Core Unit 4

Financing and Investing for Retirement Provision

Assignment 1

*(Part 1 – Funding and Taxation)*

*Recommended Time: 1 hour*

1. **What are “contract-based” pension arrangements and what types do employers typically operate?**

**10 marks**

Relevant section of the manual is Part 1 Chapter 1.2.2.

Format: descriptive prose in clear paragraphs

Answer should cover:

* Contract between the individual and the provider
* Governing documentation
* Stakeholder pensions
* SIPPs

1. **There are two ways in which tax relief on employees’ pension contributions operate. Describe the following:**
2. **Each method and how the two methods differ**
3. **The advantages of operating a salary sacrifice arrangement**

**10 marks**

Relevant section of the manual is Part 1 Chapter 2.2.

Format: descriptive and comparative prose

Answer should cover:

* Relief at source
* Net pay method
* How they operate, pointing out the differences
* Brief worked example demonstrating the difference
* Salary sacrifice enables both employee and employer to save NI contributions

1. **Payment of pension scheme benefits and other authorised payments are subject to tax. List the following:**
2. **The types of benefit payment where income tax is payable**
3. **3 examples of authorised payments which attract a tax levy on the scheme**

**5 marks**

Relevant section of the manual is Part 1 Chapter 2.4.

Format: bulleted list

Answer should cover:

* Pension in payment
* Trivial commutation lump sums
* Any 3 from:
  + Short service refunds
  + Benefits paid in excess of the Lifetime Allowance
  + Lump sum death benefits paid on the death of a member on/after age 75 or 2 years or more after the death
  + A transfer to a QROPS in a country out with the EEA and the member does not live in the QROPs country after the transfer

1. **Outline the key design features of the following occupational pension schemes and how each of these is funded:**
2. **DC scheme**
3. **DB scheme**
4. **Hybrid scheme**

**15 marks**

Relevant section of the manual is Part 1 Chapter 1.1.1.

Format: descriptive, clear paragraphs

Answer should cover, for each of a0, b) and c):

* How benefits are accrued
* Variations in design
* How the type of scheme is funded

1. **How do employee pension contribution levels vary between pension arrangements?**

**5 marks**

Relevant section of the manual is Part 1 Chapter 1.3.2.

Format: no preferred format – list or paragraph acceptable

Answer should cover:

* Contributory scheme
* Percentage of salary/fixed amount
* AVCs

1. **What were the main tax simplification changes that HMRC introduced from 6 April 2006?**

**5 marks**

Relevant section of the manual is Part 1 Chapter 2.1.

Format: no preferred format – list or paragraph acceptable

Answer should cover:

* Limits applicable to benefits and contributions replace by new limits
* Change from approved to registered scheme
* DC benefits could be taken in full as a cash lump sum
* Removal of requirement to annuitise on attaining age 75
* Schemes could maintain pre 2006 scheme rules, restricting the member options