

INSTITUTE AND FACULTY OF ACTUARIES

EXAMINERS' REPORT

Subject CA3 - Communications (Presentation) March 2016

Scenario: Trustee training on annuity purchase at retirement

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 the slides required for the presentation is reproduced in this report; other valid approaches were given appropriate credit.

Fiona Layton
Chairman of the Board of Examiners

June 2016

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 slides below.

Candidates were asked to give a presentation at a training day for newly appointed trustees of defined contribution pension schemes covering some "simple rules" for annuity purchase.

Candidates were given clear instructions from their manager on what the presentation should include:

- *provide brief details on what an annuity is and the different types of annuity that are available...*
- *include three simple rules that trustees could use.*
- *provide an illustration on how annuity prices vary with age and then show how this leads to your "simple rule".*
- *One of the "rules" should be based on a single life annuity with 5 year guarantee at age 60. The other two "simple rules" need to consider the key factors affecting annuity prices.*

In addition candidates were given an example of what a "simple rule" was and a table of current annuity rates (with some further notes).

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 8-10 minutes. This timeframe should be sufficient for candidates to cover the content requested in the question. Presentations that were too short generally missed out on some of the required content. Presentations that were over about 11.5 minutes were usually repetitive or included unnecessary information. Where candidates realise that they have too many slides or they have unnecessary content in their prepared slides it is fine to move quickly over a slide and focus on the important content. Stating at the start of their presentation that they have a lot to get through and then speaking very quickly (so that the audience doesn't have time to absorb the messages being presented) isn't a good approach.
2. Most presentations had an appropriate first slide with a clear title, date and name of presenter.
3. 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.
4. There was a great variation in the quality of the format of slides. Good presentations had slides that clearly backed up the information that was being provided to the audience in a manner that they could understand. Some candidates had slides that included far too many different types of annuities on them. In such cases it was difficult for the audience to understand what was being explained.

5. 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. Similarly, asking the audience to read the slides doesn't work well in a presentation.
6. Some candidates included unnecessary mathematical jargon on their slides which was not appropriate to the audience. E.g. "N years" for a guarantee period with a comment that N is often 5 years.
7. There was a great variety in the simple rules that candidates included in their response. Better candidates included three simple rules including a simple rule based "on a single life annuity with 5 year guarantee at 60" as instructed. Poorer candidates didn't include the simple rule requested, included complex rules or didn't provide any information to back up their rules. Saying that a guarantee didn't make much difference to the price of an annuity didn't count as a simple rule (as a guarantee clearly then wasn't a key factor).
8. Better candidates completed their presentation with a brief summary of the three simple rules and provided the opportunity to ask questions.

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

SOLUTION

Slide 1

Simple Rules
ANNUITIES



Trustees Training Day
ABC Consultants Limited
May 2016
Lucy Todd

Slide 2

AGENDA

- Recap on annuities
- Factors that affect price of annuity
 - General factors
 - Factors specific to individuals
- 3 simple rules for annuity purchase
- Summary
- Questions

Slide 3

RECAP ON ANNUITIES

Simplest form annuity is:

- Regular income for life in return for lump sum

Variety of annuities available

- Single life



- Joint life



- Level

£££..

- Increasing

££££..

Slide 4

WHAT AFFECTS ANNUITY PRICE?

TWO key factors:

1. How long we expect it to be paid for

Longer = more payments = more expensive
Hence lower income bought from fund

2. The nature of the payments

Payments increase = more expensive
Hence lower income bought from fund

Slide 5

SPECIFIC FACTORS

FACTOR	HOW AFFECTS PRICE
AGE	Younger ages, annuity paid for longer - PRICE UP
JOINT LIFE vs SINGLE LIFE	Joint life paid for longer – PRICE UP
INCREASING vs FLAT	Increasing annuity pays out more – PRICE UP
GUARANTEE	Annuity guaranteed for minimum term - SMALL INCREASE IN PRICE

Slide 6

OTHER PRICING FACTORS

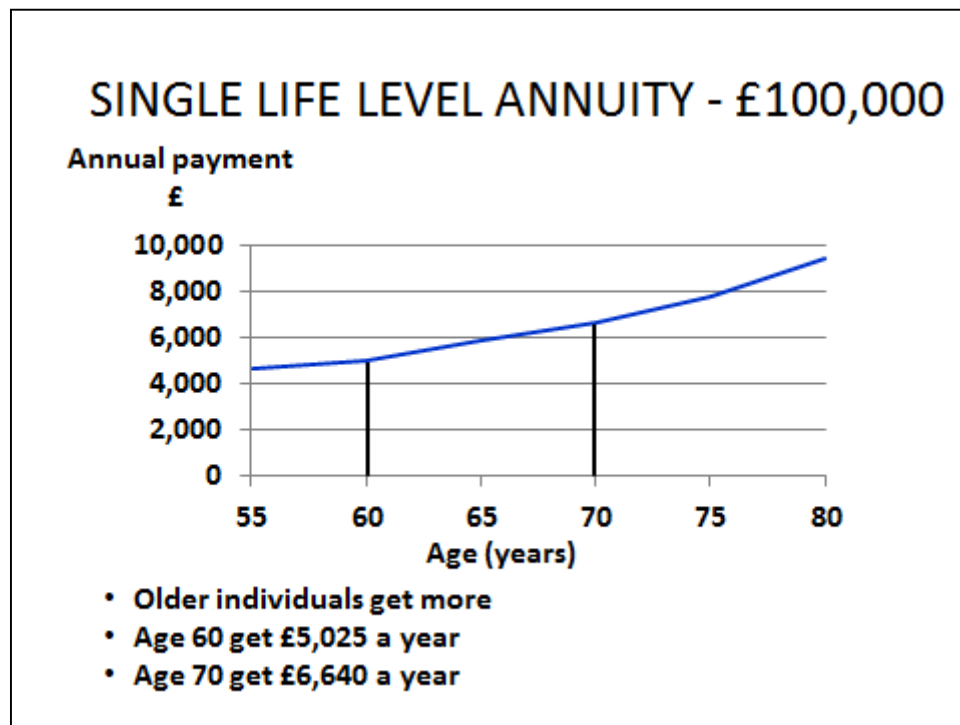
Items specific to person(s) covered by annuity

- Health of person(s) covered
- Other factors influence life expectancy:
where you live; lifestyle factors etc

Annuity purchase is complicated

Recommend buyers get Independent Financial Advice


Slide 7




Slide 8

SIMPLE RULES SINGLE LIFE, LEVEL ANNUITY

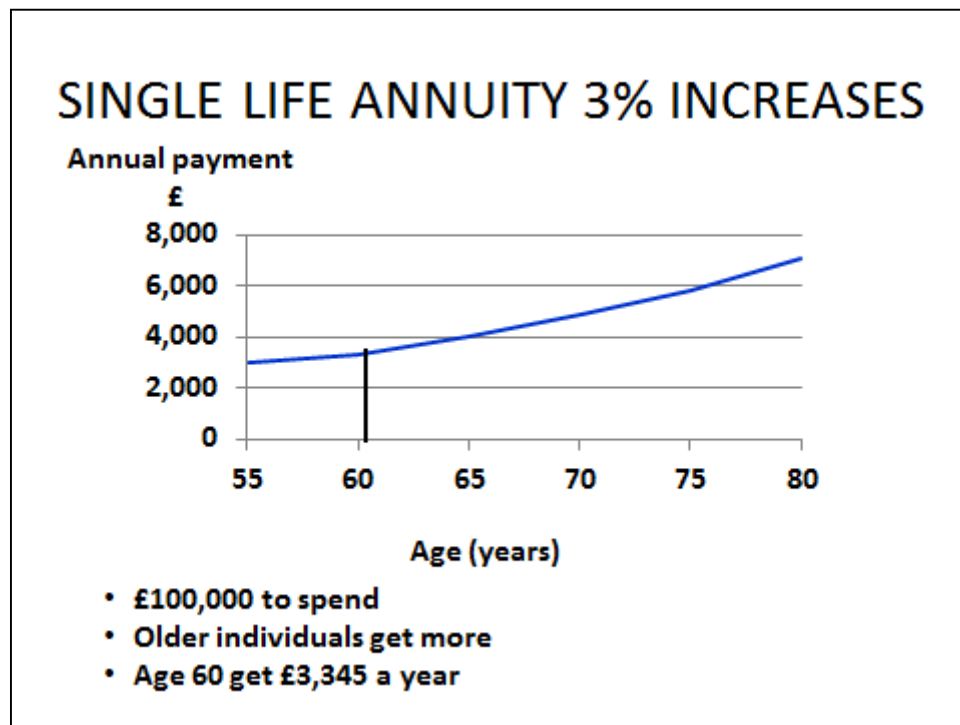
- Age 60 get around £5,025 a year
- $100,000 / 5,025 = 19.90$

 **Cash / 20 = level annuity at age 60**

- Age 70 get around £6,640 a year
- $100,000 / 6,640 = 15.06$

 **Cash / 15 = level annuity at age 70**


Slide 9



Slide 10

SIMPLE RULE SINGLE LIFE WITH 3% INCREASES

- Age 60 get around £3,345 a year
- $100,000 / 3,345 = 29.90$

 **Cash / 30 = 3% increasing annuity age 60**

Slide 11

SUMMARY

- **Annuity purchase is complicated**
 - Lots of different types of annuities;
 - Lots of factors taken into account in pricing
 - Recommend individuals take financial advice



3 simple rules for single life annuity

- Cash / 20 = level annuity at age 60
- Cash / 15 = level annuity at age 70
- Cash / 30 = annuity at age 60 with 3% increases

Slide 12

Questions



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END OF EXAMINERS' REPORT