

INSTITUTE AND FACULTY OF ACTUARIES

EXAMINERS' REPORT

Subject CA3 - Communications (Written Paper)

Scenario: Member's ill health quotation

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.

For the CA3 communications examination the examination is designed to examine the communication of an "actuarial" concept to a non actuarial audience. Sufficient technical detail on the scenario is provided in the question so that candidates from all backgrounds are able to answer the question.

One approach to a solution is reproduced in this report; other valid approaches were given appropriate credit.

Fiona Layton
Chairman of the Board of Examiners

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A possible answer is given below. This is not intended to be a model solution. In practice, a wide number of solutions were acceptable and candidates would have achieved good pass standards without having the same level of detail as the answer below.

Candidates were asked to draft a letter to a pension scheme member who was questioning the calculation of his ill health pension and asking for details of the pension payable to his spouse following his death.

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

1. Most candidates produced scripts that looked like a letter to a pension scheme member. Scripts gained marks for having a clear introduction clearly explaining what the letter would cover.
2. There was no evidence of candidates running out of time and therefore not completing their answer.
3. Poor scripts were unstructured with no clear headings, long sentences and unclear messages. Poor scripts also included theoretical example calculations that didn't relate to the member.
4. Candidates were asked to include details of the calculation of both Mr Smith's pension and his spouse's pension. Details of the calculations were provided in the question paper. Better candidates provided clear details of the calculations ignoring information that wasn't relevant to Mr Smith.
5. Most candidates included the points requested by their manager in their letter. Better scripts provided simple explanations and examples to cover the points being made.
6. Better scripts concluded with a summary of the relevant figures and an offer of further assistance if necessary.
7. Candidates lost marks because of the use of jargon such as "Lower Tier Ill Health Retirement Pension" or including unnecessary information that wasn't relevant to the member. Eg the restriction on the enhancement in service being subject to a maximum of 50% of the "Pensionable Service" that Mr Smith had already accrued in the scheme.
8. A few scripts suffered from poor spelling, grammar and punctuation.
9. The guideline length was around 600 words. Scripts which were very short (below 500 words) generally missed out some of the content that their manager had asked them to include. Scripts which were much longer (over 700 words) often lost marks for including unnecessary detail or being repetitive.

SOLUTION

ABC Pension Scheme

Mr Martin's address
< date>

Dear Mr Martin

ABC Pension Scheme – member number 2300132

Thank you for your letter of 1 October. I am sorry that the quotation you received was not clear and I appreciate your concerns about the level of benefits at this difficult time. I can confirm that the member pension in the quotation is correct.

In the letter below I will explain:

- how your ill health pension is calculated; and
- the pension payable to your wife should she outlive you.

As requested, I have also provided more details on the reduction in the spouse's pension should her circumstances subsequently change.

How your ill health retirement pension is calculated

You are correct that you have been a member of the Scheme since 3 March 2002.

The Scheme improved the rate that pension was earned from 80ths to 60ths for service from 1 July 2009. The calculation of pension earned for service before 1 July 2009 is therefore different to the calculation of pension for service after 30 June 2009. In order to simplify the calculation of pension, the service quoted in your ill health retirement quotation had been adjusted to reflect the change to 60ths. I apologise if this was unclear and have set out an alternative explanation below.

The table below sets out the calculation of your service in the Scheme showing the 80ths part and 60ths part separately.

In addition, on account of your ill health, you are given an enhancement to your service. This is equal to the service you would have completed if you had remained in the Scheme up to your Normal Retirement Age of 60.

The calculation of your pension therefore combines each of these three different periods.

| | From | To | Service |
|----------------------|-----------------|-------------------|------------------|
| 80ths | 03 March 2002 | 30 June 2009 | 7 years 121 days |
| 60ths | 01 July 2009 | 30 September 2015 | 6 years 92 days |
| Enhancement at 60ths | 01 October 2015 | 24 February 2017 | 1 year 147 days |

The total service at 60ths is therefore 7 years 239 days (= 6 years 92 days plus 1 year 147 days).

Based on your Final Pensionable Earnings of £24,269.21 you are therefore entitled to an immediate ill health pension of:

£2,224.12 a year for your service at 80ths ($= 24,269.21 \times 7 \text{ years } 121 \text{ days} / 80$); and

£3,096.26 a year for your service at 60ths (including the enhancement) ($= 24,269.21 \times 7 \text{ years } 239 \text{ days} / 60$).

In total this gives the pension of £5,320.39 a year ($= £2,224.12 + £3,096.26$).

Pension payable to your wife

Should she outlive you, your wife will be entitled to a spouse's pension of half of your pension i.e. £2,660.20 a year ($= 5,320.39 / 2$).

The Scheme reduces spouses' pensions where their circumstances change, such as remarriage. The pension payable in such cases only reflects service since 1 July 2009. This would provide a pension to your wife £1,548.13 a year ($= 3,096.26 / 2$).

Recent changes to the Scheme

The Scheme has recently undergone some administrative changes to streamline the calculations and the production of letters. In your case this has resulted in details of the spouse's pension being missed off your ill health quotation and a simplification being made to the calculation of pensionable service. We are committed to providing clear communication to our members. I have therefore raised this as an issue with the team in charge of administration to be discussed at their next meeting.

If I can be of any further assistance in this matter or if you would like to discuss your statement in more detail please contact me using the details above.

Yours sincerely

Jon Smith
Customer Services Department
ABC Pension Scheme
ABC Pension Scheme address

[589 words excluding heading and sign off]

END OF EXAMINERS' REPORT