to exchange and process information without human intervention. Members will see a single joined up end to end process. STP provides an industry standard means of communicating electronically between investment managers and different administration platforms. It therefore offers considerable benefits in terms of speed, cost savings and reduced risk of error and will undoubtedly become more popular in the future.

Prior to the introduction of STP, the interfaces between administrators and investment managers were built around manual processes for exchanging data. However, with the development of STP, there is reduced manual intervention in investment transactions, which should lead to a quicker exchange of information, providing greater efficiency and improving risk control.

**5 marks**

1. **Summarise the minimum contributions and available alternative quality requirements for the purposes of automatic enrolment.**

Answer should cover:

|  |  |  |
| --- | --- | --- |
| Salary definition | Minimum total contribution | Minimum employer contribution |
| Qualifying earnings (earnings between £6,240 and £50,000 in 2020/21) | 8% | 3% |
| Set 1 - basic  pay | 9% | 4% |
| Set 2 - basic pay (if basic pay is on aggregate across all  members of the scheme at least 85% of total  earnings) | 8% | 3% |
| Set 3 - gross earnings | 7% | 3% |

**10 marks**

1. **List the factors that determine the benefits payable, and in what circumstances, to early leavers.**

Answer should cover:

* 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. **Summarise the main features of the operation of a Master Trust.**

Answer should cover:

The main features of the operation of a Master Trust are as follows:

* Collection, reconciliation and central functions – a central clearing house is responsible for collecting contributions through employers, handling employer queries, keeping records of contributions and ensuring that contributions are allocated to the right funds.
* Administration of member accounts – the administrator maintains the account for the individual, handles an individual’s queries and is responsible for giving them information about their account.
* Investment and fund management – the fund manager invests contributions on behalf of the member.
* Accessing pensions savings - when a member retires, they are able to access their retirement benefits. From 6 April 2015, savers now have more options available to them when they retire as a result of the introduction of the pensions freedoms. It is optional for schemes to offer these.

**10 marks**

1. **List the key tasks that must be completed when setting up a pensioner payroll.**

Answer should cover:

* Register as an employer with HMRC and get a login for pay as you earn (PAYE) Online
* Choose your payroll software to record member details, pension amounts, calculate deductions, and report to HMRC
* Collect and keep records
* Tell HMRC about your scheme members, and
* Record pension payments, make deductions and report to HMRC on or before the first payment date

**5 marks**

1. **Outline the key features of Fixed Protection 2012.**

Answer should cover:

As a result of the reduction in the LTA to £1.5 million from 6 April 2012, a further type of protection, known as fixed protection (also referred to as fixed protection 2012), was introduced. Members could apply to HMRC for fixed protection if they thought the value of their benefits would be higher than £1.5 million by the time they came to take them. Applications for fixed protection had to be received by HMRC by 5 April 2012.

Under fixed protection, benefits up to £1.8 million in value are protected from the Lifetime Allowance charge, but benefits in excess of this amount are subject to the charge. Members with fixed protection are not allowed to pay any further contributions to DC schemes and cannot accrue any further benefits in DB schemes apart from an allowance for inflation.

**5 marks**