



ADVANCE DIPLOMA IN RETIREMENT PROVISION- EXAMINERS' REPORT

APRIL 2023

The Spring series of the Advanced Diploma in Retirement Provision (ADRP) exams took place in April 2023. For this series of examinations, we had 173 entrants across all 11 exam units, out of which 56 learners passed the exam(s). Overall, the pass rate is 33 % which is much lower than previous ADRP exam sittings.

The table below provides a detailed breakdown and summary of the key statistics related to the April 2023 ADRP examinations.

Exam unit	Pass mark	Exam scripts Received	Pass	Fail	Success rate %
Core unit 1A - Understanding Retirement Provision	65	39	10	29	26%
Core Unit 1B -Foundation in International Employee Benefits	65	6	1	5	17%
Core Unit 2- Regulation of Retirement Provision	65	20	2	18	10%
Core Unit 3 - Running a Workplace Pension Scheme	65	10	6	4	60%
Core Unit 4 -Financing and Investing for Retirement Provision	65	12	4	8	33%
Defined Benefit Arrangements	55	13	6	7	46%
Defined Contribution Arrangements	55	22	9	13	41%
Managing International Employee Benefits	45	8	3	5	38%
Professionalism & Governance	55	25	9	16	36%
Reward and Retirement Provision	55	15	4	11	27%
Taxation, Retail Investment and Pensions	55	2	2	0	100%
Total		172	56	116	33%

Please scroll through the report to see the examiners comments for each exam units.

Core Unit 1A – Understanding Retirement Provision (UK)

This was a 2-hour exam of 10 essay questions. There were a mix of questions requiring a shorter answer, commonly giving 5 marks, and questions requiring a more detailed answer, giving up to 18 marks.

Question 1

Describe the pensions advice allowance and how it works (15 marks)

Most candidates were able to state basic details about the allowance – for example, that an individual can withdraw £500 from a pension pot once per tax year and up to £1,500 in total over 3 years. To score well candidates also needed to explain that the allowance can only be taken from defined contribution pensions and they needed to give information about the self-declaration required of individuals and the due diligence required of providers to ensure that individuals do not withdraw more than the permitted allowance to pay for regulated financial advice.

The relevant section of the study manual is Section 1, Chapter 2.4.6.

Question 2

Outline the roles of the following bodies/ services (a) MoneyHelper (b) Pensions Advisory Service (c) Money Advice Service (d) Pension Wise (15 marks)

This is a topical subject with schemes/ providers having to encourage members to seek help and guidance from these bodies in specific circumstances either now or in the past. Although some candidates were able to describe these services, many candidates did not. Many candidates did not seem to know when schemes/ providers must refer members to Pension Wise even though DC providers must encourage all members over age 50 to speak to Pension Wise when they are considering transferring their DC pension or accessing it flexibly.

The relevant section of the study manual is Section 2, Chapter 1.4.

Question 3

Describe the new State pension for those reaching State pension age after 5 April 2016. Note: You are not required to give details of the allowance made for State pension built up before April 2016. (10 marks)

Most candidates picked up some marks here though very few covered all of the points outlined in the study manual. Candidates commonly knew that an individual needs 35 or more qualifying years in order to be eligible for the full pension, with a pro-rated amount paid to those with between 10 and 35 qualifying years. Most wrote about the triple lock but fewer mentioned that legislation only requires increases in line with average earnings. Fewer candidates mentioned that the self-employed are also eligible for the full pension (depending on their National Insurance record) or gave details about how the new State pension is increased if it is not claimed until after State pension age.



The relevant section of the study manual is Section 3, introduction and Chapter 1.4.

Question 4

**Give a brief account of the investment options which NEST offers.
(5 marks)**

This question required knowledge of NEST's default investment option of retirement date funds and that it also offers a range of other fund choices. Few candidates were able to describe more than a limited amount of detail about the retirement date funds. Some candidates did not even seem to be aware of these retirement date funds.

The relevant section of the study manual is Section 3, Chapter 3.3.4.

Question 5

Give examples of how SIPPs might be used in a pension scam. (5 marks)

This was reasonably well answered although candidates missed some details and therefore few scored full marks. Candidates commonly knew that SIPPs might be used to invest in inappropriate or fraudulent assets and that they might come with high fees and charges. Fewer knew that scammers might set up a SIPP to accept transfers, which are then paid out as unauthorised payments leading to unauthorised payment charges.

The relevant section of the study manual is Section 4, Chapter 1.2.3.

Question 6

State the main features of a collective defined contribution scheme. (5 marks)

Royal Mail has set up what is currently the only collective DC scheme in the UK. The pensions press has covered this widely and in detail. Few candidates scored well on this question. While candidates had some knowledge of how a CDC scheme pools risks and costs between members and that it provides a targeted but not guaranteed level of retirement income, fewer knew that the member does not have an individual pot, that such schemes have flexibility to adjust or reduce benefits depending on scheme funding, that the employer contributions are fixed and that the employer does not have to make additional contributions to ensure that the scheme funding can meet the target level of retirement benefits.

The relevant section of the study manual is Section 4, Chapter 2.2.2.

Question 7

Outline why retirement benefits provided by a defined contribution arrangement might vary and how this can be mitigated. (14 marks)

There were 2 parts to this question. To answer why retirement benefits from a defined contribution arrangement might vary, candidates needed to explain that they will depend on the amount of contributions paid, on investment growth, on the period of time invested, on the size of funds at retirement, on market conditions and on annuity rates at retirement. Few candidates mentioned all of these points. A number of candidates focussed on contributions and investment returns but



overlooked annuity purchase and the risk of low annuity rates. The second part of the answer required candidates to describe lifestyle investment strategies and alternative approaches such as drawdown or phasing retirement. Many candidates gave some information about drawdown but answers commonly lacked full details.

The relevant section of the study manual is Section 4, Chapter 2.1.4.

Question 8

State why both employees and employers may prefer a career average pension scheme over a final salary one. (5 marks)

Most candidates stated that employers might prefer CARE because it has more predictable or controllable costs than final salary schemes. Fewer mentioned that CARE allows employers still to offer a defined benefit scheme and that employers can find investments to match or exceed the inflation-linked liabilities of a CARE scheme. Candidates obtained more marks in describing how CARE can suit employees who change jobs more frequently, who have varying earnings or working hours or those whose ability to work overtime decreases with age.

The relevant section of the study manual is Section 4, Chapter 2.1.3.

Question 9

Describe the role and responsibilities of the trustees of an occupational pension scheme, including their statutory responsibilities.

(18 marks)

Most candidates had a reasonable knowledge of trustees' role and responsibilities. Answers needed to outline statutory responsibilities such as preparing schedules of contributions, statements of funding principles, annual funding reports, statements of investment principles and an internal disputes resolution procedure. They also needed to cover legal duties such as ensuring that the scheme is administered in accordance with legal and regulatory requirements and in accordance with the trust deed and rules, ensuring employer's and members' contributions are paid on time and members' benefits are paid on time.

The relevant section of the study manual is Section 2, Chapter 1.14.

Question 10

List the main differences between Universal Credit and the welfare system it is replacing.

(8 marks)

Many candidates scored fairly well on this question. They mentioned that it is paid to those in work and on low incomes as well as those out of work, that claimants must apply and manage their accounts online, that they must agree to various requirements such as keeping in touch with the labour market and that they receive just one monthly payment. Fewer mentioned how Universal Credit payments respond as people move in and out of work or change their working hours.

The relevant section of the study manual is Section 3, Chapter 2.2.1.



Core Unit 1B – Foundation in International Employee Benefits

The Examiners were pleased to note that some candidates provided well targeted answers that provided the specific detail requested from the relevant section of the study material. However, it is the view of the Examiners that several candidates found this to be a challenging paper overall. The Examiners were concerned to note that several Candidates were only able to provide short and/or generic answers to the new longer form questions, bringing down the overall quality of the scripts.

In addition to commentary on the April 2023 questions below, general guidance for candidates who didn't achieve high marks is provided at the end of this report.

Question 1

List the main reasons why employers might offer Savings Plans as an employee benefit. **(5 marks)**

- Most candidates were able to state that employers might offer Savings Plans to take advantage of favourable tax treatment and encourage a savings mentality among employees.
- Candidates who were able to write down the full list of reasons from the relevant section of the study manual achieved higher marks.

Study Manual: Part 4 (An overview of key employee benefits), Chapter 5.1 (Page 49)

Question 2

Draft a paper on the key objectives of the Local Regulator in relation to retirement plans (6 marks), and the Specific areas of regulation (14 marks). **(20 marks)**

- This question was poorly answered by most Candidates.
- Most candidates who attempted this question mentioned the Local Regulator's objective to protect Employee and Member rights and identified Funding as a specific area of regulation.
- However, more specific detail was required from the relevant section of the study material to achieve higher marks.

Study Manual: Part 7 (The role of different parties involved in the provision of International Employee Benefits), Chapter 10.2 (Pages 121-122)

Question 3

Outline the 'Taxation of Contributions' and 'Benefits' for both the Employer and the Employee under Qualified Retirement Plans & Retirement Plan Distributions in the United States. **(20 marks)**

- This question required candidates to recall the specific detail provided in the IGP Country Profile for the United States.
- Candidates who provided short or generic answers describing the Exempt – Exempt – Taxed model therefore missed out on the marks available for providing the relevant detail.

Study Material Section - IGP Country Profiles - US (Page 27))

Question 4

As the International Benefit Manager, write down the management implications of employee benefit provision that you may encounter in your role. **(10 marks)**

- Candidates scored reasonably well on this question, with most able to write down a few key points from the relevant section of the study material.
- More specific detail was required from the relevant section of the study material to achieve higher marks.

Study Manual: Part 1 (Overview of International Employee Benefits), Chapter 1.3 (Page 4)

Question 5

In your role as International Benefits Manager, you have been asked to draft a briefing note that summarises the main points in the IORP II Directive **(10 marks)**

- This question was poorly answered by most candidates.
- Many candidates obtained either low or no marks for their answers, due to focusing their answers on the objectives of the IORP II Directive or information from elsewhere in the study material, rather than summarising the *main points* of the IORP II Directive as directed by the question.
- Candidates are encouraged to allocate some time to carefully reading questions that are asked to determine which area of the study material is being examined.
- The Examiners were pleased to note that one candidate followed the instruction in the question to format their answer as a briefing note and took advantage of the bonus mark available for doing so.

Study Manual: Part 12 (The European Union), Chapter 1.5 (Page 197)

Question 6

Describe the Death Benefits provided as part of both Social Security Benefits and Customary Private Employee Benefits in the UK. **(20 marks)**

- This question required candidates to recall the specific detail provided in the IGP Country Profile for the United Kingdom.
- Most candidates were able to state that Spouse's Pensions and Lump Sum Death Benefits were available.
- More specific detail was required from the relevant section of the study material to achieve higher marks.

Study Material Section - IGP Country Profiles - UK (Page 10)

Question 7

Describe the tax treatment of pension plans to encourage retirement provision. Your answer should mainly focus on the different phases of pension plan financing. **(10 marks)**



- The Examiners were pleased to note that most candidates scored good marks for this question.
- Candidates who did less well struggled because they either provided generic information or spent time describing the level of contributions throughout different phases of pension plan financing, rather than tax treatment as directed by the question.

Study Manual: Part 4 (An overview of key employee benefits), Chapter 1.5 (Page 33)

Question 8

Explain the 3 principal 'Methods of Funding' employer-provided retirement plans in Europe and North America. **(5 marks)**

- This was a relatively straightforward question requiring candidates to explain the “self-administered”, “insured” and “unfunded” methods from the relevant section of the study manual.
- The Examiners were pleased to note some good attempts at this question, therefore those candidates scored good marks.
- Candidates who did less well struggled due to spending time describing types of pension plans, rather than 'Methods of Funding' as directed by the question.

Study Manual Section - Part 11 (Regional Round -up: Europe and North America), Chapter 1.2.1 (Page 179)

Generally, candidates are encouraged to:

- Ensure an understanding of the structure of the course and CU1B syllabus, noting that exam questions can be set on all of the examinable material. For the April 2023 session this included the Study Manual; the IGP Country Profiles <https://www.igpinfo.com/igpinfo/igpadvantage/countryprofiles.php> and Eversheds Guides <https://www.eversheds-sutherland.com/global/en/what/practices/labour-employment-law/employment-app/interactive-guides.page>
- Read questions carefully to determine to which area of the study material is being examined, and also what the question is asking you to focus on (for example, ‘taxation’, ‘methods of funding’ etc).
- Avoid spending too much time providing information which has not been asked for, or which is not described in similar detail in the study material.
- Take note of instructive words given in the question – for example “list” indicates that a list of key items is required, rather than a block of descriptive text.
- Note that the number of marks available can be used to indicate the level of detail required in an answer.
- Remember to include any dates, limits and figures detailed in the relevant section of the study material to add sufficient detail to your answer to score full marks.
- Take advantage of any bonus marks available for format.
- An important part of the CU1B syllabus is to test candidates’ knowledge of benefits in different countries, and much country specific information is given in the study material. Where a particular country or jurisdiction is specified within a question, higher marks will usually be achieved by providing information from the section that is specific to that country rather than generic information on the topic from another area of the study material.



Core Unit 2 – Regulation of Retirement Provision

Summary

It is the view of the Examiners that the scripts marked during this exam sitting were generally of a poor quality when compared against previous exam sittings.

In addition to commentary on the April 2023 questions below, general guidance for candidates who did not achieve high marks is provided at the end of this report.

Question 1

Your firm has almost finalised a sales and purchase agreement (SPA) with a Target company. Draft a briefing paper that explains the 'Typical Pensions Warranties and Indemnities' your firm should request. Your paper should include details of what information should be confirmed in the warranty, other warranties the firm should seek if the Target company has any liability under a defined benefit occupational pension scheme, and the matters commonly covered by indemnities (as an alternative to a warranty)

(20 marks)

- Candidates demonstrated a certain amount of basic knowledge, but it lacked sufficient detail to achieve full marks.
- Few candidates described the matters typically covered by an indemnity rather than by a warranty.

The relevant section of the study manual: Part 4 (Corporate Transactions, Purchases, Sales and Mergers), Chapter 1.3.3 (Page 109)

Question 2

List the things trustees should consider when looking to produce a communication aimed at pension scheme members

(5 marks)

- Generally well-answered question

The relevant section of the study manual: Part 5 (Governance), Chapter 1.7.3 (Page 140)



Question 3

Prepare an email for the Financial Director that set out the different forms of 'Protection' from the Lifetime Allowance Charge. Your email should also outline what the protection covers, the formalities for applying to HMRC and whether the protection allows future accrual

(20 marks)

- Some candidates scored highly on this question and achieved good marks.
- However, some candidates failed to demonstrate any knowledge beyond the basic Primary and Enhanced Protection.
- Candidates were expected to distinguish between Fixed Protection 2012, Fixed Protection 2014 and Fixed Protection 2016. Candidates were also expected to distinguish between Individual Protection 2014 and Individual Protection 2016. Candidates who made general references to Fixed Protection and Individual Protection missed out on available marks.

The relevant section of the study manual - Part 1 (The Taxation and Regulation of Retirement Provision), Chapter 1.3 (Page 6)

Question 4

Your scheme is considering changing the design of their pension scheme. Prepare a note that explains 'Collective Money Purchase Pension Schemes' and the legislative framework that covers it.

(10 marks)

- Few candidates were able to achieve high marks, which was disappointing.
- Several candidates showed no understanding of the nature of a Collective Money Purchase Pension Schemes. For example, a fundamental feature of Collective Money Purchase Pension Schemes is that when the member elects to draw their benefits they will be based on their share of the collective fund, the amount of which may be targeted but is not guaranteed as the value of the fund varies with investment movements. Relatively few candidates were able to state this.

The relevant section of the study manual - Part 6 (Current issues), Chapter 4.6 (Page 161)



Question 5

Prepare a brief note on Attachment Orders/Earmarking

(10 marks)

- Most candidates demonstrated a certain level of understanding, but few provided sufficient detail to score good marks.
- The absence of a clean break and the fact that the ex-spouse will have to wait until the member decides to take their retirement benefits was missed by many candidates, as was the need for the ex-spouse to maintain contact with the scheme.

The relevant section of the study manual - Part 3 (Other relevant areas of law), Chapter 1.2.1 (Page 91)

Question 6

Draft a briefing paper that explains the "Pensions Act 1995 and the Investment Regulations 2005" when trustees exercise their investment powers.

(20 marks)

- Poorly answered question with few candidates demonstrating any real knowledge.
- Basic points such as the need to invest assets in the best interests of the members, to diversify and to avoid undue risk exposure were missed.

The relevant section of the study manual - Part 2 (Trust Law, The Role of Trustees and Establishing a Trust-Based Pension Scheme), Chapter 2.11.3 (Page 62)

Question 7

List the various ways in which the money purchase annual allowance can be triggered by an individual

(5 marks)



- Answers were varied.
- Some candidates produced good answers covering most of the ways in which an individual can trigger the MPAA, whilst others failed to identify any at all.

The relevant section of the study manual - Part 1 (The Taxation and Regulation of Retirement Provision), Chapter 1.4 (Page 11)

Question 8

Describe the support provided for Master Trusts

(10 marks)

- Poorly answered question.
- Candidates were required to describe the voluntary assurance framework developed by TPR and the ICAEW, and the publicly available list of Master Trusts that have the independent assurance but very few were able to do so.

The relevant section of the study manual: Part 5 (Governance), Chapter 1.9 (Page 142)

Generally, candidates are reminded to:

- Candidates should ensure they understand the structure of the course and CU2 syllabus
- Read questions carefully to determine which area of the study manual is being examined.
- Take note of instructive words given in the question – for example “list” indicates that a list of key items is required, rather than a block of descriptive text.
- Note that the number of marks available can be used to indicate the level of detail required in an answer.
- Take advantage of any bonus marks available.
- Avoid spending too much time providing information which has not been asked for, or which is not described in similar detail in the Study Manual.



Core Unit 3 - Running a Workplace Pension Scheme

This was the first sitting of the exam in its new format with no multiple-choice questions. Just over half of the learners that sat the exam scored more than the pass mark of 65. There were seven questions on the paper with the marks available for each question varying from 6 to 20. The questions asked, available marks and details of the points examiners expected learners to include are detailed below.

Question 1

List the conditions a member must satisfy to have the right to require a scheme to pay an Annual Allowance tax charge. (6 marks)

Points to be included:

Annual Allowance charge liability for the tax year must exceed £2k
Pension Input Amount for the year must exceed the Annual Allowance
ie £40k - the tapered Annual Allowance is ignored
Member must make the request as an irrevocable election
Prescribed form received by scheme on / before deadline
Deadline is 31/7 after end of following tax year
eg by 31/7/23 for charge arising in 21/22

The relevant section of the manual was Section 4, Chapter 1.5, Page 92

Question 2

Outline the reasons why real time investment switching is not a standard approach for DC schemes. (15 marks)

Points to be included:

Technology solutions can be costly
Trustees / managers wary of members making a decision and it being implemented without administrators first having sight of the action due to:
- worry member may not understand dealing cycle eg time out of market
- members may not understand that request has to be made by a certain cut off point or that day's cycle is missed
- members may not understand the price they see on the screen may not be the price used for the deal
- Trustees could be charged per transaction and unlimited switching could increase admin costs
Technology is a major barrier:
- Interfaces between administration systems and investment dealing systems are rare and where they exist often only work if different funds are on same platform
- unwillingness to take responsibility for building or paying for integration between platforms although advent of straight through processing is changing this



- | |
|--|
| - until recently no industry standard means of communicating electronically between administration managers and different investment platforms |
| - members may not have internet access |
| - members may lack confidence in making decisions this way |

The relevant section of the manual was Section 1, Chapter 4.4.2, page 17

Question 3

Trustees must carry out specific checks before they process a member's statutory request to transfer their pension savings to another pension arrangement. This includes a check for the presence of amber or red flags. List the flags trustees must check for and outline the actions they should take if one or more flags are present. (15 marks)

Points to be included:

Red flags
Member has failed to provide the required information
Member has not provided evidence of receiving Money Helper guidance
Evidence someone has carried out a regulated activity without the required regulatory status
Member requested a transfer following unsolicited contact
Member has been offered an incentive to make the transfer
Member has been pressured to make the transfer
Amber flags
Member has not demonstrated an employment or residency link
High risk or unregulated investments are included in the scheme
The schemes investment structure is unclear, complex or unorthodox
Overseas investments are included in the scheme
A sharp, unusual rise in transfers involving the same scheme or adviser
Actions
If one / more amber flags the trustees must direct the member to Money Helper for guidance before the transfer can proceed
If member still wishes to go ahead trustees should record the members decision and arrange to pay the transfer
If one / more red flags the trustees must refuse the transfer and notify the member within 7 working days of their decision

The relevant section of the manual was Section 6 Chapter 3.3.2 Page 139.

Question 4

Identify the criteria that must apply for a contract based scheme to be treated as a qualifying scheme for automatic enrolment. (10 marks)

Points to be included:

There must be an employer contribution
--



Overall contributions must be at least 8% of qualifying earnings
The employer contribution must be at least 3% of qualifying earnings
There must be a default investment fund
Charge for default fund can't exceed 0.75% of value of fund
UK schemes must be subject to FCA regulation
Operations for UK schemes must be carried out by a person authorised under Section 19 of Financial Service Market Act 2000
Only DC benefits may be provided
There must be a legally binding obligation on the employer to pay minimum contributions in respect of the jobholder to the provider
Direct payment arrangements must exist for the employer to collect and pay over contributions to the provider

The relevant part of the manual was Section 2, Chapter 1.2, Page 22.

Question 5

List the items that must be included in a trustees' report and accounts to comply with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. (14 marks)

Names of trustees during the year
Provisions of the scheme
Number of beneficiaries and active, deferred and pensioner members
For DB % increases (on top of legislative requirements) during the year to pensions in payment and deferred pensions
Plus statement confirming whether the increase was discretionary
Names of trustees, professional advisers, bank custodians and other persons / organisations who have acted or were retained by the trustees during the year together with any changes since the previous year
Statement whether accounts have been prepared and audited in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a statement from the Auditor) Regs 1996
Details of who has managed the investments of the scheme during the year
A copy of the statement made on the resignation or removal of the auditor or actuary and made in accordance with the regulations made under section 47(6) of the 1995 Act
For DC schemes a statement which the trustees are required to prepare in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996

The relevant section of the manual was Section 5, Chapter 2.1.1, Page 112.

Question 6

List the information that must be included in the notice informing members and beneficiaries that the winding up of their scheme has commenced. Outline the key activities that DB and DC schemes should complete within 2 years of the wind up date. (20 marks)



Info to go in initial notice
Reasons the scheme is being wound up/date of wind up
Statement to active members on whether death benefits will continue to be provided
Inform members whether an independent trustee has been appointed
Name and address for further enquiries
Activities to be completed for DB
Calculate whether there is a s75 debt on the employer
If there is serve that debt
Obtain terms from insurance companies to secure benefits for pensioners and non-pensioners
Allocating available assets to members in accordance with the statutory priority order
Issuing options to non-pensioners
Paying benefits in line with options exercised
Securing benefits
Providing details of benefits that have been secured with an insurer
Conducting a final actuarial valuation
Obtaining final audited accounts
Activities to be completed for DC
Receipt or recovery of all member / employer contributions due from the employer
Establishing that all pensioner members have annuity policies set up in their own name providing the correct scheme benefits
Production and sign off of final accounts, accounting for and reconciling all assets / cash held in trustee bank accounts and investment manager / provider accounts
Establishing that all other beneficiaries have been identified, fund values determined, secured and statements issued
Providing options to members

The relevant section of the manual was Section 6, Chapter 2.3, Page 131 & 132.

Question 7

Describe the two main types of lump sum death benefits and outline the checks required by HMRC.
(20 marks)

Two types
Defined benefits lump sum death benefit
Includes lump sums based on multiples of earnings, service or another factor eg balance of a guarantee on the death of a pensioner
An uncrystallised funds lump sum death benefit
ie a lump sum paid from DC on death of active or deferred member
HMRC checks
Payment of relevant lump sum death ben where member is under 75 is a BCE
Value must be tested against members available Lifetime Allowance (LTA)
Payment is tax free unless LTA is exceeded in which case a LTA charge applies to the excess (for 23/24 charge is at marginal rate of income tax reference to either scored marks)
Tax charge is payable by the recipient of the lump sum



**Pensions
Management
Institute**

Moving pensions forward

So scheme pays lump sum gross
Scheme administrator must inform members legal representatives of the amount and date of payment of lump sum
Together with % of standard LTA used up
Must be done within 3 months if final lump sum being paid
Legal personal representatives are responsible for testing the lump sum death benefits against the member's available LTA and reporting the excess amount to HMRC
HMRC will notify the recipient of the LTA charge (or for 23/24 income tax charge) to be paid
Benefit must be paid within 2 years of earlier of:
- day Scheme Administrator first knew of the members death
- day Scheme Administrator could first of reasonable known about the members death
If paid after the 2 year period there will be a tax charge

The relevant section of the manual was Section 3 Chapter 4.2 & 4.4 P70 & 71

Core Unit 4 - Financing and Investing for Retirement Provision

Question 1

Describe the various objectives of a decumulation strategy for a DC plan including how they can be met by an annuity or drawdown or a combination of the two. (20 marks)

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

Candidates should have mentioned objectives of providing an income for life, value for money and inflation protection. Marks were available for explaining that an annuity meets the objective of an income for life but drawdown runs the risk of running out of money. In terms of value for money, candidates should have noted that annuity purchase is perceived as not meeting this objective on early death but the position is different if the member lives longer. Marks were available for noting that this may be undervalued as longevity is generally underestimated. Candidates should also have noted that drawdown allows payment of the residual pot to beneficiaries on a member's death and that impaired life annuities are available. Marks were available for noting that an increasing annuity provides protection against inflation but has high costs and that management of drawdown to address inflation protection depends on individual risk tolerances. Some candidates mentioned mortality drag which increases with age if drawdown is used initially and an annuity bought later. Good candidates also gained marks for noting that investment strategy should be planned in advance to meet the objectives, and that market movements may be unfavourable.

Question 2

List the sections normally included in a typical IMA. (10 marks)

The relevant section of the study manual was Section 6, Chapter 2.2.

This question was very straightforward and was answered well by candidates who had studied the relevant part of the manual. However, some candidates clearly had not and listed matters which are contained in different documents but do not form part of the IMA. Candidates are reminded that when asked for a list they do not need to include lengthy descriptions for which no marks are available.

Candidates should have listed specific investment guidelines, authorisation procedures, restrictions on management, delegation and use of agents, conflicts of interest, dealing and derivatives, voting and corporate actions, fees and expenses, confidentiality and data protection, risk management and custody.

Question 3

Outline the considerations that are relevant to the assessment of employer covenant and describe the ways in which the strength of the covenant can be improved. (20 marks)

The relevant section of the study manual was Section 3, Chapter 1.1.

The examiners were looking for candidates to note scheme size relevant to that of the employer, profitability, cash flow and the employer's ability to generate cash for the business and scheme and balance sheet issues, including the availability of assets to fund any shortfall on insolvency as considerations. Many candidates answered this part of the question well, although answers describing the ways in which employer covenant can be improved were on the whole confused and lacking in detail. Candidates are reminded of the need for precision in their answers. Marks were available for noting that covenant could be improved by a charge over assets such as land or buildings which allows the trustees to take ownership of the asset in certain circumstances. Candidates should also have described a parent company guarantee, from an entity which has no legal obligation to finance the scheme, which obliges it to provide support up to a specified level in the event of insolvency of the employer or if the employer is unable to meet its funding commitments. Good answers also described the operation of an escrow account which is a separate account to which the trustees have access only in certain specified circumstances such as employer insolvency.

Question 4

Explain what is meant by hedging and hedging ratio when discussing LDI. (5 marks)

The relevant section of the study manual was Section 3, Chapter 2.

This question was very straightforward and those candidates who had studied the relevant part of the manual did well. Many responses were however disappointingly confused. The examiners were looking for a statement that hedging is the purchase of an investment to limit the financial risk and potential loss associated with another purchase, that it is akin to insurance, and that there is a cost associated with controlling the risk. Candidates should have explained that the hedging ratio indicates the extent of interest rate and inflation risk hedging in a scheme, with 100% being fully hedged and 50% representing half the scheme's liabilities (not half its assets) being hedged.

Question 5

Define the FCA and list its objectives. (5 marks)

The relevant section of the study manual was Section 5, Chapter 1.1.

This question simply required candidates to state that the FCA is the Financial Conduct Authority which is an independent non governmental body with strategic and operational objectives to ensure relevant markets function well, secure an appropriate degree of protection for consumers, protect and enhance the integrity of the UK financial system and promote effective competition in the interests of consumers.

Question 6

Describe what a buy in is and how it differs from a buy out. (10 marks)

The relevant part of the manual is Section 3, Chapter 2.7.

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 a buy in involves the purchase of a bulk annuity contract by trustees and that members remain members of the scheme, that the insurer makes payments to the scheme and that immediate and deferred annuities can be bought. Marks were available for noting that a buy in is a scheme investment which protects against longevity, interest rate and inflation risks but ties up scheme money which could otherwise be used to pursue higher returns. Most candidates also gained marks for explaining that on buy out annuities are purchased in the members' names rather than in the trustee name so that members cease to be scheme members. Some candidates also gained marks for noting that the cost of buy out is partially dependent on the quality of scheme data.

Question 7

List the four methods which investment professionals use to value a share price and describe how these are calculated alongside other key features. (15 marks)

The relevant part of the manual is Section 2, Chapter 1.4.

This question was not well answered and it appeared that many candidates had not studied the relevant part of the manual. Candidates are also reminded of the need to consider the number of marks available when answering a question. The four methods are return on invested capital, price to earnings ratio, dividend yield and price to book ratio. Marks were available for providing further information, including that return on invested capital is calculated as profit divided by capital; price to earnings ratio is share price divided by historic or prospective earnings per share, judged relatives



to companies in the same sector and that higher ratios indicate either the shares are overvalued or that growth prospects are thought to be higher; dividend yield is dividend per share divided by share price and that a higher yield suggests a more attractively valued stock assuming dividend payments are sustainable; price to book ratio is share price divided by net book value per share and compares the share price with break up value.

Question 8

Describe what a bond is. (5 marks)

The relevant part of the manual is Section 2, Chapter 2.1.

All that was required to gain full marks on this question was a clear description including that a bond is a type of IOU issued by government or large companies to borrow money. Candidates should have noted that the investor provides capital for an agreed period and receives a specified rate of interest, or coupon over that period, with the capital repaid by the bond issuer as a redemption payment at the end of the period. Marks were also available for stating that a bond can offer a steady income stream plus security of capital if held to maturity, and that bonds can offset short term volatility of shares when used in a portfolio.

Question 9

Outline what the Retirement Living Standards are. (10 marks)

The relevant part of the manual is Section 4, Chapter 1.1.

Candidates who had studied the relevant part of the manual were able to gain marks for stating the standards were proposed by the PLSA based on research setting out the level of income required in retirement. Marks were available for noting that there are three standards: minimum, allowing participation in society but with little flexibility or choice, moderate allowing a lifestyle with some freedom and comfortable, with the ability to enjoy additional comforts. Many candidates noted the moderate level set at £20,800 per year for a single person outside London and that the amount varies for couples and in other regions of the country. Candidates are reminded of the need for accuracy when providing figures – no marks were awarded for stating an incorrect amount.



Defined Benefit Arrangements

Fewer candidates than normally took the DBA exam this session. Out of a total of 13 entries only 6 passed. These are very disappointing results. However, the top mark was 83% which indicated that with due diligence and application a high mark was possible. Some candidates did not answer certain questions at all, only gaining the format marks, indicating that they just had not learned the material required. Always learn the entire manual as you never know which section is going to come up and a small section although not worthy of a full question might be incorporated as part of a larger question.

Question 1 - Discuss the options available to employers and the trustees when restructuring a scheme to control future costs.

This question carried no format marks as it was simply a matter of discussing the options available. In many cases, it was well answered too. Areas that were frequently omitted included the cost of running a Defined Benefits scheme, the need to consult with advisers, reducing benefit increases to control costs, buy-out options, purchasing annuities, auto-enrolment plus closing schemes to new entrants. In a few cases incorrect facts were included so please learn the material carefully.

Question 2 - Set out the process followed and the reason for this, when a scheme undertakes its Annual Renewal in a letter format to a newly appointed trustee.

This question required a letter format which was complied with in all cases. Well done for following the format required. This will always earn you bonus marks. Mixed marks were scored. Areas omitted included information on the renewal process, types of reconciliations, temporary absence, maternity, paternity, and adoption leave.

Question 3 -Draft an email to the trustee board explaining actions trustees should take under Myners Investment Principles.

This needed to be in email format which most candidates pleasingly complied with. If a candidate had thoroughly learned the material it was a very straightforward question just needing to explain the principles involved. Some candidates had not learned the material with a few not even attempting the answer. Others included facts that were unrelated to the Myners' Principles. Facts that should have been included were effective decision-

making, clear objectives, performance assessment, risk and liabilities, responsible ownership, and transparency and reporting.



**Pensions
Management
Institute**
Moving pensions forward

Question 4 - In relation to the insolvency of the principal employer, explain the protection of assets from creditors, what actions can be taken in relation to relevant contributions, and the role of the Pension Protection Fund and Financial Assistance Scheme

No Specific format was requested. Sadly a large number of facts were omitted here with generally low marks obtained. Areas that needed including were arrears of contributions, protection of assets from creditors, and details on the PPF and FAS



Defined Contribution Arrangements

Question 1 Write a letter to a new trustee who is very concerned as to the impact of Money Laundering on pension schemes. You will need to analyse the impact to set his mind at rest.(25 marks)

This was very poorly answered. Most candidates wrote a letter, but many omitted any other points. Items to be covered included the liability to tax, why registration is important and the implications of not registering, and what records need to be kept by the trustees.

Question 2 Identify the main features of Unbundled Trusts, Bundled Trusts, Master Trusts, and Contract-based Schemes. (25 marks)

Most candidates covered investment control, administration, and communication in relation to the different types of trust. but many candidates omitted the tax reliefs available and what advisers need to be appointed.

Question 3 The Chairman of the Trustees of ABC Limited has asked you to explain the requirements for a Statement of Investment Principles (SIP) including what it must contain. Write a paper explaining these. (25 marks)

For those candidates who scored well this answer was pleasingly answered. However other candidates omitted default funds, the SiIP reviews required, trustee investment advice required, and the different investment processes.

Question 4 4 (a) Explain the following:

Multi Manager Funds (6 marks)

Target Date Funds (6 marks)

4 (b) Explain the role of Pensions Wise and the application of Risk Warnings on retirement. (13 marks)

A well-answered question by many candidates. Although additional detail was needed for multi-manager funds and few candidates covered lifestyle under target date funds.

Reward and Retirement Provision

This year's paper comprised of five questions, four of which required the answer to be in a particular communication format, either a report, briefing paper, summary or an email. However, there were many learners who either failed to adopt the required format or made a poor attempt and so valuable marks were lost. Learners will typically come across these formats in their day-to-day work and wider reading and so they should not present any difficulty to replicate in an examination.

The overall standard was very poor and so the pass rate was disappointingly low for this year.

There was a general inability to recall much of the detail required to obtain at least a reasonable mark for each question. Many learners seemed confused as to which particular section of the manual they should have been focusing on in answering each respective question.

Question 1

This question carried the highest marks and required the answer is a report format. Overall, many learners obtained reasonable marks and were able to provide much of the detail requested. However, formatting marks were lost as very few learners were able to provide an answer in this format.

A number of points often omitted included:

- New benefits could be offered at little or no additional cost to employer
- The cost of providing a benefit to an employee can vary hugely from the perceived value that the employee puts on the benefit
- Shortages of skilled staff have led employers to enhance the effectiveness of reward package
- A flexible benefits scheme needs to fit organisation's culture and reward strategy and support the company's strategic objectives

The relevant section of the Tuition Manual was Section 3, Chapter 2 - 2.2 - 2.4.4.

Question 2

Learners who could recall details of the two types of unapproved share plans - an unapproved share option plan and a restricted share plan, without confusing them with the other types of share plans available, gained reasonable marks. However, many learners were not clear on the differences and omitted much of the detail required.

For some learners the first part of the question, asking for reasons why a company would need to operate an unapproved plan, was not well answered. Points omitted included:

- Tax free limit under approved plans being too small
- No allowance for any discretion or performance related payment



- The implication of capital gains for executives and tax-free annual allowance typically being utilised in respect of other personal investments

Most learners appreciated the limit of £30k under approved share option plans. The formatting of a briefing paper for this question was poor and hence marks were lost.

The relevant section of the Tuition Manual was Section 3, Chapter 1 – 1.5.

Question 3

This question required a straightforward summary setting out the relevant detail around the introduction of keyman insurance cover. A number of salient points were missed:

- Types of cover, ie purchased individually or as a package
- Cover is also known as ‘Economic Death Insurance’
- Medical information may be required for underwriting
- Financial underwriting is necessary

Learners were typically able to recall a good selection of key personnel who would likely be covered for this benefit.

The relevant section of the Tuition Manual was Section 2, Chapter 2 - 2.9.1.

Question 4

This question was reasonably well answered and learners provided much of the detail required including the weekly pay cap and the maximum amount of statutory redundancy pay.

Points missed included:

- Pay during Notice Period is set out in Employment Rights Act 1996 (ERA96) – Sections 87-91
- Pay in lieu of notice requirements.

An email format was requested and most learners achieved this. The relevant section of the Tuition Manual was Section 1, Chapter 1 - 1.2.9 - 1.2.10.

Question 5

Learners were generally able to recall many of the salient points relevant to the introduction of salary sacrifice to a DC pension arrangement and so gained a reasonable mark for this question. Several points were either poorly covered or missed:

- Take up is key to an effective salary sacrifice arrangement
- Salary sacrifice is impacted by employment law rather than tax law
- Short service refunds and refunds of contributions on death in service
- Reference to Auto-enrolment

However, other areas such as the relevance of salary definitions was reasonably well covered including the impact on state benefits and the National Minimum Wage and National Living Wage.



The relevant section of the Tuition Manual was Section 3, Chapter 3.5 - 3.8 & 3.10.

Managing International Employee Benefits

Summary

The original script of five questions was re-considered to include only two questions, in order to ensure alignment with the curriculum material established for the Spring 2023 exams session. The overall outcome of the exam session is that out of eight candidates, three were marked as passes.

The Examiners observed that the overall the quality of the submitted scripts was somewhat inconsistent, with some answers however reflecting a deeper subject matter knowledge, acquired both through having studied the curriculum and through personal research into the matter.

It is also to note that some candidates did provide a script for the remaining questions not included in this session. These scripts have been marked but are not part of the final calibration.

Question 2 – 15 marks
Discuss the different methods of funding Defined Benefit pension plans in the United Kingdom, United States, Switzerland and Germany.
Examiners Comments: The general quality of the response was quite poor, in that several key features were not captured in the answers.
Some responses indicated only a partial understanding of the question, or a focus on content not relevant to the question (eg. Responses focusing on DC rather than DB funding methods).The structure of the responses was poor in all but one responses.
Study Manual Part 5, Chapter 1.2, page 69, 70

Professionalism & Governance

As the final exam in the PMI Advanced Diploma, and the route to Fellowship for other pathways, Professionalism & Governance has high expectations of learners. As stated in the qualification specification, the “aim of the Advanced Diploma is to provide the required professional knowledge, skills and understanding for an individual to undertake, after sufficient experience, a position as a pensions specialist”. It’s designed to be a challenging qualification and at a Level 6 is equivalent to undergraduate study.

The Advanced Diploma is tested through case studies and scenarios, which can be based on the Governance and Professionalism Manuals, the PMI Code of Conduct (the Code) and also highly topical subjects. The Communications Manual supports learners’ understanding of how to frame the format of their answer, but also includes information relevant to the exams. Learners should note the breadth of knowledge required to be able to gain sufficient marks to pass the Professionalism & Governance Module. They are, and will be, expected to have a sound understanding of highly topical issues in the pensions sector. Additional reading is essential to gain sufficient knowledge to pass this exam.

The exam is now established online, which is more akin to the way people engage with their working day. Regardless of the way learners complete their exams, they should always review their answers for technical accuracy, readability, spelling and grammar. Unfortunately, this does not appear to happen. Learners should note, there is no automatic correction capability within an online exam portal. Mistakes dilute clarity and impact on the communication marks awarded. Learners need to remember to incorporate sufficient time to fully read through their answers before submitting their exam to the portal. Good exam time management and adequate planning is key to this. Even online, learners can develop a plan to help them. If it’s headed as such, it can be included in the section available for the answer and can be used by the examiner to evaluate for marks if learners run out of time.

Question 5 – 20 marks

Describe the principle, mechanics, advantages, and disadvantages of multinational pooling of employee benefits plans.

Examiners Comments:

The general quality of the responses was better, indicating more familiarity with the topics and a degree of working or prior subject matter experience.

Responses were generally more articulate and contextualized.

One common denominator however was the generally poor structure of the scripts, which made for a less clear enunciation of the responses.

Study Manual Part 6, Chapter 1, page 87, 88, 89, 90

The Code is the core behavioural guide for all PMI members and a copy is included in the Professionalism Manual. This Manual gives examples of situations where learners would need to



draw on the Code to know how to act. However, they still need to know and understand technical aspects to answer any question fully. When learners are asked questions on the Code they are designated a role and need to develop their answer from this perspective e.g. Team Leader, or Manager. The role gives learners clues as to how they are expected to approach an issue i.e. a manager will be expected to take ownership of a problem, solving any immediate impact and looking to the long term.

Question one is a long case study where learners are asked to apply technical information to a given situation, and in a specific format. Learners are assigned a role and an objective. Their answer must be appropriate both to their assigned role e.g. Pension Manager, consultant etc and their objective, e.g. to train, to inform etc through the specified format. Question one carries 60 of the total marks available, 48 for demonstrating technical knowledge and 12 for fulfilling the role and objective through communication. There are always more than 48 technical marks available to allow for learners' interpretation of the question.

At this level, examiners are looking for strong knowledge of material, plus how well this knowledge is conveyed. The exam paper shows how many marks are allocated to each question, which provides a guide to the learner as to the depth of the answer required. Nevertheless, questions can be answered in any order. This sitting produced only a moderate level of passes, which was disappointing.

Question 1::

You are the Communications Manager for a large defined contribution master trust. The trustees have asked you to draft a report briefing them on how they can deliver their compliance led scheme reporting to members in a way which is more likely to lead to engagement.

Your report should cover:

- **The rationale for creating better communications to schemes and how this relates to compliance reporting.**
- **Assess the main compliance reporting statements, what they include and why.**
- **Conclusions and recommendations for the trustees to take forward.**

(48 technical marks, 12 format/communication marks. Total 60 marks)

Learners largely framed their answers in the format required, which was a Report, and scored well on the format and communications part of the question. The elements needed are listed in the Communications Manual. However, no learner included all the elements.



The technical detail for this question was contained on pages 9, 10, 11, 27, 33, 39, 63-65 and 76 of the Governance Manual. Therefore, learners who had read and understood the Manuals should have been able to gain adequate marks to contribute to a pass. This year learners picked up marks for the headline parts of the answer, but then failed to include relevant and sufficient detail – particularly around the main compliance reporting statements and what they should include. A number of learners gave the broad elements but not enough detail to gain the marks available. Very few learners identified TCFD Reporting or VFM, despite these elements being highly topical. Conclusions and recommendation were also generally weak, and lacked sufficient detail required at this level to pick up fuller marks. A number of learners spent a significant amount of effort discussing the rationale for better communications despite there being more marks available setting out the compliance reports, which suggested that they did not plan their time effectively. Learners should bear in mind in a three-hour exam, a question worth 48 marks will require significant relevant detail. When reviewing their answer, they should ask themselves whether the amount of detail they have included is capable of earning 48 marks.

The remaining 40 marks for the exam were gained from three shorter questions. Where questions are taken from the syllabus, they can be broader than the Governance Manuals. These and topical issues cover aspects of the industry anyone working in pensions would be expected to know something about – regardless of their seniority. The marks available for these types of questions are generally technical. When answering a Code related question, learners need to be familiar with the Code and its structure so they can recall which area(s) a particular scenario relates to. The number of marks available are given for every question. A mark is generally (but not always) given for the section reference of the Code and the clause. Learners need to think about what behaviour they should exhibit in each circumstance and what would need to be done to resolve the issue at hand. They need to take responsibility for the scenario they are presented with. To ensure they do not become side tracked, learners should read the questions carefully. The short questions were:

Question 2

- a) Discuss the importance of professionalism for PMI in embedding and promoting best practice in professional standards and the role of the Code in achieving this.**
- b) Identify why confidentiality is a critical component to professionalism and describe why this is the case.**

(13 total marks)

The information relevant to this question was drawn from the foreword and introduction in the Professionalism Manual. Most learners picked up the general themes required in answering the question, but lacked the detail required to score well. Few learners identified that it is important that all PMI members abide by the code and exhibit the highest professional standards, that this includes treating all people fairly, and that people known for maintaining a high level of ethical and



professional standards are typically highly valued. Only a minority of learners identified that a breach of the PMI code of conduct can result in expulsion from the PMI.

This question also asked about the importance of confidentiality. Very few learners identified that this is key to organisational risk management and to personal and professional liability, so missed out on fuller marks. Similarly, few learners highlighted that confidentiality can be particularly challenging when information is required to be shared more widely, the key point being for the learner to identify the need to think beyond one's own actions and responsibilities.

Question 3

You are a contractor brought into project manage an investment switch for a large defined contribution (DC) scheme. An agreed part of the project was a global unit reconciliation between the investment manager and the administration system. This identified a shortfall in the units held by the investment manager with a value of £10,500. No analysis to identify the reason for the discrepancy has been conducted yet. When you raised this with the pension manager, and your immediate report, their response was to make this shortfall up by buying additional units using the money held in the trustee reserve account. This worries you as you believe the underlying reason for the issue should be understood and you also know the pension manager only has authority to authorise payments up to a value of £5,000.

- a) **What actions should you take and why?**
- b) **What are the relevant sections of the Code?**

(15 total marks)

Overall, this was the best answered question of the exam paper, and the relevant information was drawn from the Professionalism Manual, pages 12 and 32, case study K. Unfortunately, with only 15 marks available, this was not always helpful. Most learners picked up that a root cause investigation would be needed, and correctly identified that as a contractor the matter should be referred internally to an appropriately authorised person. More marks would have been gained if learners had also identified the importance of taking into account the requirements of DC governance regulations and TPR's DC code of practice.

The relevant sections of the Code were:

3.3 – conducting their professional work with proper regard to their technical and professional standards

3.5 – acting in compliance with all relevant statutory regulatory and other legal requirements



Question 4

You are the Service Delivery Manager for a large scheme. One of your team has come to you very upset because a beneficiary they've been dealing with on a death case with has been very abusive to them on the phone ended the call. The administrator has asked you to call the person back and tell them their behaviour is unacceptable.

- a) What is the optimum way of resolving the issue?**
- b) What are the relevant sections of the Code?**

(Total 12 marks)

The information relevant to this question was drawn the Professionalism Manual, pages 5 and 25, case study D. Most learners identified that it is important to gather the facts before acting and understood the importance of dealing with the matter sensitivity, which involves talking to the team members and asking to hear the call if the organisation operates a call recording system. Disappointingly, few candidates identified the importance of following any internal process for complaints and to check the organisations policies to make sure the approach taken follows formal procedures, and in what circumstances the trustee of the scheme would require notifications.

The relevant sections of the Code were:

- 3.3 – conducting their professional work with proper regard to their technical and professional standards
- 3.5 – acting in compliance with all relevant statutory regulatory and other legal requirements
- 4.1 – take all reasonable steps to obtain all the information necessary to form a judgement
- 4.3 – behave in a manner consistent with the obligation to act impartially.

Learners who scored well picked up good marks identifying the relevant Codes, but some learners failed to answer this part of the question. It is not clear whether these learners ran out of time or didn't fully read the question.