INSTITUTE AND FACULTY OF ACTUARIES

EXAMINERS' REPORT

September 2012 examinations

Subject SA4 — Pensions and other Benefits Specialist Applications

Purpose of Examiners' Reports

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.

For numerical questions the Examiners' preferred approach to the solution is reproduced in this report; other valid approaches are given appropriate credit. For essay-style questions, particularly the open-ended questions in the later subjects, the report may contain more points than the Examiners will expect from a solution that scores full marks.

D C Bowie
Chairman of the Board of Examiners

December 2012

General comments on Subject SA4

This subject examines the ability of candidates to apply actuarial practice and concepts, together with specific knowledge of the UK pensions and employee benefit environment to potentially complex problems, integrating their analysis into a coherent whole, and evaluating and interpreting results to draw explicit conclusions.

The examiners therefore look for candidates to demonstrate their understanding of the syllabus by applying their knowledge and core actuarial skills to the specific situation that the examiners asked, having read the question carefully. Too many candidates write around the subject matter of the question in more general fashion, reproduce core reading that appears to them be relevant without linking it to the question context, or focus on one aspect of the issue at great length, in each case gaining few of the marks available. The examiners encourage future candidates to remind themselves of what they learned in the Core Actuarial subjects, and to use past paper questions to practice applying these skills to the specific scenarios tested.

Good candidates demonstrate that they have used the planning time well – an attempt to create a logical structure to solutions is a big advantage in making points clearly and without repetition. This also enables candidates to use the latter parts of questions to generate ideas for answers to the early parts (or use their solutions to earlier parts of questions to create a structure for latter parts). Time management is important so that candidates give answers to all questions that are roughly proportionate to the number of marks available.

Comments on the September 2012 paper

The overall standard of scripts was somewhat lower than the previous two sessions, and this was reflected in a lower pass rate. There was no indication that candidates consistently found any one of the three questions tougher than the other two – average total marks were similar for all three questions. Candidates' performance did vary on the parts of each question, however. More detailed feedback is provided on each question below.

1 (i)

Membership reconciles with last valuation

- A member reconciliation for the inter-valuation period to compare the membership at the last valuation with the membership at the current valuation
- Including movements
- This can be done for the active members, deferred pensioners and pensioners
- The reconciliation may be further subdivided between males and females, and categories of members
- Compare numbers of members with those presented in the Trustees' Annual Report and Accounts…
- and employment data that may be available

The result of a reconciliation should show that:
- the numbers of members are consistent with the last valuation; and
- the membership movements reconcile with the changes
- As the scheme is closed to new entrants, would expect the number of active members to decrease
- …and deferred pensioners or pensioners/widows to increase correspondingly over time

Missing data

- "Common sense" checks will often show up missing data
- e.g. an observation that there are no new retirees in the data might indicate that new retirees may have been processed incorrectly and excluded from the data
- Comparison with other sources of data, e.g. data for a group life scheme, or a group Permanent Health scheme (if available)

Data consistency

- Comparison of average salary and pension this time and last time
- As the actives are a closed group, any leavers or retirees with very high salaries may have a large impact on the average salary; will need to take this into account.
- Would expect average past service for members who are still active at this valuation to rise in line with the inter-valuation period
- Check with information from Trustee Report and Accounts (including an example e.g salaries consistent with contributions)

Data validation/Reasonableness checks

- Appropriate test values vary between schemes depending on how old the scheme is, what the benefits are, and other factors
- Examples of tests which could be applied are:
  - maximum and minimum current salary
  - age within certain ranges
- Comparison between last time's record and this time's record for individual members

Random spot checks

- The valuation data can be compared with data from other sources such as personnel or the administrator's data
- Particularly members with high liabilities as errors on these will have the biggest impact

Generally answered well, although some candidates scored poorly by providing too much detail on just two one or types of check, or by just listing checks they would carry out without further detail to demonstrate their understanding.

(ii)

Quality of data

- Insurers base their premium calculations on the member data provided for the scheme. They will therefore want data to be as accurate and complete as possible.
- Once an insurer has accepted scheme liabilities in exchange for a premium it must be able to guarantee that the benefits can be paid.
- The insurer takes on the risk of any errors in the data coming to light in future.
- Insurers will seek to reduce risk and protect their profit margins.
- Insurers may be willing to accept some uncertainty in the data, but to protect their profit may:
  - increase their premium
  - insist on indemnities allowing them to increase the premium after the deal is agreed
- Legislative uncertainty that affects benefits may require extra data – e.g. GMP equalisation (or other suitable example)
- Reinsurers may have stipulations on quality of data, which will impact the insurer.
- Whilst trustees would endeavour to hold data of the highest quality possible ...
- ... data held for funding valuation purposes may not be as accurate and complete as that required by an insurer
- The funding of scheme can be seen as an ongoing budgeting process, whereas the insurer has a "one-off" chance to price the liabilities correctly
- Any errors in the trustees' data that come to light can be corrected as they are found…
- and any adjustment to liabilities will be met with further employer contributions (or contributions reduced)

- Assumptions can be used to fill any gaps in the data, which can be corrected before the benefits come into payment
- Cautious assumptions can be used in line with the funding valuation requirement of prudence

Range of data

- Schemes may not hold the full list of data items that insurers use to calculate premiums
- Insurers will need to hold this data to obtain a sufficiently accurate assessment of its liabilities to ensure it is profitable…
- whereas trustees may be comfortable to make suitably prudent assumptions for funding purposes
- Spouses' entitlements may be calculated on payment by the trustees
- …assumptions for spouse's age and marital status are generally used as these may change prior to payment
- An insurer is likely to need details of spouses' entitlements to price accurately
- …and spouses' dates of birth for mortality assumptions
- …and to establish if a reduction for younger spouses is applicable
- Insurers likely to require extra data to set mortality assumptions
- e.g. postcodes
- ... and occupation details (or completed health questionnaires)
- Insurers will require addresses to administer benefits
- ... whereas Trustees may be willing to defer tracing deferred members until benefits come into payment.
- Insurers may not need some items used for ongoing funding valuation (e.g. active member salaries, benefit tranches where pensions are bought out with same pension increases)

Somewhat surprisingly, given the extensive hints given in the question as to what to cover, this part was not answered well by most candidates. The most common omission was to not cover ***why*** *data would be different i.e. where the objectives of the trustees of an ongoing scheme and those of an insurer transacting business for profit would differ, and why this would lead to different standards for data completeness and correctness. Another common failing was for candidates to devote too much time to those items that would be needed to calculate an accrued pension for an active member that would not be needed once the scheme had closed to future accrual. Stronger candidates did make use of all the instructions in the question to plan more complete answers.*

2 (i)

Assumptions

- Liabilities within each category distributed evenly over age range
- Investment returns achieved uniformly over period
- Contributions paid continuously at fixed rate
- Mortality in line with assumptions
- Pension increases applied continuously
- No other member movements

First estimate the cash flows (benefit payments) out of scheme for each group of members:

Formula for pensioners

5 years * annual pension * pension increases for average 2.5 years * mortality adjustment for average 2.5 years

5 * (12 + 30) * 1.032.5 * 0.992.5 = £220.5 million

Formula for deferred pensioners age 60–65.

Similar to pensioners except:

- Annual pension should be halved as deferred pensions come into payment gradually during the period
- Pension increase and mortality adjustments should apply for half as long

½ * 5 * 10 * 1.031.25 * 0.991.25 = £25.6 million
Deferred Pensioners under age 60: nil

Total cashflows out = 220.5 + 25.6 = £246.1 million.
Cashflows into Scheme = 5 * 20 = £100 million

Formula for projected assets:

Assets at start * (1 + interest)5 + net cashflows * (1 + interest)2.5

1,100 * 1.045 + (100 – 246.1) * 1.042.5 = £1,177.2 million

Formula for projected liabilities:

Liabilities at start * (1 + interest)5 – cashflows out * (1 + interest)2.5

1,604 * 1.045 – 246.1 * 1.042.5 = £1,680.0 million

Funding level at end = 1177.2 / 1,680.0 = 70%

Alternative Solution- Rolling forward

Pensioners

$(264 + 540) * 1.04^{5} - (5 * (12 + 30) * 1.03^{2.5} * 0.99^{2.5}) * 1.04^{2.5} = £735$ million

Deferred Pensioners under 60

$600 * 1.04^{5} = £730$ million

Deferred Pensioners age 60 - 65

$200 * 1.04^{5} – ((½ * 5 * 10 * 1.03^{1.25} * 0.99^{1.25}) * 1.04^{1.25}) = £216.4$ million

Assets as above

Funding level = 1177.2 / (735 + 730 + 216.4) = 1177.2 / 1,681.4 = 70%

Whilst many candidates did score full marks or close to it on this part, some lost their way by not being methodical in considering the impact on the different categories of member, or by ignoring the simplifying assumptions offered in the question (e.g. nil revaluation in deferment).

(ii)

- The deficit contributions paid over the period improve the funding level on both measures. Because the Scheme's CDF liabilities are smaller than the Scheme's full liabilities, contributions paid have a bigger proportional impact on the funding level relative to the Scheme's CDF liabilities.

- Benefits during the period are paid at the full rate for pensioners under age 65, but the CDF only protects 90% of the pension of these members. This causes the funding level relative to the Scheme's CDF liabilities to fall slightly over the period.

- When a member attains age 65, the benefit protected by the CDF jumps from 90% of the member's pension to 100% with a corresponding increase in liability. Members attaining age 65 therefore cause the funding level relative to the Scheme's CDF liabilities to fall over the period.

- When a pensioner receives a pension increase in payment, the benefit protected by the CDF increases by 3% with a corresponding increase in liability. Pension increases granted therefore cause the funding level relative to the Scheme's CDF liabilities to fall over the period.

- Expense allowance / experience may be different
- Changes in CDF assumptions

Very few candidates were able to explain convincingly how the design of the CDF benefits would, other things being equal, lead to a relative deterioration in funding level compared with the ongoing basis. Whilst other factors such as changes in the CDF basis may have an impact in practice, the inclusion in the question of some detail on the design (and the exclusion of information on the CDF basis) should have made it clear what candidates needed to cover. Some candidates did briefly mention the CDF design features, but did not ***explain*** *why the CDF and ongoing liabilities would behave differently.*

(iii)

General taxation – advantages

- Simple to administer
- Easy to implement politically as nobody has to pay immediately – just "the taxpayer" sometime in the future
- Unlikely to adversely affect employer-sponsored pension provision
- Just a small increase for individuals
- May help strengthen DB provision as effectively providing free insolvency insurance from State
- Possibly fair if most people are in DB schemes

General taxation – disadvantages

- Increases public sector spending…
- …either taxes will need to be increased at some point…
- …which is unpopular
- …or public spending cut…
- …or government borrowing increased
- Creates environment for "moral hazard"…
- …employers can promise employees generous defined benefit pensions…
- …to gain a competitive advantage in attracting and retaining staff…
- …with the taxpayer picking up the costs if the employer fails
- Unfairness: citizen with no pension or (inferior) defined contribution pensions…
- …have to contribute towards the pensions of citizens with "superior" defined benefit pensions
- Intergenerational issues:
- CDF is likely to have sufficient cash to pay benefits for many years to come…
- …so temptation will be for governments to defer contributions (tax rises) until the cash is needed…
- …future taxpayers may end up paying for the pensions of the current generation…
- …effectively increasing public borrowing by the back door

Levy – advantages

- Provided the levy can be set in the appropriate way
- It addresses the moral hazard issue…
- …employers who promise defined benefits will need to meet the cost of the default risk
- Encourages employers to run schemes responsibly
- It does not increase public spending
- It avoids unfairness issue
- It avoids the intergenerational issue
- Levies paid will be used for CDF whereas tax may be channelled elsewhere

Levy – disadvantages

- It increases costs on employers who sponsor defined benefit pension schemes
- Which could increase the rate of scheme closure in the country
- It could be seen as retrospective taxation as it applies to pensions promised in the past
- More complicated to introduce and administer
- The increased costs could put push some employers into insolvency at the margins…
- …exacerbating the problem the CDF was designed to solve
- Levies can fluctuate from year to year
- Employers may reduce contributions to pay levy…
- …or increase member contributions.

This question was answered particularly poorly, often because candidates did not have enough breadth to their solutions. Those candidates that did do well did so by considering all the stakeholders and their objectives in this context (as learned in CA1). Once they had identified a range of parties to the issue and then thought about the advantages and disadvantages of the two approaches for each, then the 16-mark question was broken down into something a little more manageable. Furthermore, the better answers were often more concise than the lower-scoring efforts, suggesting that time spent planning the answer to a high-mark question on an unfamiliar topic is likely to be a good investment.

(iv) **Possible reasons**

- The levy formula encourages employers to fund their schemes well: the higher the asset value, the lower the levy
- Schemes that are 100% funded relative to CDF liabilities still pose a risk to the CDF…
- …because the funding assessment on 1 January is a snapshot of the funding level…
- …which may be lower when the employer becomes insolvent…
- …due to poor investment returns…
- …or CDF liabilities growing faster than assets because of members reaching age 65…
- …or pension increases in payment being awarded by the scheme

- Scheme benefits are greater than CDF benefits. The government may wish to encourage employers to fund their schemes well relative to all benefits promised, not just CDF benefits
- It is a way for better funded (stronger) schemes to subsidise weaker schemes…
- …because the scaling factor can be smaller in order to collect a given amount of levy

This part was generally answered well, although weaker candidates often did not mention at all that schemes that are 100% funded still constitute a risk to the CDF.

(v) **Shortcomings**

- Expenses of implementation
- Funding assessment of each scheme required every 1 January
- Credit assessment of each employer required every 1 January
- …could make these less frequent but this would make levy a less precise measure of risk
- 12 month insolvency probability not a reliable guide to long-term risk posed by each scheme…
- …because financial strength of companies varies over time…
- …longer term credit assessments could be used but these may not be readily available
- Credit ratings may not be readily available for some employers such as charities or small companies
- Levy could be very high for weak employers with high insolvency probabilities…
- …making insolvency more likely…
- …could reduce impact by introducing an upper limit on P
- Does not take account of scheme investment strategy…
- …which is another key source of risk…
- …could introduce this to the levy formula at the expense of further complicating formula and increasing costs
- Formula may over-state risk posed by schemes where contingent assets are in place
- …for example, parent company guarantee, first charge over employer assets, bank guarantee
- …could introduce ways to give credit for these at the expense of further complicating formula and increasing administrative costs
- valuation is only a "snapshot"
- levy can be negative, set a minimum of zero
- possibly use smoothed asset/liability figures
- scaling factor is variable, but could be fixed, even if just for certain time period
- some schemes will have zero levy, but still present a small risk to the CDF, so could introduce scheme based levy too
- could take account of experience since valuation e.g. large contribution

Part (v) invited candidates to show that they could either use their knowledge of the UK PPF, or work from first principles to suggest shortcomings and improvements.

Some candidates did this well, but many, however, simply listed the aspects they recalled of the PPF formula (and the recent changes to it) without showing that they understood the existing limitations (or the omissions in our CDF levy formula), and why the changes / additions might improve its effectiveness.

3 (i)

Legal

- Trustees have responsibility to act in best interest of all members….
- …to follow Trust Law
- …and Trust Deed and Rules
- Will need to take legal and actuarial advice
- It is likely that the Trust Deed and Rules will need to be amended to allow the PIE to take place
- The Trustees' consent will almost certainly be needed for this…
- so the Trustees will need to be happy with the way in which the exercise will be run
- possible regulator guidance on incentive exercises which covers PIE
- (or industry voluntary code of practice)
- Sets out principles that a well-run exercise should follow
- This is only guidance (voluntary) but the Trustees are unlikely to back an exercise that doesn't adhere to the Regulator's guidance…
- and the Company will face a higher risk of potential mis-selling claims in the future if the exercise does not adhere to the Regulator's guidance.
- Pensions accrued from 6 April 1997 and GMPs are required by law to increase in a specified way in retirement…
- so the exercise may only allow members to exchange increases on pre 1997 excess over GMP.
- If uplift factors are dependent on sex or age there may be discrimination issues.
- The change in Rules is likely to be deemed a detrimental modification
- The Trustees must satisfy certain requirements where detrimental modifications are planned:
- Either the Actuarial Equivalence requirements
- Under this route, the trustees must ensure that the actuarial value of each member's and beneficiary's benefits is at least as great after the change as it was beforehand.
- This is unlikely to be possible for the PIE exercise.
- Or the Consent requirements
- Under this route, written consent is required from each member or survivor who will be adversely affected by the change.
- Unlikely that the Actuarial Equivalence requirements will be met, so member consent will be needed.

Practical

- The Company will need to contact all the current members; do they have complete and correct addresses?
- Need to ensure the pension data held is split into the correct components.
- The Company needs to consider whether spouses' consent will be obtained in order for their contingent pension to be exchanged; and if so…
  - how consent will be obtained and verified
  - will the spouse now be the same as at the member's death?

- The design of the offer will need to consider how to treat pensioners under GMP payment age
- Need to ensure the Scheme's administrators have sufficient capacity to implement the exercise
- Need to ensure that any Independent Financial Advisers appointed have sufficient capacity.
- Cost of exercise

Candidates did generally score reasonably well on this part. Candidates that did not score well typically discussed one or two (relatively minor) aspects at great length rather than cover the breadth of legal and practical considerations.

(ii)

- What is the company's objective – risk or liability reduction?

Risk reduction
- The starting point to produce the factors is an equation of value, on funding basis, best estimate or solvency

  Uplift * initial pension * a flat = initial pension * a increasing

- Where the annuities include allowance for a contingent spouse's pension

Liability reduction / saving
- However, the Company is likely to be seeking to profit from the exercise…
- So it is unlikely that all the value of the member's (and contingent spouse's) forfeited increases will be used to uplift their pensions
- The equation of value is therefore more likely to be:

  Uplift * initial pension * a flat = initial pension * (a flat + *X* * (a increasing – a flat))

- where *X* is the percentage of the value of future increases that is used to uplift the member's pension

Measure

- The percentage of the value of future increases is likely to be expressed on the Trustee's funding basis or a best estimate (*or CETV*) basis
- ...but may also consider impact on buy-out / accounting measures

Inflation assumption

- May be term-specific or one rate may be assumed for all members
- May be based on current market rates or a long-term assumption
- Consider what measure is appropriate for the Scheme e.g. CPI or RPI

Mortality assumption

- The starting point is likely to be the assumption used for the funding valuation of the Scheme
- But an assumption that is thought to be best estimate rather than prudent may be used
- Will need to consider any selection issues and whether to reflect this in the mortality assumption
- i.e. the members with a shorter life expectancy than assumed in the factors will be financially better off than those with a longer life expectancy as a result of the offer
- But in practice, a high proportion of pensioners may accept and the selection effect may felt to be small
- Need to consider how to allow for future improvements in longevity, since the calculation may cover a long period

Discount rate

- The uplift factors will not be very sensitive to the choice of discount rate.
- Likely to choose on a consistent basis with the mortality assumption
- …e.g. to reflect the funding valuation basis or a best estimate basis

Administration

- The factors may be a table specific to age and/or sex
- Or may be on a "per member" basis reflecting actual age, sex, spouse's pension, etc.
- Could use one uplift factor for all members for simplicity, but this is unlikely to produce the best financial result.

This part was not generally answered well - a number of candidates only covered the issues mentioned under 'administration' above, in great detail. Candidates should consider what they might cover if a client asked them "how would you determine the uplift factors?"

(iii)

Support

- The Pensions Regulator's guidance on incentive exercises says that:
  - Members should be given independent financial advice that is paid for by the Company and promoted in the strongest possible terms
  - Communication materials must be clear and give sufficient information to enable members to make an informed decision.
- The Trustees will expect the Regulator's guidance to be complied with.
- The offer will be a significant financial decision for the members.
- The level of support and information provided should take into account the financial sophistication of the membership.

- As the exercise is targeted at pensioners the offer may be made to some older people who may be less able to fully understand the offer.
- The Trustees are likely to expect that an independent financial adviser (IFA) is appointed to answer members' question on the offer…
- …and confirm that they understand its implications before accepting
- They may expect the IFA to take into account the individual circumstances of the member; for example:
    - What other income they have
    - Their state of health
    - Any tax implications
- As contingent spouses' pensions will be affected by the exercise, the Trustees may expect that spouses are able to speak with the IFAs.
- The Trustees will expect written explanatory material to be provided to members to consider the offer in their own time
- And may also expect presentations to be given, introducing the offer
- And a website where members can gain additional information,
- … perhaps with tools to illustrate the implications of the option
- Have a helpline or discussion forum
- Could have a "cooling off" period so members can change their minds

Information to be provided

- A clear explanation of what the offer is
- Figures showing how the individual's pension will change
- And how the spouse's pension will be affected
- This should clearly show which elements of pension are affected by the offer and which are not…
- With details of the increases in payment attached to each element
- How any lump sum death benefits will be affected
- Illustrations of how the member's existing pension might increase depending on different levels of future inflation
- Illustrations of when the member would become better/worse off by accepting
- Illustrative life expectancy figures e.g. national or scheme-specific data
    - These should be realistic and include allowance for future improvements
- Why the Company is making the offer
- Explanation of the risks the member is taking on by accepting
- A clear statement that members are not obliged to accept the offer
- An explanation of the process for accepting or declining the offer…
- Including any deadlines
- Whether the offer is a one-off or expected to be repeated
- Details of assumptions used
- E.g. inflation so member can take a view on whether actual inflation will be lower/higher than that assumed

This question was answered reasonably well by many candidates. Note that the solution above does reflect recent guidance (the Industry Code of Practice) but full credit could be achieved without specific knowledge of it – there are many more points needed than required to score maximum marks.

(iv)

Member's personal circumstances

- Some members may prefer to have a higher income early in their retirement when they may be more able to enjoy it
- Members who expect price inflation to be low are more likely to accept
- Members who expect to have a relatively short life expectancy are more likely to accept
- Attitude to risk; more risk averse members are less likely to accept
- Other sources of income: if the Scheme pension is a relatively small part of their income they are more likely to accept
- …and if they have other income that increases with price inflation they are more likely to accept
- Members for whom accepting the offer may impact on other means-tested benefits are less likely to accept
- Members for whom accepting the offer may have tax implications are less likely to accept; for example:
    - Pushing them into a higher income tax band
    - Annual Allowance or Lifetime Allowance charges
- Level of financial sophistication; members who are less financially aware may be more likely to accept if they do not fully appreciate the risks…
- …or may be less likely to accept if the offer does not engage them.
- Members will have their own view on their spouse i.e. age/health

Way in which the offer is conducted

- How generous to the member the offer is; the more generous the higher the take-up
- Take-up may be lower if members' spouses are required to consent to accepting, as this may be difficult to obtain
- Time in which members have to decide; take-up may be lower if members feel rushed
- Clarity of communication materials; if members do not understand the offer they are unlikely to accept…
- …but if the risks are not made clear more members may accept.
- Age of members included in the exercise; older members will see a lower uplift to their pension so may be less likely to accept…
- …and they may find it more difficult to understand the offer
- If independent advice is provided free of charge more members are likely to engage, leading to higher take-up…
- …but speaking to an IFA may make the risks of accepting clearer to members, so reducing take-up
- Take-up will increase if the address data held for members is complete and correct.
- Sending out reminder letters before the close of the offer may increase take-up.
- If members feel pressured into making a decision this may reduce take-up rates…
- …or it may have the opposite effect.

- Trustee support – if exercise is supported by trustees may improve take up as members more likely to trust them than employer

Again, this part was not answered well. Candidates often limited their answers to what were effectively lists of factors and design features without demonstrating they understood how each might affect the take-up rate.

(v)

- The pensioner exercise will be a one-off, whereas retirements will occur on an ongoing basis
- ...Therefore support/advice will need to be available all of the time
- The pensioner exercise will target a large group, but there may only be a handful of retirees at any one time
- ... so e.g. presentations less cost effective
- Greater proportion of pension will be post 97 i.e. statutory increases so less benefit typically affected
- ... it may not be as material a decision for some individuals, so less demand for advice
- ... and lower potential saving may make a full set of advice disproportionately expensive
- Pensioners will only be making a decision on whether to exchange their pension increases, but retirees will be making other decisions at the same time; for example:
  - Whether to retire at that time
  - How much of their pension to take as a cash lump sum
  - Other options such as income drawdown
- New retirees will have less idea about what level of income they will need in retirement than current pensioners.
- Standard written member communications used at retirement will need to be amended to cover the option…
- …and the interaction with other decisions.
- Tax implications are more likely to be relevant at retirement
- For example, an increase in pension as a result of accepting the offer will count towards the member's Annual Allowance
- ... so advice may need to cover tax issues as well

Very few candidates made a reasonable attempt at this part of the question, perhaps because of time pressure. The examiners were, however, just looking for any combination of different decision / circumstance and plausible consequence for the advice.

END OF MARKING SCHEDULE