Defined Benefit Arrangements

Mock Examination

*Recommended Time: 3 hours*

1. **You are the Pensions Manager in charge of an in-house administration team. You are preparing material for a short training session on AVCs. Prepare a short presentation covering:**

* **The key features of an AVC arrangement**
* **Why an active member may choose to pay AVCs**

**20 marks**

Relevant section of the manual is Part 2 Chapter 2.1.3.

Format: presentation or factsheet

Answer should cover:

* Regular or lump sum payments
* Limits on AVC contributions
* Benefits payable, 6 April 2015 pension flexibilities,
* Lump sum AVC benefits, with reference to 6 April 2015
* Way for members to top up their pension scheme benefits in a tax-efficient way
* Flexible contributions processed through payroll
* Low charges
* Retirement planning, particularly if their pensionable salary is capped
* Annual allowance/Tapered annual allowance

1. **You are a Scheme Actuary. A new trustee has asked you to provide information on the demographic assumptions used in a scheme valuation. Write a short paper outlining these.**

**20 marks**

Relevant section of the manual is Part 4 Chapter 1.2.2.

Format: formal, report, key headings, short introduction and summary

Answer should cover:

* Withdrawals
* Death in service
* Early retirement
* Ill-health early retirement
* Earnings progression
* Mortality in retirement

1. **What is a “Shared Risk Scheme”?**

**10 marks**

Relevant section of the manual is Part 1 Chapter 1.1.3.

Format: descriptive

Answer should cover:

* Defined ambition schemes – November 2012
* Funding risk spread between employer and members but some certainty over accrued benefits
* Pension Schemes Act 2015 – shared risk scheme one of the 3 scheme categories under the Act
* Example of a shared risk scheme
* Shared schemes not yet in force

*[now known as CDCs, included in The Pensions Bill – approved for Royal Assent January 2021]*

1. **You are the consultant for a DB scheme. The trustees have asked you to discuss, at their forthcoming meeting, the key information relating to Event Reports. Prepare notes to take to the meeting.**

**10 marks**

Relevant section of the manual is Part 3 Chapter 1.4.5.

Format: notes/list/bullets

Answer should cover:

* Legal requirement
* Timescale
* Exceptions
* Penalties
* 6 examples of reportable events

1. **You are the investment consultant for a DB scheme. The trustees are considering implementing an LDI mandate. Write a paper to the trustees outlining:**

* **How LDI reduces investment risk**
* **The key components of an LDI strategy**

**20 marks**

Relevant section of the manual is Part 4 Chapter 6.8.1.

Format: formal report, introduction, key sections, conclusion/summary, recommendation

Answer should cover:

* Hedging the volatility of the liabilities – interest rate and inflation hedging
* Value of assets changes as the value of liabilities changes
* Reduces the risk arising from 2 key risks - inflation and interest rate exposure
* 2 key components
* seek to match liabilities using derivatives
  + Interest rate swaps
  + Gilt repurchase agreement
  + Total return swap
* Growth seeking component

1. **You are an administrator for a final salary scheme which allows members to commute up to 25% of their scheme pension for a PCLS. Describe:**

* **The process for a retirement from active status at NPA**
* **What the member’s retirement quotation must include**

**20 marks**

Relevant section of the manual is Part 2 Chapter 3.1.1.

Format: descriptive, with clear sections/headings

Answer should cover:

* Earnings prior to retirement – if known or if unknown
* Benefits and member options calculated
* Information on options, PCLS
* Pension payment – date, frequency, guarantee period, increases
* Spouse/civil partner pension on death
* AVCs
* Documents required by the administrator
* Member must understand their requirements
* Confirm options, bank details, declaration regarding other pension benefits, provide certificates

**Note** – information relating to CARE, DC or Hybrid schemes is not relevant for this answer