

EXAMINATIONS

September 1999

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. *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.*
2. *You must not start writing your answers in the booklet until instructed to do so by the supervisor.*
3. *Write your surname in full, the initials of your other names and your Candidate's Number on the front of the answer booklet.*
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 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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1 Describe the circumstances in which a Scheme Actuary in the UK has a duty under Section 48(1) of the Pensions Act 1995 to report to the Occupational Pensions Regulatory Authority. [6]

2 Describe briefly the reasons why the accounting cost for a UK final salary pension scheme under SSAP 24 or FAS 87 may differ from the employer's annual contributions. [6]

3 You are the actuary to a funded UK final salary pension scheme.

You have just completed the calculations for an actuarial valuation of the scheme. These indicate that the scheme was 150% funded, based on your recommended funding assumptions. You are presenting the results at a trustee meeting.

The company's finance director, who is a scheme trustee, states that as the members' scheme contributions are fixed and the company underwrites the scheme's finances, the surplus should be used entirely to reduce employer contributions. He advocates a cessation of employer contributions to the scheme, starting as soon as possible. He also recommends that as large a sum as possible should be refunded to the employer.

A member-nominated trustee of the scheme, who is also a trade union official, disagrees with this. He argues that the scheme provides poor benefits, relative to schemes of other employers operating in the same industry, and that the benefits should be improved. In particular, he believes that the employee contribution rate should be cut. In addition, as pension increases have been well below the rate of inflation for many years, surplus should be used to increase pensions.

Outline the considerations that you may need to take into account in advising on this situation. [18]

4 A large UK manufacturing company intends to set up a final salary pension scheme for its workforce. Employees earn basic pay of £18,000 p.a. and overtime payments of up to 15% of basic pay. The Managing Director believes that, after 40 years service, an appropriate level of retirement income, including state pension, would be 60% of basic pay in the year prior to retirement. Members will contribute 5% of pensionable salary. Retirement age is 65.

The average age of the workforce is low and the Finance Director thinks that it would be appropriate for the scheme to be contracted-out of the State Earnings Related Pension Scheme.

(i) Describe with reasons an appropriate benefit design which will meet the Managing Director's requirements. [3]

- (ii) (a) Show how you would check if the benefit design in (i) will meet the requirements for contracting out of the State Earnings Related Pension Scheme.
- (b) Set out any modifications to the benefits in (i) which would be needed. [8]

The scheme is set up with the benefit structure described in your answer to (i) as amended by (ii)(b). A potential member, aged 25, has written to the trustees. He says that he has seen a newspaper article which talked about the scandal of pension schemes which “claw back” state pension benefits from their pensioners. He believes that this scheme operates in this way and states that, as members will be contributing to both the company scheme and the state scheme they should receive both benefits in full. He also believes that the scheme pension should be based on total earnings. The trustees have asked for your help in drafting a reply to the potential member.

- (iii) Outline the points you would make in your response to the trustees.[11]
[Total 22]

5 You provide actuarial advice to a small company. The company, which is in financial difficulty, has decided to discontinue and potentially wind up its final salary scheme, with a view to setting up a Group Personal Pension (GPP) arrangement.

- (i) Outline how the proposed course of action may relieve the company’s financial position. [4]
- (ii) The finance director has written to you. He has read that the proposed course of action may place a financial burden on the business. Set out the points you would make in your reply. These should cover, but are not restricted to the following:
- regulations concerning a deficiency on a wind up
 - impact of winding up rules
 - contracts of employment
 - costs
 - alternatives to wind up

[18]
[Total 22]

- 6** You are a consulting actuary advising the management of a company (Company A). Company A is a subsidiary of Company B and the management of Company A intend to purchase Company A from Company B. Company A participates in the approved UK final salary scheme of Company B. There are no other pension arrangements and Company B is wholly UK based . The transfer terms have already been agreed and Company A will set up an identical pension scheme.

You are preparing a report for the management on the pension aspects associated with the proposed purchase. This report is required urgently due to the advanced nature of the negotiations.

- (i) List the information concerning Company B's pension arrangements you would request to help draft your report [11]
 - (ii) Outline, with reasons, the investigations you would make to enable you to advise on the financial aspects of the pension arrangements [15]
- [Total 26]