

EXAMINATIONS

15 September 2000 (pm)

Subject 404 — UK Fellowship Pensions

Paper Two

**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 both 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** You are an actuary advising a UK manufacturing company with 2000 employees. 250 senior staff employees are members of a long established contracted-out final salary pension scheme. The remaining 1750 employees currently have no occupational pension provision.

As a result of this year's pay and benefits negotiations for the employees who have no pension provision, it has been agreed that in the first year up to 2% of pay will be available for pension provision; in year two 4% and in year three onwards 6% of pay. The overall pay and benefits costs are to rise in line with price inflation.

The finance director has asked you to prepare a report on the options available for the provision of retirement benefits for those employees who currently do not have any pension provision.

- (i) Describe the possible forms the benefits may take if either a defined benefit or a defined contribution approach is adopted; [12]
 - (ii) Outline the considerations which may need to be taken into account in formulating the design of the benefit; [12]
 - (iii) Set out the advantages and disadvantages of the two approaches outlined in part (i); [7]
 - (iv) Describe briefly the considerations for investment strategy which will need to be taken into account for the new arrangement, and [6]
 - (v) Outline any potential impact there may be for the senior staff scheme arising from the introduction of pension provision to the other employees. [3]
- [Total 40]

- 2**
- (i) Describe the different types of investment available under insured pension schemes in the UK. [16]
 - (ii) Describe the advantages and disadvantages of using an insured arrangement compared with a self-administered arrangement for a defined benefit pension scheme. [4]

As a result of corporate expansion, a company currently sponsors two final salary pension schemes which, by coincidence, have virtually identical liability profiles. Scheme A is an insured scheme which is 90% funded under the statutory minimum funding requirement (MFR). Scheme B is a self-administered scheme which is 110% funded on the MFR basis. If the schemes were merged the combined scheme would be 100% funded under the MFR.

The company has announced its intention to merge the two schemes.

- (iii) Draft a report for the company on the considerations it needs to take into account before proceeding.

(You should assume that, under the economic conditions applying at the date you give your advice, the MFR provides a reasonable measure of liability on a discontinuance basis. There are 5 marks available for drafting.) [22]

- (iv) Before the company could complete the scheme merger, the company became insolvent. The trustees of both schemes have asked you to advise them of their options. Discuss the points you would consider in giving your advice. [18]

[Total 60]