

EXAMINATIONS

September 1997

Fellowship Paper

Paper Two

Time allowed: 1½ hours

INSTRUCTIONS TO THE CANDIDATE

1. *Write your surname in full, the initials of your other names and your Candidate's Number on the front of the answer booklet.*
2. *This paper carries 30 marks.*

AT THE END OF THE EXAMINATION

Hand in BOTH your answer booklet and this question paper.

<p><i>In addition to this paper you should have available Actuarial Tables and an electronic calculator.</i></p>
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A friend, who is not married and has no dependants, is just about to retire aged 65. He has obtained quotations for a level pension and an index-linked pension.

The initial index-linked pension is about two-thirds of the level pension. He has calculated that, even if inflation averages 5% per year, it will take 17 years before the total of the payments under the index-linked pension exceeds the total of the payments under the level pension.

Although he is in excellent health, he does not expect to live that long. Also, he has read somewhere that the expectation of life for 65 year old men is about 16 years. This seems to back up his view.

He has asked you to comment on this. You should write him a letter in about 500 words to explain:

- what he should take into account before deciding which pension to choose
- why the index-linked pension seems so expensive
- the relevance of the expectation of life in this context

Matters relating to the Financial Services Act, open market options, other forms of annuity, income withdrawal and future improvements in mortality should be ignored.