INSTITUTE AND FACULTY OF ACTUARIES

EXAMINERS' REPORT

September 2019 Examinations

Subject SP4 – Pensions and Other Benefits Specialist Principles

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

Mike Hammer
Chair of the Board of Examiners
December 2019

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

1. The aim of the Pensions and Other Benefits Specialist Principles subject is to instill in successful candidates the ability to apply, in simple situations, the mathematical and economic techniques and the principles of actuarial planning and control needed for the operation on sound financial lines of providers of pensions or other employee benefits.

2. This subject examines the ability of candidates to apply core actuarial techniques and concepts, together with specific knowledge of pensions and other benefit arrangements to simple, but practical situations.

3. The Examiners therefore look for candidates to apply their knowledge of the Core Reading to the specific situation that the Examiners asked, having read the question carefully. Many candidates write around the subject matter of the question in more general fashion, or focus on one aspect of the issue at great length, in either case gaining few of the marks available.

4. Good candidates demonstrate that they have used their time well - an attempt to get a logical flow is a big advantage in making points clearly and without repetition. This also 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. Candidates who give well-reasoned points, not in the marking schedule, are awarded marks for doing so.

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

In comparison to the most recent diet of the SP4 examination, performance was overall higher. This was a well-balanced exam paper and the better prepared candidates passed.

It is very important that candidates consider all aspects of the question, and read the preamble fully. By using all of the information available, candidates can ensure they give a full answer. Giving just a little more to clearly show depth can turn a close fail into a pass. 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.

The question that was least well answered in this paper was Q5, examining State benefits and modeling. These were also weaker areas in previous SP4 exam diets. Candidates are encouraged to ensure they have a good understanding of these areas of the syllabus.

Candidates are reminded to pay attention to the command verbs and practice these types of questions as part of their preparation. A list of what is expected for each command verb is available on the IFoA website.

C. Pass Mark

The Pass Mark for this exam was 60.

Solutions for Subject SP4 – September 2019

Q1

(i)

Individuals may not actively make decisions about their own investment strategy due to:

- Lack of knowledge or understanding [½]

- Inability to afford advice [½]

- Lack of interest / don't recognise the importance of pension saving [½]

A default means that members can benefit from pension saving even in these circumstances [½]

Legislation may require a default strategy to be offered [½]

Scheme can benefit from economies of scale on expenses / cost of advice. [½]

Default may include lifestyling which would benefit members by helping to manage risks [½]

[max 2]

(ii)

The default strategy generally follows a lifestyle approach [½]

High returns are sought for younger members [½]

For higher risk e.g. equities [½]

Recognising that there is sufficient time for any investment losses to be reversed [½]

Investments are transitioned over a 10-15 year period before retirement [½]

To target a particular benefit at retirement and providing a match in the year of retirement for the desired benefit e.g. into bonds or cash [½]

Recognising that at retirement the individual requires more certainty of benefit level for planning purposes [½]

[max 2]

(iii)

Individuals' circumstances differ at retirement and cash may meet the individuals' needs best [½]

Cash provides flexibility [½]

For example, can choose to purchase an annuity of a different form, at a later date or not at all to suit own circumstance [½]

For example, those in ill health may wish to leave an inheritance [½]

Individuals may need cash for a large outflow [½]

For example to pay off a mortgage [½]

Individuals may prefer to hold all their retirement funds themselves, rather than trust the security of a pension provider [½]

For example, as a result of bad publicity surrounding security of benefits / pension fraud [½]

Individuals may have other income sources [½]

For example from other pension arrangements, continued employment, property [½]

There may be tax advantages for preferring cash over other benefits [½]

Annuities may look expensive or poor value in comparison [½]

Either perceived due to individuals underestimating their life expectancy [½]

Or actual due to an uncompetitive annuity market [½]

Or because some of the annuity benefits offers in the scheme are not required, such as dependent benefits [½]

The retirement pot may be small [½]

So taking cash is the most efficient option [½]

As annuity income likely to be very small and uncompetitive [½]

And the fund is too small for drawdown to be a cost effective option [½]

Legislation may have been relaxed in relation to taking cash [½]

[max 4]

(iv) Membership trends / experience

Recent experience shows that a greater proportion of members are opting for cash than annuity at retirement [½]

Drawdown is increasing too [½]

And significant amount of members are still opting to choose more than one option [½]

Consider the average fund size for each of these options to see if there is a link e.g. small pots taken as cash [½]

Are these trends expected to continue? Consider scheme and market trends. [½]

e.g. increasing pot sizes, availability of advice to help members understand the relative merits of each option, legislation change [½]

Matching default to outcomes

The mismatch between any default strategy and the member's choice of benefit at retirement is an important consideration – 45% do not take their whole fund as cash [½]

The current strategy will target bonds at retirement [½]

Annuity prices generally move in line with bond yields, so the fund will gradually be moved into bonds from more risk seeking assets. [½]

For cash need to maximise the nominal fund size at retirement, but with steadily reducing risk to avoid the chance of a sudden fall in fund value close to retirement age. [½]

For drawdown need to do this again suggests reducing risk, thus maximising the fund size at retirement, but maintaining some growth potential and inflation protection as the fund will remain invested. [½]

Consider liquidity issues for cash and drawdown options [½]

For those members splitting their fund at retirement, a lifestyling strategy might then be split proportionately. [½]

For a default fund, want to target an outcome that is on average the best for the majority of members. [½]

Could ask membership about their expected choices but many members will not know what they want to do with their pension fund at retirement until they get close to retirement age. [½]

It is common for a lifestyling strategy to start reducing investment risk around ten to fifteen years from retirement, targeting income drawdown as a 'middle ground'. [½]

Practical issues (dealing costs, transition arrangements, communication, legislation, governance documentation) [½]

Scheme managers may want to see what other schemes are doing / best practice [½]

Scheme managers may be concerned about members taking their entire benefit as cash for example if it was squandered so that there were insufficient funds for later years. [½]

[max 6]

[Total 14]

All parts of this question were generally well answered although some candidates struggled to give the breadth of considerations to score well in part (iv).

Q2

(i) Pay-as-you-go is the term used to describe a situation where necessary payments are made only at the points that each separate tranche of a benefit becomes due. [½]

…no funding is made in advance for future liabilities [½]

+ No immediate need to set aside funds, low admin costs [½]
- Very little security for members unless there is an external insurance structure [½]

Lump Sum in advance [½]

Funds expected to be sufficient to meet the cost of benefits are set up as soon as the benefit promise is made [½]

+ High security [½]
- High opportunity cost for sponsors, may need to be topped up [½]

Regular contributions [½]

Funds are gradually built up to a level expected to be sufficient to meet the cost of benefit [½]

+ Flexibility over size of contributions [½]
+ Opportunity cost not as great as terminal funding/lump sum in advance [½]
- Administrative burden / drain on cashflows [½]

Terminal funding [½]

Funds that are expected to be sufficient to meet the cost of a series of benefit tranches can be set up as soon the first tranche becomes payable [½]

+ Security once payment made [½]
- No security until first tranche payable [½]

Book reserving [½]

Funds are notionally set aside relating to the benefit promises made [½]

+ choice of reserving basis, no cashflow except at time of claim (like PAYG) but more secure than PAYG [½]
- security depends on covenant of company and strength of Reserve [½]

[max 6]

(ii) General points

In the short term this will increase the security of benefits for members [½]
… and may lead to an upturn in the number of members taking up defined pension provisions. [½]

It should improve the confidence of members and their representatives that benefits will be paid in future [½]

Annual actuarial valuations

Regular funding valuations will help managers make informed decisions about the funding of the scheme [½]

May result in need to put more money aside towards pensions [½]

Increased burden may lead to firms rethinking their pension provisions [1]

In the long term this could lead to firms scaling back their provisions or passing risk on to other parties (such as members) [½]
…for example through the use of DC or hybrid schemes [½]

Increase in compliance, and other, costs for employer [½]
…especially if valuations are currently required less frequently [½]

Minimum funding requirements

Minimum funding requirements may become the de facto funding target for scheme [½]
… which could reduce security of benefits compared to what may be achieved otherwise [½]

Priority of pensioner benefits over others

This may lead to intergenerational fairness issues as employers have to scale back on current costs (such as salaries) to pay high costs for current pensioners [½]

Could create a cliff edge / lead members to retiring earlier [½]

Priority of pension scheme over other creditors of employer

Priority of pension scheme debt may lead to lack of flexibility for the employer in corporate transactions [½]
… reducing the number of mergers and acquisitions [½]
…which may reduce economic growth [½]

Payment of levy

Encourages employers to better fund the scheme to reduce their levy [½]

Levy may in itself push employer into insolvency [½]
…or lead to employers relying on the central fund, hence reduce security [½]

Independent oversight

The independent oversight may lead to conflict between managers and sponsors [½]

In particular this could lead to more cautious investment strategies [½]
…and more prudent funding [½]

Should lead to better governance [½]

[max 8]

[Total 14]

Most candidates clearly demonstrated their understanding of the difference in funding methods and scored well on part (i). If a candidate provided the same advantage/disadvantage for multiple methods, then additional credit was only given if the points were sufficiently distinct. An advantage of one method could be provided as a disadvantage of another method provided sufficient detail was given to show understanding.

Part (ii) was less well answered. Better candidates were able to generate distinct points in relation to each measure. Weaker candidates were not able to provide the broad range of points required and just repeated the point on improved security of benefits under each measure.

Q3

(i) **General points** [maximum of 1 mark]

Financial significance of demographic assumption [½]
Allowance for prudence [½]
Size of scheme [½]
Any relevant regulation [½]

Specific points

Due to the imbalance in benefit amounts the experience of the footballers is likely to be most important to the position of the scheme [½]

Likely to have quite different mortality expectations to general population [½]

…In particular the footballers will probably be in better health than average at the moment [½]

…But it isn't clear if this will lead to longer longevity in later life [½]

…The pool of experience is likely to be very small (and footballer's lifestyles have changed significantly over time so current footballer pensioners are probably not a suitable indicator. [½]

…But other staff may have experience more in line with the population as a whole [½]

Need to allow for possibility of injuries for footballers [½]

Footballers will have significantly different promotional salary scale to others in the scheme [½]

It may be difficult to get experience for this as there will be little experience and a number of factors involved including the mentality of the player, their susceptibility to injury and the position they play [½]

The use of contracts that tie sports stars to a club for a set period of time should be factored into the withdrawal experience [½]

[max 4]

(ii) The actual experience of a scheme should be monitored as part of the Actuarial Control Cycle [½]

Changes in demographic experience compared to assumptions will lead to funding surpluses or deficits for the scheme [1]

Monitoring can help identify trends [½]

The analysis of experience enable managers of the scheme to check whether the method and assumptions adopted for financing the benefits continue to be appropriate [½]

…and, if not, what changes should be made in order to achieve the desired level of prudence e.g. changing the assumptions [½]

Small number of footballers make up significant proportion of the liabilities - their experience will be most important to monitor [½]

[max 2]

(iii)

Higher than expected mortality [½]
…This will result in lower current pension payments being made than were expected leading to reduction in outgo for the scheme [½]

Lower than expected promotional salary increase [½]
…For example, if wage rises are contingent on footballing success that doesn't materialise [½]
…This will reduce the future benefit outgo compared to what was expected [½]

Lower than expected ill-health / injury occurrence [½]
…This will reduce the payments that need to be made out of the scheme for members of the scheme who are in ill-health. [½]

Higher than expected withdrawal [½]
….as long as salary increases are higher than deferred revaluation [½]

Higher exercise of option terms less generous than funding basis (e.g. TV, commutation) [½]
…reduces / removes liabilities in respect of pension benefits [½]

Higher deaths in service [½]
….if death in service benefit less valuable than retirement benefit [½]

Lower proportion married / older spouses [½]
…lower benefits paid to dependants [½]
…or for shorter period of time [½]

[max 3]

(iv)

Likely to be a significant portion of the total fund that is transferred out [½]

Expect this to lead to significant cashflow requirement for the scheme [½]

The transfer may occur at a time when it is not beneficial to realise assets [½]

And wlll incur transaction costs [½]

The scheme / assets / liabilities will be substantially smaller after the transfer [½]

Share of fund transfer values wouldn't impact funding level / best estimate transfer values would have a geared impact on the funding level [½]

May be more difficult to achieve strong investment returns given the smaller fund size [½]

Some investment options / asset classes may no longer be accessible or appropriate for a smaller scheme, e.g. swaps, property [½]
… will require a review of investment strategy [½]

Will need to reassess contributions to the scheme / conduct new valuation [½]

Likely to have diseconomies of scale [½]
…expenses will become a larger proportion of scheme costs and need to be managed accordingly [½]
…may look to review advisers / outsource some services [½]

Membership profile will be more stable / less volatile after the transfer [½]
… leading to lower risk / predicable costs for the sponsor [½]

Smaller population leading to lower contributions [½]
….which should be reviewed following transferring out [½]

[max 4]

(v)

More flexibility over form of benefits [½]
…In particular they may be able to take benefits earlier which could be necessary given their long retirement period [½]

More flexibility over the investment choice [½]
…They can set investments that match their risk appetite [½]

More flexibility over the contributions they pay [½]
…They can choose to pay as much or as little as they like, depending on their preferences, tax situation etc [½]

Less certainty over the level of benefits [½]
…No guarantee over the exact amount they will receive [½]

Will now have all the risks (investment, longevity, inflation, expenses) [½]

Covenant may or may not be better depending on where their new benefits are held [½]

Loss of 'safety net' of risk benefits in case of early end of career, eg due to injury [½]

Likely to incur higher expenses [½]

May need to obtain financial advice in order to invest wisely [½]

Will lose out on any employer contributions [½]

May not receive full value of benefits from the transfer value out of the scheme [½]
… but if an enhanced TV was offered then might be more valuable [½]

Loss of future accrual [½]

More portability, useful if changing club frequently [½]

Different / no spouses benefits [½]

[max 6]

[Total 19]

This question required candidates to apply their knowledge to a particular scenario. Candidates are reminded that knowledge alone is generally not sufficient to score well and to *practice these types of question.*

Limited credit was given for general points but to score well candidates were expected to use the specifics of the question to inform their response. Some candidates did not tailor their answer for part (i) and as a result did not score well. Parts (ii) and (iii) were generally well answered. Part (iv) directed the candidate to consider the implications for the scheme but some candidates wasted time by considering broader implications. Part (v) was less well answered and many candidates struggled to generate sufficient points to score well.

Q4

(i)

Past service liabilities [½]

Cost of accruing benefits [½]

Current assets [½]

Surplus / deficit [½]

Benefit structure [½]

Membership data [½]

Past / future cashflows to/from the scheme (e.g. pensions / contributions) [½]

The method and assumptions used in the calculation of benefits [½]

Illustration of sensitivities to assumptions [½]

Investment strategy [½]

Certification by an Actuary confirming that the results were unbiased and appropriate for their purpose [½]

Change in surplus over year [½]

Change in PSL over year [½]

Directors' disclosures [½]

[max 3]

(ii)

It would show the future financial obligations the firm has to make in respect of pension payments to employees [½]

This information may, otherwise, be off balance sheet [½]

This will be of interest to investors [½]
…both current and potential as could impact ability to meet debts or pay dividends [½]

And to market analysts e.g. ratings agencies [½]

Employees could use it to assess the health of the Pension scheme / whether any action is required e.g. transfer out benefits [½]

Standardisation of disclosure would allow for easier comparison of different companies [½]

It could be helpful to Trustees and pension regulators in understanding the significance of pensions liabilities on a company's balance sheet and cashflow [½]
…and therefore inform covenant reviews [½]

[max 4]

(iii)

Funding / valuation method [½]

Discount rate [½]

Assumed future salary increases [½]

Assumed future pension increases / inflation [½]

Post retirement life expectancy / mortality rates *[includes base tables and/or future improvements]* [½]

Withdrawal rates [½]

Take up of options [½]

[max 3]

(iv)

Use a standard method of calculating the discount rate, some options for this include [½]

Basing this on a set economic measure such as the yield on Government bonds or corporate bonds of a particular standard [½]

Prescribing a fixed rate to be used [½]

Require Actuarial sign-off of demographic assumptions, particularly around future life expectancy [½]
e.g. standard table with limited/no adjustments [½]

No allowance for decrements – for simplicity and consistency [½]

Alternatively these could be prescribed by the accounting standards board [½]

Set out a standard methodology for the pension scheme calculations including [½]
… The use of a specified funding method (ie Projected Unit, Attained Age) [½]
… A standardised approach to roll-forward valuations [½]

A standardised form of disclosure including [½]
… Details of data, methodology and assumptions [½]
… Analysis of Surplus [½]
… Sensitivities [½]
… Auditor sign-off requirement [½]

Year on year consistency of approach [½]

[max 5]

[Total 15]

Candidates scored well in part (i), with most achieving full marks. Part (ii) was less well answered with candidates struggling to clearly articulate how the information in part (i) could be used. Better candidates structured their response to part (ii) by stakeholder.

For part (iii), most scored well but some candidates wasted time by listing less significant assumptions when the question asked for 'key valuation assumptions'.

Part (iv) was less well answered. Better candidates were able to provide a detailed and broad answer covering a variety of different ways to achieve consistency.

Q5

(i)

Further details of the state scheme – eligibility, dependents benefits, increases [½]

Current pensioner data [½]

Current contributor data [½]

Future mortality assumptions [½]

Population statistics [½]

Assumptions around future workforce participation / future employment levels [½]

Projections of future Pension increases [½]

Projections of future salary increases [½]

Migration projections [½]

Fertility projections [½]

[max 4]

(ii) *The model* needs to allow for the level and incidence of possible cashflows. [½]
…and also to allow for any funding restrictions that may exist. [½]

Consistency between the models and assumptions used where both income and outgo are to be modelled. [½]

Level of benefit outgo should allow for:

- any inflationary growth in the benefits [½]
- future accrual (if relevant) of benefits [½]

Incidence of benefit outgo should allow for:

- probabilities of exits from, and entrants to, the scheme [½]
- …Exits may arise as a result of deaths, employees leaving employment, divorce,
  remarriage of a widow(er), etc. [½]
- Emigration will also be relevant. [½]
- Entries may arise as a result of new employees, employees starting to meet eligibility criteria, or a widening of the eligibility criteria. [½]
- Immigration and attainment of age, rather than employment status, may trigger eligibility. [½]

Projected benefit payments considered together with projected contribution income could indicate when investment income or disinvestment is required [½]

Alternatively consideration of the benefit outgo together with projection of investment income could indicate when contribution income is required [½]

The former approach is commonly adopted for projections for funded benefit provision over short periods during which contribution income is fixed or restricted. [½]

The latter approach is commonly adopted to project contribution requirements for unfunded benefit provision. [½]

The use of such a projection over the short term can indicate the immediate contribution requirements. [½]

A longer term projection can also help to indicate the likely stability of the contribution requirements. [½]

Reasonable to use a model that is deterministic in nature. [½]

However stochastic modelling could be used given the uncertainty and risk being modelled to aid in decision making. [½]

For example, when the incidence / variance of benefit outgo / income is significant to the decision making process, or when a guarantee is offered which is not or cannot be matched
by corresponding assets. [½]

Stochastic models can also be used to place a value on benefits, especially when these involve "optionality" as in caps or floors on pension increases. [½]

A stochastic model will require values relating to the variance, covariance, skewness, etc., as well as the mean, of the parameters. [½]

[max 6]

(iii)

A simplistic representation of a real world problem [½]
… At a snapshot in time [½]
… Based on summary data (not individual data) [½]
… Assumptions unlikely to be borne out in practice [½]
… Data to model all features may not be available [½]

The model is unlikely to be able to deal with many of the complexities around the pension system, even if data is available [½]

Or it would be too time consuming and costly to do so [½]

For example it is unlikely to be able to accurately reflect the impact of economic shocks on employment levels [½]

Model may inaccurate, e.g. due to lack of testing [½]

Or overly complicated, making the results difficult to interpret and communicate [½]

[max 3]

(iv)

Details of the policy [½]
… For example is the £10,000 fixed or does it increase with an index [½]
… And what is counted as income from other sources (eg are assets somehow converted into a regular income stream) [½]

Additional, more granular, data on pensioners [½]
… Including the proportion of pensions with pensions below £10,000 [½]
… Both now and in the future [½]

Assumptions regarding the behavioural changes that might arise from this [½]
… Including a possible fall in average pension amounts [½]
… And selection against the Government [½]

Assumptions regarding the additional expenses relating to this option [½]

[max 3]

(v)

Likely to lead to cliff edges in pensioner income [½]

Which could lead to perverse incentives [½]
… For example those with low income not bothering to save anything for retirement [½]

And be unfair to those earning just above the threshold [½]

May discourage independent pension provisions [½]

May be significant administrative costs [½]

Should direct money to the more needy section of the population [½]
Will reduce cost of state pension provision [½]
Political impact of cutting benefits to pensions, unlikely to be popular [½]
May need to consider transitional arrangements – delaying the realisation of cost savings [½]

[max 3]

[Total 19]

In general, candidates appear to have found this question trickier than others on the paper. Most candidates scored well on part (i) but for parts (ii), (iii) and (iv) many did not provide sufficient detail to score full marks.

For part (ii), many candidates provided generic points on what is meant by a good model, but missed marks by not relating these to the scenario. Better candidates were able to be specific and provide detail regarding the items considered in the cashflow projection.

Part (v) was answered better with many candidates scoring well.

Q6

(i)

Continuation as a closed scheme with no future accrual of benefits [½]

Transfer of liabilities to another scheme of the same employer [½]

Transfer directly to beneficiary by means of transfer values [½]

Transfer to personal pension or new employer's scheme [½]

Deferred or immediate annuities for all members [½]

Transfer assets and liabilities to a central discontinuance fund [½]
[max 3]

(ii) Insurance costs are typically significantly larger than the cost of funding the benefits in other ways [½]

Due to insurance company solvency requirements [½]
…and a loading for expenses, contingency, profit etc [½]

If a scheme has insufficient assets, will require additional contribution from sponsor to scheme to cover cost [½]

If scheme has sufficient assets, sponsor may receive a refund [½]

Opportunity cost for sponsor if additional money is needed [½]
…but no more ongoing commitment needed to scheme [½]

Removal / reduction of scheme risks from the sponsor [½]
E.g. investment, inflation and mortality risks passed to insurer [½]

Identical benefits may not be available [½]
…or may need to pay a premium for them (e.g. caps / floors on increases) [½]

Loss of upside risk [½]
…e.g. investment return, mortality, etc. [½]

Deferred annuities may be more expensive [½]
…as insurer takes on risk for future benefits [½]
…as less competition in deferred annuity market [½]

Implications / reputation impact for sponsoring employer if insurer fails [½]

[max 5]

(iii)

Different valuation dates [½]
…so favourable scheme experience over the period [½]
…market conditions could be different [½]
… or favourable changes in market conditions over the period [½]

Different data e.g. member data vs summary data [½]

Different calculation methodology [½]
…e.g. rollforward from other figures / accurate individual calculations [½]

Different assumptions used [½]
…due to different methodology [½]
… e.g. actuary estimate based on firm's internal guidance, which is not in line with the market / actuary's figure is only an estimate [½]

Different expense, profit loading, contingency margins [½]

Competitive quotation, hence lower [½]

Error by actuary/insurer [½]

[max 3]

(iv)

Membership movements over the period [½]
…E.g retirements to pensioners [½]
…which are generally insured on better terms than non-pensioners [½]

…deaths / transfers out reducing number of members to be insured and hence cost / aging membership [½]
…Incentive exercise (e.g. ETV / PIE) may have changed benefits paid by the scheme [½]

Lower expense / profit loading / contingency margins [½]

Increase in level of competitiveness – new entrants to the insurer market [½]

Different insurer providing quote this time [½]

Change in financial assumptions [½]
…from changes in market conditions [½]

Change demographic assumptions [½]
E.g. mortality assumptions reflecting slowdown in mortality improvements [½]

Better quality of data provided [½]
Reducing the need for prudent loadings in insurers quotation [½]

[max 4]

(v)

Greater security of benefits [½]
…but depends on how insurer compares with sponsor covenant [½]
…and the benefits available on sponsor default vs the benefits available on insurer default [½]
… No difference in security if securing with insurance company under a buy-in [½]

Broadly no difference to retirement benefits received [½]
…but may be some differences if insurer unwilling to provide exact match [½]
…or too expensive to do so [½]
…e.g caps and floors on pension increases [½]
…unlikely to be able to receive any discretionary increases [½]
…there may be reduced options available to members [½]

Loss of risk benefits – e.g. death in service lump sum which may have been provided through the scheme [½]

Different point of contact (insurer instead of sponsor/trustees) [½]
…benefits provided by insurer instead of scheme [½]

…different interaction with insurer (e.g. online) [½]

[max 4]

[Total 19]

Similar questions have appeared in recent exam diets and well prepared candidates scored well on this question. Better candidates were able to clearly distinguish the different circumstances in parts (iii) and (iv) of the question and provide well structured answers. Part (v) was least well answered, with some candidates not providing enough detail to get full marks.

[Paper Total 100]

END OF EXAMINERS' REPORT