

Defined Benefit Arrangements Examiners' Report

Overall the standard of papers this year was high and many Students achieved high marks by giving concise answers that related to the question asked and the points available.

Few Students picked up marks for writing the answers in the style requested.

Question 1 Describe the features of a shared risk scheme.(10 Marks)

Few students mentioned that the third category of pension scheme is shared risk schemes and that there is a partial promise as to the level of retirement benefits that will be provided to members.

Question 2 :When might evidence of health be required on joining a pension scheme (7 marks) and what might this mean for the member (3 marks).

- Students who had prepared were able to score full marks for this question.
- Few students mentioned the free cover limit.
- The most frequently missed detail was that instead of benefits being restricted an additional premium may be paid to give full benefits.
- Students often did not mention that the scheme rules will determine the benefits.

Question 3: Describe the aim of a Liability Driven Investment (LDI) strategy and its key components and investments.

- The matching core component of LDI strategy is designed to replicate the profile of the schemes liabilities but few students mentioned this.
- The growth component is intended to invest across a range of assets classes/market and strategy. This range is intended to be a diversified range but not necessarily riskier.
- Students wasted time giving unnecessary details on the types of derivatives.

Question 4: Explain the circumstances in which The Pensions Regulator can make an order to modify a scheme and the conditions it must adhere to when doing so.

- This question was poorly answered.
- Many students did not answer the question asked – detailing the powers of The Pensions Regulator when the question was regarding modification orders.
- Many students also wasted valuable time stating the PPF priority order.
- Care should be taken when stating legislation – students lost marks by quoting the wrong legislation. In this instance the legislation was Pensions act 1995 not 2004.

Question 5:

- a) Name the different types of death benefit beneficiaries (2 marks)
- b) Describe Nominees and Successors (4 marks)
- c) Explain the death benefits that civil partners, and widows of female members under a same sex marriage or registered civil partnership are entitled to. (5 marks)
- d) What steps should pension schemes take to ensure pensions in payment continue to be paid to the correct recipients? (6 marks) and why is this considered

necessary? (3 marks)

- Most student were able to define a nominee, but students' definition of successor was often lacking. Successors are nominated by beneficiaries.
- Most students were more confident with the benefits due after 5 December 2005 then before. The fact that benefits pre 5 December 2005 do not include contracted out benefits was often missed.
- The majority of students gained full marks for listing potential beneficiaries.

Question 6: You are a Pensions Scheme Manager. Write a paper for your administration team explaining when a member may opt to use scheme pays and the process involved (20 Marks).

- When the question asks for the answer to be in the form of a documents such as a paper or report then format marks are awarded. Students failed to gain marks because they did not write the answer in the correct format or chose not to format the answer at all.
- Most students gained full marks for being able to detail the historic changes to the Annual Allowance levels.
- High marks were gained for describing how Scheme Pays operates.
- Students were less confident when describing voluntary scheme pays.
- Few students mentioned MPAA or Tapered Annual Allowance.

Question 7 As the Pensions Manager of your scheme, you have been asked to write a briefing paper for your Trustee Board describing what a contingent asset is. You should include the different types of contingent assets and explain why they may be used to assist with pension scheme funding (20 Marks).

- Some students obtained high marks for this question.
- Full marks were often obtained for the types of contingent assets.
- While the reasons why an employer might put a contingent asset in place was less confidently addressed.
- Again, format marks were often missed as students did not answer the question in the form of a paper.