

EXAMINATIONS

7 April 2003 (am)

Subject 404 — UK Fellowship Pensions

Paper One

You must answer this subject only, you may not attempt another subject in the 400 series.

Time allowed: Three hours

INSTRUCTIONS TO THE CANDIDATE

1. *Enter all the candidate and examination details as requested on the front of your answer booklet.*
2. *You have 15 minutes at the start of the examination in which to read the questions. You are strongly encouraged to use this time for reading only, but notes may be made. You then have three hours to complete the paper.*
3. *You must not start writing your answers in the booklet until instructed to do so by the supervisor.*
4. *Mark allocations are shown in brackets.*
5. *Attempt all 6 questions, beginning your answer to each question on a separate sheet.*

AT THE END OF THE EXAMINATION

Hand in BOTH your answer booklet, with any additional sheets firmly attached, and this question paper.

<p><i>In addition to this paper you should have available Actuarial Tables and your own electronic calculator.</i></p>
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1 List the main duties and responsibilities of trustees of UK pension schemes. [7]

2 You are an advising actuary to a large UK defined benefit pension scheme. The scheme is predominantly invested in UK equities which have fallen significantly in value over the last few years.

(i) Outline the main considerations in preparing and reviewing a Statement of Investment Principles. [7]

(ii) Describe the impact on the scheme and the actions the employer could take following the fall in the UK equity market, highlighting the possible impact on UK company accounting valuations. [8]

[Total 15]

3 You have been appointed to advise the trustees of a defined benefit scheme that has recently been closed to new benefit accrual.

(i) Discuss the issues that the trustees need to consider in setting the investment strategy for their scheme. [14]

(ii) Outline how asset liability modelling techniques could be useful for the trustees. [4]

[Total 18]

4 You have been offered a job as the Risk Manager at a long-established UK professional services company that employs around 1,000 people. You are currently aged 33.

You are negotiating your contract and remuneration package. The company is offering you membership of the executive section of the final salary pension scheme (executive accrual rate $1/45^{\text{th}}$, normal retirement age 65), to which you would not be required to contribute. You tell the company that you might prefer some other form of retirement provision. The Human Resources (HR) director tells you that the 1 January 2002 actuarial valuation showed that the average cost to the company for the executive section is 35% of pensionable salary (ignoring the additional 10% of pensionable salary the company is paying to meet the Minimum Funding Requirement deficit), so he does not understand why you take this view.

Set out the points you would make as follows:

(i) Explain why you do not value the pension scheme as highly as the HR director. [7]

(ii) Comment on other forms of retirement savings the company could offer you. [4]

[Total 11]

- 5** You are Scheme Actuary to a UK defined benefit pension scheme. The sponsoring employer is selling off one of its divisions, and proposes that benefits accrued by the division's employees and ex-employees be transferred to the purchaser's pension scheme. It is not proposed to obtain members' consents. The trustees have agreed in principle to the transfer, and you have informed them that they will need a certificate from you before they proceed with the transfer.
- (i) Explain why this certificate is required. [3]
 - (ii) Describe the issues it covers. [10]
 - (iii) Outline any potential difficulties that may prevent the certificate being given. [7]
 - (iv) State the information you will need in order to decide whether the certificate can be signed. [4]
- [Total 24]
- 6** You are the Scheme Actuary to a defined benefit pension scheme. The trustees have asked you to comment on the possible approaches to setting a policy to calculate cash equivalent transfer values.
- (i) Outline the advantages and disadvantages of a "rules based" approach which requires the specification of a formula and assumptions for the calculation of the cash equivalent transfer values. [7]
 - (ii) Outline the advantages and disadvantages of a "principles based" approach which prescribes a way of assessing the variables for the calculation of the cash equivalent transfer values. [7]
 - (iii) Outline the considerations needed to calculate cash equivalent transfer values in Guidance Note 11. [6]
 - (iv) Outline the issues which you might advise a member may consider before electing to take a cash equivalent transfer value. [5]
- [Total 25]