INSTITUTE AND FACULTY OF ACTUARIES

EXAMINERS' REPORT

April 2012 examinations

Subject ST4 – Pensions and other Benefits
Specialist Technical

Purpose of Examiners' Reports

The Examiners' Report is written by the Principal Examiner with the aim of helping candidates, both those who are sitting the examination for the first time and who are 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. Although Examiners have access to the Core Reading, which is designed to interpret the syllabus, the Examiners are not required to examine the content of Core Reading. Notwithstanding that, the questions set, and the following comments, will generally be based on Core Reading.

For numerical questions the Examiners' preferred approach to the solution is reproduced in this report. Other valid approaches are always given appropriate credit; where there is a commonly used alternative approach, this is also noted in the report. For essay-style questions, and particularly the open-ended questions in the later subjects, this report contains all the points for which the Examiners awarded marks. This is much more than a model solution – it would be impossible to write down all the points in the report in the time allowed for the question.

T J Birse
Chairman of the Board of Examiners

July 2012

General comments on Subject ST4

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.

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. Too 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.

Good candidates demonstrate that they have used the planning 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.

Comments on the April 2012 paper

The Examiners were pleased to see a much improved pass rate for this paper, with many candidates showing that they understood the underlying syllabus by producing concise, logically structured solutions that addressed the specific context and instructions provided in the questions.

Relatively poor performance on Q1 demonstrated a bit of a collective blind-spot on some relatively new core reading (the Technical Actuarial Standards). Whilst candidates are generally right in thinking that SA4 is where UK-specific pension content is examined, they should not conclude that any parts of the core reading can be dismissed.

As in previous sessions, questions which required more analysis or application of knowledge to slightly unfamiliar situations proved more challenging. Question 3, 4, 5(i), 6(iii) and 7 are examples.

Finally, questions 6 and 7 constituted half the marks available, but it seemed clear to examiners that candidates had not given them a proportionate amount of time. Whilst we make no comment on the order in which candidates attempt questions, we do suggest that candidates plan their answers to the whole paper at the beginning of the examination, in particular identifying the important information in each question, and the specific instruction. Also, candidates may wish to avoid over-refinement or repetition of points on earlier shorter questions (which might at best score an extra mark) at the expense of time spent exploring the longer questions (which might identify a more productive seam of several marks).

1 (i) *Technical Actuarial Standards*

Generic Standards

- Data
- Reporting
- Modelling

Specific standards

- Pensions
- Transformations *(Core reading refers to "Business Transformations")*
- Insurance
- Funeral plans

(ii) *Application to overseas pension scheme*

- TASs apply to work done in relation to the UK operations of entities and any non-UK operations which report in to the UK, so it depends on whether the overseas scheme (or its sponsor) reports in to the UK
- Even if it doesn't, wider adoption of the TASs is encouraged by BAS.
- (...So) The actuary may wish to comply with the TASs anyway...
- ... but should consider the benefit to the client of TAS compliance i.e. how will it affect their decision-making?
- ... are their local regulations or actuarial standards which cover this work anyway?
- ... is the work being done in scope of the TASs?
- The client might ask the actuary to comply with TASs.

Somewhat surprisingly, this was the worst answered question on the April 2012 paper (in terms of the average marks scored as a percentage of the total available), despite it being very closely aligned to the core reading on this topic. It appears that many candidates thought that because they generally only apply to UK actuarial work, they are also 'out of scope' for ST4 examination purposes. Some basic awareness of them is, however, required for all members of the Institute and Faculty of Actuaries, hence their inclusion (at a very high level) in the ST4 syllabus.

2 (i) *Options available*

- With profit arrangements
  - Contributions are set which will meet a given level of benefit given a prudent set of assumptions for investment returns
  - If investment experience is better than assumed, bonus returns are credited to the fund.
  - These bonuses may be used to reduce future contribution needs or to increase benefits.
- Deposit administration
  - Contributions are accumulated with a mixture of guaranteed and bonus rates of interest.
- Managed funds
  - a pooled investment vehicle where funds are usually unitised
  - there may be a choice of funds and so underlying assets

  - no investment guarantees are provided / return reflects underlying assets
- Annuities
  - Purchased to insure all or part of a current or deferred pension
  - Non-profit annuities should provide a guarantee that the insured pension is paid.
- Other investment products with guarantees
  - Various contracts may be available which offer minimum returns or guarantee that the policy value cannot fall below a certain level
- Derivatives / swaps (*not in core reading, but acceptable alternative*)
  - E.g. longevity swaps offered by insurers for largest schemes

The instruction in (ii) was to "outline", so credit was only given for examples that showed that the candidates understands the item they named. Candidates that simply listed products did not gain credit.

(ii) *Financial implications*

Key points

- In all cases, an investment product will incorporate management charges and profits, (either explicitly or implicitly) within the terms offered.
- there will also be further costs in relation to the premium for any risks transferred to the provider (e.g. longevity in annuities)
- If a product provides guarantees, this may restrict investment freedom and hence reduce return / funding levels
- Which would increase the cost of providing benefits and require additional contributions from the company

Further implications

- different tax treatments which may or may not be beneficial
- insurer may provide cheaper add-on services (admin, insurance)
- managed funds may give access to investment specialists
- security for other members may be reduced if particular liabilities are secured by guaranteed investments e.g. annuities
- liquidity may be an issue for some e.g. annuities
- inflexibility e.g. some contracts may incur early surrender penalties (with-profits)
- competitiveness of market will affect the level of costs discussed above
- risk of insurer default
- loss of upside risk

Question 2 was generally answered well – it was reasonably straightforward bookwork, but a few candidates covered products which address non-investment related risks (e.g. group life assurance).

3 *Issues members should consider*

General issues which are relevant to both decisions (and should only score once)

- the member's underlying preference for cash or higher benefits (flexibility / his time value of money)
- does the member have any immediate need for the cash / higher pension – e.g. to pay off a mortgage or meet specific financial commitments?
- health – if good and expects to live a long time, may prefer pension vs cash and inflation protection *(or same point expressed in converse way but **not both**)*
- extent and nature of other wealth in terms of liquid assets and longer-term sources of income
- possible loss of future discretionary increases

Cash versus pension:

- What level of alternative income could be achieved by taking cash and purchasing a pension elsewhere ("open market option")
- ... or by reinvesting in some other vehicle…
- ... consider yield/risk of other vehicle against certainty provided by pension

- *any sensible numerical analysis of the value of cash vs pension*
- are there any restrictions on the use of the cash?
- can the member survive on the residual pension?
- taxation – are cash and pension taxed at same rate?
- if the member takes the cash he is effectively accepting investment and longevity risks
- need/desire to provide for dependants (pension is single life – unclear what would happen if the member died shortly after the pension started)
- If member is concerned about solvency of pension scheme and sponsoring employer, taking cash is a way of diversifying wealth

Level vs increasing pension:

- outlook for future inflation
- if inflation is 3% per annum, it will take 9 years for index-linked pension to exceed the level pension *(or other sensible analysis)*
- and longer for total pension received to exceed that under the level option
- also need to consider possibility of short-period of high inflation
- inflation-linked pension can be seen as insurance against erosion of standard of living due to longevity / high inflation
- so the decision depends on the member's attitude to these risks
- level pension means the member is accepting the inflation risk
- again, this attitude may be affected by whether other sources of income have inflation-protection
- higher level pension may mean loss of means-tested benefits/in higher tax-band ?
- Member's attitude and likely spending profile in retirement is important…
- …would the member prefer higher real income in the early years of retirement when still active (e.g. to go on holidays)…

- …or is it important to maintain real level of income for later in retirement (e.g. to meet long-term care costs)

Many candidates scored well on this question. Those that did not score highly often just listed criteria for decision making without discussing their implications for this member in the context of this question, or using the figures in the question to help illustrate the comparison of options. While there was no specific instruction to calculate examples, numerical comparisons would normally feature in good client advice, as the stronger candidates appreciated. This is, after all, an actuarial exam!

4 (i) *+s and -s*

Advantages

- Investment risk is only retained for as long as is needed
- Gradually moving to a lower risk strategy
- ... so more practical / less likely to affect market prices
- As and when the Scheme can afford to do so
- Potentially reducing need for regular investment risk reviews
- Can lock into a stronger funding position
- With good investment return 'locked in' and not lost again in the future
- ... which turns market volatility to the Scheme's advantage
- Likelihood of future cash calls / dependency on the sponsor is reduced
- Strategy can be aligned to other risk management opportunities e.g. buy out

Disadvantages

- Any allowance in the valuation basis for equity outperformance will need to reduce over time due to the revised asset mix...
- ... which would increase the measure of liabilities and may in turn require higher contributions
- May require equities to be sold when their prices are low and/or bonds purchased at times their prices are high (i.e. sub-optimal returns)
- Lose opportunity for future good equity performance
- And prevents any re-risking opportunities where risk is increased to meet certain targets
- If already in deficit, the highest investment risk is being taken when scheme is worst funded.

(ii) *Considerations*

- The strategy needs to centre around a long term "end game" target (i.e. set objectives) e.g. buy out or a fully matched bond portfolio
- ... the maturity of the scheme (when /what is the endgame)
- A detailed governance process is needed to implement the strategy which could be complicated and may involve significant expense
- Much more regular monitoring of the funding level (and assets) is needed

- ... and will need to check the success of the strategy itself from time to time
- The move to bonds needs to consider the "correct" bond portfolio (nature, duration etc.) to reduce mismatching risk
- ... sufficient suitable bonds may not be available
- The process could be delegated to a third party e.g. investment house or actuarial advisers
- Details of the trigger process need to be determined in advance i.e.
- ... design of funding level bands
- ... specified rules on assets to trade when triggers are met
- Need to consider the downside impact of falling equity markets and/or increasing bond prices (i.e. what if triggers are never met?)
- Consider views of the sponsoring employer and appetite for risk
- Taxation issues *(with appropriate example e.g. CGT if equities sold)*

(iii) *Three other approaches*

- Reduce investment (and longevity risks) e.g.
  - annuity purchase
  - longevity hedging
  - a fully investment strategy immediately e.g. LDI

- Liability management e.g.
  - incentive exercises (ETVs, PIE)
  - modifying benefits (switch to CARE, break salary increases)
  - encouraging options on terms that lead to an increase in the scheme's funding level
  - transfer scheme to another fund

- Alternative security provided by the sponsor e.g.
  - Charges on assets
  - Parent company guarantees
  - ... etc.

- More conservative approach to funding
  - Stronger assumptions
  - Higher employer (and member?) contributions
  - Mismatch reserve as buffer against adverse experience

Credit was given in parts (i) and (ii) for other reasonable suggestions.

Given the instruction in the question, ("high-level") the examiners were looking for three distinct options in part (iii), with a brief explanation or example for how they reduce risk.

5 (i) *Best estimate vs Prudent*

- Best estimate means the use of a set of assumptions which we expect to fall at the median of future outcomes (i.e. 50% of results fall below and 50% above)
- Prudent means the assumptions are stronger than best estimate (experience is more likely to be more favourable than assumed than not)
- The use of prudent assumptions will result in higher transfer values and cash commutation at retirement (for a given amount of pension)
- If prudent funding assumptions (e.g. a lower discount rate, other things being equal) are used to determine early and late retirement factors, this will result in higher early retirement pensions and lower late retirement pensions (than the use of a best estimate discount rate)
- ...whereas setting early or late retirement terms **in a prudent manner** might be expected to produce a lower pension, to avoid reducing security for other members

Transfer Value basis

- A cash sum representing the expected future cost of providing the promised benefit will be paid to the member in settlement of the liability
- Therefore it is not appropriate to pay out greater than this expected amount
- As it would disadvantage remaining members
- Therefore a best estimate set of assumption is more appropriate
- Unless enhanced transfer values are being offered as a de-risking exercise and then prudent assumptions could be used.

Cash Commutation factors

- Use of prudent assumptions would be consistent with the funding basis
- ... and might be used to encourage take-up and the transfer of risks
- But this is likely to exceed the expected cost of the benefit
- Therefore best estimate assumptions are more appropriate
- Particularly as there may be the possibility of selection against the scheme
- E.g. members with shorter life expectancies might be more likely to exercise the option

Early and late retirement factors

- The pension is paid earlier or later than the normal retirement age so the financial impact is less significant and spread over a period (the calculation involves the ratio of two annuities)
- Therefore best estimate or prudent assumptions could generally be used without creating a significant strain on the fund.

(ii) *Fixed vs Market-related*

Market related

- The terms reflect the actual market conditions when the payment is made
- For example, they will be similar to the cost of buying an annuity with an insurance company / transfer-in terms of receiving scheme

- They reflect changing market conditions automatically, so reducing the possibility of selection due to market movements
- So the underlying methodology need not be reviewed frequently to ensure they remain appropriate
- A market-related basis may be necessary where cost neutrality on some basis is the primary objective
- ... to mitigate the impact on scheme (vs funding)
- ... to give members an appropriate chance of reproducing benefits (TV to DC)

Fixed factors

- These are consistent with the view that actuarial factors are an integral part of the scheme's benefit structure
- Therefore the expected benefit should be known in advance...
- ... and member perception is that factors are fairer (as they don't see other members shortly before/after them getting what seems a better deal)
- This is particularly helpful for members determining their benefits in the run up to retirement therefore appropriate for cash commutation, early and late retirement factors
- Administration is greatly reduced
- Communication is made easier as the member can be told what benefit they will actually receive on retirement for example

(iii) *General/actuarial issues*

- Requirements of the scheme rules (e.g. who sets the factors?) /compliance with any relevant legislation and guidance
- The current funding position of the scheme and strength of sponsor covenant
- Communication to members / ease of understanding / perceived vs actual fairness
- Employer's objectives e.g. encouraging members to leave employment through use of generous ERFs / encouraging risk transfer (commutation)
- Whether or not consent is required for the option to be exercised
- However, a general aim is usually cost neutrality
- What is done by competitors and other pension schemes?
- Consider member expectations / existing factors and take-up rates
- Ease of administration / complexity and cost of making the relevant calculations
- Theoretical factors may be smoothed for practical purposes
- The degree to which factors should reflect individual member characteristics (e.g. unisex or sex-specific factors, marital status)
- Timing of the change to any of the factors
- E.g. would it be appropriate to reduce transfer values to reflect an underfunding position?
- How long are the factors likely to be in place for the future hence will fixed factors still be appropriate until the next review?
- Consideration of any possible selection against the scheme

- Allowance for any discretionary increases e.g. in transfer values
- The relative tax treatment of options

Whilst this question was often answered well, a significant number of candidates failed to demonstrate that they understood the underlying issues.

In part (i), despite the fact that they weren't defined in the question, some candidates neither defined 'best estimate' and 'prudent', nor demonstrated that they understood what each meant in the context of the question. The list of types of actuarial factor should have acted as a strong hint to consider whether the answer is the same in each case.

In (ii), some candidates' answers looked more like recalled lists rather than an outline that demonstrated understanding of the two approaches.

For part (iii), many solutions were simply too sparse to score significant credit.

6 (i) *Sources of surplus/deficit*

Equivalent credit was given to candidates who either (1) structured their answers in accordance with core reading and provided one or two examples to illustrate the different items i.e.

- The probability of providing the benefit
  (decrements, longevity, options, ...)
- The cost of the benefit
  (inflation, salary growth, expenses, ...)
- The amount of contributions in the funding period
  (actual ER+EE contributions relative to cost of benefits accrued)
- The amount of investment proceeds during the funding period

... or (2) provided a list of typical Analysis of Surplus items, e.g.

- Surplus or deficit carried forward from last valuation
- Investment return
- Contributions
- Retirement and other member movements
- Salary growth
- Options e.g. early/late retirement / commutation / transfer values
- (Post-retirement) mortality
- Inflation (as it affects pension increases / revaluation)
- Administration and other expenses met from scheme assets
- Changes to market conditions / basis / funding method

(ii) *Options available w.r.t. surplus*

- Need to take account of legislation and the Trust Deed and Rules ...
- ... either of which may restrict how surpluses should be used
- Sponsor may have control of surplus not Trustees
- Strength of sponsor covenant should also be considered

- consider industrial relations
- is there any precedent / how have past surpluses been dealt with?
- Note that this appears to be a one-off source of surplus so it may be appropriate to deal with it in a way that doesn't create an ongoing commitment (and so anticipates future similar gains)
- If sponsor has to bear future deficits then may expect to have the benefit of surplus (and be encouraged to continue to support the scheme)
- If members have made contributions they may feel entitled to at least a share of the surplus

Possible uses of surplus are:

- Retain surplus in scheme as reserve against future volatility
- ... particularly if scheme is small / sponsor covenant an issue
- ... could allow a higher-risk/reward investment strategy
- De-risk by buying out some liabilities (pensioners / deferreds)
- De-risk by offering enhanced transfer values for a period
- De-risk by strengthening funding basis (if weak) and/or switching investments
- ... perhaps investing just the surplus in growth-seeking assets
- Refund to sponsor
- ...but note possible tax implications
- Reduction of future member / employer contributions
- Enhancement of benefits e.g.
  - service credits
  - one-off pension increases
  - discretionary increases...

  (credit was given for any two sensible enhancements)

(iii) *Response to FD*

- Salary increase assumption is a long-term item set consistently with other items...
- ... what was inflation assumption in valuation?
- If actual inflation more than expected then loss would occur in absolute terms (but may better have been allocated to the "inflation" item in AoS)
- Note impact was small / these assumptions are not generally the most important ones.
- What measure of inflation is FD using? Is it same as valuation assumptions?
- Is there a timing difference? ...actual salary increases often based on inflation from previous year.
- Promotional increases?
- Basic salary may have increased in line with inflation
- ... whilst pensionable salary may include overtime, bonus etc.
- How did FD calculate average salary increase?
- ... Possibly just increase in total payroll over period
- ... Could include employees who aren't members of scheme
- Members of scheme with larger liabilities could have had higher salary increases

- Meaning average salary increase weighted by liability would be higher than inflation
- Note the parallel to the effect of one significant pensioner on surplus
- Significant change in active membership over valuation period could have affected analysis
- e.g. large salary increases in first year, then a reduction in membership followed by smaller increases

This was the best answered question on the paper, with many candidates scoring 14 or more. Stronger candidates focused on the source of the surplus, i.e. its one-off nature, and made appropriate suggestions, noting possible constraints. Weaker candidates did not discuss their suggestions, say why they might or might not be appropriate, and even failed to consider the possibility of retaining the surplus. In part (iii), stronger candidates considered a wide range of issues, rather than focusing on one or two possibilities at length.

7 (i) *Government options*

- Change the requirement so residents only have to use a proportion of their DC funds to purchase an annuity
- Increase the age from which members must purchase an annuity
- Remove the requirement to purchase an annuity, leaving residents to invest their own DC funds (i.e. income drawdown)
- Encourage insurers to increase flexibility in their annuity products
  - …through legislation or voluntary participation
  - …e.g. by allowing people more choice over the form of their annuity
  - or potential to vary the payments
  - or share in the investment return/risk
- Allow residents to purchase annuities in phases
- …this may appeal to people who wish to semi-retire
- Encourage insurers to reduce the cost of annuities
  - E.g. through tax breaks
  - Regulating expense loadings to drive efficiency
  - Or reducing the barriers to entering the market to increase competition
  - Or reducing any compliance burden (while still maintaining security for residents)
- Introduce a government-run annuity provider which can:
  - Offer the flexibility residents want
  - Insure at a lower cost…
  - …as could be non-profit
  - …and would be government-backed so no need to build in extra reserves for security
- Encourage employers to provide defined contribution to defined benefit conversion for employees
- Education to tackle the perception that annuities are expensive.

(ii) *Factors*

- Level of financial sophistication; residents with a high level of understanding are more likely to feel confident in investing their own DC funds.
- Attitude to risk; if residents are risk averse they are unlikely to take advantage.
- Other sources of income or assets:
  - If a resident has other pensions/assets to meet their income needs they are more likely to want to take a risk with their DC funds.
  - Or if their spouse has a stable income they may be willing to take on risk.
- Some residents may prefer the flexibility as they would prefer to have a higher income early in retirement
  - when they are more able to enjoy it
  - or to pay off a continuing liability such as a mortgage
- Residents with lower life expectancy than average are more likely to take advantage
- …as the cost of an annuity will factor in a certain life expectancy and if a resident lives less long they could potentially fund a higher income
- Member's characteristics versus how annuities are priced e.g. unisex annuities may be less attractive to males
- If the annuity must include a spouse's pension and the member is single they are more likely to take advantage.
- What will happen to the personal account after the resident's death?
  - If the fund passes to the dependants to use as they please, residents who expect to have a greater fund than required to pay their own pension until death are more likely to take advantage.
- The simpler the process for managing the personal account, the more likely residents is to take advantage.
- Any difference in tax position between purchasing an annuity and investing in a personal account:
- on income
- after the resident's death
- The resident's personal view of future investment returns…
- …achievable in a personal investment account
- ... and inflation
- If there is a state "safety net" if the personal investment account is exhausted (e.g. a state pension) residents are more likely to take advantage
- How the new flexibility is communicated to residents…
- …if residents are unaware or do not understand they will not take advantage of it,
- ... whereas supportive press comment may encourage participation
- ... and availability / cost of good financial advice may be a factor
- Size of DC funds…
- …those with small funds may face prohibitively large management charges
- ...due to admin costs of regular drawdown.

- How well the existing market meets the resident's needs.
- If the resident wishes to semi-retire and take some income from their pension fund while still working they are more likely to take advantage.
- Any restrictions on how much residents may withdraw money from their personal investment accounts may reduce take-up

(iii) *Increase in numbers eligible?*

- Under the proposed system there is a risk that residents will underestimate the cost of providing an adequate income in retirement.
- Without safeguards, residents may exhaust their personal investment accounts and become dependent on the state pension.
- The way in which the means test is performed means residents could potentially manipulate their income stream to receive a state pension…
- …by dropping their income to $100 per week in the relevant month
- If the resident's spouse has no pension provision of their own, the spouse could fall onto the state pension.

(iv) *Safeguards*

- Impose a maximum amount that can be withdrawn from the resident's personal investment account each month.
  - This could be an amount expected to last for the resident's whole retirement, so would need to take into account:
    - Expected investment returns
    - Expected inflation
    - Expected longevity
  - The level of spouse's pension required and likelihood this will be paid
  - The government could set and publish factors, perhaps annually.
  - This is likely to be unpopular with residents who want more flexibility from their personal investment account.
  - This mimics an annuity from an insurer to some extent.

- Introduce a test such that if the resident's personal investment account is expected to produce an income of at least $100 per week for the whole of their retirement, the member can withdraw as much as they want above this level.
  - This may be more palatable to residents with large personal investment accounts who value flexibility.

- Set a minimum amount that may be withdrawn from the resident's personal investment account.
  - Would need to be at least $100 per week to meet the means test
  - Unlikely to impact on residents with large personal investment accounts
  - Need to consider how to tackle residents with insufficient funds to provide this…

  - …For these residents, the lowest cost burden on the state would arise if the member must take $100 per week until their personal investment account is exhausted…
  - …but this doesn't seem to be in the spirit of ensuring adequate provision in retirement.

- Change means test…
  - …so it looks at income over the previous year rather than the previous month to avoid manipulation of income.
  - This may disadvantage low income residents who have had a recent drop in income
  - To avoid cliff-edge element (some sort of graded test)

- Only allow residents to change the level of income from their personal investment account once per year…
  - …to avoid manipulation to meet the means test.
  - May be unpopular as it would reduce flexibility

- Take into account residents' income from other secured sources to determine how much they may withdraw from their personal investment account.
  - e.g. a defined benefit pension from an employer
  - or annuities already secured with insurers
  - So if the member can prove they have $100 per week income from these sources they may withdraw as much as they wish from their personal investment account.

- Or use the same method to determine how much of their personal investment account the resident must use to secure an annuity
  - So they must have income of $100 per week from secured retirement income before being permitted to invest any DC funds in a personal investment account.

- The government should consider if an income of $100 per week is adequate to provide for residents in retirement when considering the proposal.

- Restrictions on choice of investments in personal account
  - To reduce risk of poor returns by investing too cautiously
  - To reduce risk of default by investing too riskily
  -
- Requirement to purchase annuity once fund reduces to a given level
  - i.e. the level that purchases the minimum $100 per week

- Change means test to allow for assets as well as income
  - Which could include the value of the DC fund itself
  - May disadvantage residents whose wealth cannot (easily) be disposed of

Unsurprisingly, there was much evidence of time pressure in the answers to this question, with many candidates failing entirely to 'discuss' and 'explain' in their solutions, or show that they had carefully read the question. There were many points of detail that could be used to add breadth to solutions, simply by listing the features of proposals, and making salient observations about their impact on individuals in different circumstances, ands whether or not they would help achieve the stated objectives.

In part (i),many candidates only covered cost issues, even though the question stated that the policy was also unpopular due to inflexibility (and the preamble to part (ii) was all about flexibility issues).

Again in (ii), stronger candidates <u>discussed</u> the factors they identified, rather than just listed them – candidates should note that writing your list in the form of a series of questions does not demonstrate understanding on its own (or, indeed, constitute a 'discussion').

In part (iv), many candidates considered other aspects of post-retirement provision, rather than safeguards to be applied to the specific proposal in the question.

END OF EXAMINERS' REPORT