

EXAMINATIONS

3 April 2001 (pm)

Subject 201— Communications

Time allowed: 1½ hours

INSTRUCTIONS TO THE CANDIDATE

Write your surname in full, the initials of your other names and your Candidate's Number on the front of the answer booklet.

AT THE END OF THE EXAMINATION

Hand in BOTH your answer booklet and this question paper.

<p><i>In addition to this paper you should have available Actuarial Tables and an electronic calculator.</i></p>
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You advise a large manufacturing company. The company plans to introduce a share option scheme for all employees. Each employee will be given one opportunity to join and may choose a fixed amount (between £20 and £100) to save at the start of each month for 5 years. After 5 years the employee is entitled to the total amount saved plus 3% a year effective compound interest. The employee can either take this as a lump sum, or opt to buy shares in the company at a fixed price of £9 each (the current share price in the open market is £10).

An employee may choose to stop making monthly savings at any time during the 5 year period and must do so on leaving the company. A lump sum is then payable immediately equal to the total amount saved plus 3% a year effective compound interest. There is then no option to purchase shares at the fixed price.

You have been asked to draft an explanatory leaflet to employees explaining the scheme. A more detailed booklet including an application form is available on request.

Draft the text of the leaflet in between 450 and 550 words. You should cover the following points:

- The mechanics of the scheme, including what happens if an individual stops saving during the 5 year period or leaves the company.
- A comparison with a savings account, where the current interest rate would be above 3%, but without the share option.
- An example, illustrating what an employee might receive if the share price rose by 30% over the period or fell by 30%
- The existence of the detailed booklet.

You are not expected to cover any other points — for example, eligibility to join, possible tax implications, what date's share price is to be used, what happens if payments are amended rather than stopped, or where to go for advice. You may ignore regulatory restrictions on giving investment advice

Note: $\ddot{s}_{\overline{5}|}^{(12)}$ at 3% compound interest is 5.39502.