

# Pensions

G60

**Aim:** To develop in the candidate, who has already reached the standard of the FPC, a knowledge of pensions and pension transfers and an ability to advise individual clients on all aspects of pension provision. This paper is available on a stand-alone basis for candidates wishing to demonstrate specialist knowledge and skills in pensions and pensions transfers.

*Changes to the syllabus printed in the 2002 handbook are highlighted.*

## Assumed knowledge and application skills

It is assumed that the candidate already has the knowledge and application skills gained from study of the relevant units of Papers 1, 2 and 3 of the FPC.

It is also assumed that the candidate can use basic financial mathematics for tasks such as grossing up, projecting future values of current amounts and discounting future amounts into current values.

## Method of assessment

See page 5 in the main handbook AFPC: The nuts and bolts.

### Notes

- The syllabus will be tested on the basis of English law and practice. Where Scots law and practice differ, this will be explained in the primary text.
- The syllabus printed here will be examined in 2003. Changes may be made to the syllabus to be examined in 2004 and these will be highlighted in the 2004 syllabuses.

### 1. Pensions planning and compliance

#### 1.1 Constructing suitable solutions

*Candidates should understand*

- how to estimate a client's financial needs in retirement;
- how the assumptions utilised in pension projections will affect the final result and why certain assumptions can only be fixed with reference to their relationship to the other assumptions in the calculation.

#### 1.2 Risk profile, relevant 'soft' and 'hard' facts and the interpretation of scheme details.

*Candidates should understand*

- how to assess and explain risk profile;
- how to ascertain which facts are essential if advice on pensions is to be given in a compliant manner: soft facts, eg, those pertinent to the client's wishes and aspirations; hard facts, eg, scheme details, periods of service.

#### 1.3 FSA requirements

*Candidates should understand*

- the minimum information required by FSA for the evaluation of a pensions transfer;
- the compliance sales process for stakeholder pensions, individual and group personal pensions.

#### 1.4 Knowledge and understanding of relevant documents

*Candidates should understand*

- how to interpret scheme accounts and reports, actuarial statements and be conversant with the contents of typical scheme booklets.

### 2. Investment

#### 2.1 The relationship between Retail Prices Index, investment yields and trends, in particular gilt vs. equity returns

*Candidates should understand*

- the trends which have occurred historically between the various indices.

*They should know*

- the risk profile of various investment types and mixes.

### 3. Legislation and practice notes

#### 3.1 Legislation

*Candidates should be aware of*

- the legislation covering pension arrangements including the duties and responsibilities of trustees, the Pensions Act 1995, the Financial Services and Markets Act 2000 and European Union law;
- how occupational pension schemes (OPS) are designed and amended to fit the objectives of the trustees/employer and legislative requirements.

*They should understand*

- why trust law remains the most appropriate legal underpin for occupational pensions;
- duties and responsibilities of trustees.

#### 3.2 Practice notes and Inland Revenue maximum benefits

*Candidates should have a detailed knowledge of*

- the benefits available from occupational scheme membership including benefits available on retirement, ill health, leaving service and death;
- different benefit regimes and how they interact, ie, pre-1987, 1987-89 and post-1989;
- impact of retained benefits on occupational pension scheme benefits;
- interaction of State benefits with occupational pension scheme benefits.

#### 3.3 The effects of the Pensions Act 1995

*Candidates should understand the effect of the Pensions Act 1995 on the following:*

- the administration of pension schemes;
- the roles and responsibilities of advisers;
- the role and scope of OPRA;
- the extension of disclosure provisions and the associated penalties for non-compliance;
- the implementation and operation of dispute resolution procedures;

- the system of compensation, including the Ombudsman;
  - the effect on pension schemes with regard to limited price indexation (LPI), investment strategy, insolvency, member nominated trustees and the minimum funding requirement.
- 3.4 Pensions and divorce
- Candidates should understand*
- the principles of ‘earmarking’, ‘offsetting’ and ‘pension sharing’ on divorce.
- 4. Rights and options for the leaver**
- 4.1 *Candidates should be aware of*
- the options given to early leavers;
  - the rights of a member with regard to preservation and disclosure of information.
- They should understand*
- how the various methods of revaluation work;
  - how S.21 orders and fixed revaluation differ;
  - how the different components of a deferred benefit are revalued;
  - the significance and effect of discretionary increases on the preserved benefit and the eventual pension.
- They should understand*
- how early retirement pensions are calculated and how the benefits are paid in the event of ill health;
  - the various types of death in deferment benefits, the type of non pension benefits affected by a transfer; the form in which benefits can be structured/taken from an S.32 or personal pension plan.
- 5. Assessment of transfer values**
- 5.1 Assessment of fair value; the principles behind the calculation of transfer values; importance and effect of guaranteed periods and interest rate movements
- Candidates should understand*
- how transfer values are calculated and whether all relevant factors have been taken into account.
- 5.2 The effect of current and proposed actuarial practice on transfer values
- Candidates should understand*
- the minimum funding requirements and how market movements attract transfer values.
- 5.3 The effect of legislation on transfer values
- Candidates should know*
- how legal changes, eg, franking, 1985 Social Security Act, *Barber v. Coloroll* judgments, have affected benefits and transfer values;
  - the impact of appendix XI on the calculation of transfer values;
  - the impact of the personal pension schemes (transfer payment) Regulations 2001 on certification and the treatment of benefits on transfer.
- 6. Transfer value analysis**
- 6.1 The various assumptions used in the analysis and how their numeric relationship can affect the eventual result
- Candidates should understand*
- how the Transfer Value Analysis System (TVAS) arrives at its critical yield, the assumptions made and how changes in these assumptions would affect the results.
- They should know*
- the required level of information which has to be included in the TVAS in accordance with FSA requirements.
- They should understand*
- how to interpret the results of the TVAS in the light of the client’s circumstances.
- 7. Bulk transfers, scheme reconstruction and management buy-outs**
- 7.1 Scheme wind-ups: utilisation, options, types
- Candidates should know*
- when bulk transfers can be utilised, and the procedures which have to be followed.
- They should know*
- what future options are available to the member after the bulk transfer has been concluded, and the types of plans which are used for bulk transfers.
- They should understand*
- the options available and the implications of their adoption when schemes are restructured, or new arrangements established following a management buy-out;
  - the benefits on death in deferment under the occupational pension scheme (OPS), the form in which benefits can be structured from a S.32/ personal pension plan/stakeholder pension and the death in service pre-retirement benefits;
  - the effect transferring can have on non pension benefits.
- 8. Personal pensions and stakeholder pensions**
- 8.1 Eligibility and contributions
- Candidates should understand*
- who is eligible to effect a personal pension or stakeholder pension;
  - how much can be contributed, including the basis year concept;
  - the application of carryback;
  - tax relief on contributions.
- 8.2 Interaction of PPP, SHP and occupational pension schemes (OPS)
- Candidates should know*
- what OPS risk benefits can be provided without affecting eligibility for a PPP/SHP;
  - how concurrency operates.
- 8.3 Contracting out using an appropriate pension plan (APP)
- Candidates should understand*
- how minimum contributions are treated in an APP, how benefits are payable (form and timing), the rules for transfers to and from an APP, for whom contracting out via an APP is appropriate.
- 9. Personal pension retirement options**
- 9.1 Annuity purchase
- Candidates should know*
- the types of annuity available.
- Candidates should understand*
- the factors affecting annuity rates.
- 9.2 Phased retirement
- Candidates should understand*
- how phased retirement works;
  - the advantages and disadvantages of phased retirement;
  - the form of death benefits and their particular tax treatment.
- 9.3 Pension fund withdrawal
- Candidates should understand*
- the rules concerning personal pension fund withdrawal;
  - the advantages and disadvantages of pension fund withdrawal;
  - the effect that various levels of income will have on the fund invested and how this relates to the risk profile of the investor;
  - how the Government Actuary’s Department (GAD) limits are calculated and how they operate;
  - the form of death benefits and their tax treatment;
  - which investments are suitable;
  - how funds can be transferred between providers and the impact on the member.

- 9.4 Suitability of personal pension retirement options  
*Candidates should understand*
- the suitability of personal pension retirement options for individuals in a variety of circumstances.
- 9.5 Comparison with occupational pension fund withdrawal  
*Candidates should understand*
- the differences between occupational pension fund withdrawal and personal pension fund withdrawal;
  - when occupational pension fund withdrawal may be appropriate.
- 10. Self Invested Personal Pensions (SIPP)**
- 10.1 Developments of SIPPs from Memorandum 101 onwards  
*Candidates should understand*
- the detail of Memorandum 101 and subsequent regulations, the range of acceptable investments, how and when property can be purchased by a SIPP.
- 10.2 General use of a SIPP  
*Candidates should understand*
- the suitability of a SIPP for various individuals.
- 11. Retirement Annuity Policies (RAPs)**
- 11.1 The interaction between retirement annuities, personal pensions and stakeholder pensions  
*Candidates should understand*
- the implications of payments to a personal pension or stakeholder pension;
  - carry forward of unused relief and carry back of contributions.
- 11.2 Benefits from retirement annuity policies  
*Candidates should understand*
- the calculation of tax free cash from retirement annuity policies;
  - the implications of transferring to a personal pension.
- 12. Small Self Administered Schemes (SSAS)**
- 12.1 Rules  
*Candidates should understand*
- how a SSAS is established, the rules which govern its operation, what are acceptable investments, the implications of losing approval.
- They should know*
- how benefits are withdrawn from the SSAS and in what form on death in service or at retirement.
- They should know*
- the duties and role of the pensioner trustee.
- They should know*
- the development of SSAS from Memorandum 58 onwards.
- 12.2 Use of a SSAS  
*Candidates should understand*
- the suitability of a SSAS for various individuals in a variety of circumstances.
- 13. Money purchase schemes**
- 13.1 Group Personal Pension (GPP)/Executive pension plans (EPP)/ Stakeholder (SHP)/Contracted Out Money Purchase (COMP)/ Contracted In Money Purchase (CIMP) – suitability; advantages and disadvantages  
*Candidates should understand*
- the construction of the various types of money purchase schemes and which would be most suitable in given circumstances.
  - the rules which control the level of contribution, the form of benefits at retirement or on death.
- They should know*
- how the different schemes interact with State pension benefits.
- They should understand*
- the concept of targetting money purchase benefits;
  - the form of the eventual benefits and their tax treatment;
- the stakeholder pension regulations and how they affect companies and individuals.
- 14. Additional Voluntary Contributions/Free Standing Additional Voluntary Contributions (AVC/FSAVC)**
- 14.1 AVCs  
*Candidates should know*
- the various types of AVC schemes which exist;
  - their risk profile, method of operation, the security of their assets.
- They should understand*
- which transfers to and from an AVC/FSAVC can be effected.
- 14.2 FSAVCs  
*Candidates should know*
- the eligibility for an FSAVC, and the effect of leaving service, changing employment;
  - other factors that should be taken into account when recommending an FSAVC.
- Candidates should understand*
- the method employed to calculate headroom checks for FSAVC contributions and how surplus benefits are treated for taxation.
- Candidates should be aware of*
- the FSA review of FSAVC policies.
- 14.3 Form of benefits; interaction of AVC/ FSAVC; death benefits under an FSAVC  
*Candidates should understand*
- the form and timing of benefits under an AVC/FSAVC;
  - how AVCs and FSAVCs interact with the maximum level of contributions;
  - the level of lump sum death benefits which can be purchased under an FSAVC;
  - the implications of concurrency on the AVC/FSAVC market.
- 15. Individual Savings Accounts (ISA)**
- 15.1 As an additional method of funding for retirement  
*Candidates should understand*
- that although the ISA is not a pension vehicle, it is an alternative to be considered where additional cash is required on retirement.
- 16. Unapproved schemes**
- 16.1 Funded unapproved retirement benefit schemes (FURBS); unfunded unapproved retirement benefit schemes (UURBS); taxation of contributions and benefits; suitability  
*Candidates should understand*
- the reason for the development of UURBS, how they interact with other pension provision, their tax treatment pre- and post-retirement from the company's/employee's standpoints.
- They should know*
- the range of investments which FURBS can utilise, and the form of emerging benefits.
- 17. Overseas aspects of OPSs**
- 17.1 Membership  
*Candidates should be aware of*
- eligibility for membership of UK approved schemes for employees working abroad.
- 17.2 Transfers  
*Candidates should be aware of*
- which transfers are possible to and from an overseas scheme, UK scheme or personal plan and vice versa.

## 18. State benefits

### 18.1 The State pension scheme

*Candidates should know*

- the outline history and current structure of State pension benefits in the UK;
- the effect of equalisation on State pension benefits;
- how State pension benefits interact with scheme and transfer plan benefits at retirement.

*Candidates should be aware of*

- the introduction of the State second pension (S2P).

### 18.2 How to interpret forecasts from the Department of Social Security (DSS)

*Candidates should understand*

- pension forecasts issued by the DSS so that they can explain their interaction to the client.

## 19. Superannuation schemes and particular occupational schemes

### 19.1 Underfunded superannuation

*Candidates should know*

- how unfunded superannuation schemes operate in practice, and the implications as to their security.

### 19.2. National Health Service Pension Scheme (NHSPS)

*Candidates should know*

- the benefits structure of the NHSPS, the interaction with AVC/FSAVC.

### 19.3 Doctors and dentists: members of OPS and PPP simultaneously; A9 election

*Candidates should know*

- how to calculate whether a doctor/dentist can fund a PPP while in the NHSPS;
- whether making an A9 election is appropriate in given circumstances and the effect this has on benefits and membership of the NHSPS.

### 19.4 Transfer clubs

*Candidates should know*

- about the workings and effect of transfer clubs.

### 19.5 Other occupations

*Candidates should know*

- the early normal retirement date available to particular types of occupation, eg, sports persons.

## Reading list

**Note:** The examination will test the syllabus alone. The reading list is provided for guidance only and is not in itself the subject of the examination. All of the CII publications can be ordered using the study options brochure or purchased from the bookshop at Aldermanbury. All of the additional reading, reference material and periodicals can be seen in the CII library. Most can be borrowed by members anywhere in Europe or purchased via CII Library Online at [www.ciilo.org](http://www.ciilo.org).

### Primary text

*Coursebook G60: Pensions*, CII/SOFA/LIA/Taxbriefs, latest edition.

### Case studies

*G60 Pensions*, CII/Taxbriefs.

## Reference works and additional reading

*Inland Revenue practice notes IR12*. 1997.

*A guide for pension scheme trustees*. Occupational Pensions Regulatory Authority. 1997.

*Allied Dunbar pensions handbook*. A. Reardon. Longman, 1999–2000.

*Easy steps to understanding individual pension transfers*. LIA, 1999.

*Easy steps to understanding maximum benefits from occupational pension schemes*. LIA, 1999.

*Easy steps to understanding specialist pension arrangements and their application*. LIA, 1999.

*Croner's pensions compliance service*. Croner, updated regularly.

*Lamont's glossary (money and investment dictionary)*. B. Lamont. Advanced Media Group plc. Latest edition.

*The law of pension schemes*. N. Inglis-Jones. Sweet & Maxwell, updated regularly.

*NAPF pensions legislation service*. editor J. Quarrell. Butterworths, updated regularly.

*Pensions: a practical guide*. J. Seres. Sweet & Maxwell, 1997.

*The pensions factbook*. ed. R. Gaines. Gee Publishing, updated regularly.

*Pensions law handbook*. Eversheds, 2002.

*Pensions: law and practice*. R. Ellison. Sweet & Maxwell, updated regularly.

*Pensions law and practice*. D. Chatterton. Cavendish, 1998.

*Pensions pocket book*. NTC/Bacon & Woodrow, 2002.

*Questions and answers*. NPI Technical Advisory Service, updated regularly.

*The role of the pension fund trustee*. J. Cunliffe. FT Law and Tax, 1997.

*Tolley's pensions handbook*. J. Fenton, R. Ham and J. Sabel. Tolley, Latest edition.

*The Which? guide to pensions*. J. Lowe. Consumers' Association, 1999.

### Examiners' reports

You are strongly advised to study these before the examination. Please contact customer service or the website [www.cii.co.uk](http://www.cii.co.uk) for further information.

### Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements. An example is *The exam secret*—how to make the grade, B. Brown, Elliott Right Way Books, 2000.

For a more interactive approach, you should consider *Winning the brain game* CD-Rom, CII/Neil Taylor, 1996, available from the CII.

### Periodicals

*Financial Adviser*. Weekly.

*Financial Times*. Daily.

*The Journal*. CII, bimonthly (sent to CII/SOFA members and available on subscription to non-members).

*Money Management*. Monthly.

*Money Marketing*. Weekly.

*Pensions Age*. Bi-monthly.

*Pensions Management*. Monthly.

*Pensions Week*. Weekly.

*Pensions World*. Monthly.

*Planned Savings*. Monthly.

*Professional Pensions*. Weekly.

*Prospect*. LIA, monthly.

*Technical Adviser*. SOFA, quarterly.

*Which?*. Consumers' Association, monthly.