

EXAMINATIONS

September 2002

Subject 201 — Communications

EXAMINERS' REPORT

Introduction

The attached subject report has been written by the Principal Examiner with the aim of helping candidates. The questions and comments are based around Core Reading as the interpretation of the syllabus to which the examiners are working. They have however given credit for any alternative approach or interpretation which they consider to be reasonable.

K G Forman
Chairman of the Board of Examiners
12 November 2002

Candidates were asked to draft a letter to a customer explaining two pensions quotes. This report summarises the main points that the examiners were looking for and some common problems encountered.

1. Candidates were asked to draft a letter on behalf of their company to a customer. Most candidates succeeded at this, but a small number were over-friendly. Candidates also lost marks if they did not have a heading to the letter.
2. The better scripts had an opening paragraph that demonstrated understanding that the customer could quite reasonably have expected an increase in pension. Some candidates lost marks for simply referring to a letter received without stating the nature of the customers' query.
3. Some candidates lost marks because their letter seemed to be theoretical, eg by talking about "the pensioner" as if they were someone different to the addressee of the letter, or referring to a pension of £X per month.
4. A significant number of scripts included words of jargon. Words such as "mortality" and phrases such as "expected returns" and "bond yields" were unlikely to have been understood. The better scripts discussed the number of years for which pensions were payable, and interest rates on investments.
5. Better candidates made good use of headings and paragraphs. However some candidates lost marks because their headings were not relevant or were excessively long. Marks were also lost if there were headings for the opening sections and then no headings for later sections. Poor spelling, grammar and punctuation were also penalised.
6. Some candidates lost marks for repetition.
7. A number of candidates lost marks because the main purpose of the letter was devalued by the focus on minor points or irrelevancies, such as descriptions of how mortality tables were prepared, or stockmarket movements.
8. Most candidates gained marks for giving the customer the opportunity to ask further questions.
9. The technical content of this question required the candidate to explain the impact of changing interest rates and the use of updated mortality tables. Candidates lost marks where:
 - the script implied that the fund remained invested, and it could run out of funding. Some scripts could have left the customer with the impression that if they lived beyond the expected lifetime, their pension would cease.
 - the scripts stated or implied that the expected number of pension payments was greater starting from age 63 than it had been from age 60.

10. The guideline length was 500 words. Scripts which were below 450 words generally missed out some of the explanation. Scripts which were longer than 550 often lost marks for including unnecessary repetition or irrelevant detail.

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.

any-company
any-address
date

Mr S Smith,
any-address

Dear Mr Smith,

Ref: Policy xxxx – quotation ref yyyyy

Thank you for your letter dated 1 September 2002, in which you queried your recent pension quotation. In particular, you queried why you have been quoted a pension of £600 per month, which is the same as you were quoted 3 years ago. This is despite the fact that over the last 3 years your pension fund has grown from £100,000 to £115,000, and you are now 3 years older.

I shall firstly look at how the pension amount is calculated, and then look at the two major factors, and how these have changed over the three year period.

Calculating your pension

In calculating your pension, there are two main factors:

- how long you might live
- what rate of investment return we can obtain — if we expect to obtain higher investment returns in the future, we can then afford to pay you more pension each month

Looking at each of these in turn:

How long you might live

As you have correctly pointed out — your pension will be payable for a shorter period than had it commenced three years ago. And therefore, quite reasonably, you expect that you should get more pension for every £1 of pension fund.

However, two years ago there was a national survey of how long people are living. This showed that people are living for longer than was previously expected. Therefore we have reviewed our calculations, and now use the more recent survey. This has reduced the amount of pension we offer for each £1 of pension fund for a 63 year old pensioner today compared to a 63 year old pensioner 3 years ago.

What rate of investment return

As you may be aware, interest rates for savings accounts have fallen over the last few years. In a similar way the investment returns for long-term investment have also been reducing. In looking at your pension fund, we will need to invest most of your money for 10, 20, 30 years or more — which is the period over which the pension will be paid. We can invest money

today for these periods — but it will get a lower investment return than had it been invested three years ago.

So, we have also updated our calculations to take account of the lower expected investment returns. This has further reduced the amount of pension we offer for each £1 of pension fund.

Summary

Your pension quotation has been affected by two factors:

1. We have reviewed our calculations to take account of the most recent national survey on how long people are living.
2. We expect that we will receive lower investment returns than had we invested three years ago.

Taken together, these two factors have fully absorbed the growth in your fund size from £100,000 to £115,000. Consequently, our quotation of £600 per month is the best that we can offer at the moment.

I trust that this has answered your query. If I can be of any further assistance, please contact me at the above address.

Yours sincerely,

<signature>

Name

Job title