Core Unit 3 Examiners' Report

There were two parts to the question paper:

- Part One consisted of 50 multiple choice questions
- Part Two consisted of seven short answer questions

Part Two – Short answer questions

Average scores for Part 2 of the paper were lower than for Part 1. Overall the standard of answers was good. The best answered question was Question 4 and the question which attracted the lowest average score was question 2.

1. **Explain how pension rights are valued for the Lifetime Allowance when they are crystallised. (6 marks)**

This was a straightforward question which was generally well answered. To gain full marks candidates needed to cover the following:

- DC pot not used to provide Scheme Pension: fund value at date of crystallisation.
- DB scheme: cash lump sum plus 20 times starting pension.
- If DC pot is used for Scheme Pension value is 20 times starting pension.
- Value of pension in payment before 6 April 2006 is deducted from LTA on first post 6 April 2006 crystallisation event.
- Value is annual pension in payment at date of crystallisation times 25.

Most candidates picked up marks for the detail on valuing DB pensions and DC pots not used for Scheme Pension. The point missed most often was the different treatment of DC pots used to purchase Scheme Pension. Many candidates also failed to mention pension in payment before 6 April 2006.

The relevant section of the manual was Part 4 Chapter 2.

2. **Explain the requirements a defined benefit scheme must meet to be a qualifying scheme for automatic enrolment. (10 marks)**

This question attracted the lowest average scores. The question specifically requested details in relation to DB schemes but many candidates focussed instead on the regime that applies to DC arrangements. The requirements which should have been included in the answer were:

- Pre 6 April 2016 contracted out on RST basis.
- Benefits equal to or better than test scheme: Pension paid from state pension age; 1/120 th of qualifying earnings; if CARE must also meet minimum valuation requirements.
- Alternative routes from April 2015: cost of accruals test; shared risk test.

- Transitional arrangements if contracted out before April 2016: scheme level cost of accruals test for jobholders in contracted out employment before that date as long as scheme rules have not been amended so contracting out arrangements would no longer be met.

The relevant section of the manual was Part 3 Chapter 6.

3. List the range of administration services that can be offered to pension schemes by insurance companies and third party administrators. (6 marks)

This question was generally well answered. To get maximum marks candidates simply needed to list six of the following 'services'.

- Preparation of correspondence.
- Handling new entrants, deaths, leavers and retirements.
- Calculating and paying benefits.
- Maintaining member records.
- Executing contracting out procedures and reporting to HMRC.
- Banking and payroll services.
- Producing Trustee report and accounts.
- Management information.

The relevant section of the manual was Part 5 Chapter 3.

4. Outline the advantages of using an interface to transfer contributions between payroll and administration systems. (5 marks)

This was a very straightforward question and it attracted the highest average score with a significant proportion of candidates achieving the maximum available marks. This required candidates to include the following points:

- Process is automated / faster processing.
- Allows for a degree of validation.
- Automated reports identify errors.
- Identification of unreconciled members / contributions is faster.
- Minimal human intervention reduces chance of errors.

The relevant part of the manual was Part 1 Chapter 2.

5. Outline the cross-border provisions introduced by the Pensions Act 2004.

(5 marks)

The quality of responses to this question was generally not good with candidates on average picking up less than half the available marks and a number of candidates failing to pick up any marks at all. This may be because it's not a subject they encounter in their day to day work, but it was covered in the manual. The following points should have been covered in the answer:

- Allows employer to use UK scheme to cover EEA based employees.

- Activity described as accepting contributions in respect of members working in a EEA country outside the UK.
- Requires UK schemes operating cross border to:
    - be fully funded at all times; and
    - comply with host country social and labour law relevant to occupational pensions in respect of members in the host country.
- Cross border schemes must have authorisation from the Pension Regulator.

The relevant section of the manual was Part 6 chapter 1

6. Explain the conditions that must be met before pension benefits can be commuted for serious ill health and how the payment is taxed. (8 marks)

The quality of answers to this question was not very high. Candidates appeared to be more familiar with the conditions that must be met than the taxation. Most candidates mentioned that the payment was tax free but failed to point out the age and Lifetime Allowance restrictions. Examiners were looking for candidates to include the following points:

- Commutation may take place at any age as long as pension is not in payment.
- Registered medical practitioner must confirm life expectancy is less than a year.
- Payment must extinguish all member’s benefits.
- Survivors benefits must be moved to a separate arrangement before the lump sum is paid
- Can’t be paid if no available Lifetime Allowance.
- Payment is tax free if paid before age 75 and doesn’t exceed Lifetime Allowance.
- Excess over Lifetime Allowance is subject to tax charge.

The relevant section of the manual was Part 3 Chapter 3.

7. Describe how pension sharing on divorce works. (10 marks)

This question was relatively well answered with candidates on average picking up just over half the available marks. The main points are detailed below:

- Requires transfer of benefits from member to ex-spouse.
- Results in a reduced benefit for the member and ex-spouse entitled to benefit in own right.
- Reduction is a pension debit and benefit for ex-spouse is a pension credit.
- Scheme policy determines whether ex-spouse gets deferred benefit or has to transfer out.
- Trustees can recover costs for implementation and administration.
- Scheme normally issues schedule of charges to both parties.
- Charges can be paid direct or deducted from benefits.
- Trustees determine method and whether charges must be met before order is implemented.

The relevant section of the manual was Part 3 Chapter 5.