INSTITUTE AND FACULTY OF ACTUARIES

EXAMINERS' REPORT

Subject CA3 - Communications
(Written Paper)
November 2015

Scenario: Policyholder querying projected fund illustration

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.

Luke Hatter
Chairman of the Board of Examiners
September 2016

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 policyholder who was querying a recent projection from their savings policy.

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 policyholder. Scripts gained marks for having a clear brief introduction clearly explaining what the policyholders question was and 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.

4. Candidates were asked to include details of the three main reasons for the change in the fund projections and to include figures to indicate the impact of each element.

5. Most candidates included the points requested by their manager in their letter. Some candidates lost marks for using language that was unnecessarily technical and included actuarial jargon. E.g. "In the intervening period between the two valuations of your fund regulation with regard to statutory instrument S12014/8888 has come into force."

6. Better scripts included a brief summary of the relevant figures showing how the overall effect had led to a fall in the recent projected fund value.

7. Better scripts made it clear that the fund projections were not guaranteed.

8. A few scripts suffered from poor spelling, grammar and punctuation.

9. The guideline length was around 550 words. Scripts which were very short (below 400 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 included unnecessary detail or were repetitive. For example, it was unnecessary to tell the policyholder that their letter had been referred to the actuarial department, who had assisted in preparing the response.

SOLUTION

Company Letterhead and address

Policyholder's name and address
< date>

Dear Mr Donohoe

Policy number 21252133 – ABC saver plus product

Thank you for your letter of 10 April. You have queried why, based on our February 2015 quote, the projected fund value at age 65 is so much lower than the value projected in 1995.

Firstly, I can confirm that the figures contained in the February 2015 projection are correct. The projected fund at age 65 shown in your latest statement is £88,270.93, compared to the corresponding quotation in 1995 of £215,577.

There are three main reasons for the fall in projected fund value at age 65, which I will explain below:

1. Impact of actual investment returns

In the 1995 projection, it was assumed that your investment of £25,000 would achieve a return of 9% each year up to age 65. Up to 2015, the return actually achieved has averaged 6% a year. This means the fund value at 1 February 2015 of £80,178 is around £60,000 lower than it would have been had the fund achieved returns of 9% a year as originally assumed. This is the main reason for the difference in the values.

Although the stock market has more than doubled since 2008, it is the return over the whole period since 1995 that is relevant to your investment, not just the performance since 2008. In addition, your funds are invested in our Diversified Mixed Managed Fund which means only half is invested in stock market investments with the rest invested in a mixture of property, bonds and cash. The investment performance is therefore not solely influenced by stock market movements.

2. Future investment returns

Recent changes to legislation require that a return of 5% a year is used for future projections. The 2015 projection therefore is based on returns at this level, which is much lower than the 9% a year assumed in 1995. This accounts for around £53,000 of the difference between the two projections.

The actual performance of the fund in future could of course be higher or lower than 5% a year.

3. Current money terms

Legislation also now requires projected figures to be quoted in current money terms rather than in money terms at age 65. As such, the 2015 projection is not a projection of the actual cash figure you would expect to receive at age 65 were the assumptions to be borne out in practice. Rather, to allow for the effect of inflation, the 2015 projection reflects the current purchasing power of your projected fund.

The current projection would be around £14,000 higher if it was expressed in cash terms at age 65 based on inflation of 3% a year.

Summary

There are three main reasons for the £127,000 difference in the projected figures, namely (with the approximate impact in brackets):

1. lower investment returns achieved between 1995 and 2015 than assumed (£60,000).

2. the legislative requirement to use 5% a year in projecting future fund values (£53,000); and

3. the legislative requirement to quote projected figures in current money terms (£14,000).

I recognise that you may be disappointed by our response and the much lower anticipated figures, but the 1995 projections were not guaranteed. Your eventual fund value will be based on the returns actually achieved and, as the 2015 projected figure is based on current money terms, the actual figure that you receive is likely to be higher.

If I can be of any further help please let me know.

Yours sincerely

S Briggs
Customer Services Department

Word Count = 563 words (excluding heading and sign off)

END OF EXAMINERS' REPORT