REPORT OF THE

BOARD OF EXAMINERS

ADVANCED DIPLOMA IN RETIREMENT PROVISION

APRIL 2018

THE PENSIONS MANAGEMENT INSTITUTE

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Introduction

The purpose of this report is to review candidates' performances in the twelve units examined in April 2018.

The examinations are either 'Core' or 'Specialist' Units. The Core Units consist of short answer questions and multiple choice questions. The performance of these examinations was mixed, with some high scores being achieved in some but not all of the units. The Specialist Unit examinations consist of a number of questions and are three hours long. Each specialist unit is supported by two study manuals; a unit specific manual and a generic communication manual.

When marking, examiners give marks for **relevant facts**. They also give marks for showing that candidates have **understood** the subject and, where appropriate, that they can **apply it** to the question asked. They also give marks for **communication** for some questions in the Specialist Units and Professionalism and Governance unit**.** Candidates, when requested to answer in a specific format, are encouraged to do so, so that format marks are not missed. The emphasis on understanding, application and communication increases further with the later units.

In all units, the examination questions are designed where possible to cover a wide range of the syllabus. Candidates therefore need to have reviewed all the study material. Distance learning courses and revision courses are recommended. Past examination papers will be useful and are available on the PMI website.

Examination questions are also drawn up where possible with an emphasis on the industry today. So extra reading will benefit candidates, particularly on the topics that are concerning the industry generally in the current environment.

Further details on the examination can also be found in the Test Specifications published on the website.

Candidates may be interested in knowing how the marking process works. The examiners are qualified members of PMI with broad experience in the industry. There is a separate group of examiners for each unit. They produce a marking schedule for each question, and then they mark some sample scripts and refine each of their marking schedules. Each script is marked twice completely independently. In the Core Units, the multiple choice questions are scanned at PMI and the analysis is reviewed by the examining teams to see how candidates have performed on this aspect of the examination and any alterations made where necessary. The total for the multiple choice aspect is added to the short answer question total to give the candidate one overall mark.

The examiners for each unit recommend a pass mark for their unit based on the scripts submitted, above which they feel the candidates have demonstrated a knowledge and understanding of the subject worthy of a pass. All scripts near the pass mark are reviewed again, question by question and mark by mark, at an examiners meeting, to ensure that the candidate receives every mark warranted.

A moderator looks at a selection of scripts from all the units to ensure consistency, and adjustments to the pass mark can be made in a final Board of Examiners meeting, taking account of the moderator's comments.

The table below summarises entries and performances across the units.

Unit	Entries	Absent / Withdrawn	Number of Scripts	% Pass
Core Unit 1A	78	6	72	**34**
Core Unit 1B	19	6	13	**69**
Core Unit 2	71	8	63	**46**
Core Unit 3	68	10	58	**67**
Core Unit 4	57	6	51	**65**
Defined Benefit Arrangements	19	4	15	**67**
Defined Contribution Arrangements	29	3	26	**77**
Reward and Retirement Provision	43	4	39	**54**
Retail Advice and Regulation	11	6	5	**20**
Taxation, Retail Investment and Pensions	15	4	11	**18**
International 2	16	6	10	**80**
Professionalism and Governance	38	5	33	**21**
Total				

Following the April examinations, 20 candidates completed the Advanced Diploma, 1 candidate completed the Diploma in Regulated Retirement Advice. 25 candidates completed the Diploma in Retirement Provision qualification, 19 candidates completed the Diploma in Employee Benefits and Retirement Savings and 8 candidates completed the Diploma in International Employee Benefits.

The rest of this report looks separately at each unit examined in April 2018. It gives a guide as to how the question paper overall and each of the questions were answered by candidates, an indication of what was required in response to the questions, and any common errors or omissions. For the Core Units, some feedback on the multiple choice aspect of the examination is given. **Please note the April 2018 examinations were based on the 2018 syllabuses and on the law as it existed at 6 April 2017.**

Core Unit 1A – Understanding Retirement Provision (UK)

This was a 2 hour exam split between multiple-choice questions and free-format questions. Equal weighting of marks was given to both sections.

Multiple-choice questions

There were 50 questions, each correct answer being worth 1 mark. There were two types of question, as follows:

- 40 questions where candidates select one correct answer from a choice of four possible answers, and
- 10 questions where candidates are given two statements and have to determine whether both are true, the first is true and the second is false, the first is false and the second is true, or both are false.

Examples of these types of questions can be found on the PMI's website.

The questions were broadly representative of the entire syllabus.

In general, candidates achieved good scores on the multiple-choice questions.

For the multiple choice questions areas that candidates answered less well covered the following areas of the syllabus and study material:

Subject	2018 study manual reference
Pensions Acts 2007 and 2008	Part 1, chapter 1.7
SIPPs and Income drawdown	Part 4, chapter 1.2.3
Public sector pensions	Part 4, chapter 2.3.1

Short answer questions

There were 6 questions where candidates were required to write their answers in free format. Candidates are encouraged to devote one hour to this part of the examination but many answers were very brief and lacking in detail and this is inevitably reflected in the marks awarded. Candidates are also encouraged to consider the number of marks allocated to each question and should aim to write more detailed answers on questions that carry more marks.

Question 1

In relation to the anti-avoidance powers of the Pensions Regulator, define each of the following terms:

(a) Contribution notice
(b) Financial support direction
(c) Restoration order
(d) Clearance procedure. (10 marks)

The results for this question were disappointing with relatively few candidates scoring good marks. Many candidates failed to demonstrate that they had studied this section of the study manual and a significant number of candidates simply stated that (a), (b) and (c) all related to requiring relevant contributions to be paid into the scheme.

For the contribution notice few made reference to a direction to pay the statutory debt to the scheme or the PPF where there is a deliberate attempt to avoid it, and for the financial support direction few referred to the sponsoring employer being insufficiently resourced or a service company. More candidates showed an awareness of the purpose of a restoration order in that it relates to the sale of scheme assets at an undervalued price but, again, a number believed it was an order restoring the correct amount of contributions to be paid into the scheme.

A substantial number of candidates believed that the clearance procedure relates to TPR appointing a new trustee rather than seeking prior assurance from TPR that a proposed transaction will not lead to a contribution notice or a financial support direction being made.

The relevant section of the study manual was Part 2, Chapter 1.1.1.

Question 2

> List the tasks for which a Pensions Manager is typically responsible in overseeing the day-to-day operation of an occupational pension scheme. (7 marks)

The results for this question were quite mixed. Some candidates identified a reasonable number of tasks such as managing a team of pension administrators, liaising with HR and payroll, liaising with the trustees and their various professional advisers, acting for the trustees as the specified person for handling disputes, and reporting on the scheme’s financial performance. Other candidates just appeared to draw on their personal experience and simply listed functions such as keeping records, calculating transfer values and paying benefits.

A number of candidates noted that the Pensions Manager often also acts as the Secretary to the trustees.

The relevant section of the study manual was Part 2, Chapter 1.18.2.

Question 3

> Describe the characteristics of an insured pension scheme. (10 marks)

This question was particularly poorly answered with candidates demonstrating a general lack of knowledge in this area. Few candidates referred to the fact that contributions from the members and the employer are paid as premiums to an insurance policy or policies from which members’ benefits will be paid, or explained that with an occupational pension scheme the contract is between the insurance company and the trustees, not the individual members. Most referred to insured schemes being defined contribution but the study manual clearly states that they can be defined benefit schemes too.

A number of candidates interpreted the question as asking about buy-outs and buy-ins, and to covering the pensioner population of the scheme with an insurance policy, but these are not insured pension schemes as such.

There was a general awareness that insured schemes can be either occupational or personal pension in nature, and candidates also often picked up that contributions are invested in funds offered by the insurer (some also mentioned links to external funds) and that services may be bundled or unbundled.

The relevant section of the study manual was Part 4, Chapter 2.3.4.

Question 4

Write brief notes on

(a) The Money Advice Service
(b) Pension Wise. (8 marks)

This question was fairly well answered by the majority of candidates although some confused the two bodies.

In general candidates' knowledge of the Money Advice Service was sketchy. Despite its name it does not provide financial advice although it does have responsibility for co-ordinating debt advice. Its role is to enhance consumer understanding and knowledge of financial matters.

Candidates had a better understanding of the role of Pension Wise, which was set up to provide guidance to people accessing defined contribution funds after the introduction of the 'pension freedoms' in 2015. Most candidates noted that it can only offer guidance to those aged over 50 with defined contribution benefits, and many candidates were aware that it can only provide guidance, not advice. Most candidates knew that it can be accessed in a number of ways – online, phone and face-to-face – through TPAS and the Citizens' Advice Bureau.

Many candidates also made reference to how the two bodies are funded.

The relevant section of the study manual was Part 2, Chapters 1.4 and 1.5.

Question 5

Outline the common factors that have been advanced for individuals failing to make sufficient savings for their retirement. (5 marks)

Most candidates produced good answers to this question, with the majority identifying the three key points of affordability, behaviour and culture, as well as making reference to the welfare state removing the risk of absolute poverty. Many candidates also made reference to improvements in life expectancy and the deterioration in long-term investment returns increasing the cost of funding retirement.

The relevant section of the study manual was Part 1, Chapter 2.1.1.

Question 6

(a) List the state benefits that Universal Credit will replace when fully rolled out.
(b) List the benefits that are outside Universal Credit and will remain in place.

(10 marks)

Many candidates achieved high marks on this question, providing a comprehensive list of the benefits which will remain in place when Universal Credit is rolled out or will be replaced by it.

Candidates should note, however, that the question only asks for lists of the relevant benefits. A few candidates prefaced their answer with an introductory paragraph detailing Universal Credit but this was outside the scope of the question and, as such, no marks could be awarded for doing so.

A number of candidates failed to distinguish between income-based Jobseeker's Allowance and contributory Jobseeker's Allowance and between income-based Employment and Support Allowance and contributory Employment and Support Allowance. Since the income-based JSA and ESA are being replaced (and so should be listed under part (a)) and the contributory JSA and ESA are remaining (and so should be listed under part (b)) this distinction is important.

The relevant section of the study manual was Part 3, Chapter 2.2.1.

International 1: Core Unit 1B – Foundation in International Employee Benefits

Multiple choice questions

Questions 1 through to 40 asked the candidate to choose a correct answer to the question from a choice of 4. Questions 41 to 50 asked the candidate to consider two statements and then to state whether neither, one or both of them were correct. On average, both question types were answered with a similar degree of success.

The areas that candidates answered less well were

Subject	Study manual reference
UK Pension Increases	Part 4, Chapter 3
Flex benefits	Part 2, Chapter 7
Second Pillar Retirement Provision	Part 4, Chapter 5
Retirement Benefits	Part 4, Chapter 4
Concept of a trustee	Part 4, Chapter 5
Taxable contributions/benefits	Part 4, Chapter 7

Short answer questions

Some of the hand writing was difficult to read and illegible. Please ensure hand writing is clearly written.

When starting questions please start on a new page.

Question 1

Outline the Role of Accountants & Consultants in the Provision of International Employee Benefits. (10 marks)

- Generally well answered.
- Surprising, most missed that pension plan accounts must be audited.
- Whilst most got bonus marks for risk and cost reductions, few mentioned consultants providing advice on Mergers and Acquisition, employee mobility etc.

The relevant section of the study manual was Part 3, Chapter 12.

Question 2

Write brief notes on state retirement ages and how they might vary from country to country.
(10 marks)

- Generally not enough detail given for a 10 mark question and, as a result, full marks rarely awarded.
- Most candidates knew that the NRA varied by country and many included that the NRA range is 60-70. However, many missed the point that generally most countries are increasing retirement ages.

- However, a majority of candidates focused on the country detail, for which some bonus marks were available but the core of the question related to the relevant section of the manual – therefore, candidates are reminded to read exactly what the question is asking, not just include what they think may score them marks based on what they know.

The relevant section of the study manual was Part 4, Chapter 1.2.1.

Question 3

> Pan-European legislation has taken an increasingly important role in the last 20 years. List the main areas of EU involvement in relation to pensions and benefits. (5 marks)

- Most candidates stated the name of the relevant legislation, but did not include detail which was needed in order to be awarded full marks.
- In particular few candidates mentioned consultation rights for employees on their employment benefits through Work Councils etc.
- Again, candidates are reminded to answer the question being asked, rather than spending time including detail of non-relevant information (such as, in this case, anything they know about the EU, such as EMU and Barber).

The relevant section of the study manual was Part 3, Chapter 10.

Question 4

> Write short notes explaining why non tax-advantaged share plans are often used by employers to reward and retain executives, and the common types of these arrangements. (5 marks)

- This question was generally not answered well, with no candidate scoring full marks.
- Whilst most candidates knew that executive share plans are to link personal performance to company performance and to improve retention, very few included the types of share plan commonly used for this purpose – i.e. Share Option Plan, LTIP and Deferred Bonus Share Plan – and the structure of those plans.
- Instead, candidates often wrote anything they knew about share plans in general, such as free shares awards etc.

The relevant section of the study manual was Part 2, Chapter 6.

Question 5

> You are the Global Benefits Manager for your company.
>
> Write a briefing note for the Group Human Resources Director explaining why disability and invalidity benefits are key employee benefits from a global perspective (i.e. not country specific). (10 marks)

- Whilst most candidates knew the reasons (e.g. paternalistic, recruitment/retention, legislative) for providing these benefits, for which some marks were available, the question was asking for the detail about how and when these benefits are provided.
- As a result, candidates did not include the relevant detail in their answers and, often, not enough detail for a 10 mark question.
- The question was also asking for the answer to be prepared in the form of a briefing note, but only a handful of candidates formatted their answer in this way and therefore missed out on the format mark available.

- Candidates are also reminded not to include their real names in their answers.

The relevant section of the study manual was Part 2, Chapter 2.

Question 6

Write Brief notes on Pillar 1 of the German Social Security System. (10 marks)

- A majority of candidates knew that the system is pay-as-you-go and that the NRA is rising from 65 to 67.
- However, it was clear where candidates had learnt the relevant section of the manual as full marks were awarded in some occasions.
- Other candidates did not include enough detail for a 10 mark question or made general points about Pillar I social security benefits, i.e. not specific to Germany.

The relevant section of the study manual was Part 4, Chapter 4.2.1.

Core Unit 2 - Regulation of Retirement Provision

Multiple choice questions

For the multiple choice questions, areas that candidates answered less well covered the following areas of the syllabus and study material:

Subject	Study manual reference
European Union Law	Part 1 Chapter 4

Short answer questions

Summary

This paper included some topical questions as well as topics candidates should be familiar with in their day to day role. Candidates who did not obtain good marks had either not read the question correctly or not studied the manual sufficiently. The questions are set to guide candidates to what is required in the answer so for example in question 1 the question starts "describe the changes that were introduced…" so there is no need to describe the existing regime.

Mostly good marks were gained overall where candidates demonstrated they had studied the manual sufficiently.

The quality of handwriting still remains an issue and as well as illegible writing, really small writing is a problem, examiners cannot give marks if they cannot read what had been written or if there is ambiguity in the wording.

Question 1

> Describe the changes that were introduced to QROPS (Qualifying Recognised Overseas Pension Schemes) in the Finance Act 2017 which affect whether the member will pay a tax charge on the transfer. (10 marks)

The question asks for the changes that were made in the 2017 Act. Some candidates still wrote about the full requirements for overseas transfers, for which no marks were available. Although marks are not lost for including extra information it uses up time that can be used on other questions. The key points to set out in this answer were the changes affecting transfers to a QROPS on or after 9 March 2017. These transfers will be subject to an overseas transfer charge of 25% unless certain conditions apply. The list of conditions includes; where the member is resident in one EEA Country and the QROPS is in another EEA country, the QROPS is an occupational pension scheme sponsored by the individual's employer or is an overseas public service pension scheme and the individual is employed by a participating employer. The answer should also include an explanation that the tax position can be revisited in the "relevant period" of 5 years so that if one of the exemptions either ceases to apply or starts to apply in that period the tax position can change either way. Most candidates scored well where they had understood the question. Quite a few candidates incorrectly focussed on tax and wrote about tax charges around the Annual Allowance and Life Time Allowance.

The relevant section of the study manual was Part 1, Chapter 1.6.2.

Question 2

> A new General Data Protection Regulation will apply in the UK from 25 May 2018. Describe the key changes from the current regime and the penalties for failing to comply. (10 marks)

This was a very topical question which most candidates will have been familiar with in the course of their day to day work over the last few months. Candidates however either answered this well, receiving full or nearly full marks whilst others only picked up a few marks. Some of the points to include in the answer were; Data Controllers need to adopt internal policies and implement measures to comply with the new Act, the timeframe for responding to subject access requests has reduced from 40 days to one month, consent requirements from members are more detailed, a breach of security of data must be reported to the Information Commissioner by the trustees within 72 hours,fines for noncompliance which are up to 20m euros or 4% of global turnover if higher.

Some candidates referred to the principals under the 1998 act rather than setting out the key changes of the new Regulations.

The relevant section of the study manual was Part 3, Chapter 1.1.7.

Question 3

> List six key risk indicators for trustees and members to be aware of in relation to Pensions Liberation. (6 marks)

Again this is a topical subject often in the pensions press and which most candidates will know about in their day to day work so the information in the manual will be familiar. This was a particularly well answered question. The key indicators to look out for include newly established schemes with little or no formal documentation, pressure to force through a transfer quickly and transfers of money into overseas investments

The relevant section of the study manual was Part 6, Chapter 2.1.

Question 4

> For the purposes of Section 67 of the Pensions Act 1995, define " Member" and "Subsisting Rights". (7 marks)

This question was generally poorly answered. In the definition of "member", apart from looking for reference to Active, Deferred and Pensioners, marks were available for postponed members and pension credit members and to beneficiaries on death such i.e spouse and other dependants.

The definition of "Subsisting Rights" was the worse answered part of the question. Few candidates seemed to understand what these are or were unable to explain clearly. The definition includes service earned up to the date of amendment, for an active member it is determined as if s/he opted to leave pensionable service immediately before the date of change and therefore Death in Service does not form part of accrued rights. Points were also available for reference to the TPR Code of Practice on "Modification of Existing Rights" and mention that no detrimental changes can be made to accrued benefits.

Quite a few candidates wrote about Section 75 debts.

The relevant section of the study manual was Part 2, Chapter 3.5.3.

Question 5

Explain the following duties of trustees under Trust Law:

(a) To exercise reasonable skill and care (4 Marks)

(b) To act jointly (3 Marks)

(c) To act without charge. (3 Marks)

This question was not answered well with most candidates scoring below half marks. As can be seen from the marks allocated to each part of the question, only a short commentary was required for each duty. However quite a few candidates just repeated wording used in the question as their answer without expanding on what the duty means.

Part (a) The key point of this duty is one of the basic principles of Trust Law; that lay trustees use skill and care in the management of trust as men of ordinary prudence and vigilance would use in the management of the affairs of a third party for whom they felt morally bound to provide. Further points are that they should take advice where appropriate but the fact they had acted on expert advice does not exonerate a Breach of Trust. A higher standard is expected from professional Trustees. Quite a few candidates wrote instead about Trustee Knowledge and Understanding requirements and about the need to consider all relevant facts in Trustee discretion cases.

Part (b) This was the least well answered part of the question. Generally if there is more than 1 Trustee they should all act jointly in the management of the Trust unless the trust Deed and Rules or the Court direct otherwise or there has been a valid delegation. Most modern Trust Deed and Rules allow Trustees to act by majority.

Part (c) To act without charge means that Trustees are not allowed to charge for services, apart from a public Trustee or Custodian, unless the Trust Deed and Rules allow. An Independent Trustee appointed under the Pensions Act 1995 can charge reasonable fees and expenses regardless of what the Trust Deed and Rules allow.

The relevant section of the study manual was Part 2 Section 2.7.1.

Question 6

Before proceeding with a corporate transaction a buyer will want to gain a full understanding of the target company's pension arrangements as part of its "Due Diligence". List the information they will require. (7 marks)

The quality of answers to this question were varied but mainly it is a question candidates could answer even if they could not recall facts in the manual. Most candidates therefore mentioned; type of scheme and referred to DB and DC, rate of contributions paid by the target, how DB Liabilities are calculated and if there is a deficit. Other points not so well covered were if the pension arrangements have been run properly in accordance with regulations, if there are any outstanding disputes or cases with the Pensions Ombudsman or TPR, whether the target had made any unfunded pension promises to employees.

The relevant section of the study manual was Part 4 Section 1.2.1.

Core Unit 3 – Running a Workplace Pension Scheme

There were two parts to the question paper:
- Part One consisted of 50 multiple choice questions
- Part Two consisted of six short answer questions

Part One – Multiple choice questions

Candidates generally scored high marks for part one of the paper demonstrating a good knowledge of the subject matter across the full syllabus. In total there were 11 questions where over 95% of candidates selected the right answer. These covered areas such as:
- Annual Allowance
- Administration
- Benefits
- Lifetime Allowance
- Communications
- The Pensions Regulator
- Automatic enrolment
- Scheme accounting
- Winding up pension arrangements

For the multiple choice questions the questions where the lowest number of candidates selected the correct answer covered the following areas of the syllabus and study material:

Subject	2018 study manual reference
Relevant Overseas Individuals	Part 6, Chapter 1.2

Part Two – Short answer questions

Average scores for Part 2 of the paper were lower than for Part 1. Overall the standard of answers was good. The best answered question was Question 4 and the question which attracted the lowest average score was question 3.

Question 1

Outline the five point action plan an administrator should follow if it suspects a pension scam. (5 marks)

This was a straightforward topical questions. Examiners were looking for candidates to identify the following:
- Send member tPR's pension scam booklet
- Carry out due diligence on all transfer requests
- Talk to members to get further details to identify scams
- Direct members to TPAS for further advice
- If member wishes to proceed contact action fraud on behalf of the scheme

The relevant section of the manual was Part 6 Chapter 3.

Question 2

Describe the ways in which a GMP under a DB arrangement could be revalued between date of leaving and retirement. (10 marks)

On average this question was well answered. The points to be covered as set out in the manual were:

- Revalue for each complete tax year between date contracted out employment ends and GMP payment age or death if earlier
- If contracted out employment ceased before 5 April 1997 revaluation options were
    - S148 orders
    - Fixed rate – rate varies depending on date of leaving
    - Limited rate – capped at 5%
- Limited rate not available if contracted out employment ceased after 5 April 1997
- If contracted out employment ceased in April 2016 revaluation can be linked to date of leaving pensionable service instead

The relevant section of the manual was Part 3 Chapter 1.

Question 3

Outline the main changes introduced by the Statement of Recommended Practice (SORP) 2015.
(10 marks)

This question attracted the lowest average mark with quite a few candidates failing to register any marks. This was possibly because it covered an area many candidates would not have experience of in their day to day work. That said a number of candidates did score maximum marks so it was possible for individuals familiar with the relevant part of the study manual to score well. The main points as set out in the manual were:

- Fair value disclosures
    - Disclose investments under fair value hierarchy
    - Commonly referred to as categories A,B and C
- Investment risk disclosures
    - Disclose information that enables users of accounts to evaluate nature and extent of credit and market risks
- Valuation of annuity policies
    - Annuities bought in name of Trustees are assets of the Scheme
    - Previous exemption which allowed them to be excluded from accounts is removed
    - Valuation required for each policy held
- Pension liabilities
    - Additional disclosure requirement
    - Statement of actuarial present value of promised retirement benefits based on most recent valuation
    - Date of valuation
    - Significant assumptions made and methods used

The relevant section of the manual was Part 5 Chapter 2.

Question 4

Describe the tests performed to check whether an individual is subject to the Tapered Annual Allowance and explain the effect tapering has on the individual’s Annual Allowance. (7 marks)

This question attracted the highest average marks possibly because it’s so topical. To score full marks candidates needed to include the following:

- Threshold income – broadly taxable income above £110k
- Adjusted income – broadly taxable income plus pension saving above £150k

- If both tests passed – Annual Allowance reduced by £1 for every £2 of adjusted income over £150k subject to a minimum Annual Allowance of £10,000

The relevant section of the manual was Part 4, Chapter 3.

Question 5

> Explain how and why an employer might postpone its duty to automatically enrol eligible employees. (10 marks)

This question was generally well answered but some candidates only covered the 'why ' and not the 'how' meaning they missed out on half the available marks. To score full marks candidates needed to cover the following.

- How
    - Postpone for no more than 3 months
    - Use for some or all employees
    - Can have different periods for different employees
    - Employees must be advised of postponement and opt in rights
    - Assessment is postponed so no need to auto enrol
    - If not eligible at end of postponement continue to monitor and assess
- Why
    - Align with flex year
    - Facilitate payroll processing
    - Manage peaks in earnings
    - High staff turnover
    - Avoid enrolling temps
    - Allow re-assessment at a point when earnings are more typical

The relevant section of the manual was Part 2, Chapter 1.

Question 6

> Outline the ways in which charges can be applied to and collected from defined contribution arrangements. (8 marks)

Given this was another topical question average marks were lower than expected. We were looking for candidates to cover the following points:

- Adjustment to unit price
- Charge deducted from contributions – e.g. 99% invested and 1% retained by manager
- Fixed amount deducted from member pot
- Percentage applied to member's pot (may be capped)
- Combination of above

The relevant section of the manual was Part 1 Chapter 1.

Core Unit 4 - Financing and Investing for Retirement Provision

Multiple choice questions

Generally the multiple choice questions were answered very well and the average score was high.

For the multiple choice questions areas that candidates answered less well covered the following areas of the syllabus and study material:

Subject	Study manual reference
Myners Principles	Part 5, Chapter 2
Employer covenant	Part 2, Chapter 2

Short answer questions

Question 1

> Describe the ways in which passive managers try to mirror a particular market index or benchmark. (10 marks)

Overall this question was quite well answered. Marks were available for naming and describing each of full index replication, optimisation, stratified sampling and synthetic index replication. The examiners were looking for candidates to explain that full index replication involves buying exact constituents of the relevant index and that while this mirrors the index exactly, it involves substantial set up costs. In relation to optimisation, candidates gained marks for stating that this involves a computer simulation and buying a limited number of shares which reflect the characteristics of the index. Marks were available for explaining that stratified sampling involves a random selection within each market sector and that synthetic index replication uses derivatives to replicate an index. Most candidates mentioned that optimisation and stratified sampling have lower costs than full index replication but introduce the risk of tracking error.
The relevant section of the study manual was Part 6, Chapter 1.1.

Question 2

> Explain the responsibilities that trustees have in relation to collection of contributions for both DB and DC schemes. (10 marks)

There was a surprising amount of confusion in the answers to this question. Many candidates appeared to attempt to answer it based on pre-existing knowledge rather than the material in the manual. Candidates should have explained that under the Pensions Act 1995, trustees should have a schedule of contributions in place for DB arrangements and a payment schedule for DC. Marks were given for setting out that contributions are collected via payroll and paid to the trustee bank account. Mention should have been made that AVCs are sometimes sent directly to the provider to minimise delay and are not recorded in the trustee bank account but in the scheme accounts. There was much confusion over the dates for collection of contributions. Candidates should have said that contributions are due by the 22nd of the month if paid electronically and the 19th if another method is used. Most candidates mentioned that late payment of contributions must sometimes be reported to the Pensions Regulator. Marks could have been gained for stating that trustees must check payments are made on time and agree with any TPA how this is done.

The relevant section of the study manual was Part 3, Chapter 2.1.2.

Question 3

Explain what is meant by the terms “bond yields” and “yield curve”, including the yield measures that are widely used. (10 marks)

This question covers some basic material which was very poorly answered. The examiners were disappointed that candidates were not able to answer this question clearly and appeared to be lacking fundamental understanding.
Marks were available for explaining that the return on a bond is measured by its yield, the performance of a bond from purchase to maturity is the yield to maturity, that there are two components to total return, ie income return and capital return and that yield has an inverse relationship with price. Most candidates attempted a description of the yield curve and noted that it can invert in certain market conditions. Bond yield measures were particularly muddled; candidates should have noted that nominal yield is overall income generated as a proportion of nominal value, income/running yield is overall income generated as a proportion of current value and redemption yield is income generated plus capital gain/loss if held to maturity. Marks were also available for stating that bonds of different maturities have different yields, reflected in the yield curve, due to increased risk of default and uncertainty over economic or inflationary pressures over the long term.

The relevant section of the study manual was Part 4, Chapter 2.1.3.

Question 4

Describe what is meant by a “flight path” and outline the key features of a flight path. (10 marks)

This topical question was generally well answered with candidates showing a good understanding of the subject. Most candidates gained marks for stating that the flight path is a plan to fully fund a scheme up to a secondary target, such as buy out or self-sufficiency. The examiners were also looking for candidates to explain that the flight plan involves trigger points to adjust the investment strategy and lock in investment returns. Marks were available for explaining that funding could be reduced at the next valuation or alternatively the funding target or period could be changed, with the latter preferred by trustees and the former by employers. Most candidates mentioned that the funding target would usually be gradually increased over time until the scheme is fully funded and that careful planning is required to set the triggers and ensure action takes place rapidly once a trigger is met.

The relevant section of the study manual was Part 5, Chapter 2.2.3.

Question 5

Write short notes on swaps. You should not include information on Liability Driven Investment, Interest Rate and Inflation Swaps. (10 marks)

This question was well answered. Most candidates were able to explain that a swap is a contractual arrangement where parties agree to exchange a single payment for a series of payments or a fixed payment for a floating series of payments. Candidates also gained marks for mentioning netting off and explaining that swaps are not traded on an exchange but tailored to each investor. Marks were also given for describing index swaps, currency swaps, credit default swaps and longevity swaps.

The relevant section of the study manual was Part 4, Chapter 4.1.3.

Defined Benefit Arrangements

In line with the recent trend, relatively few candidates sat the paper and the standard of answers was mixed. All the questions could be answered from the manual and it was clear from some papers that insufficient preparation had been done.

Once again, many candidates made little if any effort to answer two of the questions in the format required losing valuable marks.

Question 1

Outline the main features of:

- Shared Risk Schemes
- Small Self-Administered Schemes
- Cash Balance Schemes.

(20 marks)

With this question, most candidates gained marks on each type of scheme particularly regarding Small Self-Administered Schemes.

The relevant section of the study manual was Part 1, Chapter 1.

Question 2

Describe the disclosure regulations that apply on retirement. (5 marks)

This was the best answered question with many candidates getting full marks. Not all candidates mentioned regulations relating to AVCs.

The relevant section of the study manual was Part 2, Chapter 3.

Question 3

Describe the key duties of a trustee under Trust Law. (5 marks)

This question was reasonably well answered although many candidates missed the points that trustees can delegate but remain accountable and that beneficiaries can be now or in the future

The relevant section of the study manual was Part 3, Chapter 2.

Question 4

You are a Pensions Specialist for an in-house pension scheme. Write a memo to the Scheme Administration Manager explaining the key features of:

(a) The Tapered Annual Allowance (7 marks)
(b) The Money Purchase Annual Allowance (13 Marks)

As this is a topical subject, most candidates provided reasonable answers although some were lacking in detail. The Tapered Annual Allowance was better answered than the Money Purchase Annual Allowance (MPAA) as elements such as voluntary scheme pays and the MPAA running alongside the standard Annual Allowance were often missed. Very few candidates mentioned that the MPAA applies for all future savings.

The answer was required to be in a memo format which many candidates failed to do.

The relevant section of the study manual was Part 3, Chapter 1.

Question 5

> In your role as a Pension Consultant to the XYZ Pension Scheme, write a report for the trustees detailing the main financial assumptions used in actuarial calculations.
> (30 marks)

This answer required financial assumptions used in an actuarial valuation. Most candidates correctly listed the common financial assumptions although several candidates wasted valuable time detailing actuarial valuation methods which were not required. In addition, some candidates listed demographic assumptions which was unnecessary.

Not all answers were written in a report format.

The relevant section of the study manual was Part 4, Chapter 1.

Question 6

> Outline the levies payable to fund the Pension Protection Fund. (10 marks)

Most candidates identified the 3 levies – the PPF Levy (Scheme based and Risk based), the Administration Levy and the Fraud Compensation Levy.

The relevant section of the study manual was Part 5, Chapter 2.

Question 7

> Describe the priority order when a pension scheme winds up, commencing in April 2018.
> (10 marks)

This was a poorly answered question as, although candidates detailed what benefits were included, many did not list these in the correct order of priority.

The relevant section of the study manual was Part 5, Chapter 1.

Defined Contribution Arrangements

Overall the standard achieved in this sitting was pleasing and most candidates seemed to have studied the syllabus in some depth. This was reflected in what was a very good pass rate. There were a number of creditable scripts and particularly high marks were scored for the 10 mark questions bar question six. Answers to the longer questions were reasonable in general with a sound knowledge of the subject being displayed but some candidates had a tendency to ramble somewhat and this was evident in question 2.

Candidates do however need to pay attention to the following:

- *Each question must be started on a fresh page*
- *Handwriting once again was hard to decipher on occasions; students need to practise writing answers under exam conditions beforehand.*
- *Answers to the same question need to be grouped together; to do otherwise makes it hard for the examiners to mark that question*
- *Rough work which candidates do not want the examiners to mark needs to be crossed through.*

Question 1

(i) Explain the term 'Overseas Transfer Charge' and outline the circumstances in which such a charge would be payable. (10 marks)

(ii) List the exemptions from the 'Overseas Transfer Charge' (5 marks)

(iii) List the key features of the Pensions Advice Allowance. (10 marks)

This question on the whole was well answered and most candidates had a good grasp of the overseas transfer charge and when it must be applied. There was however some confusion as to the effective date of the charge (9th March 2017). The exemptions from the charge were brought out well and students overall displayed a sound knowledge of the Pensions Advice Allowance (PAA). Common omissions were:

- If the transfer is a partial transfer the charge can be met instead by a reduction from the remaining benefits
- In this instance the transferred value has to be grossed up by 25% before calculation of the charge.
- Onward transfers of pension credit rights to QROPS following divorce and transfers of pensions in payment are subject to the charge.
- The charge would not be applied to a pension credit being paid to an external arrangement located overseas.
- Hybrid schemes remain within the scope of the PAA where elements of these benefits are included e.g. defined benefit schemes with a defined contribution AVC facility.

The relevant section of the study manual was Part 6, Chapter 1.

Question 2

You are a Pensions Adviser for a Pension Trustee Board which is about to appoint a new Pension Scheme Administrator for their DC Occupational Pension Scheme. Prepare a report for the Trustee Board which focusses on the risk management framework necessary to administer the Scheme correctly. Your report should cover the following:

(a) A list of the risks a DC Scheme might face, and (10 marks)

(b) The elements of an effective risk management framework for the Scheme.

(15 marks)

This was the least well answered question; several students evidently had not grasped the issues which need to be grappled with and tended to produce some verbose answers often without substance scoring low marks in the process.

Part (a) was better answered than part (b) but common omissions were:

- The risk of transfers being subject to pension scams
- The risk of ineffective scheme management
- The Pensions Regulator highlights defined contribution administration and poor record keeping.
- There is a need to have a clear strategy to manage the risks

Part (b) produced a mixed standard of answers; a number of candidates displayed a reasonably good grasp of the elements and itemised these clearly e.g. the need to have clear communication programmes in the management framework and a risk register. Others tended to stray off the subject and just didn't cover the factors that were sought after. Examples of the latter were cyber security and the role IT platforms can play in meeting the needs of DC administration including online member access. Common omissions were:

- Transfer processes are designed to identify possible pension scams
- The presence of administrators' skills needs to be evidenced by regular stewardship reporting
- The need to ensure that scheme advisers are regularly reviewed.
- The IT framework must have adequate cyber security and comply with DP legislation.

The relevant section of the study manual was Part 4, Chapter 1, 1.5.

Question 3

You are a Pensions Manager for ABC Limited. Draft a report for the Finance Director on Auto Enrolment which outlines the statutory requirements imposed on UK based employers.

(20 marks)

This question was well answered with several candidates scoring high marks. The salient points were brought out well including the lower and upper ages and the definitions of 'qualifying scheme' were accurate as was the specification of 'qualifying earnings'. Surprisingly however there was some confusion as regards the staging dates: up to 5th April 2018 the total contribution is 2% (1% EE 1% ER); from 6th April 2018 – 5th April 2019 the total contribution is 5% (3% EE 2% ER) and from 6th April 2019 the total contribution will be 8% (5% EE and 3% ER)

Common omissions were:

- If employers do not comply they may be fined by the Pensions Regulator
- If an employer provides a 'qualifying scheme' this will satisfy their statutory duty.
- The DWP has issued guidance on certifying DC schemes
- Employers may use a contractual agreement rather than legislation to enrol workers into a scheme.
- Commentary around the scope for possibly enrolling all jobholders rather than distinguishing between eligible and non-eligible job holders

The relevant section of the study manual was Part 1, Chapter 1.3.5.

Question 4

Briefly outline what a conflict of interest is, explain how it arises and how it can be dealt with. (10 marks)

This was a well answered question and it was clear that candidates had studied the material well. The examples given to illustrate how a conflict can arise were sound and the possible ways for dealing with such a conflict were brought out well. Common omissions were:

- Relationships between parties to a contract based scheme differ from those inherent under a trust based scheme
- The Employer Governance Committee for a contract based arrangement can operate a similar oversight role to the trustees of a trust based arrangement

The relevant section of the study manual was Part 4, Chapter 1, 1.1.3.

Question 5

Explain the term ‘Premium Cost’ in relation to group life schemes and list the information such schemes have to provide to insurers. (10 marks)

The second part was answered better than the first; the only substantive omission was the location of those insured. A bonus point could have been scored by saying that this method of premium costing relies on economies of scale and thus favours larger schemes.

Answers to the first part were disappointing; many candidates did not understand the term ‘Premium Cost’ and tended to waffle around the subject. Common omissions were:

- The cost of insurance cover depends on scheme size
- Small schemes may pay a single premium charge
- It is for one year’s cover and is based on an individual’s age
- The cost of the premium increases as the membership ages
- For large schemes the cost is based on a unit rate for 1,000 members

The relevant section of the study manual was Part 2, Chapter 1, 1.7.

Question 6

Outline the TUPE Regulations (10 marks)

The standard of answer given to this question was disappointing; several candidates did not appear to have learned this topic and tended to recite their findings based presumably on their own experiences of possibly having been through such an exercise. Whilst the essence of the Regulations was generally understood the detail around the parameters was not. Common omissions were:

- The TUPE Regulations were amended from 6th April 2014
- Where the transferring employer contributed to a DC or a stakeholder scheme one option is for the new employer to match the contributions paid by the transferring employer prior to the transfer.
- Different rules apply to non-DC schemes.

The relevant section of the study manual was Part 1, Chapter 1, 1.3.7.

Reward and Retirement Provision

This year's examination paper comprised six questions as follows:

- *one question of 35 marks*
- *three questions of 15 marks*
- *two questions of 10 marks*

Questions of differing marks are aimed to help candidates allocate their time more appropriately. For example, candidates should allocate less time answering the questions of 10 marks as they generally do not require lengthy answers, just a recall of the relevant facts of the topic set out in the question. Questions comprising 15 marks generally require more formatting, ie for this year a memo and an email and the question of 35 marks required a report.

Some candidates adhered to the formatting requests but many did not and therefore lost valuable marks. A few candidates gained extra marks by not crossing through their rough workings – examiners are required to mark any notes which have not been crossed through although some candidates' notes were difficult to decipher.

It is important for candidates to remember that they are required to study the entire contents of the tuition manual and not just those regarded as the 'main' sections. The revised format of the examination allows for more questions to be included on the paper with the result that more of the manual can be covered at each examination session.

Question 1

There are occasions when an individual is unable to continue their normal employment due to a long term illness or disability. While various State benefits can provide some supporting income, many companies seek to reassure affected employees that their income needs will be protected. This is normally achieved by the company establishing an insured Income Protection (IP) scheme.

In your role as the company's benefit consultant you have been requested by the HR Director to prepare a report setting out the following in relation to an insured IP scheme:

- The factors and options to be taken into account when considering the waiting period; (9 Marks)
- When cover would normally end; (5 Marks)
- The design features of a typical arrangement. (21 Marks)

There is no requirement for your report to make any reference to the level of benefits expressed as a percentage of gross/net pay, or typical exclusions under an insured IP scheme.

35 marks were allocated to this question and the answer was required to be written as a report and many candidates did obtain good formatting marks. There were some good answers where candidates could provide the details requested. However, many candidates failed to mention the purpose of Income Protection and the need to maintain the employee's incentive to return to work. In many cases there was confusion with the different types of insurance cover available with some candidates incorrectly referring to personal accident cover and private medical insurance cover with premedical conditions / family cover. A number of points were often included, but which were not requested as part of the answer, such as, the percentage of salary which could be payable, the basis of costing and taxation position regarding premiums. Candidates were able to give details of the different waiting periods and also when the cover would normally end but some candidates lost marks by not being able to provide sufficient details on the design features of Income Protection schemes.

The relevant section of the study manual was Part 2, Chapter 1.

Question 2

> As Benefits Manager, draft a memo to the Rewards Director outlining the changes to salary sacrifice arrangements that came into effect in April 2017. (15 marks)

This question contained 15 marks and the answer should have been in the form of a memo. In general, this question was reasonably well answered with a number of candidates achieving high marks. Whilst most candidates were able to name the benefits which are currently exempt from the changes made in April 2017, the majority failed to provide a brief explanation of salary sacrifice which would have been a useful introduction to their answer. Others referred to benefits which could be included under a salary sacrifice arrangement but omitted to mention whether or not they were affected by the changes made in April 2017.

The relevant section of the study manual was Part 2, Chapter 1.

Question 3

> ABC Ltd has established an overseas office and it has been agreed that a number of UK staff should be seconded to the overseas office for a period of 2 years. Whilst based in the UK, staff enjoy Private Medical Insurance cover. ABC Ltd wishes to provide continuation of such cover during the period of secondment.
>
> Draft an email from the HR Manager to the International Secondments Manager setting out the main design features of international Private Medical Insurance. (15 marks)

This was another 15 mark question and the required format was an email. There were some reasonably good answers but in other cases many relevant points were omitted. Reference was made to **exclusions**, eg. chronic conditions and maternity, but these are typically included under private medical insurance granted to employees on secondment overseas. Other candidates made reference to the overall costs of this type of scheme and how companies could contain premiums by restricting certain benefits or even billing the secondee, but details of costings were not required. Some candidates gave an exhaustive list of the types of benefits which could and could not be covered which again was not required.

The relevant section of the study manual was Part 2, Chapter 2.

Question 4

> The Pensions Manager of XYZ Ltd is reviewing the ill health retirement options within the Company's defined benefit pension scheme. In your role as Pension Consultant to XYZ Ltd, draft a short briefing paper outlining the criteria a member will typically be required to meet and the basis on which benefits may be payable in the circumstances of ill health retirement. (15 marks)

This 15 mark question requested an answer in the format of a short briefing paper. In general, this question was well answered with many candidates achieving high marks. Candidates who achieved low marks though were typically unable to define how benefits payable for ill health retirement can vary under different scheme rules, with different benefits payable in the case of serious ill-health. Also, candidates could have mentioned that ill health covers active and deferred members and may also include existing pensioner members who may have their existing ill health pension subject to periodical review.

The relevant section of the study manual was Part 2, Chapter 1.

Question 5

Give a brief overview of equal pay legislation. (10 marks)

This was a 10 mark question and required a brief overview of equal pay legislation. A few candidates were able to give the factual information required and achieved good marks but on the whole this was probably the least well answered question. Many candidates could not name the relevant Acts relating to equal pay or their effective dates, but included reference to the National Minimum Wage which was not relevant to the question. While the question was based on only a small section of the manual it should, nevertheless, have been covered by candidates during their studies.

The relevant section of the study manual was Part 5, Chapter 1.

Question 6

While share plans are a popular way of rewarding employees, some companies are reluctant to establish such arrangements.

Write a summary of the basic facts a company would need to consider before operating a share plan.

Your summary does not need to give details of the different types of share plans available to companies. (10 marks)

This 10 mark question required the answer to be in the form of a summary. This was not particularly well answered and apart from a few candidates who were able to give sufficient detail to obtain a good mark, there were many candidates who struggled to be able to provide any relevant details. Too much information on the different types of share plans available were included by many candidates although the question clearly stated that this detail was not required. Points omitted included particular situations a company may face including a private company going public for the first time, fears that the company might lose its ‘family’ feel and a start-up business seeking to attract talented employees.

The relevant section of the study manual was Part 3, Chapter 1.

Retail Advice and Regulation

The level of absenteeism for the paper was surprisingly high, and of those candidates that did sit the examination the overall standard was poor. This suggests that candidates had inadequately prepared for the exams.

A reminder is provided to all candidates to write clearly and provide the answer in the format requested.

Question 1

As an Independent Financial Adviser, you have recently received a client referral from an introducing Mortgage firm. This firm has completed an initial fact find on the client, full details are provided in the attached sheet.

The client has recently received a substantial bonus from his employer and he is considering his options in relation to investing part of the bonus. His primary objective is to ensure the money is invested as tax efficiently as possible.

With this in mind:

- Make a note of any further information that would need to be obtained to enable you to make a recommendation with a clear explanation of why this information is important. (15 marks)
- Draft a letter to the client outlining:
  the client's options detailing the tax implications of each, (10 marks)
  and
  any appropriate disclosures you are required to make to the client. (5 marks)

This question was poorly answered, with only one candidate being able to identify what further information could be required to provide a suitable recommendation. Surprisingly candidates failed to highlight that the IFA would require to know the value of the bonus that was being awarded and what current pension arrangements, including use of annual allowance, lifetime allowance and whether there were any protections in place. The loss of child tax benefit, use of salary sacrifice and the ability to utilise the remaining ISA allowance was also omitted in many cases.

Candidates were able to highlight attitude to risk, capacity to loss and the client's liabilities as an important information to enable a recommendation to be made.

The majority of candidates could detail which disclosures an IFA were required to be made, unfortunately the formatting of the answer resulting in candidates not collecting appropriate marks as requested by the question.

The relevant section of the study manual was Section 2, Chapter 2.

Question 2

The Financial Services Compensation Scheme (FSCS) was established in 2001. Describe:

(a) How the FSCS is funded (3 marks)

(b) The types of financial services to which a claim can relate (3 marks)

(c) The maximum levels of compensation available (4 marks)

(d) The types of claimants excluded from utilising the FSCS. (5 marks)

Parts C and D were overall answered well. Whilst most candidates could describe the basis of the FSCS, unfortunately most couldn't provide sufficient detail to enable them to achieve high marks. Candidates are reminded to study the manual thoroughly prior to sitting the examinations as the question paper is set on the module as a whole. Credit was provided to candidates who could provide relevant information which was additional to what was provided in the manual.

The relevant section of the study manual was Section 1, Chapter 1 (1.12).

Question 3

Explain what is meant by the Law of Agency and briefly outline how it works in practice. (10 marks)

Again, this question was poorly answered. Candidates are reminded to answer the question asked. Whilst it is also good to see that candidates understand the law in relation to a Power of Attorney this is not what the question required and therefore the examiners were unable to allocate any marks.

The question required an understanding of the law of agency, where one person is authorised to act on behalf of another. This is common in insurance and investment business, for example when an IFA is an agent of the client when dealing with the insurer.

The relevant section of the study manual was Part 4, Chapter 1.

Question 4

Briefly describe what is meant by Modern Portfolio Theory and how a portfolio can be constructed to reduce risk. (10 marks)

Overall this was one of the better answered questions. Marks were awarded for highlighting that the theory is based on the maximisation of returns whilst minimising risk, and the concept that investors are inherently risk adverse. Marks were awarded when candidates could evidence their understanding that risk could be reduced by diversification or hedging.

The relevant section of the study manual was Part 3, Chapter 1.

Question 5

Write brief notes on the notification requirements of a firm regulated by the FCA. The requirements should include both regular reports and disclosure of information the FCA would reasonably expect of a firm. (15 marks)

Overall this question was well answered, the majority of candidates could highlight what reports were required to be provided to the FCA and the frequency of these reports. To obtain maximum reports candidates were required to provide additional information in relation to SUP16 – regular reports for shareholders of limited companies, close links, financial resources and complaints and SUP 15 – reports that potentially have serious regulatory impact – e.g. significant breaches of FCA rules, civil and criminal proceedings, insolvency and suspicious transaction.

The relevant section of the study manual was Part 1, Chapter 4.3.

Question 6

A newly appointed Trustee is enquiring about transferring benefits out of a defined benefit pension scheme. As a Pensions Adviser write a paper for him which explains how transfer values of benefits are calculated including any legal requirements. (20 marks)

Overall candidates could explain the legal requirements for a CETV, which is calculated by the scheme actuary and that it must be provided within 3 months. Some candidates also highlighted the ability of trustees to reduce the CETV if the scheme was underfunded. To obtain good marks candidates were required to produce a paper covering how and when a transfer value is calculated (either DB or DC) and when the transfer value must be paid. When explaining how transfer values are calculated reference to discretionary benefit, discounting, scheme retirement age and the requirement to split values for different periods should have also been covered.

The relevant section of the study manual was Part 5, Chapter 1.5.

Taxation, Retail Investment and Pensions

Relatively few candidates sat the paper and the overall standard was disappointing. In setting an appropriate pass mark, the examiners allowed for the fact that the study manual contains a substantial amount of material for candidates to digest.

The handwriting on two of the papers in particular was very difficult to decipher and whilst the time constraints of an examination are appreciated, this does make it harder for examiners to mark such scripts.

Question 1

> Roger lives in Worthing, West Sussex and his income for the tax year 2017/18 is as follows:
>
> UK pensions - £52,300 gross, £8,200 tax deducted
> UK interest - £1,540 gross
> UK dividends - £25
> UK rental income after expenses - £9,000
>
> During the year Roger made Gift Aid payments totalling £11,000.
>
> Calculate Roger's income tax liability for the year. (10 marks)

With the exception of one candidate who made a good attempt and arrived at the correct answer, the question was not well answered.

A tax table was included with the examination paper to assist candidates in preparing the calculation.

Candidates should have noted that, as a result of the Gift Aid payments, the basic rate band increases from £33,500 to £47,250. In view of the fact that Roger is a higher rate taxpayer, £500 of the interest he received is not liable to tax. In addition, bearing in mind that the dividends are significantly less than the £5,000 exemption limit, these too are not liable to tax. After allowing for the tax deducted at source, the additional liability for the year amounts to £2,686.

The relevant section of the study manual is Part 2, Chapter 1.

Question 2

> Harry died in May 2006 when the nil rate band (NRB) was £285,000. He left his entire estate to his wife, Nancy and had previously made a lifetime gift of £114,000 in 2001 to his son, Peter. Nancy died in August 2016 leaving an estate of £2,300,000. Nancy had made gifts of £100,000 to each of her three children in 2012. It should be noted that both Harry and Nancy made a practice of using their annual gift exemptions each year.
>
> Calculate the inheritance tax liability on Nancy's estate assuming:
>
> (i) The transferable nil rate band is not claimed. (5 marks)
> (ii) The transferable nil rate band is claimed. (3 marks)

A few of the candidates made good attempts at this question with two scoring full marks.

Answers should have noted that, due to the failed PETS totalling £300,000 (the gifts to Nancy's children), Nancy's estate totalled £2.6M. After allowing for her own NRB of £325,000 the amount chargeable at 40% is £2.275M, giving a liability of £910,000. If the TRNB is claimed, after allowing for

Harry's failed PET of £114,000, 60% of the NRB is available to transfer. Therefore, a further £195,000 is deducted from Nancy's estate resulting in a liability of £832,000 (£2.08M @ 40%)

The relevant section of the study manual is Part 2, Chapter 4.

Question 3

In your role as a pensions consultant to WHL Enterprises Ltd, write a briefing paper for the new finance director outlining:

(a) How a salary sacrifice arrangement operates in relation to pension contributions. (3 marks)

(b) The potential advantages to employees and employers. (4 marks)

(c) The potential disadvantages in certain circumstances. (8 marks)

A few candidates made a reasonable attempt at this question whilst others, failed to identify the relevant points.

Under part (a), it should have been noted that the employee waives the contractual right to a part of pay in exchange for a pension contribution from the employer. This is achieved by varying an employee's contract of employment and is covered by employment law rather than tax law.

Under part (b), advantages include a reduction in NIC's for both employee and employer and the employer may rebate part of their saving in order to encourage salary sacrifice.

Under part (c), salary sacrifice may not be appropriate for low earners. It could also have an impact on state benefits or have an adverse affect in other ways (e.g. death and sickness benefits, redundancy pay, mortgage eligibility). Those who earn in excess of £150k pa will be subject to the tapered AA where a salary sacrifice arrangement starts after 09/07/2015.

The relevant section of the study manual is Part 2, Chapter 1.

Question 4

In your role as an independent financial adviser, draft an email to a high net worth client:

(a) Explaining the tax planning opportunities that a single premium investment bond can offer to a higher/additional rate taxpayer. (13 marks)

(b) Including an example of a top slicing calculation based on details as follows:

Individual's taxable income in 2017/18 - £32,000.
Investment bond surrendered after 20 years.
Investment bond surrender value - £57,500.
Original investment - £30,000.
Withdrawals since inception - £1,500 per annum. (7 marks)
(20 marks in total including 2 for format)

The question was generally not well answered.
The examiners noted that the question did not specify whether reference was being made to an onshore bond or an offshore bond. In practice, however, all candidates made the assumption that it was an onshore bond.

Under part (a), good answers should have noted that this type of vehicle can offer long-term tax advantages to higher/additional rate taxpayers. This is due to the fact that income and gains on the underlying investments are taxed at 20% whereas higher rate/additional rate taxpayers could be paying significantly more on dividend income and capital gains. Tax deferred withdrawals equivalent to 5% pa of the original sum invested are allowed over a maximum of 20 years. The tax liability is crystallised on surrender when the bondholder may no longer be a higher/additional rate taxpayer. Switching between funds does not trigger a CGT liability.

Under part (b), the top sliced gain equates to the surrender value (£57,500) plus withdrawals made (£30,000) less the original sum invested (£30,000). The result (£57,500) is then divided by the number of years the bond was in force (20) to arrive at the top sliced gain (£2,875). This is then added to the individual's other taxable income (£32,000) and the basic rate band (£33,500) is deducted. The resulting figure of £1,375 is divided by the top sliced gain and multiplied by £57,500 to arrive at the amount of the gain (£27,500) which is liable at the higher rate of tax. In view of the fact that 20% has already been deducted within the fund, a further 20% (£5,500) is payable.

The relevant section of the study manual is Part 3, Chapter 3.

Question 5

> Define a Small Self-Administered Scheme (SSAS), explain why HMRC has concerns about the tax reliefs available to such schemes and outline how HMRC has addressed these concerns. (7 marks)

Although one candidate scored full marks and two others made good attempts, it was evident that most did not have a clear understanding of how SSAS's operate.

Candidates were expected to identify that SSAS's are trust-based occupational schemes set up for less than 12 members who would typically be the owner directors of a company and selected key staff. They are classified as "investment regulated pension schemes" and subject to special tax rules. Members are able to choose the investments and HMRC is concerned members could acquire assets through a SSAS and use those assets personally. For example, a work of art. Investment in the sponsoring employer is also permitted. Prior to 5 April 2006 it was a requirement that a SSAS had a professional trustee (pensioneer trustee). This is no longer a requirement but many schemes still have a professional trustee.

The relevant section of the study manual is Part 1, Chapter 5.

Question 6

> Describe the circumstances under which HMRC can reject an application to register a pension scheme. (5 marks)

Overall, there was a mixed response to this question with two candidates scoring full marks but poor attempts from several others.

It should have been noted that an application can be rejected where information or accompanying declarations provided to HMRC are false or materially inaccurate. Also, where the Scheme Administrator has failed to comply with an information notice in connection with the application, or deliberately obstructed HMRC in the course of an authorised inspection carried out in connection with the application. An application may also be rejected where the pension scheme has not been established or is not being maintained wholly or mainly for the purpose of making authorised payments, or the Scheme Administrator is not "fit and proper".

The relevant section of the study manual is Part 1, Chapter 7.

Question 7

> Explain the options available to members of occupational pension schemes who leave pensionable service prior to Normal Retirement Age. (20 marks)

Overall, this question was reasonably well answered.

Candidates should have identified that the position depends upon the period of service completed by the member with the details being as follows:

Opting out during the one month opt out period
The member is treated as never having been a member of the scheme and the employer must refund any contributions that the member has paid. Any such refund must generally be made within one month of the employer receiving the opt out notice from the employee.

Less than three months' qualifying service (less than one month DC)
A member is usually only entitled to a refund of their own contributions including any AVC's which is known as a Short Service Refund Lump Sum. This is taxed at 20% on the first £20,000 and 50% on any excess above £20,000. Any investment return on AVC's or interest on ordinary contributions must be paid gross and is known as a Scheme Administration Member Payment. The member must advise HMRC of such a payment.

For members of DC schemes, a preserved benefit option is available where more than one month's service is completed.

Between three months and two years qualifying service
There is usually a choice of either a refund of the member's own contributions or a transfer (cash transfer sum) to an alternative pension plan. Some schemes may offer a preserved benefit option in which case a CETV rather than a cash transfer sum is subsequently available. If the benefits include a transfer in, a cash transfer sum is not available.

Two or more years qualifying service
A member is entitled to preserved benefits in the scheme. CETV and early retirement options may be available.

The relevant section of the study manual is Part 1, Chapter 9.

Question 8

> Describe how foreign exchange rates operate and explain how real exchange rates may modify how they are determined. (8 marks)

The question was generally well answered with several candidates scoring good marks.

Good answers noted that the FX rate is the price at which currencies trade and can either be fixed or floating in line with supply and demand. The UK floated in 1992 when it left the Exchange Rate Mechanism. Real FX rates are adjusted to allow for inflation in different countries and are a good indicator of a particular country's competitiveness. A rise in the real FX rate results in domestic goods becoming more expensive relative to foreign goods and can lead to a decline in domestic production. The opposite will apply if the real FX rate falls. The value of a particular currency is influenced by the country's economy, trade and domestic interest rates.

The relevant section of the study manual was Part 3, Chapter 1.

Question 9

Explain the qualification requirements for Pension Credit and detail existing sources of income that are offset in the calculations. (7 marks)

There was a mixed response to this question

There are two parts to Pension Credit – Guarantee Credit and Savings Credit. To qualify for Guarantee Credit, the claimant must live in Great Britain and the claimant or their partner must have reached Pension Credit qualifying age which is gradually increasing in line with the state pension age. To qualify for Savings Credit the claimant or their partner must be 65 or over and have modest savings/investments/income. Existing income which is offset includes the state pension, other pensions, most social security benefits and earnings.

The relevant section of the study manual is Part 4, Chapter 1.

International 2: Managing International Employee Benefits

Examiners Report

A low number of candidates took this paper, however those that did generally performed well, and this was reflected in a high pass rate.

Questions 1-5 were shorter-answer questions, and were largely testing knowledge of candidates. Candidates who passed the paper generally obtained at least two-thirds of the marks available on these questions.

Questions 6-8 were long-answer questions, and the examiners used these to test the application of candidates' knowledge and depth of understanding. It was harder for candidates to score full marks on these questions, but candidates who passed the paper generally obtained over half the marks on these questions. Candidates were expected to provide descriptions and provide explanatory comments to points on these questions (rather than simply list points)

Question 1
Within the Middle East levels of benefits provision vary extensively. Describe benefits in the region.
(5 marks)

Examiners Comments:

This question was answered well by most candidates. For full marks, candidates should have provided comments on state and typical company benefits for both Turkey and the Gulf region, covering most (but not necessarily all of the) of the points below

- *Turkey: Western level of state benefits; pensions auto-enrolment being introduced*
- *Gulf countries (UAE, Saudi Arabia etc): High state benefits for nationals; termination indemnities / end of service lump sums (generally unfunded); medical benefits for expats; life insurance can be problematic for religious regions*

Syllabus Section
Part 5, Section 5 – Regional Round Up
Manual Section
Middle East and Africa, Chapter 5.3

Question 2

a) State the barriers that a multinational may face when establishing regional or global insurance policies. (4 marks)
b) What is the European Union (EU) ‘Freedom of Services’ principle in relation to life insurance. (1 mark)

Examiners Comments:

This question was poorly answered by many.

For part (a), examiners wanted candidates to discuss the ability to purchase insurance from global or regional providers based in other countries. Barriers include (i) some countries requiring insurance to be placed with locally established insurers; (ii) local regulations prohibiting purchase of insurance from non-admitted insurances, (iii) tax penalties on non-admitted insurance policies; (iv) difficulties in administering policies for multiple countries. Many candidates focused on administration aspects only, and made comments on barriers for multinational pooling (which did not receive marks).

In contrast part (b) was well answered by most, as the answer related to the ability for insurers in one EEA member state to be able to write business, on an equivalent basis, in another state. However several candidates who answered part (b) well did not realise that part (a) was also asking about the same topic (ie the ability for obtain insurance policies covering multiple countries)

Syllabus Section
Part 4 – Management & Provision of Risk Benefits
Manual Section
Chapter 1.1 – Risk Benefit Financing,

Question 3

Your company is considering acquiring a business whose core operations are split between Germany and USA.

a) Outline the key benefits points that should be defined in the sale agreement? (8 marks)
b) List possible benefits challenges when acquiring a company with operations in Germany and the USA**.** (2 marks)

Examiners Comments:

This question was answered reasonably well, with a significant number achieving 7+ marks.

Part (a) required candidates to discuss the impact on benefit plans – marks could be obtained by mentioning the following points: which plans will transfer (including associated assets and liabilities); whether any changes will be required including any immediate vesting; restrictions on benefit changes prior to closing; level of benefits to be provided to transferring employees; method of calculation of any purchase price adjustment; transitional service agreements for running of plans; responsibility for continuing risk benefits provision; communication to employees.

Most candidates scored 1 or 2 marks for part (b). Candidates could also have obtained marks by listing items such as the involvement of works councils in Germany; and legal requirements to fund tax-qualified retirement plans in USA.

Syllabus Section
305 Section 7, Chapter 1 + International 1 Part 4, Chapter 4 & 5
Manual Section
305 1.3 + International 1 Part 4, Chapter 4 & 5

Question 4
You are benefits adviser to an international company. The company's Reward Manager has asked you for guidance on alternative forms of retirement provision for expatriate who cannot join or remain in local retirement plans. Prepare a short briefing paper; summarising three alternative options. (10 marks)

Examiners Comments:

This question was answered well by many candidates.

The three options expected by the examiners were (i) cash or retirement allowances; (ii) direct unfunded pension promises and (iii) international pension plans. Examiners generally gave 3 marks for stating and providing comments on each example. Some candidates wrote lots of information on host vs home country approaches for international pension plans (and when a home or host country plan may be most appropriate); but this was not required by the question (as the question stated that the paper should cover *options for members that cannot join or remain in a local retirement plan, ie host or home country plans were not options to be considered)*

The question required candidates to write an answer in the form of a briefing paper. A formatting mark was available for candidates that provided the answer in this format, with the 3 options clearly presented.

Syllabus Section
Part 6
Manual Section
1.6.3, 1.7

Question 5
You are the International Employee Benefits Manager for an energy company. They have recently hired a new CFO, who has asked you to provide an overview on multinational pooling. Draft a short paper for her describing:

- what a multinational pool is;
- what a multinational account includes;
- and the circumstances in which a dividend would be paid. (10 marks)

Examiners Comments:

This question was answered reasonably well by most candidates.

To score full marks, candidates were expected to

- *Provide a definition of a multinational pool in line with the manual; and provide a comment*
- *State seven items that appear in a multinational account*
- *Explain that the balance of the multinational account (after deduction of admin expenses and insurers profit element) is available as a dividend*
- *Comment that no dividend would be paid if there was a negative balance*
- *Comment that various risk charge mechanisms can be used to protect against losses*
- *Provide the response in the format of a paper*

50% of the marks were available for stating the items in a multinational account. However not all candidates picked up on all the other points that were needed in order to achieve full marks.
Syllabus Section
Part 4
Manual Section
1.1, 1.1.1

Question 6
You work in the HR department of a global technology company. The HR Director has asked you to prepare a paper outlining the current global benefit trends facing benefit managers, and how should take into account these trends in its benefit strategy development. (16 marks)

He has also specifically asked you include some current benefit trends in China and India where your company has large operations. (4 marks)

Prepare a paper to send to the HR Director.

Examiners Comments:

20 marks were available for this question. Most candidates that passed the papers scored at least 10 marks on this question.

The first part of the paper required candidates to write a paper covering key current topics. In line with the manual, these could have included: people living longer; changing state provision; increased mobility; changes to market conditions; changes to legislation etc. However the examiners also awarded marks to candidates that commented on future long- trends including: health and wellbeing; medical inflation costs; flexibility in the workplace. The examiners gave up to 16 marks for this first part – full marks could have been obtained by writing notes, in a paper format, on 6 of these topics, and, as required by the question, providing relevant comments on how these trends impact benefit strategy development (for example company policies, approach to risk management). Of the 16 marks, one mark was available for writing the response in a paper format.

The second part of the question was book-work in nature – however some candidates only commented on trends in pension plans and health insurance in each country and did not comment on risk benefits (e.g. the increased prevalence of group life insurance in China).

Syllabus Section

Section 8, Chapter 1

Manual Section

1.1 – 1.4

Question 7

You are the Pensions Manager of a multinational IT company which is looking to expand to Brazil and the Russian Federation. To support business success, it is key for your company to be attractive to well-qualified local IT engineers.

Draft a report to your Global Head of HR that:

a) Compares the complementary pension regime of Brazil with Russia's Pillar Two pensions system; (14 marks)

b) Outlines options for your company to enhance the attractiveness of the benefits package in the field of occupational benefits, medical and other benefits in both countries. (6 marks)

Examiners Comments:

Part (a) was answered reasonably well by many. (Up to 2 formatting marks were available)
Most candidates gained marks with comments on the closed/open system in Brazil; typical replacement ratios; and typical contribution levels. The examiners expected candidates to provide comments on the typical investment strategy, governance of pension fund, and pension taxation in Brazil.

In relation to Russia, most candidates gained marks with comments on the insurance/accumulation parts of Pillar 2, with brief details on how pensions are calculated. Examiners also expected candidates to provide comments on administration aspects, the possibility to opt-out

Part (b) was not answered so well. Options for Brazil that could have been mentioned included: increasing number of DC investment options; providing additional life & disability benefits; providing supplementary health care plans. Options for Russia included: offering supplementary pension provision; offering VMI medical insurance including taking over premium surcharges for children over age 18.

Syllabus Section

Section 5 – Country and regional profiles

Manual Section

Part 5

Brazil: Chapters 1.2.2 and 1.3

Russia: Chapters 2.2.2., 2.2.3 and 2.3

Page numbers

Brazil: Pages 50-54, Russia: Pages 57-60

Question 8

You are working for a multinational that is based in Brazil, China, India, Hong Kong, Malaysia, Russia, Singapore, Switzerland and United Arab Emirates (UAE). The multinational is establishing a Global Benefits Committee.

Draft a report setting out:

(a) A recommendation for activities for the Committee to carry out on a regular basis in order to oversee and manage its defined contribution plans around the world
(b) A table summarising the key features for employer-sponsored defined contribution plan provision in each location (the table should have no more than two lines per country) (20 marks)

Examiners Comments:

The first part of the question could have been answered better by most candidates. The examiners gave up to 10 marks for this part.

The question was focusing on defined contribution plans. The study manual (across various sections) provides information on how companies can manage retirement plans around the world; but the examiners were expecting candidates to apply this to defined contribution plans.

The question wanted candidates to provide recommendations on actions that the Committee could carry out. The examiners were expecting candidates to provide background information on the need for central oversight (e.g. more employees in DC plans; increase contributions and assets in employer-sponsored DC plans; developments in DC legislation; importance of managing DC plans well to improve member outcomes); and then state actions (with reasoning). Actions that candidates could have covered include:

- *Keeping an up-to-date register of DB plans around the world*
- *Developing a risk management framework*
- *Approving changes to DC plans*
- *Benchmarking plan designs against market practice*
- *Approving default investment options*
- *Monitoring performance of DC funds offered to employees*
- *Monitoring investment decisions of plan members to ensure they are broadly appropriate taking account age and risk profiles*
- *Carrying out compliance audits of DC funds*
- *Selecting DC providers (e.g. global DC asset managers)*
- *Working with local management to ensure local DC plans have effective governance structures*
- *Maintaining regular and informative communications*

The second part of the question was answered well by most candidates; with many candidates scoring 7+ marks. This question was designed to see if candidates could write key points for each country in a concise format. 2 marks were available for formatting; but to achieve these candidates were required to provide answers in table format with no more than 2 lines per country. Some candidates did not follow this instruction, and provided a list of key features and/or provided several lines of text per country.

Professionalism & Governance

The PMI's Professionalism & Governance exam is intended as the final stage in the Advanced Diploma.

The study material consists of two core Manuals on Governance and Communications and the PMI's Code of Professional Conduct. Part one of the exam is a case study, which is based on information directly drawn from the Governance Manual, this carries 60% of the marks available. These 60 marks are awarded mainly on students' ability to draw from the technical information within the manual, with a smaller proportion of marks awarded for communications technique and style.

Part two consists of three or four short questions. These can be drawn from the syllabus or the Code of Conduct. Students may be expected to assess a given situation where a professionalism issue arises and identify how it relates to the Code, writing a short response referencing the relevant section of the Code. There may be times where part two questions address a specific governance issue. Part two carries 40% of the marks available and no communication marks are awarded. The Professionalism Manual is available to assist students in their preparations. However as all PMI members are required to adhere to the Code of Professional Conduct, this is a key document. Students must not only learn the Code, but understand how they should behave when faced with various issues. Part two questions based on the Code will require students to interpret what actions and behaviours they need to demonstrate from various scenarios. Students who do not give sufficient detail or rely on simply repeating the Code will struggle to pass the exam. The Code is available for download from the PMI website. Regardless of their status, all PMI members should be familiar with its content.

Part one of the exam paper was based directly on information given in the manual, with part two expecting students to be able to understand both why professional bodies have a Code of Conduct and interpret the PMI's Code. It was therefore disappointing that few students were able to demonstrate a good knowledge of both the Manual and the Code. It did appear some students were not familiar with the study manual and relied on their own skills and experience to answer the case study question.

Learning all the study material is vital to passing the examination. There is no requirement for students to achieve a specific percentage in either part of the exam. The exam paper shows the marks allocated for each question and this should be taken into account when deciding how much time to spend on them. The questions can also be answered in any order. Students are unlikely to gain sufficient marks to pass the exam unless they have studied and learnt the Governance Manual. However a number of students who performed well on the case study were let down by their knowledge and understanding of the Code. This was critical for some students who then did not gain sufficient marks to pass the examination. The Code is two pages of A4 and is separated into six sections, these sections are further sub-divided and students are expected to learn <u>and be able to apply</u> the contents to the short scenarios. As professionals they will be expected to do this throughout their careers.

Integral to written exam responses is the ability to plan thoughts and ideas so the answer flows logically and students take every opportunity to ensure their answer will reflect the requirements of the question. Again this year, it was pleasing to note few students ran out of time. However there were still some who would have gained higher marks, or passed, had they spent a little time on planning. As the plan develops, it should be referred back to the question to ensure students are answering the question posed and not their interpretation of it. This was an omission noticeable in the case study as some students went off track with their answers and so lost the opportunity for valuable marks. It is a shame when candidates spend time on areas which carry no marks. Once the plan is complete and candidates begin drafting their answer, they need to ensure the answer follows the plan. Planning is integral to getting optimum marks in the exam, as is ensuring sufficient time is allocated to reading through completed answers. This is where candidates have the opportunity to test if their answers make sense and flow, to ensure they have not missed out any vital pieces of information and to add finesse to their answers.

The answer to the case study, Question 1, could be found in Part 1 Chapter 3 pages 50 – 51, 53, 62 – 66 of the Governance Study Manual. The Communications Manual assists students in understanding how to frame the format of their answers. Twelve marks are available for communication.

The question was:

You are the Secretary to the Trustees of the ABC Pension Scheme who have recently appointed XYZ Fund Management ("XYZ") as the Scheme's active Global Equity investment manager. You have been asked by the Chairman of the Trustees to draft a letter to XYZ which would be suitable to be retained as part of the ongoing agreement. This letter will set out the information the Trustees will expect to receive from XYZ and why they should receive it, so as to enable the Trustees to monitor XYZ's contribution to the Scheme's investment performance.

The letter should include:

- **A brief summary of why the Trustees have appointed XYZ as an active manager and their expectations**
- **The information they will expect to see in XYZ's portfolio valuations.**
- **The information they will expect to see and reasons for their inclusion in XYZ's performance reports.**
- **The ways in which the Trustees will measure XYZ's performance.**

Your letter should be sent to the Trustees for their review with a covering email. Your email should include a note of why it is important the Trustees monitor XYZ's performance and the issues the Trustees should take into account when considering the level of fees they may be charged.

Draft the letter and covering email.

(60 marks – including marks for communication)

The first point to note was students were expected to provide both a formal draft of the letter and a less formal email. The letter was being circulated to the Trustees for agreement and would form part of the formal appointment documentation for XYZ. Whilst the letter was expected to be drafted from or on behalf of the Chair of Trustees, students who drafted the letter from the Secretary to the Trustees were not penalised. The Trustees would be known to the Secretary to the Trustees, hence the lesser degree of formality required in the email. Students were advised which points to incorporate into the letter and which to incorporate into the email.

The order of the required areas to cover in the bullet points are directly reflected in the Manual. This was not picked up by many students. A few students who had studied and understood the Manual gained reasonable marks in the case study. There were still some students who do not appear to have learned the manual, which is a pity. Whilst 60 marks are allocated, there are always more available. Students have every opportunity of gaining the higher marks if they have both learned and understood the study material, rather than relying on personal experience. Some candidates omitted to include all the required points, or cover these in enough detail to gain sufficient marks. Overall, most candidates did not express adequately what Trustees' expectations would be of an **active** manager. Many confused portfolio valuations and what is expected to be included with performance reporting. Most students did not pick up the first part of the question, which is what to expect from an active manager, specifically a Global Equity manager. Many students struggled to provide sufficient detail, or repeated points and so were unable to score highly. No additional marks can be awarded for points which are repeated. Several students went into detail on the selection process, which was not required.

The Communication Manual is provided so students can familiarise themselves with the styles and typical content of formats required in an exam, as part of their wider revision process. To gain the communication marks, the answer must be placed in context of the format and style required. In this exam two formats were required. Generally, the letter was quite well attempted, although few students picked up this was a draft. But students still lost marks by missing accepted letter protocols and going directly to their answers. Students varied in their interpretation of an email. No rigid format was required, but students were expected to know the main components. They were also expected to appreciate there could be security aspects in sending confidential information to Trustees. Many also failed to give the Trustees guidance in how they should respond to their email.

Format alone is not sufficient to gain full communication marks. Answers were marked on their style, whether it was appropriate for the specific scenario and its flow. If candidates were unable to provide sufficient technical content, then the success of the communication was affected. Candidates needed to think about their audience and what role they are fulfilling when composing their answers.

Overall, the case study was not answered with sufficient detail by many of the students, this was disappointing.

The three the short questions could only have been answered fully if students had read and learned the PMI Professional Code of Conduct, its introduction, sections and references, as well as understanding the syllabus. Ideally students should have worked through the Professionalism Manual so they know how the Code is applied in specific circumstances. Students need to be familiar with the Code and its structure so they can recall which area(s) a particular scenario relates to. It is also important for students to know the broader application of the organisational principles underlying the Code. They should understand the Code is a guide to behaviour. They need to think about what behaviour they should exhibit in each circumstance and what would need to be done to resolve the issue at hand.

Whilst all three short answer questions were based on the Code, students should bear in mind the short professionalism questions can be based on any area of pensions within the syllabus. It was disappointing to note many students did not know the Code well enough and those that did, did not think about how they would resolve the issue. In real working life, rarely can we say no with no alternative suggestion.

The short questions were:

Question 2

Why do professional bodies, such as the PMI, have a Code of Conduct for members? What are the main aims and objectives of the PMI Code of Conduct? (10 marks)

Few students picked up the aims and objectives of the PMI Code, as shown in the first two paragraphs introducing the Code. Some students repeated sections of the Code. Others concentrated on pensions issues and not why professional bodies have a Code. Students should have picked up any Code is seeking to describe the behaviours, conduct and morality expected of them in carrying out their work. A number of students did identify a professional body's reputation can be damaged if their members act inappropriately and that both employers and customers are offered some protection by these standards. Some students did pick out that any Code is a minimum standard of behaviour, but they can never cover every circumstance. Members need to observe the spirit of a Code and apply the principles to the work they carry out in a pragmatic way. Essentially, honesty integrity independence and impartiality are vital and underpin the PMI Code.

Question 3

You volunteer for an industry body and have been asked to make an independent presentation at a conference run by this industry body on an area in which your firm would like to deliver services. It has been stressed that this conference is not a sales situation, but your employer wants you to push their company as an expert in this field. You know your company is not yet an expert. How should you respond? (15 marks)

This question was looking for students to recognise the conflict in this scenario and seek to resolve it. As the person being asked to deliver a presentation independent of their employment, the presenter has a responsibility to the industry body to fulfil the requirement to them. Most students identified the requirement for independence (3) and objectivity (1d) and the fact they are professionally responsible for any advice they deliver (2c) – regardless of how that advice is delivered. As well as the obligation to act impartially (4c). Few students talked about the use of case study and so many did not pick up the requirement for confidentiality (4e). Some students did talk about the responsibility to encourage awareness they are bound by the PMI Code (6c). When seeking resolution the question did not identify who at the employer was asking for the promotion of the company's aspirations as if they were experts. If students were placed in this position, they could talk to a line manager or other senior person at the company. It could be the student is not fully aware of the level of the company's expertise? Potentially, HR or compliance could help in supporting an appropriate outcome? Potentially, the company's aspirations and progress to date could form part of the presentation? A case study, with client consent, could be used for this. Any material produced for conferences will be reviewed by the conference organiser and so they will be on hand to assist. Regardless of the way students decided to address this issue students were expected to try to find resolution and not simply to state withdrawal is the only option. However ultimately, it may be there is no alternative but to withdraw from the speaking opportunity.

Question 4

Your employer has announced it will be making budget cuts to training and exam support across all areas of the business. However your line manager has told you that your employer will continue to support you to complete your professional qualifications. As employee representative, you have been asked to respond to the proposed budget cuts. Does it matter that others will be affected when you won't and what professional basis do you have for negotiating a reversal of the budget cuts?
(15 marks)

This is a morally tricky question, but again resolution was the goal. Most students picked up they should point out they are bound by the PMI Code (6c) and they need to act objectively in this situation (1d). Again most students understood the requirement to encourage others to attain their professional qualifications (6e). Although only a few picked up they are required to support and encourage the work of the institution in developing and maintaining the Code (6d) and be willing to act as part of a team (6f). In seeking resolution some students picked up areas where such a move could be detrimental to the employer. Perhaps by reducing the company's ability to deliver, its succession management for more senior roles, reduced employee morale or attrition to competitors? Some students did think about how they could demonstrate the cost/benefit of such a move. Few students identified there could be contractual issues involved or sought ways to maintain some study support through cost savings elsewhere, or by negotiating discounts for training and exam support to fit within budgets.