INSTITUTE AND FACULTY OF ACTUARIES

EXAMINATION

20 April 2018 (pm)

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

3. *You have 15 minutes of planning and reading time before the start of this examination. You may make separate notes or write on the exam paper but not in your answer booklet. Calculators are not to be used during the reading time. You will then have three hours to complete the paper.*

4. *Mark allocations are shown in brackets.*

5. *Attempt all three questions, beginning your answer to each question on a new page.*

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 from the approved list.

1 A UK company (Company X) is a subsidiary of an overseas parent. It has been experiencing trading difficulties and the parent has decided to cease operations in the UK. Company X operates two UK subsidiaries of similar size (Company A and Company B), which both participate in the same defined benefit pension scheme (Scheme X). The pension scheme had a deficit of 5% based on its technical provisions at the valuation conducted two years ago.

The directors of Company X have written to the trustees of Scheme X with the following information:

- None of Company X, Company A or Company B would be able to meet any part of the employer debt payment that would arise upon the insolvency of these companies.

- Agreement has been reached to sell Company A to an entirely separate company (Company Y) and this transaction is imminent.

- Company Y has agreed that defined benefits will be offered to active employees of Company A who transfer their pension. The benefits to be offered on transfer will be equal in value to the transfer amount that is paid from Scheme X.

- It has not been possible to sell Company B and therefore it will be closed down and its employees made redundant.

- Once the transfer payment has been made to Company Y's scheme, the overseas parent will make an additional discretionary payment to Scheme X so that the trustees can purchase 103% of Pension Protection Fund (PPF) benefits based on prevailing insurance market buyout terms on the date the payment is made in respect of all remaining Scheme X members. In return, the trustees will agree that no further payments from any other group company will be made.

The trustees would like to respond to the letter and have asked for advice from the Scheme Actuary on the issues that they should take into account.

(i) Outline the alternative methods that could generally be adopted when determining the transfer amount that could be paid to a purchaser's pension scheme. [6]

(ii) Discuss the issues that should be considered in relation to the proposal to make a transfer payment to Company Y's pension scheme. [8]

(iii) Describe the benefits that are offered by the PPF. [6]

(iv) Discuss whether the proposal to provide an uplift of 3% to PPF benefits is equitable between the remaining members of Scheme X (i.e. after the transfer of some members to Company Y's pension scheme). [7]

(v) Set out the risks to the remaining members of Scheme X if the trustees accept the proposal. [3]

[Total 30]

2 (i) Describe briefly six certificates that are or could be required to be provided by the Scheme Actuary of a UK defined benefit pension scheme. [6]

(ii) Describe the considerations that the Scheme Actuary needs to take into account in relation to the timing, assumptions and benefits to be valued when providing these certificates. [6]

A Scheme Actuary is providing advice in relation to the technical provisions for a UK final salary pension scheme.

(iii) Discuss the issues that should be taken into account in order to comply with the requirement to set the following assumptions prudently:

- the discount rate;
- earnings growth;
- mortality in retirement.

[16]

The scheme's sponsoring employer has proposed that the Technical Provisions are set on assumptions which include the following in relation to commutation of pension at retirement:

"Members take the maximum tax-free cash lump sum at retirement on the current terms which are 11:1 (i.e. it is possible to exchange a pension of £1 p.a. for a lump sum of £11) for both males and females."

It also wants to offer enhanced transfer values to non-pensioner members of the scheme. The proposal from the sponsoring employer is set down below:

- It would like to offer a payment of 85% of technical provisions at the valuation date to eligible members.

- The enhanced transfer value exercise will commence immediately after the valuation has been completed.

- The sponsoring employer notes that similar exercises have seen take-up rates of 30%.

- It would like to take advance credit for the enhanced transfer exercise based on a prudent take-up rate of 25%.

- It would like the Scheme Actuary to assume the release of 15% of the valuation reserve for members who agree to the enhanced transfer offer.

The trustees have asked the Scheme Actuary to respond to the above proposals.

(iv) Discuss the factors that the Scheme Actuary should take into account.

[10]
[Total 38]

3 (i) Describe the design of the UK State Pension for individuals with a State Pension Age which falls:

(a) on or after 6 April 2016;
(b) before 6 April 2016.

[8]

(ii) Describe the characteristics of workers who stand to gain financially from the changes to the UK State Pension introduced with effect from 6 April 2016. [6]

(iii) Describe the tax concessions (including any upper limits) available to encourage the provision of non-State pensions in the UK. [12]

(iv) Explain how the UK State Pension and available tax concessions have influenced the design of occupational pension schemes in the UK. [6]
[Total 32]

END OF PAPER