EXAMINATION

April 2006

Subject CA3 — 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.

M Flaherty
Chairman of the Board of Examiners

June 2006

Comments

Individual comments are given at the beginning of each question.

Comments on question 1:

Candidates were asked to draft a letter to a friend explaining whether the charge was 1% or 1.1% and to demonstrate how to check whether the illustrated value of £7,145 was approximately correct. The main points that the examiners were looking for and some common problems encountered were as follows.

1. *Most candidates had a suitable opening paragraph to the letter. Scripts gained marks for a clear summary of the friend's queries, but not where the opening paragraph was lengthy and repetitive.*

2. *The replies gained marks where they expressed an understanding of the apparent contradiction between the 1% and 1.1%.*

3. *Many candidates managed to explain the meaning of the 1% and the 1.1%. Some scripts erroneously stated that one was correct and the other incorrect.*

4. *Some candidates had difficulty in drafting information in a way which was straightforward and still technically correct. For example some candidates failed to understand that the question was about "investment returns", and not about rates of interest. Some scripts used phrases such as "you will receive 8%".*

5. *Most candidates used an example of a yearly payment and gave the example as if the 1% was taken at the end of the year. This was generally a successful approach.*

   Some candidates erroneously stated that the 1% charge was taken at the end of the year. This was incorrect, and potentially misleading as the friend was investing monthly.

   The better scripts used the yearly example but used words such as "for example where the 1% is taken at the end of the year".

6. *Some candidates used an approach where the 1% was taken at the start of the investment. This also could be made to work. Candidates who explained both the 1% being taken at the start of the year and the 1% at the end of the year tended to over-complicate the reply.*

7. *Scripts needed to provide an explanation of how the friend could check the £7,145, rather than just a statement that the number was correct. The explanation needed to be sufficiently detailed that the friend could take their own calculator and get to the same approximate number.*

   - *Some scripts used excessive numbers, writing each part of the formula for each of 5 years.*
   - *Some scripts arrived at an approximate number but then did not link this back to the £7145 to explain that the number was slightly different with a brief sentence on the reason.*
   - *Some scripts had missing steps, such as just stating that £6,000 invested for 2.5 years would amount to £X.*
   - *Some scripts had difficulty in applying the 1% charge within this calculation.*

8. *Some candidates lost marks because of the use of jargon, such as ^5, compound interest, or for excessive use of percentages.*

9. *Many scripts gained marks for a good final paragraph which briefly summarised the main points and finished with comments suitable for a letter to a friend.*

10. *Most scripts were in a suitable format and tone to be a letter to a friend. A minority of scripts appeared to be closer to a formal letter to a customer. Better scripts made mention that the investment returns could vary and this would have a greater impact than the charges.*

11. *A number of scripts suffered from poor spelling, grammar and punctuation.*

12. *The guideline length was 400 words. Scripts which were below 350 words generally missed out some of the explanation. Scripts which were longer than 450 often lost marks for including unnecessary repetition or irrelevant detail.*

A possible answer is attached. In practice a wide number of solutions were acceptable.

1 Dear Mark,

Thanks for your letter — sounds as if your holiday was excellent.

I've also had a look at your plans to start saving. I agree with you that it's not exactly straightforward, but I can explain how you can tell if the £7,145 is roughly correct, and whether your charge is 1% or 1.1%.

How much might your fund grow to

There are a few ways that you might work out if the £7,145 is right. One way would be to ask someone to use the exact formula. And the good news is that I have checked it, and it is right.

Another good way would be to think about how much it might be roughly.

Over the 5 years you pay in £100 each month for 60 months — a total of £6,000.

The first payment you make will grow for the full 5 years, whereas other payments will be there for a shorter period. On average, your payments are invested for 2.5 years.

If you took the 8% growth less the 1% charge (7% overall) for 2.5 years, the calculation would be:

$$7\% \times 2.5 \text{ years} \times £6{,}000 = £1{,}050 \text{ plus the } £6{,}000 \text{ paid in} = £7{,}050$$

As you can see it's actually a bit more than that. This is because from year 2 onwards, you also start to get more investment return on the whole fund that's there, including the previous year's growth. For example, your first payment of £100 would grow to £107 after the first year; and in the next year would grow by 7% of £107 = £7.49.

Is the charge 1% or 1.1%?

The charge is 1%, but it is on the whole of the fund. So looking at your first monthly payment of £100, by the end of the first year it would have grown to £108 before charges. The 1% charge would be £1.08. So after charges you would be left with £106.92.

Which is the same as you would have received if there were no charges but 6.92% growth.

And importantly

Of course this maths is great, but the important issue will be the rate of investment return that you get. The difference between getting 6% or 8% return would be much more significant than whether the charge is 1% or 1.1%.

So the good news is that the figures are correct, and the charge is just the 1%. I hope this is useful. If you'd like to chat it over do give me a call. I look forward to seeing some of your holiday photos next time we meet.

Cheers,

Martin <456 words>

Comments on question 2:

Candidates were asked to draft a presentation about a personal pension plan to an audience of new graduates in a marketing department.

1. *Most scripts had an appropriate first slide with a clear title, date, name of presenter.*

2. *Most scripts had an agenda. On better scripts the agenda linked directly to the titles of the following slides.*

3. *There was a great variation in the quality of the format of slides. There were examples both of slides with only a few bullet points, and slides with too much information.*

4. *Better scripts included a variety of formats on different slides, with perhaps a couple of different graphs and a table, or a graph and a diagram.*

5. *Some scripts were over-complicated by having several graphs on one slide, or a very complicated diagram.*

6. *Candidates made different choices as to what information they presented in a graph. Some scripts stood out as where they illustrated a key point very clearly using a graph. A good example was found in scripts showing how the amount of annuity which could be purchased had fallen over the years.*

7. *Candidates were expected to sift the information provided and choose the parts that were relevant for the audience. Scripts which included all the information had slides which were too busy, and also missed out on getting the main points across, clearly, to the audience.*

8. *A number of presentations missed the opportunity to change the language away from the technical jargon that was provided. For example, words such as policyholder, bond yields, impaired life, mortality and joint life would all be unfamiliar to the audience.*

9. *Most scripts had correct spelling. The exam paper had incorrectly referred to annuities on the life of a dependent rather than a dependant. No marks were deducted for incorrect spelling of this word in scripts.*

10. *Some candidates put full-length narrative sentences on the slides. This was not appropriate to the slide format and tended to make slides over- busy.*

11. *Where scripts included a table, marks were gained for how clearly it brought out the messages. Large tables of data were unlikely to bring out the key messages clearly.*

12. *Where scripts included a graph, marks were gained for the appropriate labelling of axes.*

13. *Most scripts gained marks for having a closing slide. The better scripts include a brief summary of the key messages and the opportunity to ask questions.*

14. *Most scripts gained full marks for being between 6 and 9 slides.*

15. Candidates were not asked to provide a script to accompany the presentation.

A possible solution is attached. It is not intended to be a model solution. In practice a wide range of solutions was acceptable.

2

The ABC Pension Plan

J Smith

March 2006

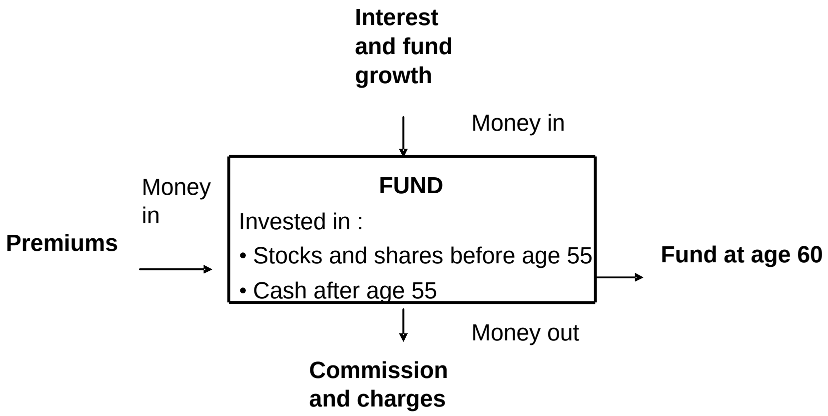
1

Agenda

- The Personal Pension Plan
  - Factors affecting the amount of fund
- What is an annuity
  - Factors affecting the amount of annuity
- Illustration of amount of annuity
- Experience of annuity rates to date
- Summary

2

The ABC Pension Plan



- Fund at age 60 used to buy an "annuity"
  - amount increasing each year; or
  - certain proportion paid to dependent on individual's death

3

What affects fund at age 60?

- Level of premiums
  - generally, the more you put in, the more you get out
- Investment return
- Examples for individual aged 40 paying premiums of £1,000 pa

Impact of different growth rates on fund at age 60 shown below (ignoring all charges).	**Fund at age 60 (£)**
Growth at 8% pa to age 55 and 5% pa thereafter	44,500
Growth at 6% pa to age 55 and 4% pa thereafter	36,600
Growth at 4% pa to age 55 and 3% pa thereafter	30,300

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What is an annuity?

- Regular payment made by the life office from age 60 in exchange for a given sum of money
- Amount of annuity affected by
  - Interest rates prevailing at retirement
  - Type of annuity purchased (e.g. increasing or level; with or without a dependant's annuity etc)
  - How long person expected to live for after age 60

5

Illustration of annuity

- Amount of Annuity at age 60 for lump sum of £44,500 (figures in £ p.a.)

	Individual only		*Individual plus dependant's*	
Interest rate at age 60	***Level***	***Increasing at 3% p.a.***	***Level***	***Increasing at 3% p.a.***
4% pa	2,780	1,855	2,620	1,710
6% pa	3,420	2,340	3,180	2,225

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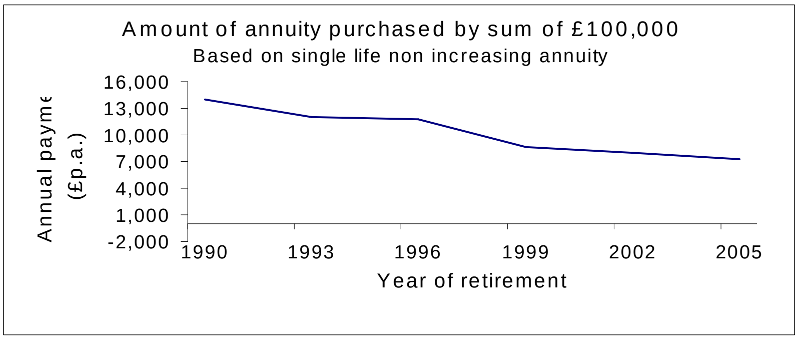
Experience to date



- Fall in annuity payments due to
  - mainly a fall in interest rates since 1990
  - improvements in how long an individual is expected to live for since 1999

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Summary

- Premiums paid, invested until age 60, building up a fund
- Generally, more money paid in, greater the fund
- Fund at age 60 used to buy an annuity
- Amount of annuity depends on
  - Level of premiums paid and duration paid for
  - Growth rates up to age 60
  - Interest rates prevailing at age 60
  - Type of annuity purchased
  - Length of time individual expected to live for
- Questions

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END OF EXAMINERS' REPORT