The Trustee toolkit downloadable

Introducing pension schemes

Scenario one

In this scenario you meet your colleague Adam, who is a trustee of your scheme, to find out more about pensions.

As you work through this scenario you will be tested on your knowledge at decision points. Here you will have the option to work through a related technical tutorial before returning to the scenario or you can skip the tutorial. You can always work through the tutorial separately later if you would prefer.

This scenario includes two tutorials:

▶ What is a pension scheme?

▶ Benefits

Glossary

A detailed glossary of technical terms can be downloaded from the Resources tab when you log in at **www.trusteetoolkit.com**

The Pensions Regulator

Lunch with Adam

You've recently received an annual reward statement from your employer which includes information about the pension scheme. Your colleague Adam is one of the trustees, so you're meeting for lunch so he can help you understand more about it.

Adam says: "This year the trustees worked with the employer to send a joint reward statement so you can see all your rewards and benefits in one place. You will still get your usual pension statements, but this document is useful in understanding the value of the pension schemes alongside your other rewards.

We have quite a complex pension offering here and members were telling us they were confused as to what scheme they were in and what that meant. This reward statement aims to improve that."

Decision point: What type of scheme?

Adam goes on to explain the different schemes offered. Match the correct scheme types to the descriptions below. Scheme types: Defined benefit, defined contribution, mixed benefits

1. A scheme which incorporates both defined contribution and defined benefit structures.

2. Provision of pension benefits involves a promise from the employer to provide the member with certain benefits.

3. The amount of pension that will be paid to the member will depend on the contributions paid, investment performance and charges taken from the members' pension pot.

Answers at the back

? Need help with this question? Read the **Tutorial 'What is a pension scheme?'**

Members and their benefits

Adam gives some examples of typical members and their benefits to help explain the schemes further. He says: "I don't know if you've read the scheme booklet – but if you have you'll know that the scheme provides different sorts of benefits to members and their dependants. Our pensions administrator Tony is responsible for making sure that the members get the benefits they are due, within the terms of the rules of the scheme of course. People in different situations can receive different benefits. Think about these people, for example…"

Decision point: Which benefits?

Can you match these people with the benefits that they will receive?

Benefits: deferred benefit, reduced pension and lump sum, refund of contributions, transfer value

1. Member A is a DB member who wants to retire and move abroad, but he doesn't have the upfront money that he needs.

2. Member B is a DB member who is leaving the company to work elsewhere. The pension scheme at the employer she is joining is a DC scheme and she wants to retain the DB benefits she has accumulated.

3. Member C is a DC member who is also leaving to join a company with another DC scheme. He wants to consolidate his pensions into one pot.

4. Member D is a DC member who joined after 1 October 2015 and is leaving the company after only three weeks' pensionable service.

Answers at the back

? Need help with this question? Read the **Tutorial 'Benefits'**

Adam's news

Adam has some news and a suggestion for you. He says: "It's good that you're keen to find out more – I was hoping you would be. The thing is I've been offered a job in a different company. I'm going to be moving away – which means I won't be able to be a trustee anymore.

So we have to find a replacement for me. And I was thinking… since you seem to be interested in pensions, maybe you would be prepared to stand for election to the trustee board?"

Rounting up

Rounding up

Adam's news comes as a shock but you're interested in finding out more.

Scenario two will provide an introduction to the role and scheme documents.

Answers

Decision point: What type of scheme?

The answers are: 1. Mixed benefits, 2.Defined benefit, 3. Defined contribution.

A defined benefit scheme does involve a promise from the employer to provide the member with certain benefits and these will be agreed at outset. However the level of employer, and sometimes employee, contributions required to meet the promise are variable.

A defined contribution scheme is different in that only the contributions payable by the members and the employer are set out in the scheme rules, however the amount of pension payable will only be determined when the member accesses their benefits or dies. It will depend on the contributions paid, investment performance and charges taken.

A scheme that offers mixed benefits incorporates both DB and DC structures within one scheme.

Decision point: Which benefits?

The first DB member can opt to receive a tax-free lump sum and a reduced pension. Both DB and DC members may wish to not take the lump sum but use their full pension pot to buy a pension income.

The second DB member could receive a deferred pension. This means she will stop paying into the scheme, but will receive a pension from it when she can access her benefits.

The DC member leaving the company who wants all their pensions in one pot could receive a transfer value to the new scheme.

The final DC member has no statutory right to a refund, transfer out or to a deferred benefit, however many scheme rules will allow a refund of their contributions, less tax. If she had more than 30 days service she would not be entitled to take a refund of her contributions, but would be entitled to a deferred benefit which could be left in the scheme or transferred.