



Core Unit 4 - Financing and Investing for Retirement Provision

Multiple choice questions

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

In relation to the short answer questions, candidates should remember to state what may seem obvious facts to them as marks are often available for this. The examiners would also remind candidates to study the whole manual; it is very clear when otherwise good candidates have not studied one or more particular sections. The short answer questions are designed to cover the entire syllabus and are not restricted in any way. Candidates are also reminded to pay attention to spelling

Question 1

Write short notes on Collective Defined Contribution Schemes. (10 marks)

The relevant section of the study manual was Part 4, Chapter 2.3.

While some candidates answered this question well, on the whole the examiners were disappointed with the responses. Most candidates were able to explain that CDC schemes involve sharing investment risk, and that this may be at both accumulation and decumulation stages. Good answers also noted that this type of scheme is commonly used in the Netherlands, Denmark and Canada; most candidates mentioned the fact that the Royal Mail proposes a CDC scheme. Many candidates also gained marks for explaining that the benefits provided to members are not guaranteed and may be scaled back, and better answers also noted that increases are scaled back first with a reduction of benefit a last resort. Marks were also available for noting that CDC schemes are permitted under the Pension Schemes Act 2015 with secondary legislation under the Pension Schemes Act 2021.

Question 2

Briefly describe what a Target Date Fund is. (5 marks)

The relevant section of the study manual was Part 4, Chapter 1.3.

This question was very straightforward and was answered well by many candidates who had studied the relevant part of the manual. The examiners were disappointed that some candidates appeared not to have done so and some candidates missed out on easy marks by not stating the obvious. Candidates should have explained that a Target Date Fund is similar to lifestyling in that it derisks over time but that the member's asset allocation changes automatically within the Target Date Fund instead of varying asset allocation between different growth and defensive funds in a lifestyle investment strategy. Many candidates mentioned that the end of derisking should be aligned to the member's projected retirement date or gave an example. Marks were available for noting the approach can be flexible and is also called a lifecycle fund, as well as for noting that the approach requires monitoring by the member to ensure the target date continues to reflect the member's intended retirement date.

Question 3

How is de-risking linked to the Long Term Objective (LTO)? (5 marks)

The relevant section of the study manual was Part 3, Chapter 3.3.



On the whole, this question was answered fairly poorly with very few candidates showing an understanding of the LTO. Candidates did not need to explain what derisking is or how this can be achieved and no marks were available for that. Marks were available for giving a description of the Long Term Objective and explaining that it typically assumes a low level of investment risk, so that careful planning by all parties (trustees, employer and investment managers/consultants) to design a process which manages gradual derisking to lock in better than expected returns. Good candidates explained how the scheme's technical provisions will merge with the LTO over time and that the process may use pre-agreed triggers points resulting in specific derisking actions.

Question 4

Write brief notes on what the Event Report is, including three examples of events that should be reported. (10 marks)

The relevant section of the study manual was Part 5, Chapter 2.2.

This question was very straightforward and those candidates who had studied the relevant part of the manual did well. Candidates are reminded to be careful when explaining detail that they are precise and accurate when naming events or listing the amount of penalties. Marks were available for explaining that the scheme administrator must provide the report to HMRC giving details of certain events which are set out in legislation and in the RPSM, which occurred in the tax year to which the report relates. Most candidates knew that the report must be submitted to HMRC no later than the 31 January following the tax year in question, or a shorter deadline if the scheme is winding up. Most candidates also were able to explain that no report is required if there have been no reportable events, unless there has been a transfer to a QROPS which should be reported within 60 days. Marks were available for noting that HMRC apply a penalty of £300 if the report is late or not submitted with further penalties of £60 a day. Any three examples from those listed in the manual gained marks –some candidates wasted time by describing each event in detail which was not required.

Question 5

Describe delegated management and fiduciary management and include the advantages of these approaches. (10 marks)

The relevant section of the study manual was Part 6, Chapter 1.3.

This question was answered poorly. Many candidates appeared not to understand what the terms meant or be confused as to what each involves. Marks were available for explaining that delegated management allows trustees to outsource part of the decision making process, while retaining the setting of the risk/return budget. Candidates should have explained that delegated management allows the investment consultant to provide clearer, real time recommendations compared to the traditional model, resulting in assets being managed in a more dynamic, efficient manner. Candidates could also have gained marks for stating that fiduciary management is an extended version of delegated management which involves a fiduciary manager who is accountable for implementing an overall strategy adopted by the trustees with all day to day decision making delegated within pre agreed guidelines, allowing trustees to focus on other areas.

Question 6

Describe the restrictions imposed on trustees investing in the sponsoring employer and the exceptions to the limits. (10 marks)

The relevant part of the manual is Part 5, Chapter 1.5.

This question was answered reasonably well although some candidates had clearly not studied the relevant part of the manual. Most candidates were able to explain that trustees may not invest more than 5% of the



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scheme's assets in employer related investments and may not invest in employer related loans. Marks were available for stating that the restrictions are imposed by the Pensions Act 1995 and 2005 regulations, and that any such investment must be disclosed in the trustees' annual report and accounts. Candidates are reminded that simply referring to "the Pensions Act" will not gain marks. Marks were also available for listing the different types of employer related investments including shares issued by the employer or any other group company, land occupied or used by the employer, other property used for the purposes of the employer's business, units in a collective vehicle that holds an employer related investment and any premiums or payments from an insurance policy that is invested in the employer. Good candidates noted that the 5% limit includes investments made by collective investment schemes since 23 September 2010. Again, candidates are reminded that if they describe investments accurately they are more likely to gain more marks; for example, "employer property" will not gain all the marks available for the categories noted above. Good candidates also noted that the regulations are relaxed in the case of small member controlled schemes and that they do not apply to one member arrangements.