EXAMINATIONS

18 September 2002 (pm)

Subject 201— Communications

Time allowed: 1½ hours

INSTRUCTIONS TO THE CANDIDATE

1. *Enter all the candidate and examination details as requested on the front of your answer booklet.*

2. *You have 15 minutes at the start of the examination in which to read the questions. You are strongly encouraged to use this time for reading only, but notes may be made. You then have 1½ hours to complete the paper.*

3. *You must not start writing your answers in the booklet until instructed to do so by the supervisor.*

AT THE END OF THE EXAMINATION

Hand in BOTH your answer booklet, with any additional sheets firmly attached, and this question paper.

In addition to this paper you should have available Actuarial Tables and your own electronic calculator.

You work for an insurance company that provides pensions. A customer has written to query his pension quotation:

He is currently aged 63 and has an accumulated pension fund of £115,000. Your company has recently quoted that this would provide an immediate pension of £600 each month.

Three years ago, when his pension fund was only £100,000 and he was considering retiring at age 60, your company also quoted an immediate pension of £600 each month.

The customer wants to know why he doesn't get more pension now, given that he has a bigger fund to start with, and a pension commencing at age 63 will be paid for fewer years than if it had commenced at age 60.

You have found two significant facts on which your reply is based:

- Interest rates used to calculate the cost of the pension are lower than they were three years ago. This is because the bond yields available in the market have reduced.

- Last year your company reviewed its mortality basis and moved to a table with lower mortality rates, following a change in industry-published tables.

Draft a letter to the customer in 500 words to explain why the monthly pension amount has not grown.

Notes:

- This is a single-life pension, with no escalation or guarantee period. Your answer should ignore other types of pension, alternatives to pension, and any option to transfer the fund proceeds to another company to provide the pension.

- You should assume that the customer is expected to experience standard mortality. Your answer should not consider impaired life annuities.

- Replies should ignore taxation.

- Replies should ignore the select period in annuitant mortality.

- Replies may refer to the investment returns available in the market, but should not go into detail on the types of assets available.