Core Unit 4

Financing and Investing for Retirement Provision

Assignment 3

*(Part 3 – Defined Benefit Finance and Investment and Part 4 – Defined Contribution Finance and Investment)*

*Recommended Time: 1 hour*

1. **Explain the features of a buy-in and a buy-out, and how both of these impact various risks to which a pension scheme may be exposed.**

**15 marks**

Relevant section of the manual is Part 3 Chapter 2.7.

Format: descriptive

Answer should cover:

* Buy-in – scheme invests in bulk annuity, members remain scheme members, insurer pays scheme, scheme pays member benefits
* Buy-out – annuities purchased in member’s names, scheme membership ceases, wind-up
* Risks reduced/removed by insuring them
* Longevity risk, inflation risk, interest rate risk

1. **List some of the key advantages and disadvantages of:**
2. **Using DC benefits to purchase an annuity annuity at retirement**
3. **Drawing down DC benefits at retirement**

**10 marks**

Relevant section of the manual is Part 4 Chapter 2.3.

Format: bulleted list

Answer should cover:

* Value for money
* Guarantee of income
* Impact of longevity
* Investment risk

1. **The goal of all DB pension schemes is to achieve self-sufficiency, known as the Long Term Objective (LTO). Briefly outline the following:**
2. **The three main options available to trustees when deciding how a scheme can achieve its LTO**
3. **The level of investment risk that would apply to the LTO**

**10 marks**

Relevant section of the manual is Part 3 Chapters 1.2 and 3.3.

Format: explain/describe

Answer should cover:

* Scheme continues on a self-sufficiency basis
* Buy-out – transferring the liabilities to an insurer
* Pension superfund
* Low level of investment risk, reducing over time to help achieve the LTO

1. **List 5 options available to DC members age 55 or over under the Pension Freedoms.**

**5 marks**

Relevant section of the manual is Part 4 Chapter 2.1.

Format: list

Answer should list 5 from:

* Annuity purchase
* UFPLS
* Single lump sum
* Cash to 25% plus flexi-access drawdown
* Social infrastructure – how it operates, how it is financed
* Combination of different options
* Leave the funds invested

1. **Briefly outline the considerations when deciding a DC investment strategy, including how the type of scheme affects who decides the strategy and the main fund categories.**

**10 marks**

Relevant section of the manual is Part 4 Chapter 1.2.

Format: descriptive

Answer should cover:

* Contract-based schemes
* Trust-based schemes
* Growth funds
* Defensive funds
* Balanced funds
* Investment risk