



Examiners Report: Core Unit 1A - Understanding Retirement Provision (UK)- October 2022

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 must 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.

The questions were broadly representative of the entire syllabus.

In general, candidates achieved good scores on the multiple-choice questions with 1 candidate achieving 50 out of 50, another 3 candidates scoring 49 and 2 scoring 48 marks.

Short answer questions

There were seven short 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. Most candidates scored considerably lower on this part of the paper than they did on the multiple-choice section.

Question 1

Set out the rules on how much income someone might draw under capped and flexible drawdown (7 marks)

Most candidates scored reasonably well on this question about the rules which apply to drawdown arrangements set up before April 2015. Candidates commonly had some understanding of the rules on the maximum and minimum amounts allowed under the 2 types of drawdown. Understanding of the detail of the Minimum Income Requirement was more limited.

The relevant section of the study manual is Section 1, Chapter 1.4.4.



Question 2

What are the main features, advantages and disadvantages of equity release?

(5 marks)

This is a topical subject with increasing numbers of pensioners using equity release to supplement their pension income. Candidates commonly were able to explain that it is a loan secured on a home from selling all or part of a home while being able to continue to live in it. Fewer candidates were able to describe the advantage that any increase in property value is not subject to Capital Gains Tax or the disadvantages of the risk of overestimating the capital which might be released and the risk of underestimating the cost of retirement provision.

The relevant section of the study manual is Section 1, Chapter 2.3.3.

Question 3

Outline the role of Independent Governance Committees of workplace contract-based pensions.

(8 marks)

Most candidates picked up some marks here though very few covered all of the points outlined in the study manual. Candidates commonly mentioned that the role of the IGC is to act in the interests of policyholders, being independent from the provider, had some understanding that the IGC assesses value for money delivered by the scheme and that it has powers to escalate concerns to members, employers and the Financial Conduct Authority. A fair number mentioned that IGCs must report on their firm's actions on ESG. Considerably fewer mentioned that the IGC must report on how a scheme meets minimum quality standards and must publish costs and charges information to scheme members.

The relevant section of the study manual is Section 2, Chapter 1.15.

Question 4

Outline the key features of the State Additional Pensions

(10 marks)

This question required detailed understanding of the benefits provided by the State Earnings-Related Pension Scheme and the State Second Pension. Few candidates had more than a very basic understanding of how pensions are calculated under these 2 arrangements. A fair number mentioned that it was possible to contract out of the State Additional Pensions. Candidates needed to set out how they are calculated on a specific band of earnings, giving details of the percentage build up rates and the earnings bands.

The relevant section of the study manual is Section 3, Chapter 1.2.



Question 5

Describe how defined benefit schemes are funded.

(6 marks)

This was reasonably well answered although candidates missed some details and therefore few scored full marks. Candidates knew that defined benefit schemes are funded by employee and employer contributions and some also made reference to the effects of investment returns. Fewer gave additional detail, for example that employee contribution rates are fixed and set out in the scheme rules. Very few mentioned that employer contributions are typically significantly higher than the employee contribution rate.

The relevant section of the study manual is Section 4, Chapter 2.1.1.

Question 6

What advantages does a trust based scheme hold over a contract based arrangement in relation to employer control and flexibility? (6 marks)

Few candidates scored well on this question. Some candidates mentioned that employers can appoint some of the scheme trustees and that the trustees can change administrator or service providers if these are not providing the required level of service. Few mentioned that an employer and its advisors can create an entirely bespoke scheme, thereby offering an employer a greater degree of control over design and administration, that employer consent is usually needed for amendments and that a trust based scheme can be designed to include automatic provision for dependants. Some candidates gave a more general description of the advantages of a trust-based scheme rather than focusing on the specific area of employer control and flexibility.

The relevant section of the study manual is Section 4, Chapter 3.2.

Question 7

There may be some employees who are not in a workplace pension scheme. These employees can be divided into 2 groups. Describe the 2 groups and how they are treated for cyclical auto re-enrolment.

(8 marks)

This is a topical subject with most employers having now been through 2 cyclical re-enrolment exercises. Many candidates identified the 2 groups as eligible jobholders who have opted out and non-eligible jobholders and entitled workers who will not be automatically enrolled unless they become eligible jobholders. Few candidates were able to describe correctly when cyclical re-enrolment must take place.

The relevant section of the study manual is Section 3, Chapter 3.2.4.