Defined Benefit Arrangements

Assignment 3

*(Part 4 – Scheme Funding and Investment Strategy)*

*Recommended Time: 3 hours*

1. **Outline a member’s statutory rights to a Cash Equivalent Transfer Value (CETV) and briefly explain the basis of the CETV calculation.**

**20 marks**

Relevant section of the manual is Part 4 Chapters 5.3 and 5.3.1.

Format: descriptive

Answer should cover:

* The Pension Schemes Act 2015
* The 3 categories of benefit
* Partial transfers
* Link to the value of the preserved benefits
* Calculation represents cost to scheme of providing benefits
* Discount rate
* Inclusion of discretionary benefit
* Member option to increase the value of the benefits
* Allowance for expenses

1. **You are the Scheme Actuary. Prepare a short paper outlining to the Trustees the content of a Scheme Funding Report.**

**10 marks**

Relevant section of the manual is Part 4 Chapter 2.1.

Format: formal, with a short introduction and summary

Answer should cover:

* Timescale for producing the Report
* The purpose of the Report
* The information that the Report must contain

1. **You are the Sponsoring Employer’s pensions adviser. The Company is currently in discussion with the scheme trustees to agree a de-risking strategy for the scheme. Prepare a report for the Employer covering:**

* **A typical de-risking strategy**
* **A brief outline of 3 solutions used to mitigate or remove investment risk**
* **The factors which should be considered when deciding the level of risk to be taken**

**25 marks**

Relevant section of the manual is Part 4 Chapters 6.7 and 6.8.

Format: formal report with introduction, clearly headed sections, conclusion and recommendation

Answer should cover:

* The purpose of a de-risking strategy
* An example of a strategy and the funding level triggers
* A short explanation of the following, including why they are suitable (up to 5 marks each):
  + LDI
  + Longevity Swaps
  + Buy-ins/buy-outs

1. **You are the Chair of a Trustee Board. A new trustee has emailed you asking you to briefly explain what is meant by Benefit Outgo and Contribution Income. Prepare a response which briefly explains what is meant by these terms.**

**5 marks**

Relevant section of the manual is Part 4 Chapter 1.3.2.

Format: email with appropriate headers

Answer should cover:

* What is benefit outgo and how is its value arrived at
* What is contribution income and how is its benefit arrived at
* The answer should be relatively short to ensure that the explanation is clear yet concise.

1. **You are preparing a training session for PMI students on the accounting standards applicable to companies with DB pension liabilities. Write notes on the various accounting standards that are used by companies when providing the financial impact of the pension scheme in their company accounts.**

**10 marks**

Relevant section of the manual is Part 4 Chapters 4.2 and 4.3.

Format: informal, list/bullets

Answer should cover:

* UK accounting standards:
  + IFRS
  + Companies Act 2006
  + Differences between FRS 100, FRS 101 and FRS 102
  + Surplus/deficit shown on balance sheet
  + what is reflected in the profit and loss account
* International and US accounting standards:
  + IASB
  + IAS19
  + FASB

1. **Explain the key features of the following:**
2. **Statement of Funding Principles**
3. **Recovery Plan**
4. **Schedule of Contributions**

**15 marks**

Relevant section of the manual is Part 4 Chapters 3.4, 3.5 and 3.6.

Format: descriptive, with some bulleting if preferred.

Answer should cover:

* SFP timescale
* What is included in an SFP
* Why a Recovery Plan is necessary
* Considerations for RP structure under the Code of Practice
* RP must include a date by which the deficit will reduce to zero
* The information that must be included in an SoC
* Scheme Actuary must certify the SoC

1. **Describe why a scheme’s funding level is a key factor to consider when choosing an investment strategy.**

**15 marks**

Relevant section of the manual is Part 4 Chapter 6.1.2.

Format: descriptive prose, no requirement for a formal report

Answer should cover:

* Considerations for a scheme in surplus
* Considerations where a scheme is in deficit or funding level is 100%
* Answer should demonstrate an understanding of the various considerations