Defined Benefit Arrangements

Mock Examination

*Recommended Time: 3 hours*

1. **You are the Pensions Manager in charge of an in-house administration team. You are preparing material for a short training session on AVCs. Prepare a short presentation covering:**

* **The key features of an AVC arrangement**
* **Why an active member may choose to pay AVCs**

**20 marks**

Relevant section of the manual is Part 2 Chapter 2.1.3.

Format: presentation or factsheet

Answer should cover:

* Regular or lump sum payments
* Limits on AVC contributions
* Benefits payable, 6 April 2015 pension flexibilities,
* Lump sum AVC benefits, with reference to 6 April 2015
* Way for members to top up their pension scheme benefits in a tax-efficient way
* Flexible contributions processed through payroll
* Low charges
* Retirement planning, particularly if their pensionable salary is capped
* Annual allowance/Tapered annual allowance

1. **You are a Scheme Actuary. A new trustee has asked you to provide information on the demographic assumptions used in a scheme valuation. Write a short paper outlining these.**

**20 marks**

Relevant section of the manual is Part 4 Chapter 1.2.2.

Format: formal, report, key headings, short introduction and summary

Answer should cover:

* Withdrawals
* Death in service
* Early retirement
* Ill-health early retirement
* Earnings progression
* Mortality in retirement

1. **What is a “Shared Risk Scheme”?**

**10 marks**

Relevant section of the manual is Part 1 Chapter 1.1.3.

Format: descriptive

Answer should cover:

* Defined ambition schemes – November 2012
* The Pension Schemes Act 2015 provides for the introduction of shared risk schemes (the new term for what was referred to as ‘defined ambition’). For the purposes of the Pension Schemes Act 2015, there are three possible categories of pension scheme:
* defined contribution schemes – where there is no promise at all as to the level of retirement benefits that will be provided to members
* defined benefit schemes – where there is a full promise as to the level of retirement benefits that will be provided to members
* shared risk schemes – where there is a partial promise as to the level of retirement benefits that will be provided to members
* A possible example of a shared risk scheme would be a scheme that promises a core level of benefits with additional benefits above this level being discretionary, depending on the funding position of the scheme. Some hybrid scheme designs (for example schemes that provide a DB or DC underpin) already provide many of the key features of a shared risk scheme.
* On 11 February 2021, The Pension Schemes Act 2021 was given royal assent formally introducing shared risk schemes.

1. **You are the consultant for a DB scheme. The trustees have asked you to discuss, at their forthcoming meeting, the key information relating to Event Reports. Prepare notes to take to the meeting.**

**10 marks**

Relevant section of the manual is Part 3 Chapter 1.4.5.

Format: notes/list/bullets

Answer should cover:

* Legal requirement
* Timescale
* Exceptions relate to transfer payments made to qualifying recognised overseas pension schemes. Schemes must report any such transfers to HMRC within 60 days of payment.
* Penalties, the Scheme Administrator of up to £300 if an event report is not submitted or is submitted late. Additional penalties of up to £60 per day can be imposed if there is further delay
* 6 examples of reportable events – such as unauthorised payments, lump sum death benefit payments exceeding 50% of the standard LTA and serious ill health lump sums for directors or persons related to the sponsoring employer

1. **You are the investment consultant for a DB scheme. The trustees are considering implementing an LDI mandate. Write a paper to the trustees outlining:**

* **How LDI reduces investment risk**
* **The key components of an LDI strategy**

**20 marks**

Relevant section of the manual is Part 4 Chapter 6.8.1.

Format: formal report, introduction, key sections, conclusion/summary, recommendation

Answer should cover:

* Hedging the volatility of the liabilities – interest rate and inflation hedging
* Value of assets changes as the value of liabilities changes
* Reduces the risk arising from 2 key risks - inflation and interest rate exposure
* 2 key components
* seek to match liabilities using derivatives
  + Interest rate swaps
  + Gilt repurchase agreement
  + Total return swap
* Growth seeking component

1. **You are an administrator for a final salary scheme which allows members to commute up to 25% of their scheme pension for a PCLS. Describe:**

* **The process for a retirement from active status at NPA**
* **What the member’s retirement quotation must include**

**20 marks**

Relevant section of the manual is Part 2 Chapter 3.1.1.

Format: descriptive, with clear sections/headings

Answer should cover:

* Earnings prior to retirement – if known or if unknown
* Benefits and member options calculated
* Information on options, PCLS
* Pension payment – date, frequency, guarantee period, increases
* Spouse/civil partner pension on death
* AVCs
* Documents required by the administrator
* Member must understand their requirements
* Confirm options, bank details, declaration regarding other pension benefits, provide certificates

**Note** – information relating to CARE, DC or Hybrid schemes is not relevant for this answer