Core Unit 1A – Understanding Retirement Provision (UK)

<u>Short answer questions</u>

There were eight short questions where candidates were required to write their answers in free format. Candidates are encouraged to devote one hour to this part of the examination. Overall most candidates did not score as highly as they did for the multiple-choice section; many answers were very brief and lacking in detail and this is inevitably reflected in the marks awarded. Indeed, some candidates did not even attempt to answer some of the questions.

It is also recommended that candidates read the questions thoroughly and then re-read them before attempting their answers so that their answers are relevant to the question set rather than the question they would have liked to have been given.

Question 1

Identify the advantages and disadvantages of equity release. (5 marks)

A good number of candidates were able to identify the advantage for the borrower of being able to continue to live in their own house, and the disadvantages of overestimating the capital that can be released from the property and underestimating the cost of retirement provision. Fewer noted that an increase in the value of the property would not be subject to Capital Gains Tax.

A number of candidates wrote a general description of equity release rather than focusing on the advantages and disadvantages as required by the question.

The relevant section of the study manual is Part 1, Chapter 2.3,

Question 2

Describe the new State Pension that is applicable to those reaching State Pension Age after 5 April 2016. Note: you are not required to provide details about the allowance that is made for State Pension already accrued up to 5 April 2016.
(10 marks)

Most candidates were able to demonstrate some knowledge of this subject and answered this question reasonably well.

Most were aware that an individual needs 35 or more qualifying years to receive the full amount, that these are based on National Insurance contributions, and that a pro rata amount is payable if an individual has between 10 and 35 qualifying years. A large number of candidates were aware of the option to postpone receipt in exchange for an increased pension but relatively few made reference to how the amount in payment is increased each year.

Many candidates did not know the current amount of the new State Pension or state that it is a flat rate.

A number of candidates focused their answers on the rise in the State Pension Age. However this was not relevant to the question set and so marks could not be awarded for such content. Also, despite the signposting in the question, a number of candidates made reference, in some cases quite detailed, to the allowance made for the state pension that had been earned prior to April 2016. Candidates are reminded that marks will not be awarded for material outside the scope of the question.

The relevant section of the study manual is Part 3, Chapter 1.4.

Question 3

Describe how the Benefit Cap, introduced by the Government in 2013, is applied to families. (5 marks)

Whilst some candidates had clearly studied this topic and scored highly it was also clear that a large number of candidates had not.

Many answers were limited to stating the amounts of the benefits cap - £23,000 in Greater London and £20,000 elsewhere – and so did not pick up many marks. More comprehensive answers which were awarded all or most of the marks available identified that the cap applies to working age people between the ages of 16 and 64, is designed to ensure that benefits cannot be greater than the average wage for working families, and it does not apply if a person is receiving certain benefits such as disability living allowance, personal independence payment, working tax credit or universal credit.

It is important that candidates answer the specific question asked, as a number referred to the amounts of the Benefit Cap applicable to single adults without children.

The relevant section of the study manual is Part 3, Chapter 2.2.8.

Question 4

Identify the three different categories of worker to whom employers have obligations under the automatic enrolment requirements, and state how these obligations differ by category. (8 marks)

The three categories to which the question refers are eligible jobholder, non-eligible jobholder and entitled worker. Most candidates were aware of the requirements to be classed as an eligible jobholder but were less clear about the other two categories. There was good awareness that an eligible jobholder must be auto-enrolled, a non-eligible jobholder must be offered the chance to be enrolled into a qualifying scheme (to which the employer contributes), and that an entitled worker must be offered the chance to join a scheme but not necessarily a qualifying scheme (to which the employer is not required to contribute).

A significant number of candidates made reference to the lower earnings limit (£6,032) and the earnings threshold (£10,000) without specifying the actual amounts. Very few candidates stated that automatic enrolment only applies to workers in the UK and that it does apply to temporary and agency workers.

Despite the wording of the question a number of candidates included details about opting out requirements and/or minimum contribution limits.

Overall, results for this question were mixed, with some candidates scoring very highly and some very poorly.

The relevant section of the study manual is Part 3, Chapter 3.2.1.

Question 5

In November 2017 the Work and Pensions Committee launched an inquiry into the merits of collective defined contribution (CDC) schemes. Describe a CDC scheme. (5 marks)

Despite the topical nature of this question (with the Government having announced it will proceed with the introduction of such schemes on 18 March), this question was particularly poorly answered by many candidates.

Candidates who stated that

- a CDC is a type of defined ambition scheme
- it targets but does not guarantee a level of income in retirement
- the targeted benefits may be adjusted if circumstances require
- risk and costs shared between members rather than each member having their own pot

will have scored full marks. However, very few were able to include these points in their answers.

A significant number of candidates wrote instead about group personal pensions or master trusts.

The relevant section of the study manual is Part 4, Chapter 2.2.2.

Question 6

Outline the role of the trustees' legal advisers. (5 marks)

This question was generally well answered with most candidates demonstrating a general understanding that trustees' legal advisers provide advice on legal duties and responsibilities and on statutory and regulatory requirements. They also knew that legal advisers draft changes to the scheme's trust deed and rules and that they advise on disputes. Fewer stated that they also prepare deeds of appointment, draft recovery plans and merger agreements and advise on the interpretation of scheme rules.

The relevant section of the study manual is Part 2, Chapter 1.19.1.

Question 7

The way personal pension providers receive income differs with the type of provider. List the types of providers and the different ways they usually take their charges, and state how these differ to the way charges are levied by financial advisers. (7 marks)

The different types of provider are listed in the study manual as insurance companies, building societies, banks, unit trusts and friendly societies, and the ways they take their charges include charges on premiums paid, charges on funds invested (annual management charge), bid/offer spread and the difference between interest earned and interest paid. By contrast financial advisers will typically charge a fixed fee, an hourly rate or a percentage of the customer's investment. Marks were awarded for these points and also for stating that financial advisers can no longer charge commission.

Results for this question were mixed with some candidates scoring well and others scoring few marks. Most marks were picked up for listing the types of provider with fewer candidates knowing how these providers take their charges and fewer still being aware of how financial advisers can be paid.

The relevant section of the study manual is Part 4, Chapter 1.2.5.

Question 8

Explain how fraudsters have used the popularity of Self-Invested Personal Pensions (SIPPs) to set up vehicles for pension scams, and the consequences for members. (5 marks)

Here the examiners were looking for the following points:

- members are encouraged to transfer into a scheme marketed as a SIPP which then pays the funds out in an unauthorised manner
- or to transfer into a scheme that does qualify as a SIPP but which then uses the ability of the member to direct investments to make an inappropriate or fraudulent investment.
- Members are exposed to large unauthorised payment charges
- Members are also often exposed to very large fees charged by the administrators.

A number of candidates described the Pensions Regulator's code of good practice that sets out due diligence processes to combat pension scams but this was not required by the question.

Scores for this question were a little disappointing given the topical nature of the question.

The relevant section of the study manual is Part 4, Chapter 1.2.3. .