



Core Unit 4 – Financing and Investing for Retirement Provision

Mock Examination Notes

Recommended Time: 1 hour

1. **What is tactical asset allocation?**

5 marks

Answer should cover:

- Day to day management of portfolio's asset mix
- Tactical decisions can be made to take advantage of short-term investment opportunities (which differ from strategic or long-term asset mix)
- One area where law allows trustees to delegate their responsibility to make decisions

(Relevant section of the manual is Part 5 Chapter 2.3.1)

2. **Define the term discount rate?**

5 marks

- The discount rate is the assumed investment rate used to discount a future payment to a current value
- Your answer could be illustrated with a simple example

(Relevant section of the manual is Part 2 Chapter 1.1)

3. **What is inflation risk and how can it be mitigated?**

10 marks

Answer should cover:

- Inflation risk arises when the intention is to maintain the same purchasing power at a future date as currently.
- Illustrate with a simple example
- All inflation risk would be removed if an investment was available that guaranteed to provide a lump sum in present day money terms irrespective of investment return achieved.
- Inflation risk can be mitigated through the use of index linked bonds and inflation swaps.

(Relevant section of the manual is Part 2 Chapter 1.2)



4. **Write short notes on the nature of the annual report of an Independent Governance Committee.**

5 marks

Answer should cover:

- IGC annual reports publicly available
- Contain
 - Outline of IGC work
 - Information on level of direct and indirect costs
- Responsibility of IGC Chair
- Non-prescriptive reporting periods but first report must be made by 5 April 2016 even if for a partial year

(Relevant section of the manual is Part 3 Chapter 2.5.1)

5. **Outline the features of a lifestyle investment strategy?**

10 marks

Answer should cover:

- Automatic switching of member's funds to what are considered to be lower risk funds as the member approaches retirement
- Commonly used as a default strategy
- Member does not have to manage the de-risking of their investments (undertaken by administrator / provider)
- Growth phase and consolidation phase
- Traditional lifestyle strategy may not be suitable for all members
 - members wishing to take benefits as drawdown
 - members who change their retirement date
 - members willing to invest in higher risk asset classes close to retirement
- Trustees may offer more than one lifestyle strategy with alternative fund allocations and risk profiles

(Relevant section of the manual is Part 5 Chapter 1.3.1)

6. **Outline the considerations relevant to an assessment of employer covenant.**

10 marks

Answer should cover:

- Scheme size – relativity of scheme size to employer
- Profitability – historic and future profit forecasts
- Cash flow – ability of employer to generate cash
- Balance sheet – availability of funds

(Relevant section of the manual is Part 2 Chapter 2.2)



7. **Identify 5 factors that influence an individual's contributions to a defined contribution arrangement.**

5 marks

Answer should cover five of the following:

- Income required in retirement
- Accumulated pension and other assets
- Employer contribution rate
- Expected retirement age
- Relationship/marital status
- Lifestyle/state of health – life expectancy and potential need for long-term care
- Tax considerations
- Investment strategy

(Relevant section of the manual is Part 5 Chapter 1.1.1)