

EXAMINATIONS

September 2000

Subject 201 — Communications

EXAMINERS' REPORT

Comment

Candidates were asked to draft a letter to a trustee explaining why the average salary was now lower than at the previous valuation, whilst the valuation report stated that salaries had increased by more than the 4% previously assumed. This report summarises the main points that the examiners were looking for and some common problems encountered.

1. Some scripts referred to the letter received from the trustee, and then jumped straight into the explanation without any description of the query.
2. A number of replies contained technical phrases such as “inter-valuation”, “salary scheme progression”. These were not appropriate or necessary. A number of scripts made reference to “liabilities” or “valuation basis”. Whilst the trustee will have some exposure to this terminology, it is still not likely to be readily understood. Thus it was not appropriate for these words to be used liberally throughout the letter.
3. Some scripts included unnecessary and complex formulae.
4. The technical content of this question was relatively straightforward, and most candidates had understood the technical points. However, some explanations were poor. In particular, some scripts did not quote any numbers, and thus lost a powerful part of the explanation.
5. A number of questions contained tables, either in the text of the letter or as an appendix. In general these were helpful. However, some scripts used a table, but failed to draw out the main messages in the text of the letter. This was a particular problem where the numbers were shown in an appendix.
6. Some scripts were over-simplistic, and hence patronising. This was particularly prevalent in the explanations of part-time workers and lower earnings. For example it was not necessary to state that part-time employees worked fewer hours than full-time employees.
7. The guideline length was 400-500 words. The better scripts were generally in the range of 400 to 450. Scripts which were below 400 words generally missed out some of the explanation. Scripts which were longer than 500 included unnecessary repetition or irrelevant detail and thus lost the reader in the complexity of the message.
8. A number of scripts lost marks because they appeared to be disorganised and/or did not make appropriate use of paragraphs. Other scripts lost marks due to excessively long sentences. Poor spelling, grammar and punctuation were also penalised.
9. Most candidates made good use of headings. Candidates lost marks where the heading did not relate to the text that followed.
10. A few candidates lost marks because they addressed the letter to “Dear Mr. xxxxx” and then did not end with “Yours Sincerely”.
11. A number of scripts lost marks because they did not have a conclusion or summary.

A possible letter is attached. It does not cover all the possible points, and is not intended to be a model solution. In practice a wide range of solutions was acceptable.

Trustee's Address

My Address

Date

Dear Mr Smith,

Re: XYZ Pension Fund — 2000 Valuation Report

Further to your letter of 6th August 2000, in which you queried the levels of salary increase within the valuation report. This letter examines why the average salary is now lower than at the previous valuation, despite the fact that salaries increased by more than the 4% per annum previously assumed.

Salary increasing by more than assumed

In my previous valuation report, I assumed that salaries would increase by 4% per annum.

Looking at the 500 employees who were in the scheme at both the most recent and the previous valuation, the salary information is:

| | |
|---------------------------------------|---------|
| Average salary at previous valuation: | £30,000 |
| Average salary at this valuation: | £34,700 |

Giving an average increase of 5% per annum.

However, during the same period, 300 members left the scheme and were replaced by a further 300 joiners. The salary information for these members is:

| | |
|---|---------|
| Average salary at previous valuation of those who subsequently left: | £34,000 |
|---|---------|

| | |
|--|---------|
| Average salary at this valuation of those who joined during the period: | £18,900 |
|--|---------|

As can be seen, the average salary of those who joined is significantly lower than the average salary of those who left. This has more than offset the large rise in salaries of those who stayed throughout the period.

Reason for change in average salaries

The main reason behind the reduction has been in the change from full-time to part-time employees. At the previous valuation, only 100 of the 800 employees were on a part-time basis. At the recent valuation, 300 of the 800 employees were part-time.

Conclusion

The average salary of pension scheme members has been significantly influenced by the leavers and joiners between the two valuation dates. In particular:

- The average salary of those who were in the scheme throughout the period increased by more than the valuation assumption of 4% per annum.

However, this was more than offset by the lower salaries of those joining compared to those who left. As a result, the average salary of all scheme members was lower at this valuation than the previous valuation.

- There has been a significant increase in the proportion of part-time workers. This has reduced the average salary of scheme members.

I trust this has answered your questions concerning the scheme salary dynamics. If you have any further questions, please contact me at the above address.

Yours sincerely,

Signature

A N Actuary, FIA