INSTITUTE AND FACULTY OF ACTUARIES

EXAMINERS' REPORT

September 2021

SA4 Pensions and Other Benefits
Specialist Advanced

Introduction

The Examiners' Report is written by the Chief Examiner with the aim of helping candidates, both those who are sitting the examination for the first time and using past papers as a revision aid and also those who have previously failed the subject.

The Examiners are charged by Council with examining the published syllabus. The Examiners have access to the Core Reading, which is designed to interpret the syllabus, and will generally base questions around it but are not required to examine the content of Core Reading specifically or exclusively.

For numerical questions the Examiners' preferred approach to the solution is reproduced in this report; other valid approaches are given appropriate credit. For essay-style questions, particularly the open-ended questions in the later subjects, the report may contain more points than the Examiners will expect from a solution that scores full marks.

The report is written based on the legislative and regulatory context pertaining to the date that the examination was set. Candidates should take into account the possibility that circumstances may have changed if using these reports for revision.

Sarah Hutchinson
Chair of the Board of Examiners
December 2021

A. General comments on the *aims of this subject and how it is marked*

The aim of the Pensions and other Benefits Specialist Advanced subject is to instil in successful candidates the ability to apply knowledge of the pensions and employee benefit environment and the principles of actuarial practice to providers of pensions and employee benefits both in the United Kingdom and the rest of the world.
This subject examines the ability of candidates to apply actuarial practice and concepts to potentially complex problems, integrating their analysis into a coherent whole, and evaluating and interpreting results to draw explicit conclusions.

From 2019 the requirement for detailed knowledge of the UK's legislative and regulatory frameworks has been moved to the UK Practice Modules (UKPM). The Specialist Advanced subjects will still require knowledge of the principles of the UK market and regulatory regimes but there has been a re-balancing to include comparison between different jurisdictions and expansion in non-UK-specific topics.

The Examiners therefore look for candidates to demonstrate their understanding of the syllabus but in particular they need to demonstrate ability in applying their knowledge and core actuarial skills to the specific situations that the Examiners have raised, having read the question carefully. Consistently, many of the unsuccessful candidates provide answers that are not sufficiently specific to the subject matter of the question, reproduce core reading that does not directly relate to the question context, or focus on one specific point without covering a sufficient range of points to answer the question. This does not enable the candidates to achieve the required marks. The Examiners encourage future candidates to remind themselves of what they learned in the Core Actuarial subjects, and to use past paper questions to practice applying these skills to the specific scenarios tested.

Good candidates demonstrate that they have structured their solutions well - this is a big advantage in making points clearly and without repetition. There is a significant incidence of points being repeated in slightly different ways, restricting the scope for candidates to score marks. Good structure enables candidates to use the latter parts of questions to generate ideas for answers to the early parts (or use their solutions to earlier parts of questions to create a structure for latter parts). Time management is important so that candidates give answers to all questions that are roughly proportionate to the number of marks available. The questions are set so that it should take approximately twice as long to answer a 10 mark question as a 5 mark one. Answers should therefore be similarly proportionate.

In addition, candidates should carefully consider the instruction - for example an instruction to list points should be answered with a list without attaching discussion. Similarly, a question asking for a discussion cannot be answered with a list of undeveloped points.

Finally, it is very helpful to the Examiners if candidates clearly identify points made; if they are set out clearly, well-spaced and easily legible. Whilst there is no loss of marks for not doing so, doing so does make it easier to identify scoring opportunities.

Candidates who give well-reasoned points, not in the marking schedule, are awarded marks for doing so.

B. Comments on *candidate performance in this diet of the examination.*

As the exams continue to be sat online, it is pleasing to see candidates settling in to the new format. However, time management is required to make sure there is enough time to answer all the questions.

The better candidates were those who read the questions carefully, tailored their answers to the questions and thought about what was actually being asked, rather than just writing about what they know on a particular subject (which was an issue in some previous sittings).

The paper also required candidates to think beyond the obvious answers in a number of places, and the better candidates were able to bring in ideas from other areas of the course to score higher marks in these parts. A number of weaker candidates just didn't write enough points to ever be able to score highly.

Candidates seemed to struggle with the application aspects of the course. This is an area that SA4 candidates consistently need to work on in preparation. By taking a methodical step by step approach to answers, there are opportunities to score well. It is important that candidates make sure they provide a full answer to all questions.

The importance of structure in the exams should not be underestimated because this will lead to much more efficient work post exams. It is harder to get good marks in the absence of a good structure because it means that logical points are more likely to be missed. Sometimes points are just repeated further through the answer meaning that the response was more likely to look of sufficient length than it really was for the marks available. The new online format should make it easier to structure answers well.

Breaking the question down into smaller parts helps to make sure that a suitable breadth of answer is supplied. It is critical that candidates check that their answers specifically refer to the details of the question, using all of the information in the question pre-ambles. It is not the intention of the examiners to include information in the questions that is not relevant to the answers.

C. Pass Mark

The Pass Mark for this exam was 60
162 presented themselves and 51passed.

Solutions for Subject SA4 - September 2021

Q1
(i)
Self-sufficiency basis adopts very prudent assumptions [½]
to give the scheme a very good chance of meeting its liabilities on an ongoing basis [½]
assuming a de-risked investment strategy [½]
and no further help from the employer [½]

(ii)
Funding basis will be set prudently [½]

Taking account of the sponsor's covenant [½]
And assuming scheme continues to operate on current basis [½]
Discount rates will be set taking account of actual investments held [½]
demographic assumptions will be based on national data [½]
and/or scheme experience [½]
with margins for prudence [½]
Will assume actives continue to accrue benefits and retain salary link [½]
May allow for discretionary practices and benefits [½]
Self-sufficiency basis would be based on low-risk investments [½]
such as government or high-grade corporate bonds [½]
additional margins may be built into demographic assumptions to allow for adverse experience [½]
future expenses may be allowed for [½]
assumes accrual ceases and salary link broken (this and next 3 points same for solvency just allow once) [½]
which could lead to release of surplus if revaluation rate less than salary increase assumption [½]
unlikely to allow for discretionary practices [½]
Likely to allow for beneficial options on grounds of prudence [½]
i.e. no cash taken if cheaper option than pension [½]
self-sufficiency position worse than funding position as extra prudence of basis having bigger impact than the benefit gain [½]
For a buyout basis all assumptions will be market consistent [½]
Discount rates will be based on insurers' investment strategies [½]
Taking into account profit margins and reserving requirements [½]
Base mortality based on scheme experience [½]
Future improvements more prudent [½]
Based on reinsurance rates [½]
Any options usually assumed to be on worst case scenario [½]
deferred pensioner costs likely to be significantly higher reflecting long term risk for insurer [½]
Expenses will need to be allowed for [½]
Both cost of insurer [½]
And those of winding-up the scheme [½]
buyout position worse than self-sufficiency reflecting extra prudence of the basis [½]
[Marks available 15½, maximum 6]

(iii)
trustee responsibilities are to past service benefit security for members [½]
should consider closing the scheme to future accrual to remove risks in respect of future service [½]
especially if employer covenant is weak [½]
and given that the employer has stated it does not wish to make any future commitment [½]
However, all options are likely to involve a financial commitment from employer in the short term [½]
recommend trustees review the scheme rules [½]
and take advice (e.g. legal and investment) [½]

Securing the liabilities with the external provider:
+ no longer reliant on employer covenant [½]
- However, covenant is weak so 10% injection from both employer and capital provider could be better [½]
- benefits aren't guaranteed so what happens if it goes wrong? [½]
+/- consider covenant of external provider [½]
+/- what legislative regime covers the external provider? [½]
- is it eligible for any CDF? [½]
+/- non-sectionalised so could end up losing or gaining from cross-subsidy [½]
+ Overall should reduce investment/running costs [½]
+ And better assets become available [½]
+ members could see improved benefits [½]
- consider fairness between members e.g. loss of salary link or discretionary benefits [½]
- consider reputational risk to employer is scheme transfers and new provider fails [½]

Sponsor:
External provider option removes all liability from sponsor [½]
So no possibility of further cost [½]
Require cash injection of £80m (may be different depending on provider's basis) [½]
Cheaper than buyout [½]

Members:
External provider option has no guarantees so no backup if it goes wrong – no sponsor guarantee [½]
And protection of any central discontinuance fund [½]
although current covenant is weak so capital injection and funding improvement could be worth it [½]
lose connection with sponsor, which members may value [½]
Could possibly have higher benefits if experience good [½]

Continuing with the Current Strategy:
+ funding level is 109% so currently good benefit security [½]
+ actives benefits may be higher is salary link and accrual continues [½]
- Fairly risky investment strategy [½]
- especially given employer's covenant [½]
- Although well-funded only 75%/70% hedged so still at risk from investment movements [½]
+ Additional return could move scheme closer to buyout though [½]
+ legislative regime could be stronger for current strategy [½]
Sponsor
Sponsor still has risk of further payments, even though 109% funded, as not fully matched [½]
Could be cheapest overall though [½]
And no funding required now [½]
Can still use scheme to attract and retain good staff [½]

Members:
Current strategy – no difference to members as everything is staying the same [½]

Risk of employer insolvency in long term [½]
Could result in highest benefits for those still accruing benefits [½]

Moving to a self-sufficiency strategy:
- Self-sufficiency would reduce funding in short term [½]
+ But would be less volatile in long term [½]
+ Sponsor has cash to pay in now so could become self-sufficient [½]
- Would require full investment review though [½]
- and careful planning of triggers to reduce investment risk [½]
- how will expenses be met in long-term [½]
- long term journey plan to buyout will be needed [½]

Sponsor:
Self-sufficiency strategy could need sponsor funding now [½]
Although there is spare cash available [½]
Will be less volatile in long term so funding should be predictable [½]
Could be used as part of long term plan to buyout [½]
e.g. when only pensioners remain which would be cheaper [½]

Member:
Benefits more certain to be paid when fully funded [½]
reduces reliance on sponsor to pay the benefits due [½]
may reduce chances of full benefits paid if put sponsor in distress through onerous cash requirements [½]
still relies on sponsor covenant over the long term [½]

Buying-out:
+ Buy out would remove all liabilities [½]
- but most expensive so perhaps unaffordable [½]
+ Guarantees members benefits though [½]
- members' security is subject to covenant of insurance company [½]

Sponsor:
Removes all liability from sponsor, but cash requirement of £180m [½]
But most expensive option [½]

Members:
Replaces covenant of employer with covenant of insurer [½]
No upside potential such as improved benefits [½]
[Marks available 33, maximum 18]

(iv)
Sponsor covenant is strong so likelihood is that there will be support in the long term [½]
Which is arguably better than the security provided by the external provider option [½]
So why would you agree to give up the covenant back up [½]
Self-sufficiency becomes easier as likelihood of cash injection now is good [½]
But as covenant is strong current strategy also seems reasonable as strong sponsor backing allows riskier investment strategy [½]
on the other hand, a strong covenant now means a cash injection is more likely [½]

which the trustees might prefer in order to secure past benefits and reduce or remove risks [½]
A stronger covenant may result in less funding prudence which will reduce contribution requirements which may make the scheme appear more affordable to the sponsor [½]
encouraging the sponsor to continue to support the scheme [½]
and allowing the trustees to de-risk e.g. by moving to a better matched investment strategy [½]

[Marks available 5, maximum 3]

(v)
The current strategy uses LDI to hedge interest and inflation risks [½]
There is gearing which means that 25% of the investments hedge 75%/70% of the risks [½]
which allows for room for return seeking assets [½]
Moving the 75% return seeking assets to matching assets would mean that more than 100% of the interest and interest rate risks would be hedged [1]
This carries as much risk as being under-hedged [½]
So the best strategy would be to move into 100% matching assets [½]
although this unlikely to be possible as other risks still remain e.g. salary/mortality [½]

[Marks available 5, maximum 3]
[Total 32]

Part (i) and (ii) Generally answered quite well.

Part (iii) The better candidates generally scored well – the strongest responses were structured under headings. Some candidates seemed to be confused by securing the benefits with an external provider and didn't appreciate that the funding level would have to be increased to 100% of the self-sufficiency liabilities before the liabilities would be accepted by the provider. Many also offered few thoughts from the perspective of other stakeholders.

Part (iv) This part was generally not answered well and many struggled to understand what impact the covenant rating would have on the analysis

Part (v) Some candidates missed the mark by focussing on what LDI is rather than how it could be useful and why there could be issues here - most missed the concern that over-hedging would be just as risky as under-hedging

Q2
(i)
Basic principle is to show a 'true and fair view' of the financial position [½]
to allow informed readers of accounts to form realistic opinion of company's financial development over the accounting period [½]
and its position at the end of the period [½]
recognise the realistic costs of accruing benefits [½]
avoid distortions resulting from fluctuations in flow of contributions from employer to pension scheme [½]
provide consistency in the accounting treatment from year to year [½]

although not necessarily from company to company [½]
disclose appropriate information [½]
Going concern: It is usually assumed that a business will continue indefinitely in its present form [½]
Materiality: Some approximations may be made for certain costs rather than waste time calculating more precise figures depending on materiality [½]

[Marks available 5, maximum 3]

(ii)
Assume pensioner payroll of 50m (or any reasonable assumption) [½]
Assuming no movements in membership [½]
Assume 15 years to retirement on average for actives and 12 for deferreds (or something sensible) [½]

Roll forward:
Actives – 500 x 1.0276 + 80 = 594 [½]
Deferreds – 700 x 1.0276 = 719 [½]
Pensioners – 800 x 1.0276 – 50 x 1.0276^0.5 = 771 [1]

Switch:
Implied inflation January – (1+0.0182)/(1-0.0153)-1= 3.40% [½]
September (1+0.0097)/(1-0.0217)-1=3.21% [½]
Don't need to work about IRP or 1% addition to salary as will cancel out [½]
Post Ret switch non pensioners – 1.07% change in discount rate [½]
No increases in payment so no other change [½]
Assume 18% change for 1% (or something reasonable) so roughly 19.26% change for 1.07% [½]
Post ret pensioners – assume 14% for 1% change say so 15% for 1.07% [½]
Pre-ret actives: Discount rate change 1.07%, inflation change 0.19% [½]
Net change 0.88% [½]
Deferreds – same as actives – net change 0.88% [½]
Actives: 594 x 1.1926 x 1.0088^15 = 808 [½]
Deferred: 719 x 1.1926 x 1.0088^12 = 953 [½]
pensioners: 771 x 1.15 = 887 [½]
Total: 2,648m [½]
Assets: 2,800m as at 1 September 2019 – 4 months left but don't know asset mix [½]
Assume 1.5% say, equivalent to 4.5% p.a. (or anything if reason stated) [½]
End of year assets = 2,800 x 1.015 + (80-50)/3 x 1.0075= 2,872 [½]
Assuming contributions are paid monthly throughout the year [½]
Balance sheet:
Assets: 2,872m
Liabilities: 2,648m
Surplus: 224m marks for balance sheet [½]

[Marks available 13, maximum 10]

(iii)
Curtailment - an event that reduces the expected years of future service of present employees [1]
or reduces for a number of employees the accrual of defined benefits for some or all

of their future service [1]
Settlement - An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation [1]
and eliminates significant risks relating to the obligation and the assets used to effect the settlement [1]

[Marks available 4, maximum 3]

(iv)
Pension cost is made up of: Current Service Cost [½]
plus net interest on net defined liability [½]
plus plan introductions, benefit changes, curtailments and settlements [½]
plus re-measurement of net defined liability [½]
Service cost is 80 x 20% / 25% = 64 [½]
So for 9 months year = 64 x 0.75 = 48 [½]
Net interest cost = 2.76% x -100 = -3 [½]
Ignoring cashflows and buyout [½]
There is a settlement cost due to the pensioners being bought out [½]
Equal to the value of the pensioners at the date of the buyout [½]
minus the amount paid for the buyout [½]
Pensioner value - roll forward 800 x 1.0276^0.75 – 50 x 1.0276^0.375 x 0.75 = 779 [1]
Switch basis – discount rate change 2.76 – 1.90 = 0.86% [½]
So using 14% as before, 14% x 0.86 = 12.04% [½]
Pensioner value = 779 x 1.1204 = 872 [½]
Settlement loss of 872 – 900 = 28m [½]
There is a curtailment due to cessation of accrual [½]
As actives become deferreds and lose salary link [½]
Replace by deferred revaluation [½]
Active value at 1 October pre accrual cessation
roll forward - 500 x 1.0276^0.75 + 80 x 0.75 = 570 [½]
Switch basis - assuming 18% as before discount rate difference is 18% x 0.86 = 15.48 [½]
Inflation change is roughly 0.17% based on 3.40 - ((1.0106/(1-0.021)) [½]
Change in net discount rate is 0.86% - 0.17% = 0.69% [½]
Actives = 570 x 1.1548 * (1.0069 ^ 15) = 730 [½]
Salary increase are inflation plus 1% so 1% change in increase going forward [½]
Active liabilities become 730 / 1.01^15 = 629 [½]
So curtailment gain is £101m [½]
Assuming final pensionable earnings are the same as pensionable earnings [½]
If there is an averaging period then the effect could be lower [½]
Pension cost = 48 – 3 + 28 – 101 = -£28m [½]

[Marks available 15½, maximum 14]

(v)(a)
A buy-in would not be classed as a settlement as the liabilities remain in the scheme [½]
the gain/loss on the buy-in would appear in the pension cost as a re-measurement effect [½]
which would not go through the profit and loss account [½]
but appear as an experience gain/loss under "Other Comprehensive Income" [½]

(b)
In theory it is still a curtailment, as the expected years of future service has reduced [½]
However, the past service liability will remain the same, as the salary link is there [½]
So the curtailment will be zero [½]
However if the salary growth assumption is revised to reflect a change in policy [½]
this could lead to a re-measurement effect which would be treated as above [½]

[Marks available 4½, maximum 3]

[Total 33]

Part (i) Generally answered well.

Part (ii) There were lots of marks on offer here and the better prepared candidates scored well. Some struggled to carry out the roll forward calculations, recognise that the discount rate is based on corporate bond yields and make reasonable assumptions about impact of change in discount rate pre and post-retirement.

Part (iii) Generally answered well.

Part (iv) This was generally answered quite poorly with many candidates confusing themselves between the value of accrual and the cost to the employer being included in the current service cost. For the curtailment calculation some candidates missed the need to roll forward to 1 October, while other candidates simply ran out of time.

Note that the question included some superfluous information about OCI. This was not needed to answer the question being asked, which related to P&L items.

Part (v) Candidates with a clear understanding of the curtailment and settlement concepts scored well but many seemed unsure of the implications of the buy-in which is simply a scheme asset (with OCI impact) and has no effect on the liabilities. Similarly the better candidates could see that there would be no curtailment if the salary link is maintained.

Q3

(i)
An invitation or inducement provided to a member to change the form of their accrued defined benefit rights [1]
with an objective of reducing risk or cost for the pension scheme or sponsor(s) [½]
and the invitation or inducement is not ordinarily available to members of the pension scheme [½]

(ii)
Enhanced Transfer Values (ETVs) [½]
May be able to take money out and spend it however they want [½]
Although might have to transfer to approved vehicle [½]
enhancement might be generous so member could achieve a better retirement outcome [½]
especially if personal circumstances are such that higher benefits can be achieved outside scheme [½]
e.g. member in ill-health, or no dependants [½]
although will lose security of employer's covenant if take ETV [½]

and the guaranteed benefits within the scheme [½]
and will be taking on all of the risks themselves [½]
e.g. mortality, inflation risk [½]
if the covenant is weak might be better to take ETV if chance benefits could be reduced in future [½]
may be able to be more tax-efficient outside of scheme [½]
may enable member to pay off debts or buy something they couldn't normally afford [½]
possible adverse tax consequences [½]
could help with inheritance planning depending on rules in country [½]
risk of running out of money though or not providing enough for dependants [½]
Pension Increase Exchange (PIE) exercise [½]
Offer to exchange member's entitlement to non-statutory pension increases for a one-off uplift to their pension [½]
Higher pension now might meet member's needs better than higher pension in the future [½]
Member may still have outgoings, such as a mortgage [½]
and expect spending to reduce as they get older [½]
may have other retirement benefits that are inflation-linked so don't need inflation coverage [½]
or part of pension within scheme may still receive inflation increases anyway if statutory [½]
if member has lower life expectancy might be better value to take higher pension now [½]
However, PIEs often provide uplift that is less than 100% of value of increases given up [½]
So higher pension will have lower value than original pension [½]
And member with normal life expectancy could be worse off in long term [½]
Total Pension Increase Exchange (TPIE) [½]
Option to transfer benefits to a DC arrangement at the point of retirement [½]
Similar benefits to ETV above except without enhancement [½]
(award marks for any ETV points above that are not related to enhancement aspects)
possible tax consequences [½]
Full Commutation Exercise [½]
Involves making current and/or eligible future pensioners with small pensions aware of their option to exchange their pension for a Small Lump Sum, Trivial Commutation Lump Sum or Trivial Commutation Lump Sum Death Benefit [½]
Members may prefer to receive a lump sum rather than a small pension [½]
member then has flexibility to do what they want with the cash [½]
but members may be tempted to overspend so that money runs out sooner than expected [½]
may have positive tax implications [½]
but the terms may not be particularly good value for money [½]
could consolidate with other savings [½]

[Marks available 19½, maximum 8]

(iii)(a)
It could be the approximate value of the member's liability in the scheme [½]
Or simply the pension multiplied by the appropriate commutation factor [½]
Or £10,000 could be a maximum limit at which lump sums are tax-free [½]
Or don't attract penal tax rates [½]
£10,000 could be the minimum amount under legislation [½]
Or could be an enhanced amount to encourage take up [½]

(b)

The sponsor could just want a decision made [½]
Or they are trying to pressure the member [½]
Or the value of the pension decreases with time [½]
so an open-ended offer could leave the scheme open to a big loss if the member takes up the offer in several years' time [½]
sponsor could want it done before year end or buyout or other reason [½]
maybe before some legislation changes [½]

[Marks available 6, maximum 3]

(iv)

A pensioner member has provided you with some correspondence from the scheme and sponsor and you are concerned with what you have seen. [½]
What you have offered to this member would be classed as an Incentive exercise in the UK [1]
In the UK there is a voluntary Code of Practice for Incentive Exercises [½]
which sets out the good practice in relation to Incentive Exercises [½]
There are several reasons why this offer does not follow good practice [½]
Good practice suggests that there should be no cash incentives [½]
The offer from the employer would count as a Cash Incentive [½]
As cash incentives can encourage members to make inappropriate decisions [½]
The value you have offered appears to be an arbitrary number [½]
Possibly designed to come under a triviality limit [½]
Or avoid the need to provide financial advice [½]
Good practice would be that the amount offered should meet a Value Requirement [½]
To act in member's interests the offer should have regard to the value of benefits being given up [½]
The administration team have not been asked for a value so it appears to have been calculated by yourself [½]
And may not be fair to the member [½]
You also set a fairly short time limit for acceptance [½]
Undue time pressure should not be put on members as this can encourage members to make inappropriate decisions [½]
A period of 3 months could be used [½]
This member is also over 80 and could therefore be classed as vulnerable [½]
Good practice would be they should be only told that there is an Incentive exercise being held [½]
But no offer should be made unless they specifically request one [½]
It is also important that you make sure you are keeping your roles as Trustee and sponsor completely separate [1]
The fact that you are both means that you have to be aware of any Conflicts of Interest [½]
Have any other members been contacted in the same way? [½]
Has any member taken up the offer? [½]
You should not make any similar offers [½]
and contact any other recipients to say that the offer was not appropriate [½]
The Trustees should take legal and actuarial advice [½]
There may be legal restrictions on the offer [½]
Or under scheme documentation [½]
If you would like me to be involved we can help do it properly [½]

[Marks available 16½, maximum 12]

(v)
Good practice as above still needs to be followed [½]
Good practice would be to provide member with independent financial advice [½]
not offer cash incentives that are contingent on member decisions to accept offer [½]
retain full records for audit trail [½]
allow sufficient time for member to make decision [½]
only offered to vulnerable members on "opt-in" basis [½]
Trustees need to act in the best interest of members [1]
Need to check scheme documentation to see what is permitted [½]
and take legal advice [½]
Trustees will need to decide what basis should be used for the calculations [½]
Will it be a best estimate basis or the scheme funding basis [½]
We can do an exercise working out which members are currently eligible [½]
e.g. those who are over a certain age (55 in the UK) [½]
with pensions less than a triviality limit (£10,000 I the UK) [½]
But could be significantly higher elsewhere meaning all members are eligible [½]
This value can be calculated on a best estimate basis [1]
Probably in line with the current CETV basis [½]
This is still likely to result in a gain to the scheme on a funding basis [½]
As the funding basis should generally be more prudent than best estimate [½]
And risk in the scheme will also be reduced [1]
although there is selection risk which could reduce any savings [½]
As well as ongoing administration costs [½]
Although there will be a cost of doing the exercise [½]
These members can be sent a letter containing the offer [1]
And an explanation why he offer is being made [½]
It should also state that the do not have to accept the offer [½]
And warn of any downside risk [1]
It should also include contact details of relevant authorities and where to get more information/advice [½]
communications should be fair, clear, unbiased and straightforward [½]
Going forward, members can be contacted as they become eligible [½]
And also offered it as standard on retirement if still eligible [½]

[Marks available 18, maximum 10]

[Total 35]

Part (i) Generally answered well.

Part (ii) Standard question that was generally answered well.

Part (iii) Some candidates struggled to find legitimate reasons for this situation, i.e. why the amount would be offered to the member.
Part (iv) Some candidates picked up the essential concerns for this situation with a vulnerable member being offered a cash incentive and little time to choose, along with the obvious conflict of interest, but most candidates answered this question poorly.

Part (v) The better candidates realised that this could be seen as an incentive exercise and got the marks available relating to good practice for such exercises. The concerns raised in part (iv) provided some clues for a well-run exercise.

[Paper Total 100]

END OF EXAMINERS' REPORT