TOPIC 10

Pension products

LEARNING OBJECTIVES

We saw in Topic 5 that people who have made sufficient National Insurance contributions are entitled to a state pension. However, most people require a higher level of income in retirement than is provided by the state pension. In this topic we explore the two main types of private pension: occupational schemes and personal pensions.

By the end of this topic, you should have an understanding of:

- the tax reliefs relating to pension products;
- the difference between defined-benefit and defined-contribution (money-purchase) schemes;
- occupational pensions;
- auto-enrolment into workplace pensions;
- personal pensions including stakeholder products;
- different ways of accessing retirement benefits from a personal/stakeholder pension.

This topic covers Unit 1 syllabus learning outcome U3.4.

THINK . . .

Pensions are often in the news, so even if you aren't a member of a pension scheme yourself, you probably know a bit about them. For instance:

- Are you a member of a pension scheme? Is it an occupational scheme or a personal pension?
- Have you heard news reports about companies that are experiencing difficulties in funding their defined-benefit pension schemes?
- Do you know what auto-enrolment is and whether it affects you?

- Are you aware of the different ways in which people can access their pension benefits?

10.1 Introducing pensions

Whenever the government wants to encourage people to take action in respect of their finances, they will often grant tax reliefs that are targeted at producing the desired outcome. A good example is saving for retirement. As detailed in Topic 5, state pensions provide only a modest level of income, and with people living much longer in retirement now than they did when pensions were introduced in the twentieth century, there is a need for people to make their own provision. To encourage this, there are generous tax reliefs on pensions.

While a pension plan will usually be the first solution considered when seeking to make financial provision for retirement, it is not the only one. The tax reliefs come at a price in terms of investment limits and rules about access to pension funds. This is because, although the government does want to encourage people to save for retirement, it also has an obligation to manage the country's finances and be as fair as possible to all members of society. It therefore implements allowances and restrictions on incentives to ensure they are used equitably. These restrictions mean that other sources of savings and investment can be appealing in terms of people's retirement planning.

There are two main ways in which pension schemes can be set up: defined-benefit schemes, which can only be offered by employers, and defined-contribution schemes that can be offered by employers or set up as individual pension arrangements.

CHECK YOUR UNDERSTANDING 1

Can you remember who is entitled to a state pension and how state pension provision changed from 6 April 2016? Try to write a brief summary and then check back to Topic 5 to see how accurate your summary is.

10.1.1 What tax reliefs and allowances are available?

Any individual who is a UK resident (or is non-resident but has UK earnings) and is under the age of 75 can receive income tax relief at their highest marginal rate on annual contributions to occupational and private pension schemes, up to a maximum threshold.

As the tax reliefs on pensions could encourage people to invest large sums of money, there is a limit on the gross amount that can be saved into a pension each tax year. This is called the annual allowance. If the combined total of contributions exceeds this figure, tax is charged on the excess. The annual allowance is tapered for higher earners, taking account of threshold income and adjusted income.

Threshold income is calculated through the following steps:

- Calculate total net income for the tax year.
- Deduct any gross pension contributions that benefited from relief at source (but excluding any employer contributions).
- Deduct any lump sum death benefits from registered pension schemes.
- Add any reduction of employed income for pension provision through salary sacrifice schemes made after 8 July 2015.
- Add any reduction of employed income for pension provision through flexible remuneration arrangements made after 8 July 2015.

Adjusted income is calculated through the following steps:

- Calculate total net income for the tax year.
- Add claims made for tax relief on pension savings paid before tax relief was given.
- Add pension savings made to pension schemes where tax relief was given.
- Add any tax relief claims on pension savings made to overseas pension schemes (for non-domicile individuals).
- Add employer pension contributions.
- Deduct any lump sum death benefits received from registered pension schemes.

%

ANNUAL ALLOWANCE REDUCTION

Omar has adjusted income of £300,000. Let's assume the current rate of tapering for higher earners means that for every £2 of adjusted income over a threshold of £260,000 the annual allowance is reduced by £1. Say the annual allowance before the taper is applied is £40,000.

Omar's annual allowance is £40,000 – (£300,000 – £260,000 ÷ 2) = £20,000.

An individual can carry forward any unused annual allowance from the previous three tax years to the current tax year, so in these circumstances a contribution in excess of £40,000 can be made. The unused allowance is added to the current year's annual allowance and only if pension contributions exceed this amount is the annual allowance charge payable.

Two further allowances are important:

- **Lifetime allowance** – if the total value of an individual's pension benefits exceeds the lifetime allowance at the point when benefits are taken, there is a lifetime allowance tax charge. The pension provider will deduct the tax before any benefits are issued. There are different tax rates charged depending on how the money is paid out, with lump sums attracting a higher charge than funds taken as income or withdrawals.
- **Money purchase annual allowance (MPAA)** – this applies where a pension scheme member draws benefits from their pension using flexi-access drawdown income or takes an uncrystallised funds pension lump sum (UFPLS). (Find out more about this in section 10.5.4.)

In respect of contributions to personal pensions, tax relief is given at source at the basic rate with any higher-/additional-rate relief claimed via an individual's self-assessment tax return. Marginal higher-rate relief is given at source on contributions to occupational pensions as any pension contribution is deducted from gross, pre-tax, income.

Within a pension fund there is no capital gains tax on gains and no income tax on savings or dividend income.

WHAT IS THE 'MARGINAL RATE' OF TAX?

A person's highest marginal rate of tax is the highest rate that they pay on their income. For example, a person whose taxable income falls within the higher-rate band would pay 20 per cent on their income up to the basic-rate threshold and 40 per cent on any income that lies above that. As they only pay higher-rate income tax on part of their earnings, they would only receive tax relief at the highest rate (40 per cent) on that amount of their pension contributions (eg if £5,000 of income was within the higher-rate band, then £5,000 of pension contributions would be eligible for an additional 20 per cent tax relief). Any contribution in excess of that amount would receive tax relief at the basic rate.

FACTFIND

You can check current reliefs and allowances at:

www.gov.uk/tax-on-your-private-pension

10.1.2 When and how can benefits be taken?

Benefits can generally be taken from normal minimum pension age, which is currently age 55 (expected to rise to 57 in 2028). When benefits are drawn the scheme member can usually take up to 25 per cent of the fund as a tax-free cash sum, referred to as a pension commencement lump sum (PCLS).

The rules regarding to taking the remainder depend on the type of scheme.

- **Defined-benefit scheme** – the balance over and above any tax-free cash must be used to provide an income, typically as a scheme pension direct from the pension fund.
- **Defined-contribution scheme** – the balance once tax-free cash has been taken can be used to provide income in the form of an annuity or flexible access drawdown (FAD). An alternative is to take a UFPLS – we cover these options in more detail in section 10.5.3. Providers are not obliged to provide customers with the option of taking UFPLS, but customers have the option of switching providers should they wish to do this.

KEY TERMS

ANNUAL ALLOWANCE

Maximum amount that can be contributed to a pension during a tax year without a tax charge being applied.

LIFETIME ALLOWANCE

The total amount that an individual may hold in tax-privileged pension schemes at the point where the benefits are taken, without incurring a tax charge.

DEFINED-BENEFIT SCHEME

A scheme in which the pension benefits the individual will receive are specified from the outset. Also referred to as a final salary scheme.

DEFINED-CONTRIBUTION SCHEME

A scheme in which an agreed level of contributions is paid but the benefits that the individual ultimately receives depend on the performance of the investments into which the contributions are paid. Also referred to as a money-purchase scheme.

PENSION COMMENCEMENT LUMP SUM

The sum (up to 25 per cent of the individual's pension fund) that may be taken at retirement tax-free.

10.2 Occupational schemes

Employees may be members of an occupational scheme. Occupational schemes fall into two main types, depending on how benefits are arranged:

- **Defined benefit** – the employee may receive a pension that is calculated as a percentage of final salary (the salary at or near retirement). The longer the employee has been a member of the scheme, the higher the percentage. Alternatively, the scheme may be a career average scheme within which pension benefits are based on a proportion of earnings averaged over the period an individual has been employed by a particular employer.
- **Defined contribution** – an agreed contribution is invested for each member. On retirement, the accumulated fund is used to purchase benefits. The level of benefits is not guaranteed by the employer and will depend on the size of the fund which, in turn, depends on how much is paid in and on investment performance.

%

BENEFITS AT RETIREMENT FROM A FINAL SALARY SCHEME

Tom worked for Shaw Components for 25 years. He paid into their 1/60th pension scheme for 23 of those 25 years. His final salary when he left the company was £20,000.

He then worked for ten years at Brooks Bakery until his retirement and paid into their 1/60th scheme. His final salary with Brooks was £25,000.

How much will Tom receive at retirement?

From Shaw Components

23/60ths of £20,000 = 23/60 x £20,000 = **£7,667** (however, this final salary pension will increase in line with inflation from the date he left to the date of his retirement)

From Brooks Bakery

10/60ths of £25,000 = 10/60 x £25,000 = **£4,166.67**

Collective defined-contribution pension schemes

There is a demand for a third type of scheme, which can provide more predictability for scheme members than defined contribution, without the cost volatility for employers associated with defined benefit. The Pension Schemes Act 2021 provides a framework for the UK's operation and regulation of collective money-purchase schemes (commonly known as collective defined-contribution pensions). The new collective defined-contribution (CDC) pension will see both the employer and employee pay into a joint fund, with pensions paid out from this shared pot. The benefits of the new scheme include that it offers predictable costs for the employer and is more resilient against economic shocks. The Royal Mail and Communication Workers Union will be the UK's first CDC scheme and a case study will be done on how UK workers receive the new scheme and how successful these schemes can be in practice.

Topping up defined-benefit schemes

As people are now living longer and spending a longer period in retirement, employers are finding defined-benefit schemes increasingly expensive to run. As a result, many are reducing their commitment and transferring responsibility for pension provision to individuals. Many people may therefore wish to supplement their retirement income by contributing more to their occupational schemes, or contributing to private arrangements. The following are tax-efficient pension arrangements:

- additional voluntary contributions (AVCs);
- free-standing additional voluntary contributions (FSAVCs);
- personal/stakeholder pension plans.

AVCs and FSAVCs are available to employees who are members of occupational schemes. Personal/stakeholder pensions are generally available to anyone under the age of 75. We look at personal/stakeholder pensions in section 10.3.

Funds do not pay capital gains tax or income tax.

10.2.1 Additional voluntary contributions

AVCs are additional contributions to an occupational scheme. Sometimes, such contributions purchase additional years' service in a final salary scheme. However, most AVCs operate as money-purchase arrangements and the employee will only have a limited choice of funds.

The employer will usually cover some or all of the administration and fund management costs. Contributions to AVCs are deducted from gross salary and the employee therefore receives full tax relief at the same time.

10.2.2 Free-standing additional voluntary contributions

As an alternative to an AVC, an individual might choose to contribute to an FSAVCs money-purchase fund provided by a separate pension provider. FSAVCs are available from a range of financial institutions, including insurance companies, banks and building societies.

Contributions to FSAVCs are made from taxed income. Tax relief at the basic rate of 20 per cent is claimed by the pension provider and added to the individual's pension fund. Higher- and additional-rate taxpayers need to claim additional relief separately through their income tax self-assessment.

Up until 2006, FSAVCs were potentially attractive to employees who wished to keep their financial arrangements independent from their employer and because they offer a wider range of investment funds than AVCs. Their drawback is that they tend to be more expensive than AVCs because the employer is not bearing the costs. Once personal/stakeholder pensions became available to all employees in April 2006, FSAVCs became much less popular.

10.2.3 Workplace pensions

Successive UK governments have been concerned that people are not saving enough for retirement. In 2009, for example, only 50 per cent of UK employees were members of their employer's pension scheme, and not all employers offered a pension scheme. Workplace pensions and auto-enrolment, introduced in 2012, are an attempt to address this problem.

Under auto-enrolment, employers must enrol 'eligible' workers in a qualifying workplace pension and contribute a specified minimum amount to the scheme. Many existing occupational pensions already qualified as a suitable pension scheme for this purpose; those employers who did not have a scheme already could set one up, or enrol their employees in the National Employment Savings Trust (Nest).

NEST

As an alternative to setting up or using their own pension scheme, employers can meet their obligations by enrolling their employees in Nest.

Nest is a trust-based occupational pension scheme established to support workplace pension provisions; it can be used by an employer either alongside or instead of its own occupational pension scheme.

Nest offers a range of investment funds from which the member can choose, and there are default fund selections for members who do not wish to make their own choice. Charges are capped. Benefits can be taken from age 55 and must be taken no later than age 75.

The criteria for auto-enrolment are that the employee:

- is not already in a pension at work;
- is aged 22 or over;
- is under state pension age;

- earns more than £10,000;
- works in the UK.

An employee can choose to opt out of the scheme, but only after they have automatically been made a member.

Since April 2019 a minimum of 8 per cent of an employee's earnings have to be paid into the scheme, made up of an employer contribution of 3 per cent, an employee contribution of 4 per cent and tax relief of 1 per cent.

FACTFIND

You can check current information about workplace pensions at:

www.gov.uk/workplace-pensions

CHECK YOUR UNDERSTANDING 2

Pat has been employed by Telephonics plc for just over 35 years and has been a member of the company's 1/60th pension scheme for the whole of that period. His salary is now £81,000 and he is due to retire next month. What will his pension entitlement be?

a) £54,000.

b) £28,350.

c) £47,250.

d) £81,000.

10.3 What is a personal pension?

All forms of non-occupational pensions are arranged on a defined-contribution basis. Personal pensions are individual arrangements provided by financial services companies such as life assurance companies, banks and building societies. Contributions receive basic-rate tax relief at source, even for non-taxpayers. A higher- or additional-rate taxpayer needs to claim additional relief separately through self-assessment.

10.3.1 What is a group personal pension?

Providing an occupational pension is expensive and may be unaffordable for a small or medium-sized employer that lacks the financial resources to set up and run a scheme. An alternative is to arrange a group personal pension: a collection of individual personal pension plans all administered by an insurance company on behalf of a single employer.

The arrangement is very much the same as each employee arranging a personal pension individually with access to the insurance company's range of pension funds. Each member has their own plan, which they can take with them if they leave the employer. However, as there are a number of members, the insurance company normally offers a discount on the set-up and management charges, meaning each employee gets better value than setting up a scheme on an individual basis. It is also possible that the employer will enter into a 'direct pay' arrangement whereby they collect pension contributions from each employee's gross salary and pay them over in bulk to the pension provider.

10.3.2 What is a self-invested personal pension (SIPP)?

A SIPP is a personal pension arrangement that gives access to a wider range of investment options than would be available through a conventional personal pension. For example, it may be possible to hold a direct shareholding or commercial property within a SIPP. While access to a wide range of investments is permitted, a SIPP will also allow a scheme member to use the provider's range of conventional pension funds.

A SIPP may appeal to someone who has the confidence to make their own investment decisions.

10.3.3 What is a stakeholder pension?

The stakeholder pension has been available since 6 April 2001 and is a type of personal pension. The government's aim in introducing it was to encourage more individuals to contribute to their own pension arrangement, particularly those at lower earnings levels, who traditionally did not have pension provision and relied on the state pension.

In order to encourage those on lower incomes or with limited understanding of pensions, stakeholder pensions were designed to be simple, low-cost options. Key standards that a product must meet in order to be designated a stakeholder pension are as follows:

- Charges cannot exceed 1.5 per cent of the fund value per annum for the first ten years of the term and cannot exceed 1 per cent after that time.
- Entry and exit charges are not permitted.
- The minimum contribution required cannot be more than £20.

Efforts to target the stakeholder pension at the lower-paid largely failed, with the majority of stakeholder pensions being purchased by people who were financially more sophisticated and would have been making pension provision anyway.

The restriction on the level of charges meant that advisers generally found it uneconomic to give advice on stakeholder pensions. To overcome the lack of access to advice, the government prepared a set of decision-making flowcharts, known as decision trees, which people can use to determine whether stakeholder pensions are appropriate to their own circumstances.

It was partly because of the failure of stakeholder pensions to achieve a large-scale take-up that auto-enrolment into qualifying workplace pensions was introduced in 2012.

10.4 How are pension contributions invested?

Retirement planning has two phases:

- an **accumulation phase** when savings are made into a pension to build up a fund;
- a **decumulation phase** when benefits are drawn.

The way in which pension contributions are invested during the accumulation phase very much depends on the type of scheme.

10.4.1 Defined-benefit schemes

In respect of a defined-benefit scheme there is, generally, a pension fund operated by or on behalf of the employer into which contributions are paid. Investment decisions are taken at scheme level, with the objective being to ensure that the scheme can continue to pay pension benefits already in payment and the benefits of current members who will reach retirement age/draw benefits in future. The scheme will usually be invested in a mixture of equities, gilts, corporate bonds and cash; individual members are unable to make decisions on how their contributions are invested but have the reassurance of the promise of a certain level of pension benefits.

PUBLIC SECTOR/PUBLIC SERVICE SCHEMES

These schemes are operated by the government and most of them are 'unfunded'. There is no pension fund as such and contributions form part of general government revenues. The schemes do provide a promise in terms of pension benefits and this is provided by the government out of its funds.

10.4.2 Defined-contribution schemes

Within defined-contribution arrangements, the scheme member has much more choice and control over how their contributions are invested. The pension provider usually offers a wide range of investment funds from which the member can select, and pension benefits depend, in part, on the value of the fund when benefits are taken.

When an individual is many years from taking benefits they may choose investment funds aimed at maximising growth, such as equity funds; as retirement approaches the preference may be for lower-risk funds such as cash or fixed interest. The member is able to choose a mix of funds to meet their needs, objectives and circumstances.

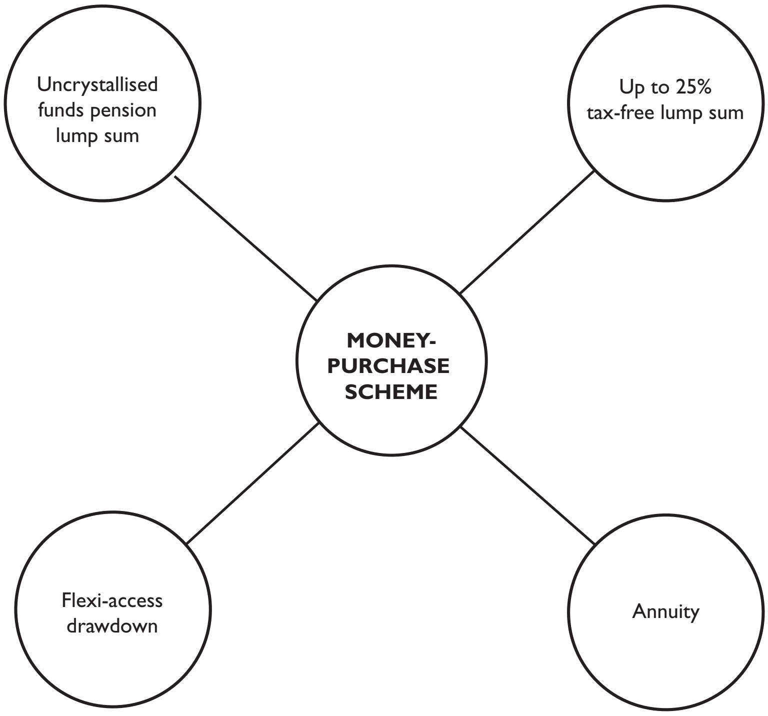
If the pension is an individual arrangement, such as a personal pension, a financial adviser can guide on fund choice. Where a defined-contribution pension is an occupational scheme there may be a more limited range of funds to choose from, with the employer selecting what they believe to be the most suitable funds.

10.5 How can benefits be taken from a pension?

A member of a defined-benefit occupational pension has an option to take a pension commencement lump sum, with income in retirement generally provided by a scheme pension paid direct from the pension fund.

There are a number of ways in which benefits can be taken from a defined-contribution pension such as a personal/stakeholder pension. While a defined-contribution pension fund remains invested, it is referred to as ‘uncrystallised’; once benefits are taken, in full or in part, the portion of the fund providing retirement benefits is referred to as ‘crystallised’. Figure 10.1 provides a summary of the options.

FIGURE 10.1 TAKING BENEFITS FROM A PERSONAL/STAKEHOLDER PENSION



There is an option to take up to 25 per cent of the accumulated fund as a tax-free pension commencement lump sum. As all personal/stakeholder pensions are money-purchase schemes, there might (subject to the scheme rules) be a range of options as to how the balance of the fund is used to provide income, and/or further lump sums (which would be taxable).

10.5.1 Annuity purchase

Annuity purchase involves the payment of a lump sum from the pension fund in exchange for an income.

The benefit of an annuity is certainty: the annuity provider promises a guaranteed rate of income – an annuity rate – based on the annuitant's circumstances. It is not necessary to buy the annuity from the company used during the accumulation phase: pension providers must inform their clients that they can 'shop around' for the most appropriate benefits structures and/or higher annuity rates. This is known as the open-market option.

Once an annuity has been purchased, investment risk is removed but there is no longer any prospect of further investment growth.

10.5.2 Flexi-access drawdown

Flexi-access drawdown (FAD) involves drawing the pension fund, after any pension commencement lump sum has been taken, and reinvesting it into a fund to provide income. The fund remains invested so there is potential for further growth but there is also the risk that the fund value might fall and, consequently, income levels may not be maintained.

The withdrawals can be structured however the member wishes: as smaller, regular payments to provide an income, or as larger, perhaps one-off payments. As any payment beyond the pension commencement lump sum is taxable, care must be taken not to trigger a large tax charge.

IN BRIEF

FAD

- The pension fund is moved to a designated drawdown account.
- The planholder can take 25 per cent of the value of their pension fund as a tax-free cash sum (as long as they have available lifetime allowance).
- While only tax-free cash is taken, the applicable annual allowance will remain at the full amount.
- Access to income can be through a lump sum and/or flexible income and is subject to the marginal rate of income tax.
- The balance of the fund remains invested.
- Benefits in excess of the 25 per cent tax-free cash are subject to income tax.
- Once any benefits in excess of the tax-free cash are drawn, the MPAA is triggered.

10.5.3 Uncrystallised funds pension lump sum

Opting for a UFPLS means the pension fund remains invested. Unlike FAD, none of the fund is drawn or reinvested and no PCLS is drawn. The member is able to use their pension fund to draw a series of lump sum payments from the fund to meet their income/capital needs.

IN BRIEF

UFPLS

- The pension fund is not moved into a drawdown account.
- No PCLS is drawn.
- The member simply draws lump sums from their pension as they require, with the balance remaining in the pension fund.
- 25 per cent of each payment is tax-free with the balance subject to income tax.
- When a UFPLS is taken, the MPAA is triggered.

10.5.4 The money purchase annual allowance

Pensions are almost unique as an investment because of the tax relief they offer on contributions: tax relief that is provided to encourage people to save for retirement. With the ability to draw sums from a defined-contribution (ie money-purchase) pension via FAD or UFPLS, there is a risk that those who already have adequate retirement income draw funds and then reinvest them into a money-purchase pension to benefit from tax relief, effectively getting two lots of tax relief.

To limit the extent to which people can do this, a lower annual allowance applies once an individual has started to access their funds via FAD income or UFPLS. Instead of being able to receive tax relief on pension contributions up to the full annual allowance, they have an MPAA. The MPAA only applies to contributions to defined-contribution (money-purchase) schemes: a member can still pay up to the full annual allowance into a defined-benefit pension scheme (although that total is reduced by the amount of any contribution into a defined-contribution scheme).

CAPPED AND FLEXIBLE DRAWDOWN

Capped drawdown was an option for those who reached pension age before 6 April 2015. Income benefits were drawn direct from a designated drawdown fund, with an upper limit (ie a cap), on the amount that could be drawn. Capped drawdown is no longer available for those reaching minimum pension age, but those already using a capped drawdown arrangement can add further pension funds. Alternatively, they can convert to FAD.

Flexible drawdown was another option available until 6 April 2015. This form of drawdown allowed unlimited withdrawals. All flexible drawdown arrangements have been converted to FAD.

10.6 Death benefits

Pensions can provide a range of benefits when a member dies, with the options available depending on the type of scheme and whether death occurred before or after retirement. When seeking to understand the nature of death benefits provided, it is always important to check the scheme rules.

10.6.1 Defined-benefit schemes

If a member dies before retirement age, referred to as death in service, a lump sum death benefit is usually available. This can be a multiple of earnings or a fixed sum. Additionally, there might be a spouse's and/or dependant's pension, paid from the scheme to the spouse, civil partner or dependants of the deceased. This can be a proportion of the member's pension rights.

On death after retirement, a defined-benefit scheme may:

- continue to pay the pension income for a period of time, a 'guaranteed period'; or
- pay a spouse's/dependant's pension as a proportion of the pension that was being paid to the member.

10.6.2 Defined-contribution schemes

On death before crystallisation, the pension fund can be used to provide income and/or lump sum benefits.

On death after retirement, there are a range of ways in which a defined-contribution scheme will be able to provide benefits to the spouse/civil partner or dependants of the deceased:

- continuing scheme pension;
- lifetime annuity continuing for an agreed period post-death;
- lifetime annuity paying an annuity protection lump sum – this would be the balance of the funds used to buy the annuity as compared with how much had already been paid out as income at date of death; or
- continuing drawdown income.

10.7 Pension scams

While pensions confer a number of tax benefits, there are limitations in terms of the benefits not being accessible until age 55 and only 25 per cent of the fund value being available as a tax-free lump sum. The large sums of money invested in pensions have proved attractive to criminals who attempt to 'scam' people out of their pensions.

An approach will often be made via a cold call or text message on the pretext of an offer to transfer the pension to a scheme that will enable all funds to be drawn immediately as a tax-free lump sum. The reality is that no such type of scheme exists and the intention is to take control of the pension.

Pensions are by no means the only area in which attempts will be made to scam people out of money. Criminals are also active in promoting investment schemes that promise high rates of return, the sale of shares that in reality do not exist and in taking fees to arrange consumer credit which is never provided.

An adviser's role is to be aware of such schemes and to advise a customer considering one to be mindful of the potential risk. The general rule is that, if it looks too good to be true, it probably is.

THINK AGAIN . . .

Now that you have completed this topic, how has your knowledge and understanding improved?

For instance, can you:

- explain the difference between a defined-contribution and a defined-benefit pension scheme?
- describe the tax reliefs and allowances available on contributions to personal and occupational pension schemes?
- explain the difference between an AVC and an FSAVC?
- summarise the eligibility rules for a workplace pension?
- outline the options for taking benefits from a personal pension?
- explain how FAD differs from UFPLS?
- describe the various options that might apply when a pension scheme member dies?

Go back over any points you don't understand and make notes to help you revise.

Test your knowledge before moving on to the next topic.

Test your knowledge

?

Use these questions to assess your learning for Topic 10. Review the text if necessary.

Answers can be found at the end of this book.

1) Marta is 37 and pays 3 per cent of her salary into a pension scheme each month. The benefit that she will receive at retirement depends solely on the investment performance of the fund. Marta's pension scheme is:

   a) a defined-benefit personal pension.

   b) a final-salary occupational pension.

   c) a defined-benefit occupational pension.

   d) a defined-contribution occupational or personal pension.

2) Explain what is meant by the term 'lifetime allowance'.

3) What rate of tax relief is applied to contributions to an individual's pension plan?

   a) Basic, higher or additional rate depending upon the contributor's marginal rate of tax.

   b) Always basic rate.

   c) Always higher rate.

   d) Basic, higher or additional rate depending upon the pension provider's own rules.

4) Contributions to AVCs are deducted from gross income. True or false?

5) Which of the following statements is correct?

   An individual may be auto-enrolled in a workplace pension scheme providing they:

   a) were born in and are currently working in the UK.

   b) are aged between 18 and 55.

   c) earn in excess of £10,000 a year.

   d) are not liable to higher-rate tax.

6) Since April 2015 personal pension providers have been obliged to allow scheme members to access their retirement benefits

in the form of an uncrystallised funds lump sum if the member wishes to do so. True or false?

7) Which of the following in relation to stakeholder pensions is correct?

   a) Charges must not exceed 2 per cent of the fund.

   b) There must not be any entry or exit charges.

   c) The minimum monthly contribution is £50.

   d) The maximum contribution is £3,600 per annum in all cases.

8) John is using an uncrystallised funds lump sum to provide his pension benefits. The amount of each payment he takes that is free of tax is:

   a) 50 per cent.

   b) 100 per cent.

   c) 25 per cent.

   d) Nil.

9) What previous form of income drawdown was converted to flexi-access drawdown from 6 April 2015?

10) Nicky is 60 years old and has a low appetite for risk. She is considering options for taking benefits from her pension fund and would like to be able to receive a guaranteed income, with her pension fund no longer exposed to any investment risk. Which method of providing retirement benefits should Nicky take?