

Defined Benefit Arrangements Examiners' Report

The standard of papers this year was not as high as previous years. 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. Additional Marks were awarded for formatting and most students took this into account.

Question 1

Outline the basis behind the risk-based PPF levy (4 marks)

and explain how the levy is calculated. (16 marks)

- There was the opportunity to earn good marks with this question, but few students managed to do so. Each point was covered by students, but most students only covered a handful of the points
- Many students failed to mention a section 179 valuation was required
- Most students were aware that the risk based PPF levy takes account of the employer becoming insolvent and the amount of compensation PPF may have to pay
- Most students were able to detail the formula for calculating the levy
- Few mentioned the bespoke test

Study Manual Part 5 Chapter 2

Question 2

A member of the 123 Defined Benefit Pension Scheme is about to retire at the age of 60. He has a pension and a small fund of Additional Voluntary Contributions. Write a briefing paper for his Employer outlining the various types of lump sums available for the member, including, where applicable, how they may be taxed. (27 marks plus 3 marks for format)

- Few students gave the details of when serious ill health commutation could be taken
- Marks were available for format, but few students gained full marks for this
- Most students mentioned UFPLS although some did not relate it to AVCs or mention restrictions under the scheme rules
- Several students detailed the taxation of unauthorised payments which was not required
- Most students had a good understanding of standard trivial commutation although did not cover all the taxation points

Study Manual: Section: Part 2 Chapter 3

Question 3

- What are the options available to trustees in respect of insurance policies held as assets of the scheme in the event of the scheme winding-up. (20 Marks)

- Most students knew the two options were take a surrender value and treat benefits as paid up.
- However not all students noted that notice may be required to make a large surrender value, that it could be paid over a period of time or there might be a short guarantee period.

Study Manual Section: Part 5, Chapter 1

Question 4

The Pensions Regulator provides guidance to pension scheme trustees. Outline the guidance issued in relation to:

- (i) Internal controls (6 marks)
- (ii) Trustee knowledge and understanding (5 marks)
- (iii) Incentives exercises (4 marks)

- Students gained most marks under the topic of Trustees knowledge and understanding
- Most students were aware of what was required from trustees in this regard
- However, students were less knowledgeable around Internal Controls; with few mentioning the need for good governance and a proactive approach and some not covering Risk Management
- While students were aware off the main types of incentive exercises; few explained why incentive exercises are normally offered

Study Manual Section: Part 3, Chapter 2.

Question 5

You are in-house Pensions Manager for a large Defined Benefits pension scheme. Write an article for your Company's monthly news update explaining:

- (i) The main purpose of an actuarial valuation (2 marks)
- (ii) The information to be included in the valuation report (18 marks)
- (iii) The information to be provided to scheme members. (2 marks)

- Most students made an attempt to write their answer as an article.
- Most students were able to confirm the purpose of the valuation and what information can be provided to the members
- Students gave unnecessary details around the valuation methods that could be applied
- Many students failed to give a description of the risks to the financial position of the scheme and only half few mentioned all the data used in the valuation
- Students gave unnecessary detail around recovery plans

Study Manual Section: Part 4, Chapter 2

Question 6

List the reasons why a pension scheme member may be temporarily absent from work for long or short periods of time. (5 Marks)

- Although this was a relatively straightforward question surprisingly few students failed to achieve full marks. Most counted the same absence more than type of absence more than once (e.g. ill-health and disability)
- The reason for temporary absence that most students failed to list was absence due to military service

Study Manual Section: Part 2 Chapter 2