

Defined Benefit Arrangements Examiners' Report

Overall the standard of papers this year was relatively high. Students who achieved the highest marks gave concise answers that related to the question asked and the points available. Students should pay attention to the amount of marks awarded to each question and take this into account when answering the question. Two questions had marks for formatting and most students took this into account.

Question 1

Describe the options available to members who leave with less than two years qualifying service (15 marks).

This question was relatively well answered

- Some students often confused the relevant time periods
- Most students noted that a position regarding ordinary contributions but did not describe the positions for AVCs
- The tax rates for refunds were correctly listed by the majority of students.

Question 2

XYZ Company are introducing a salary sacrifice arrangement to staff. To allow the managers to roll this out to their teams, draft a brief memo explaining how salary sacrifice works in principle and the main advantages to setting up such an arrangement. (10 marks)

Most students got marks for this question although many focused-on tax savings and did not refer to NI savings for both the employee and their employer. Some students failed to answer the question in the format required and most of those that did missed out dates, titles and author so lost available marks.

Question 3

Members do not have to take their benefits at Normal Pension Age (NPA). Outline

- (i) how actuarial factors may determine how benefits are valued before NPA (11 marks) and
- (ii) what information you would expect to be detailed in the scheme rules regarding these factors (4 marks).

This question attracted some good answers.

- Most students were aware that the reduction can be applied on a cost neutral basis
- However, few mentioned that the reduction is in line with the assumptions in the ongoing valuation basis.
- Although most students mentioned ill health retirement may not use reduction factors, they did not expand on this and state ill health pension could be enhanced.
- Many students did not cover who has the power to change the factors under the rules.

- Students wasted valuable time writing about commutation factors when this was not required.

Question 4

List the financial statements contained within Company accounts and how DB pension schemes are accounted for in these financial statements (10 marks).

Briefly outline the UK accounting standards (5 marks) and international and US accounting standards (5 marks)

This was the least well answered question with only a handful of students getting high marks.

- Most students provided details of the balance sheet but did not detail what the profit and loss will show, so lost valuable marks
- Some students were unable to name the accounting standards and accounting boards.
- Most students could name the UK standards but were less knowledgeable about the US and international Standards

Question 5

Outline the role of the Financial Assistance Scheme.(10 Marks)

This question was generally answered well with many students getting high marks . Some students wrote details of the benefits payable when this was not part of the question.

- Students failed to mention that the majority of schemes eligible have been dealt with and benefits allocated.
- Marks were missed because students didn't mention the relative legislation.

Question 6

You are the Pensions Manager at Colourboxx and the new HR Manager has asked about the different funding methods used in actuarial valuations. Write a report to the Manager to explain the methods used (20 marks). You may wish to define some standard terms to use.

Students who had read the relevant section of the manual and understood methods of actuarial valuations were able to gain high marks. Some students failed to answer the question in the format required so lost available marks.

- Some students got confused between the two valuation methods.
- Most students listed some of the standard terms used in the valuation; many failed to fully define the Standard Contribution Rate; Target fund or Modified Contribution Rate
- Most students were aware the Projected Unit Credit method was more suitable to schemes with new entrants; while attained age method assumes no new entrants

Question 7

When a bulk transfer is required, there are various approaches that can be used to calculate the transfer payment in respect of each member.

Outline the main features of each approach. (10 marks)

This was the best answered question and many students gained high marks although a small number of students incorrectly interpreted the question and their answers were not relevant so failed to gain any marks.

- Most students were able to provide the correct formula for calculating the share of fund
- Some students discussed Transfer Incentives which was not applicable to the question.