

EXAMINATION

5 April 2005 (am)

Subject SA4 — Pensions and other Benefits Specialist Applications

Time allowed: Three 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 three hours to complete the paper.*
3. *You must not start writing your answers in the booklet until instructed to do so by the supervisor.*
4. *Mark allocations are shown in brackets.*
5. *Attempt both questions, beginning your answer to each question on a separate sheet.*
6. *Candidates should show calculations where this is appropriate.*

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 the 2002 edition of the Formulae and Tables and your own electronic calculator.

- 1** A UK company currently runs two separate final salary pension arrangements with the following details:

	Scheme A	Scheme B
Fund Size	£280 million	£100 million
Active members	5,000	250
Deferred pensioners	1,200	3,000
Current Pensioners	500	1,000
Current funding level (same ongoing valuation basis)	140%	100%
Contracted-out	Yes	No
Member contributions	5% of Pensionable Salary	3% of Pensionable Salary
Accrual rate	1/60 th	1/80 th
Pensionable Salary	Total taxable earnings in previous tax year	Basic Salary on 1 January
Final Pensionable Salary	Highest three year average of Pensionable Salary in last ten years	Highest Pensionable Salary in last five years
Death in service	3 × Pensionable Salary plus 50% of prospective pension	4 × Pensionable Salary plus 50% of accrued pension
Death after retirement	50% of member's pension	50% of member's pension
Pension increases	Minimum under legislation	Inflation subject to a minimum of 3% p.a.
Discretionary increases	Ten year history of inflation linked increases	None

It has been proposed by the company that Scheme B will be transferred in full into Scheme A without obtaining individual consent from the members. Members of Scheme B will then earn future service benefits based on the Scheme A benefit structure but will retain their current benefit structure in respect of service up to the date of the merger.

- (i) Set out the advantages and disadvantages to the employer of merging the two pension schemes. [9]
- (ii) Outline the issues that will be needed to be addressed by the trustees of the two schemes when considering the company's request. [11]

- (iii) Describe the issues that an actuary needs to consider when providing an actuarial certificate to allow a bulk transfer to proceed without member consent. [8]
 - (iv) Discuss the implications of the proposed merger for current active members of Scheme B and the actions they might take. [14]
 - (v)
 - (a) Outline the factors that a deferred pensioner in Scheme A might consider when deciding whether or not to transfer out of the Scheme prior to the merger. [8]
 - (b) Describe how the position will have changed for this individual after the merger has taken place. [4]
 - (vi) Describe, in general terms, how the investment strategy for Scheme A may change following the merger. [6]
- [Total 60]

2 A UK company has a well established final salary pension scheme.

You have been appointed to advise a potential purchaser of the business and have been provided with a copy of the last actuarial valuation report which gives details of the valuation carried out three years ago. The potential purchaser has previously only provided defined contribution pension arrangements for its employees and has no experience of running a final salary pension scheme.

- (i) Describe those factors which may have led to the scheme's financial position changing over the three year period together with the information you should request in order to carry out an approximate assessment of the impact of each of those factors on the scheme's current financial position. (A list of individual member data is not required.) [20]
 - (ii) Describe the different risks that the purchaser will be taking with the final salary pension scheme when compared with the current defined contribution pension arrangements. [10]
 - (iii) Suggest options that the potential purchaser may have to reduce the risks associated with the final salary pension scheme. [10]
- [Total 40]

END OF PAPER