

# **INSTITUTE AND FACULTY OF ACTUARIES**

## **EXAMINERS' REPORT**

### **Subject CA3 – Communications**

#### **(Presentation)**

#### **Scenario: State Invalidity Benefits**

##### **Introduction**

The Examiners' Report is written by the Principal Examiner with the aim of helping candidates, both those who are sitting the examination for the first time and using past papers as a revision aid and also those who have previously failed the subject.

The Examiners are charged by Council with examining the published syllabus. The Examiners have access to the Core Reading, which is designed to interpret the syllabus, and will generally base questions around it but are not required to examine the content of Core Reading specifically or exclusively.

The Examiners' preferred approach to the solution is reproduced in this report; other valid approaches are given appropriate credit.

D C Bowie  
Chairman of the Board of Examiners

April 2014

A possible set of slides to accompany a candidate's presentation is given below. This is not intended to be a model set of slides. In practice, a wide number of sets of slides were acceptable and candidates would have achieved good pass standards without having the same level of detail as the specimen slides.

Candidates were asked to give a presentation to a consumer panel (consisting of individuals with some financial knowledge) to explain

1. the background to the proposal to change the indexation of the State Invalidity Benefit;
2. what the expected savings of the change were; and
3. to suggest alternatives that would achieve the same projected savings.

Candidates were provided with details showing the historical differences between the two indexation measures over the previous 30 year.

The main points that the examiners were looking for and some common problems encountered were as follows:

1. Candidates were asked to deliver a presentation lasting between 7 and 10 minutes. Most presentations were delivered within the timescales and gained full marks. Presentations that were much longer than 10 minutes tended to be long, repetitive and to include irrelevant information. Presentations that were less than 7 minutes were typically rushed or did not clearly cover all the key objectives of the question.
2. Some candidates lost marks for poor body language, using inappropriate language (e.g. being too patronising, using unexplained jargon) and speaking in an unclear, monotonous voice, thus failing to gain rapport with the consumer panel.
3. Most presentations had an appropriate first slide with a clear title, date and name of presenter.
4. Most presentations had an agenda. On better presentations, the agenda linked directly to the titles and content of the following slides. On weaker presentations, too much time was spent on the agenda giving rise to a laboured start, which tended to disengage the audience.
5. There was a great variation in the quality of the format of slides. There were examples both of slides with only a few bullet points, and slides with too much information. Good presentations had slides that were varied and clearly backed up the information that was being provided to the audience.
6. Some candidates put full-length narrative sentences on the slides. This was not appropriate to the slide format and tended to make slides over-busy. This also distracted the audience from listening to the presenter.
7. Some slides containing graphs were not well labelled or explained particularly well. Better candidates spent time explaining graphs in some detail: in general there is insufficient time for an audience to appreciate the full impact of a graph without being led through it slowly and carefully.

8. Good candidates clearly explained the main points:

background on the State Invalidity Benefit and the proposal;  
differences between the current index and that proposed;  
differences between the two indices was much less when the cap of 2% was applied;  
potential savings from the proposed change are much smaller than the \$1 billion expected; and  
provided sensible alternatives suggestions that may save \$1 billion.

9. Where presentations included a table of figures rather than a graph, marks were gained for how clearly the table brought out the messages. In general, repeating part of the table of figures showing annual increases in the two indexes did not demonstrate the differences in the indices as clearly as a graph.

10. Candidates were expected to assess the information provided in the question and choose the parts and language that were relevant for the audience. For example, there was a change in the way one of the indices was calculated in 1999. Better candidates focused on comparing the indices after the change in their answer.

11. Better candidates completed their presentation with a brief summary of the key messages and provided the opportunity to ask questions.

Candidates were not asked to provide a script to accompany the presentation.

# Proposed change in indexing of State Invalidity Benefit

## Presentation to Consumer Panel

Bob Brown, Actuary

November 2010

## Agenda

- Background
- Invalidity Prices Index
- Comparison of 2 indices
- Comparison of 2 indices when capped at 2%
- Potential savings
- Alternatives
- Summary

## Background

### State Invalidity Benefit

- Currently \$8,650 per annum
- Receives annual increases (up to a maximum of 2%)
- Proposal is to change index from:
  1. Retail Prices Index (RPI) to
  2. Invalidity Prices Index (IPI)

### Rationale

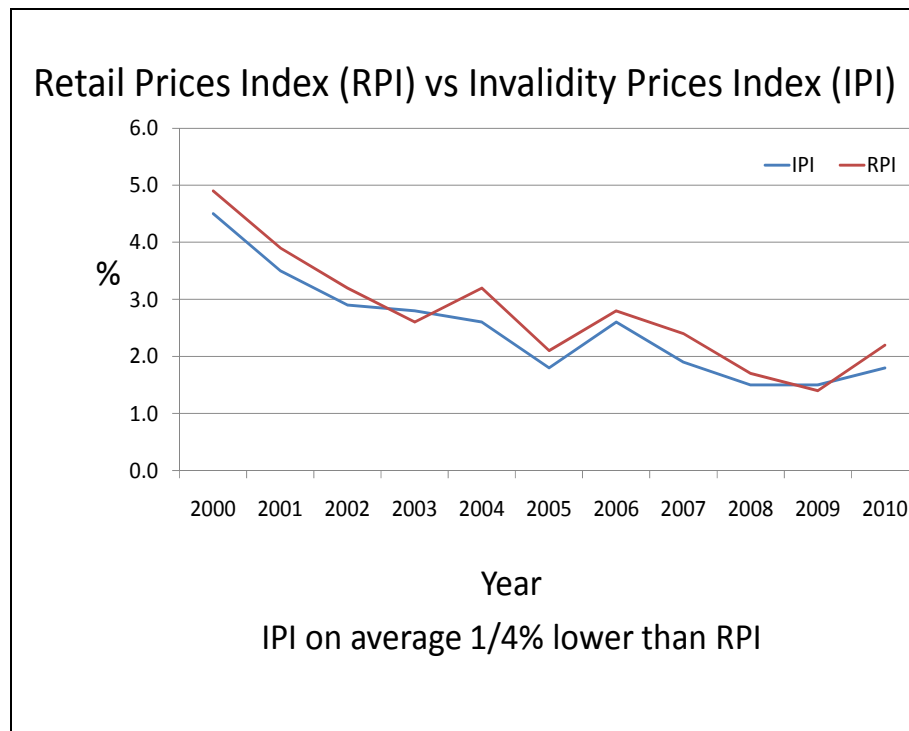
- Represents savings
- IPI on average  $\frac{1}{2}\%$  a year lower than RPI
- Expected savings of \$1 billion each year

## Invalidity Prices Index (IPI)

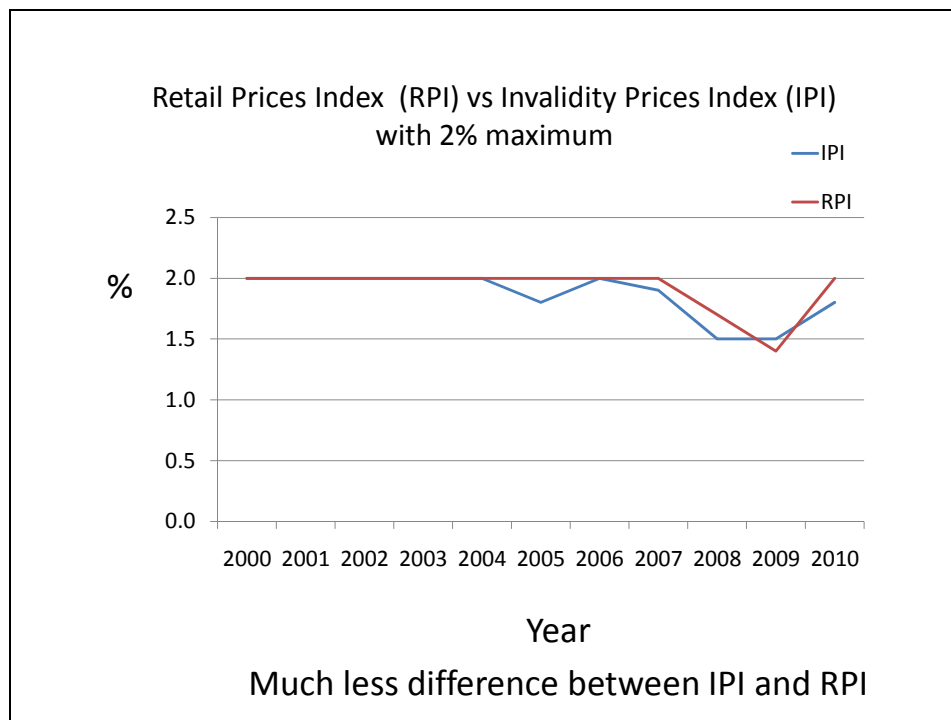
Index designed for individuals receiving  
state invalidity benefits

- Introduced in 1980
- Method of calculation changed in 1999
- Can be higher or lower than Retail Prices Index (RPI)
- Historically
  - IPI was  $\frac{1}{2}\%$  less than RPI each year
  - last 10 years IPI only  $\frac{1}{4}\%$  less than RPI on average
- Cap of 2% applied to increase each year

Slide 5



Slide 6



## Projected savings

- \$200 billion spent each year on State Invalidity Benefit
- Initial saving estimated as \$1 billion a year

### **But**

- Assumes Invalidity Prices Index  $\frac{1}{2}\%$  lower than RPI
- Invalidity Prices Index actually only  $\frac{1}{4}\%$  lower than RPI
- Allowing for cap means initial savings only \$0.1 billion

## Alternatives to save \$1 billion a year

1. Reduce State Invalidity Benefit to \$8,606 a year
2. Change indexing measure to one that is on average  $\frac{1}{2}\%$  lower than RPI (only works when RPI is less than 2%)
3. Reduce maximum increase to  $1\frac{1}{2}\%$  a year (no benefit if RPI is less than  $1\frac{1}{2}\%$ )

### **But**

Only 1, is guaranteed to save full \$1 billion

## Summary

- Proposal to change indexation from RPI to Invalidity Prices Index
- Historically very little difference between two measures once cap of 2% applied
- Savings minimal
- Perception of change to public

Questions

**END OF EXAMINERS' REPORT**