EXAMINATIONS

14 April 2000 (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. *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.

In addition to this paper you should have available Actuarial Tables and an electronic calculator.

1 A UK company has acquired several businesses recently and is setting up a defined benefit pension scheme which will be open to employees of all these businesses. In future, it wishes to allocate the costs of the scheme between each of the businesses, and has asked you to advise on how to set up procedures in order to do so.

List the items that will need to be taken into account, suggesting briefly how each could be allocated. [7]

2 A decision has been taken to wind up a UK final salary pension scheme.

(i) Outline the principal stages that need to be completed during the winding up process. [8]

(ii) Describe the possible complications that may occur during the winding up process. [4]

[Total 12]

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

(i) List the GN9 requirements regarding the actuarial valuation method and assumptions for reports on the final salary pension scheme. [4]

(ii) Describe the main features of valuing the scheme's assets using market values and using a discounted actuarial value method. [2]

(iii) Describe how you would ensure the value placed on the liabilities is consistent with each of the two asset valuation methods above. Your answer should include details of the different approaches which may be used to determine the rate of return implied by the market valuation of the assets. [8]

[Total 14]

4 The trustees of a UK defined benefit pension scheme are reviewing their arrangements for members to make Additional Voluntary Contributions (AVCs). At present, there is a money purchase arrangement whereby AVCs are invested with the assets of the main defined benefit fund and each year the trustees determine the investment return to be credited.

(i) Outline other arrangements the trustees could make for AVCs. [5]

(ii) If the trustees retain the current money purchase arrangement, discuss how they could give projections of AVC benefits for active members on annual benefit statements. [9]

(iii) Outline the options that the trustees could offer members who are retiring with money purchase AVC funds. [5]

[Total 19]

5 Global Seeds Ltd, which runs a final salary scheme for all UK staff has agreed to sell one of its UK operations to Northern Seeds Ltd. The deal has been broadly agreed by the two parties, although no discussion has taken place with regard to pension rights. The finance director of Northern Seeds has told you that the deal is to be finalised in the next few days, and has asked you (as actuary to their existing final salary scheme for senior employees), to report on any last minute issues they should consider.

(i) Outline the pension issues you would raise in your report. [10]

(ii) List the information you will require if the finance director were to appoint you to negotiate the pension aspects of the deal. [5]

(iii) The purchased business includes a small potato breeding operation, which Northern Seeds do not see as part of their core business, and have agreed to sell this on to Potatoland Ltd within the next few months. Potatoland do not currently run a pension scheme. The finance director has asked how the transfer of pension benefits for employees transferring to Potatoland might best be dealt with.

Describe the points you would make in your reply. [4]

(iv) The trustees of the Northern Seeds scheme are concerned that the terms of the transferring employees might be adversely affected by the transfer of business to Potatoland. Describe the points you would make to allow the finance director to address these concerned. [3]
[Total 22]

6 A new company has recently been formed by the buyout of a division containing 1,000 employees from a large UK company. The finance director has asked you to advise on the type of pension benefits that should be established for the employees.

(i) Discuss briefly the further information you will require from the finance director prior to making your recommendations [8]

(ii) Discuss the relative risks of introducing a money purchase arrangement compared to a final salary arrangement from the point of view of

- the company; and
- the employees [8]

Following discussions the company has decided to introduce both a money purchase scheme and a final salary scheme. All permanent employees are eligible to join the money purchase scheme. Those employees who are over 40 and who have completed 10 years service may choose to remain in the money purchase scheme or switch to the final salary scheme.

(iii) Outline briefly three ways in which the existing money purchase benefits could be treated for those employees electing to switch to the final salary scheme. [3]

(iv) Discuss the points that an employee, who has satisfied the eligibility criteria, must consider when deciding whether or not to switch from the money purchase scheme to the final salary scheme. [7]

[Total 26]