REPORT OF THE
BOARD OF EXAMINERS

ADVANCED DIPLOMA IN RETIREMENT PROVISION
APRIL 2013
THE PENSIONS MANAGEMENT INSTITUTE

REPORT OF THE BOARD OF EXAMINERS APRIL 2013

Introduction

The purpose of this report is to review candidates’ performances in the nine modules examined in April 2013.

Performances for April 2013 were particularly good in modules 204 Defined Contribution (Trust & Contract) Arrangements and 306 Retail Investment Advice and Regulation. The modules with the lowest pass rates were 302 Management, Risk and Governance and 304 Explaining Pension and Benefit Matters. In all modules some candidates showed a particularly high standard.

When marking, examiners give marks for relevant facts. They also give marks for showing that candidates have understood the subject and, where appropriate, that they can apply it to the question asked. They also give marks for communication. The emphasis on understanding, application and communication increases further with the later modules.

In all modules, the examination questions are designed where possible to cover a wide range of the syllabus. Candidates therefore need to have reviewed all the study material. They should also ensure they study any appendices which form part of each manual. Distance learning courses and revisions courses are recommended. Past examination papers will be useful and are available on the PMI website.

Examination questions are also drawn up where possible with an emphasis on the industry today. So extra reading will benefit candidates, particularly on the topics that are concerning the industry generally in the current environment. This is particularly true of the later modules. With difficult questions that may seem a bit daunting under examination conditions, some guidance is often given within the question on what is expected.

Candidates may be interested in knowing how the marking process works. The examiners are qualified members of PMI with broad experience in the industry. There is a separate group of examiners for each module. They produce a marking schedule for each question, and then they mark some sample scripts and refine each of their marking schedules. Each script is marked twice completely independently. The examiners for each module recommend a pass mark for their module based on the scripts submitted, above which they feel the candidates have demonstrated a knowledge and understanding of the subject worthy of a pass. All scripts near the pass mark are reviewed again, question by question and mark by mark, at an examiners meeting, to ensure that the candidate receives every mark warranted. A moderator looks at a selection of scripts from all the modules to ensure consistency, and adjustments to the pass mark can be made in a final Board of Examiners meeting, taking account of the moderator’s comments.
The table below summarises entries and performances across the modules.

<table>
<thead>
<tr>
<th>Module</th>
<th>Entries</th>
<th>Absent / Withdrawn</th>
<th>Number of Scripts</th>
<th>% Pass</th>
</tr>
</thead>
<tbody>
<tr>
<td>201</td>
<td>101</td>
<td>15</td>
<td>86</td>
<td>52</td>
</tr>
<tr>
<td>202</td>
<td>25</td>
<td>5</td>
<td>20</td>
<td>60</td>
</tr>
<tr>
<td>203</td>
<td>71</td>
<td>6</td>
<td>65</td>
<td>60</td>
</tr>
<tr>
<td>204</td>
<td>37</td>
<td>0</td>
<td>37</td>
<td>86</td>
</tr>
<tr>
<td>205</td>
<td>32</td>
<td>5</td>
<td>27</td>
<td>52</td>
</tr>
<tr>
<td>206</td>
<td>18</td>
<td>4</td>
<td>14</td>
<td>50</td>
</tr>
<tr>
<td>301</td>
<td>128</td>
<td>8</td>
<td>120</td>
<td>53</td>
</tr>
<tr>
<td>302</td>
<td>69</td>
<td>6</td>
<td>63</td>
<td>48</td>
</tr>
<tr>
<td>304</td>
<td>46</td>
<td>1</td>
<td>45</td>
<td>40</td>
</tr>
<tr>
<td>305</td>
<td>42</td>
<td>1</td>
<td>41</td>
<td>59</td>
</tr>
<tr>
<td>306</td>
<td>25</td>
<td>1</td>
<td>24</td>
<td>75</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Following the April 2013 examinations, 47 candidates completed the Advanced Diploma and 14 candidates completed the Retirement Provision Diploma. 40 candidates completed the Diploma in Employee Benefits and Retirement Savings examination and 6 candidates completed the Diploma in Regulated Retirement Advice. 31 candidates completed the new Diploma in Retirement Provision qualification.

The rest of this report looks separately at each module examined in April 2013. It gives a guide as to how the question paper overall and each of the questions were answered by candidates, an indication of what was required in response to the questions, and any common errors or omissions. Please note the April 2013 examinations were based on the 2013 syllabuses and on the law as it existed at 6 April 2012.

Module 201 – Providing for Retirement

This question paper comprised six questions. The intention was to tackle a broad range of topics within the syllabus and, in the majority of cases, candidates’ answers demonstrated evidence of having studied those aspects of the subject which were examined.

Candidates are reminded of the need to present legible answers. If the examiners struggle to read what has been written then marks that should have been awarded may be missed.

Question 1

As the pensions consultant for the trustees of XYZ Pension Scheme, write a paper for a new trustee who wishes to be briefed about the following aspects of the Pension Protection Fund:

(a) The eligibility criteria.
(b) The benefits provided.
(c) The way it is funded.

(20 marks)
In general, candidates’ answers to this question were good, and nearly every candidate demonstrated a good working knowledge and understanding of the Pensions Protection Fund.

In part (a), most candidates had a vague idea of the eligibility criteria but not a detailed understanding of the eligibility conditions which would have allowed them to score highly. Marks were lost by not explaining that the assets of the scheme had to be insufficient to buy out members’ benefits at the PPF level. A significant number of candidates confused the employer becoming insolvent with the pension scheme winding up. These are two distinct points.

Part (b) was very well answered with nearly every candidate able to give a full description of the benefits that the PPF will provide. Many, however, were unable to accurately state the amount of the cap.

Answers to part (c) demonstrated a modest understanding of the risk-based and scheme-based levies but very few candidates were aware of the additional levy to cover the administration of the PPF or that the total levy is subject to a ceiling. Few candidates mentioned that in addition to the levies, the PPF is funded from the assets of the schemes that enter the PPF and the investment income derived from those assets.

This question asked candidates to write a paper for a trustee, and a small number of marks were available for those who presented their answer in this way. Many candidates made no attempt to do this and so these marks were not available to them.

The relevant part of the 2013 study manual was Section 4, Chapter 3.3.

**Question 2**

Pension scheme trustees are required to disclose certain types of information. For each of the following, state who would receive the information, the circumstance in which it would be provided, and the time limits:

(a) Trust deed and rules.
(b) Basic information about the scheme.
(c) Information about individual benefit entitlement.
(d) Statutory money purchase illustration.
(e) Estimate of cash equivalent transfer value.
(f) Summary funding statement.
(g) Trustees’ annual report and accounts, including audited accounts.

(20 marks)

This question required precise knowledge of to whom information must be provided, the circumstances and the time limits for schemes to issue the information. Most candidates’ answers demonstrated a basic level of knowledge but provided little in the way of detail.

Answers were sketchy about who would receive the information, for example the fact that SMPIs only have to be provided to non-pensioner DC members with pension pots of £5000 or more, and estimates of CETVs have to go to active members of any schemes but only to deferred members of DC schemes. A number of candidates just wrote member throughout. Many candidates were confused about what information must be provided automatically and what must be provided on request, and many struggled with the time limits.

The study manual presented this information as a block table and it was clear that some candidates had not properly studied it.

The relevant part of the 2013 study manual was Section 1, Chapter 1.3.2.
Question 3

In the context of the new Auto-Enrolment provisions,

(a) Outline the transitional arrangements known as staging and phasing. (10 marks)
(b) Distinguish between eligible and non-eligible job-holders. (5 marks)

Most candidates scored highly on this very topical question. It was by far the best answered question, with a large number of candidates producing very detailed answers.

Staging was well understood and many candidates showed an awareness of the dates.

Phasing of DC contributions was also well understood. The government made changes to this in the past year and examiners awarded marks either for what was written in the study manual or for up to date information at the time of the examination. Relatively few candidates, however, referred to the phasing provisions for employers which still offer open DB schemes.

Most candidates were able to demonstrate some knowledge of the differences between eligible and non-eligible job-holders but many candidates could have received higher marks by providing greater precision in their answers. Few stated that 'job-holder' includes temporary and agency workers.

The relevant part of the 2013 study manual was Section 5, Chapter 3.2.

Question 4

(a) Outline the advantages of registering a pension scheme with HM Revenue & Customs. (10 marks)
(b) Outline the purpose and format of the Registered Pension Schemes Manual. (5 marks)
(c) List the types of organisation that can set up a registered pension scheme. (5 marks)

In part (a), most candidates were able to identify some advantages but in many cases detail was missing and this reduced the number of marks that could be awarded. Some candidates, for example, just wrote that contributions are paid tax free rather than stating that member contributions receive relief against income tax within limits (higher of 100% of earnings or £3600) and employer contributions will receive relief against corporation tax as long as they are incurred wholly and exclusively for the purpose of the company's business. Also, whilst most candidates made reference to tax relief on investments, few mentioned capital gains tax or the position with UK dividend income.

Answers to part (b) were in general the weakest, with many candidates demonstrating very little understanding of either the purpose or the format of the RPSM. All of the information was present in the study manual.

In part (c), nearly all candidates identified some of the organisations but very few identified all of the ones listed in the manual. Candidates only needed to write a list, so any additional detail was unnecessary and did not secure any more marks.

The relevant part of the 2013 study manual was Section 4, Chapter 1.1.
Question 5

Describe the remit and powers of

(a) The Pensions Ombudsman. (10 marks)
(b) The Information Commissioner. (5 marks)

Most candidates demonstrated a sound understanding of the Pensions Ombudsman with answers well focused on the question. Nearly every candidate, for example, was aware that referrals to the Ombudsman come after the internal disputes resolution procedure has been completed and after TPAS has looked at the matter. Marks tended to be missed where candidates did not provide sufficient information about how the Ombudsman handles complaints and disputes, and few referred to the complaint being behaviour which constituted maladministration causing injustice.

The second part concerning the Information Commissioner was less well answered, with very little depth of knowledge being shown, suggesting that the small paragraph in the study manual was not studied well. Some candidates fell back on the premise that the scheme had to be Data Protection registered and what that entails but that was outside the remit of the question.

The relevant parts of the 2013 study manual were Section 4, Chapter 3.2 for part (a) and Section 4, Chapter 3.8 for part (b).

Question 6

Describe the main features of insured and self-administered pension schemes. (10 marks)

There were few candidates who scored highly on this question. Few explained that employer and employee contributions are paid as premiums into a policy or policies issued by the insurance company. Many answered the question in terms of personal pension arrangements offered by insurance companies and did not seem aware that insurance companies also offer group occupational schemes.

A substantial number of candidates misread the question and gave details about small self-administered schemes (SSASs) rather than distinguishing between insured and self-administered schemes.

The relevant part of the 2013 study manual was Section 2, Chapter 2.2.

Module 202 – Legal Issues Related to UK Pension Arrangements

Entries were very low for this subject for the April exams with only 20 entrants, less than half entries for October 2012. Feedback is therefore more difficult on a smaller number of scripts. There were 6 questions set which covered a broad range of the syllabus and generally candidates were able to pick up good marks across all the questions. There was no one question that stood out as being particularly better or worse answered. However whilst candidates picked up marks for mentioning the relevant points the actual standard of how scripts are written was poor and handwriting remains a problem. Whilst marks cannot be taken off for this, candidates could lose out on marks if the examiner cannot read the script or if points are not written in a way that conveys an understanding of the subject.
Question 1

As Secretary to the Trustees, write a memo to your Trustee Board to remind them of the Trustee Knowledge and Understanding Requirements of the Pensions Act 2004 and the actions they need to take to comply. The memo should cover what is expected of new Trustees as well as ongoing requirements.

(20 marks)

The question was looking for the level of knowledge and understanding Trustees are required to have in order to undertake their role, the scheme documentation they need to be familiar with, timescales and ongoing assessment. Candidates scored good marks on this question and most put it into the required memo format, therefore gaining communication marks. Points generally not picked up were a mention that TKU also applies to corporate trustees and independent trustees.

The relevant part of the 2013 study manual was Section 1, Chapter 2.8.

Question 2

Outline the requirements Trustees should take into account when appointing an investment manager, including what should be included in the terms of engagement.

(15 marks)

The question was looking for what the Trustees need to look for in the investment manager they appoint in terms of knowledge and experience and compliance with pension regulations and regulatory bodies and what should be included in the written terms of engagement and requirements for reporting. Most candidates did pick up average marks on this question but many strayed away from what was in the relevant section of the manual for example by setting out what is included in the Statement of Investment Principles. Whilst relevant points were also included valuable time will have been wasted.

The relevant part of the 2013 study manual was Section 2, Chapter 3.5.

Question 3

Write notes on changes to participating employers of a pension scheme. Include reference to situations when this can arise and the requirements for admitting new participating employers and where they cease to participate.

(15 marks)

The question was looking for the circumstances under which a new employer might need to participate in a Scheme, e.g. because of corporate restructuring and the requirement for them to adhere to the rules of that scheme by a deed of participation or perhaps a rule amendment. Mention of decisions that the new employer will authorise the Principal employer to make on their behalf would also have scored marks. Equally where an employer ceases to participate a deed of cessation is required and an employer ceasing to participate can trigger a S 75 debt. Some candidates wrote about Scheme apportionment arrangements and withdrawal arrangements, which was not required.

The relevant part of the 2013 study manual was Section 2, Chapter 4.2.
**Question 4**

In the Context of the Statutory Funding Objective for defined benefit schemes, outline

a) How the methods and assumptions to calculate the schemes technical provisions are chosen. (15 marks)

b) The requirement for a Statement of Funding Principles. (5 marks)

There were a total of 20 marks available from this question and the relevant part of the study manual was Section 3, Chapters 1.3.1 and 1.2.

In the first part of the question we were looking for examples of the assumptions used in the calculation of technical provisions and requirement for them to be prudent, role of the trustees, actuary and employer in agreeing them and influences e.g. maturity of scheme, covenant. The second part of the question was looking for the fact that the Statement of Funding Principles documents the Trustees’ funding approach. This question was relatively straightforward and most candidates were able to pick up the marks on this. A couple of points that most candidates missed were the restrictions on the extent the Statement of Funding Principles can be changed from time to time and also that it normally needs employer agreement.

The relevant part of the 2013 study manual was Section 3, Chapters 1.3.1 and 1.2.

**Question 5**

XYZ is considering closing its defined benefit pension scheme to future accrual of benefits. Explain what this means, the implications and the formalities involved in a closure. (15 marks)

Some of the points required in the answer to this were around benefits ceasing to accrue, closure is usually initiated by the employer to reduce risk and cost and that the employer needs to give consideration to future pension provision taking into account auto enrolment and industrial relation issues. Points on the formalities of closure were also required such as by a Deed of Amendment or changes to contract of employment and if a S75 debt is triggered. Candidates gained average marks on this question with points missed being mainly on the reasons for closing, what future pension provision had to be offered and whether closure could trigger wind up.

The relevant part of the 2013 study manual was Section 2, Chapter 5.2.
Question 6

Describe the key stages of a Share/ Business sale in terms of:

- due diligence (including gaining an understanding of the Targets pension arrangements) (10 marks)
- negotiation, signing and completion. (5 marks)

Quite a few candidates went into descriptions of the difference between share sales and business sales whereas the question was asking candidates to focus on the due diligence, negotiation, signing and completion aspects. Points to mention on due diligence were that the buyer will instruct its advisers to undertake investigations into the targets financial position, property and the type of pension arrangements in place including the funding position and how the scheme is run. On negotiation, signing and completion the relevant points should include examples of some of the negotiations that might take place, terms of the sale once negotiated being set out in the Sales and Purchase Agreement, which will also include warranties and indemnities. Some candidates went into detail on what warranties and indemnities are, when only 5 marks were available for this part of the question.

The relevant part of the 2013 study manual was Section 4, Chapter 1.2.2 and 1.2.3.

Module 203 – Defined Benefit Schemes

This was a reasonably straightforward paper drawing from a wide area of the syllabus. On the whole, the paper was generally well answered. The marks spanned the whole spectrum but there were relatively few excellent papers with many candidates scoring marks around the pass mark.

Some candidates made little or no attempt to answer questions 2 and 4 in the format requested. This meant that they did not gain all or any of the marks available for format.

Candidates need to ensure that they answer the question actually asked and not waste time with points that are not required by the question.

Question 1

Describe the role of the Pension Protection fund in the event that an employer providing an occupational pension scheme becomes insolvent. Explain how the PPF is funded. (25 marks)

This question asked candidates to write about the Pension Protection Fund. Overall this question was the best answered with most candidates providing at least some of the points required. However few students mentioned that if the employer is insolvent this means the scheme is wound up. Students were unfamiliar with the actual cap figures for 2012/13 and some students confused the indexation of pension increases. The provision of dependants' benefits was often covered incorrectly or missed.

The relevant part of the study manual was Section 4 Chapter 4.9.
Question 2

A member has approached you with the news that he is getting divorced and has asked you to explain the different divorce court orders that the court can issue in respect of his pension.

Write a letter to the member describing the alternatives available to the courts and how the trustees will proceed.

This question asked candidates to write a letter in answer to a member asking about divorce. Most students put the answer in a format that resembled a letter but did not get full format marks as it was poorly laid out e.g. no headings, unclear text and lack of address. This was the second best answered question in the paper.

Many of the answers lacked the required detail. Few candidates failed to mention that with earmarking the pension ceases if the spouse remarries. Despite candidates knowing that the spouse could be offered membership of the scheme, few mentioned that a different membership category was required. Many included this as a requirement rather than an option for the Trustee. Most students did not mention the necessity to provide a CETV.

The relevant part of the study manual was Section 2 Chapter 2.5.

Question 3

(a) To control the future costs of providing defined benefits, employers may look to restructure the way benefits are provided. Detail the main options for restructuring a scheme. (15 Marks)

(b) Discuss the recent major development to pension provision and why this could result in employers reconsidering their benefit structure. (5 Marks)

(c) Public sector schemes are not immune to the impact of cost and new legislation. Detail the changes which the Government intends to introduce or have introduced. (5 marks)

This was the third highest scoring question. Many of the answers did not contain enough detail and excluded several of the main points:

In part (a) although candidates were aware of the methods of restructuring a scheme, most failed to mention that consultation was required. While candidates mentioned that the scheme could be closed to new entrants and to future accrual very few stated that it was an option to close the scheme to new entrants but keep it open for existing members. Many scripts included a lot of unnecessary detail on how CARE schemes operate.

In part (b) candidates did not gain any marks by focussing on the definition of eligible jobholders, opting out and the procedures for rollout to employers. The question is aimed at restructuring benefit structure in the light of the introduction of auto enrolment.

In part (c) although candidates were aware that public sector schemes were being moved to CARE schemes, few mentioned that this is in respect of future accrual only. Few mentioned that revaluation under the CARE scheme will generally be linked to increases in average earnings. The point most
often missed was that there would be no changes for employees within 10 years of current NRA. Pension increases were often wrongly stated.

The relevant part of the study manual was Section 1 Chapter 1.4.2.

**Question 4**

Design a checklist which trustees should follow in order to wind up a scheme. This should include not only the key activities that schemes should complete within the two year period but also the other relevant tasks that should be completed to ensure the wind up is completed as smoothly as possible.

(25 marks)

This question asked candidates to prepare a checklist to cover all aspects of winding up a pension scheme.

Overall candidates received the lowest marks on this question. Many candidates did not put their answers into a checklist and lost valuable marks.

Most candidates did not provide enough points to receive high marks even though they appeared to have knowledge of winding-up. It was noted that some candidates included a lot of unnecessary detail regarding the priority order for winding up and many did not refer to the funding level of the scheme and the different scenarios that may arise.

The relevant part of the study manual was Section 3 Chapter 1.3.

**Module 204 – Defined Contribution (Trust & Contract) Arrangements**

The standard of scripts presented in this sitting was noticeably varied. There was a clear differential between those candidates who had studied the whole course reasonably thoroughly and were able to demonstrate a sound understanding of other issues which were of relevance to the questions and those candidates who would have benefited from additional revision.

Candidiates are encouraged to attempt to complete questions even if they have not studied sufficiently.

Handwriting on a few scripts was not particularly legible making them difficult to mark. As the majority of candidates will use computers on a daily basis candidates might like to practice writing for three hours prior to sitting each exam. A number of candidates also appear to rely on their computer's spell-check function. A number of dis-jointed answers were submitted with, in some papers, parts of answers being pages apart. Unless the additional part answer was clearly indicated there is a danger that part of an answer might be overlooked.

Some candidates showed a tendency to stray beyond the confines of the question and this was particularly shown in question 4(b) where a number of candidates listed all potential data items rather than answering the question. It is also important to read the question and it was clear that those who had done so were able to direct their answers appropriately.
Question 1

(a) List the advantages which have resulted from the abolition of contracting-out on a defined contribution basis (5 marks)

(b) Outline the implications of this abolition with reference to the following:

(i) death and ill health benefits (5 marks)
(ii) communication with members (5 marks)
(iii) short service refund lump sums (10 marks)

Part (a) was on the whole well answered although candidates frequently omitted to note the simplification of the annuity purchase process and the reduction in cost borne by the scheme members. Most candidates mentioned the reduced administrative burden on schemes following the abolition.

Part (b) (i) was also well answered but several candidates did not realise that there was no requirement on retirement for a protected rights fund to provide a 50% pension for a member’s spouse or civil partner if the member was not married or in a civil partnership at retirement date. Similarly a number of candidates did not mention that on death before protected rights had been taken, if there was no spouse or civil partner, the accumulated protected rights fund could be paid as a lump sum to a nominated dependant or to the deceased’s estate.

Part (b) (ii) was not as well answered as the previous sections; many candidates did not mention the Disclosure of Information requirements and the fact that affected members had to have received an explanation of the changes within four months of the abolition date. Some candidates did not make the point that those schemes with protected rights funds no longer have to provide a pension for a surviving spouse or civil partner.

In Part (b) (iii) many candidates struggled as the technicalities are complex. Relatively few candidates mentioned that originally under the Finance Act 2004 a short service refund had to extinguish all the benefits under the scheme. So, as it was not possible to refund protected rights it was not possible to pay a short service refund. In addition very few candidates mentioned the relaxation introduced in the Finance Act 2006 which allowed a short service refund to be paid where the only rights remaining were protected rights. This meant that non protected rights funds could be refunded from a Contracted-Out Money Purchase scheme with the protected rights left in the scheme.

Happily the landscape following the abolition of protected rights on 6th April 2012 was covered reasonably well with many candidates contrasting the options held by post 5th April 2012 leavers and pre 6th April 2012 leavers reasonably well.

The relevant part of the 2013 study manual was Section 5, Chapter 1.
Question 2

(a) You are the Administrator for the ABC Limited Defined Contribution Scheme and the Pensions Manager has asked you to brief him on ‘pension savings statements’ (PSS). Draft an email which identifies those members of the Scheme who will receive a PSS, explains the content of the PSS and gives the anticipated timescale for its issue.

(10 marks)

(b) Write brief notes on the Lifetime Allowance charge and the ways in which protection from the Lifetime Allowance charge can be secured.

(15 marks)

Part (a) was fairly well answered and the pension input period “PIP” and pension input amount “PIA” concepts were generally explained well. A number of candidates however struggled to present a coherent answer. Several candidates did not make the point that the total PIA is the aggregated amount of the increases in the PIA across all registered pension arrangements that are relevant to the same tax year. The increase is then tested against the Annual Allowance for that tax year. In addition not many candidates mentioned that it is the end date of the PIP which determines the tax year whose annual allowance the PIA is measured against. Similarly very few candidates mentioned the extension to the deadline for providing a Pension Savings Statement for those pension input periods ending in the 2011/12 tax year.

Candidates however generally displayed a satisfactory understanding of this subject.

In Part (b) the protection mechanisms of Enhanced, Primary and Fixed Protection 2012 were well covered with most candidates showing a good understanding of how these options work. Some candidates confused Enhanced and Primary Protection stating that individuals could only apply for Enhanced Protection if they had a fund value at ‘A’ day of at least £1.5 million. The examiners were however pleased to see that most candidates knew that pension accrual had to stop completely from ‘A’ day at least where money purchase pensions are concerned if Enhanced Protection was granted.

Whilst the majority of candidates noted the reduction in the lifetime allowance from £1.8 million to £1.5 million, very few candidates mentioned that where a death occurs before 6th April 2012 but the lump sum death benefit is not paid until on or after 6th April 2012 it will be tested against the greater lifetime allowance of £1.8 million. There was also a general lack of awareness of the deadline date by which applications for Fixed Protection 2012 had to be made. The tax charges relating to lump sums and pensions in excess of the lifetime allowance were however covered well.

The relevant parts of the 2013 study manual were Section 2, Chapter 2, 2.4.2, 2.4.3 & 2.4.6 and Section 2, Chapter 3, 3.10.1 & 3.10.2

Question 3

You have been asked to explain the different types of investments available to the members of your Company Pension Scheme. Write short notes on the following:

(i) Equities (5 marks)
(ii) Bonds (5 marks)
(iii) Property (5 marks)
(iv) Cash (5 marks)
(v) Balanced Funds (5 marks)
This was the best answered question on the paper and attracted some high marks. Most of the points looked for by the examiners came through but a number of candidates omitted to note comparisons with other asset classes. Some candidates also operated a scatter gun approach and wrote everything that they knew regarding the subject. The best answers were those that listed the relevant points.

Part (i); The main omission in this part was that equities tend to produce higher returns in the long term but are risky for those close to retirement.

Part (ii); The main omission here was that pension annuity prices are linked to bonds and they tend to be suitable for those with a lower risk appetite.

Part (iii); Many candidates did not point out that property returns depend on a change in market value of individual properties and rental returns and property is generally too risky for those close to retirement. The illiquidity of property was also overlooked by many candidates.

Part (iv) Relatively few candidates mentioned that member's capital does not decrease and several candidates omitted the point that inflation will reduce the real value of cash.

Part (v); Not many candidates mentioned that balanced funds are affected by the rise and fall in equity values and that they are suitable for members with more than five years' to retirement.

The relevant part of the 2013 study manual was Section 3, Chapter 3.

Question 4

(a) You are a Pensions Adviser for ABC Limited. The HR Director is reviewing the Company’s pension provision for its workforce and would like to gain a better understanding of trust based and contract based defined contribution schemes. Draft a report for him outlining the differences between the two types of scheme and the advantages and disadvantages of each. (15 marks)

(b) List the minimum member data requirements that a Pensions Manager would expect to be held on a defined contribution administration system. (10 marks)

Part (a) attracted some mixed responses; candidates generally displayed a good knowledge of trust based schemes and the additional requirements imposed by Trustees Knowledge & Understanding under the Pensions Act 2004 were covered well. Most candidates appreciated the reasons for employers wanting to switch over from trust based schemes to contract based schemes. The main weakness in this question was a lack of knowledge of the latter. Frequent omissions were:

- commentary on the Annual Management Charge introduced for stakeholder pensions and its increase in 2005 from 1% p.a. to 1.5% p.a. for the first ten years reducing to 1% thereafter;
- the wide range of investments available under contract based schemes;
- the fact that members are treated as individual customers under contract based schemes and receive materials prescribed by the Financial Conduct Authority (previously the Financial Services Authority) including the right to cancel, and
- the fact that members receive their own terms and conditions of membership under contract based schemes.
In addition not many candidates mentioned the development of master trust schemes and the centralised trustee body in which any number of non-associated employers can participate.

Part (b) was well answered on the whole but not many candidates mentioned pensionable pay and the membership category. As previously mentioned some candidates listed any potential data items rather than only listing the minimum member data requirements.

The relevant parts of the 2013 study manual were Section 1 Chapter 2.5 and Chapter 3.1.1.

**Module 205 – Investment**

The paper comprised 5 questions, including one short notes question, with three questions worth 20 marks, one worth 15 marks and one worth 25 marks. Almost all candidates attempted all 5 questions. Several papers were of a high standard, one of which was very high although there were papers where the candidates had clearly not studied the whole syllabus.

The paper covered a wide spread of the syllabus allowing candidates to demonstrate a broad understanding of the subject matter.

**Question 1**

Prepare a briefing paper for the Trustees of the Speedy Peacock & Co Pension Scheme explaining the following different methods of performance reporting:

(a) performance measurement (7 marks)
(b) peer group comparison (6 marks) and
(c) comparison against a market index. (7 marks)

In part (a), good answers noted that the nature of the mandate determines the nature of the reporting. The rate of return should be established net or gross and compared to the manager's benchmark. Candidates should have noted that return should be divided into its constituent parts in a process known as performance attribution and gains or losses could be analysed to establish if they are as a result of being under or overweight in a sector and the impact of stock selection or asset allocation.

In part (b) most candidates noted that details of the universe of eligible schemes should be obtained and the performance of the scheme compared to other schemes, considering the percentile ranking and performance against the median. Candidates should have gone to explain that this can be misleading, for example if schemes have different investment policies but can be valid within a single asset class.

In part (c) the examiners were looking for answers that explained measurement against a relevant market index has the advantage of being timely, transparent and unambiguous but that the index selected must be appropriate, that an index may be dominated by a sector or market and that there are may be practical issues to consider for example with some Asian indices including stock not available to UK investors.

A mark was available for structuring the answer in the correct format.

The relevant part of the 2013 study manual was Section 4, Chapter 2.
Question 2

Outline the behavioural or mental biases and decision making errors which can affect trustees' financial decision making.  

(20 marks)

This question was generally well answered although it was very clear which candidates had studied the manual and who were able to produce good answers.

Biases and errors which should have been included were anchoring and adjustment, prospect theory, framing, myopic loss aversion, estimating probabilities (including availability heuristics and representative heuristics), overconfidence (including hindsight bias and confirmation bias), mental accounting, effect of options including status quo bias, regret aversion and ambiguity aversion. The examiners expected only a very brief explanation of each of the above.

The relevant part of the 2013 study manual was Section 2, Chapter 2.

Question 3

The Chairman of Cockroft & Co Limited has asked you to explain asset/liability valuations in advance of a meeting on investment strategy with the trustees of the company's defined benefit pension scheme. Prepare a report covering:

(a) a brief overview of asset/liability valuations  (6 marks)
(b) Financial Reporting Standard 17/International Accounting Standard 19   (5 marks)
(c) asset/liability valuations under the scheme specific funding requirements (4 marks)

The examiners were disappointed with the poor quality of the answers to this question. In part (a), some candidates wrote about asset liability modelling which was not required. Few candidates explained that trustees need to know how much to hold today in order to meet benefits at retirement so that the current asset value matches the future liability value. Some candidates did note that asset values are subject to market fluctuations and liabilities are affected by factors such as inflation and life expectancy. Good answers went on to explain the use of a discount rate to calculate the present value of future liabilities, based on an assumed rate of return in future. The examiners were also looking for answers to note that a lower discount rate results in higher present value of liabilities and that discount rates have historically been linked to bond yields so that a fall in yields leads to higher liabilities. The fact there were 6 marks available should have indicated to candidates the level of information required in this part.

In part (b), the examiners were looking for candidates to mention that these are common accounting valuation standards for DB schemes for employer's accounts rather than scheme accounts. Most candidates mentioned that assets are taken at fair value at the balance sheet date, that bid market value is used for quoted assets and an estimate for unquoted and open market value or a method approved by RICS for property. Marks were also available for explaining that liabilities are discounted by the return on AA bonds and are valued by the Projected Unit method.

In part (c), candidates should have stated that scheme specific funding was introduced by the Pensions Act 2004 and replaced the MFR. Most candidates did mention that the scheme's circumstances are taken in to account, such as its investment policy and age profile. Few candidates mentioned the statutory funding objective or that trustees determine the method of valuation.

The relevant part of the 2013 study manual was Section 3, Chapter 1.
Question 4

Outline the main features of pooled and segregated funds and explain the main differences between the two approaches.

(20 marks)

This question was answered well by most candidates, although in some answers there was a lack of clarity.

Good answers explained that pooled funds are typically existing funds with a number of investors investing in a common investment scheme with a specified type or range of assets. A brief description of Unit Trusts, ICVCs and Investment Trusts was required, including in each case whether the investment is open or closed ended, and what that means and whether the price depends on the underlying asset or moves independently.

An explanation of segregated funds as independent from other schemes’ investment with a policy formulated by the trustees was required, as well as noting that a segregated fund can invest directly or in pooled funds for diversification.

The examiners were also looking for candidates to outline the differences in fee structure, income distribution and flexibility. A mark was available for noting that pooled funds are more appropriate for smaller schemes.

The relevant part of the 2013 study manual was Section 3, Chapter 4.

Question 5

Write short notes on the following:

(a) New issues of shares. (10 marks)
(b) The role of a custodian. (7 marks)
(c) Employer Financed Retirement Benefit Schemes. (8 marks)

Unusually for a short notes question, this was not particularly well answered. It was particularly apparent which candidates had studied the tuition manual. Some candidates showed a tendency to include detail on areas which was not required to answer the question.

Part (a) was generally well answered although some candidates were quite muddled over terminology. Good answers covered offer for subscription, offer for sale, placing, introduction and rights issues, with a short explanation of each. Details of underwriting was not required.

In part (b) candidates should have noted that a custodian holds investments securely, deals with income collection, tax recovery, cash management, securities settlement, foreign exchange, stock lending and exercises voting rights. Answers did not need to cover a detailed description of a custody agreement.

Part (c) was particularly poorly answered with many candidates confusing the position pre and post 2006. Those who answered well noted that these schemes were referred to as unapproved schemes before 6.4.2006 and enable benefits to be provided in excess of those provided by registered schemes. Most candidates noted that different tax rules apply to these schemes. Candidates should have outlined that employer contributions and lump sums counted as employment income before 2006
and the changed position after 2006. Good answers also stated that tax charges may be reduced where the employer’s contributions have been taxed and the employee has contributed, and that pension payments are charged separately as pension income.

The relevant part of the 2013 study manual was Section 1, Chapter 1.1.2 and 1.1.3.

Module 206 – Retail Investment and Personal Taxation

This was the second sitting of this module and as in the first sitting, a relatively small number of candidates entered the examination. The overall standard was reasonably good and most candidates made a fair attempt at all six questions.

The paper covered a good spread of the syllabus allowing candidates to demonstrate a broad understanding of the subject matter.

Question 1

In your capacity as an employee benefits consultant with Green Jersey Consultants plc you have been asked to advise a corporate client on setting up a group income protection scheme for its workforce. Prepare a briefing paper for the client outlining the factors which should be considered when designing a scheme and the features which may be included.

Your answer should not make any reference to costs or tax implications.

(25 marks)

Overall, the question was well answered although some candidates unnecessarily made reference to costs. The majority failed to mention that most policies contain exclusions and that insurers will set a maximum benefit formula. Very few also mentioned that the terms are set out in contracts of employment.

Good answers noted that a scheme should be designed to link with state and existing employer provision as well as early retirement provision. The waiting period is typically 26 weeks and the level of benefit is usually set so that there is some financial incentive to return to work. The benefit is usually specified as a percentage of pre incapacity earnings. Candidates were expected to identify the circumstances where benefits under an IP policy would normally cease. Marks were also attained for stating that eligibility conditions are defined in the policy, including actively at work. A proportionate benefit can be paid on part time return to work or a lower paid job taken and a free cover limit normally applies. A number of candidates also noted that a policy can include cover to provide for the continuance of pension contributions, the benefit can either be paid for a limited period or up to retirement age and that payment is normally made to the employer. Some policies can make provision for a lump sum to be paid into a claimant’s pension plan at the end of a fixed term.

The relevant part of the 2013 study manual was Section 3, Chapter 1.
Question 2

In the context of trusts, outline:

(a) the circumstances when a capital gains tax charge may arise and identify who is responsible for meeting the liability (8 marks)
(b) the circumstances where a transfer of assets does not give rise to a CGT liability (3 marks)
(c) how capital gains tax is calculated and the rate applicable to trusts (6 marks)
(d) the circumstances where trustees must report disposals to HMRC (3 marks)

The general standard of the answers to this question was poor with the majority failing to gain double figure marks. Part (b) was particularly poorly answered with most candidates failing to score any marks at all.

In part (a), a charge to CGT may arise when an asset is transferred into a trust, in which case the settlor is responsible unless holdover relief is claimed. The trustees are liable when the asset is sold. A charge may also arise when an asset is distributed to a beneficiary or when a beneficiary becomes absolutely entitled to some or all of the trust assets, in which case the trustees are usually liable. There is an exception with a bare trust where the beneficiary is liable. A further instance is where the trustees cease to become UK resident, in which case the trustees pay CGT based on the market value of the trust assets immediately before the change in residency status.

In part (b), a transfer of assets does not give rise to a CGT liability where the gain is below the exempt amount, on the death of an individual who leaves assets to a trust and when an interest in possession ceases as a result of death.

In part (c), candidates were expected to note that any capital gain in a tax year can be offset by allowable losses, the annual exempt amount, the costs of acquisition and disposal and any relief that can reduce or defer the gain. For example, holdover, private residence, entrepreneurs. The balance is taxed at 28%.

In part (d), the examiners were looking for answers which stated that the trustees had been issued with a trust and estate tax return, the gain exceeds the annual exempt amount for trusts and the proceeds amount to more than 4 x the annual exempt amount for CGT. That is 4 x £10,600 (the annual CGT exempt amount for individuals) = £42,400.

The relevant part of the 2013 study manual was Section 1, Chapter 1.

Question 3

Identify the rules governing the taxation of non UK domiciliaries.

Your answer should not include the exemptions that apply to remittances of foreign income or gains in certain circumstances. (10 marks)

Candidates were expected to identify the rules which have prevailed since 2008/09. The responses were mixed with some candidates scoring well.

Good answers should have noted that non UK domiciliaries who are resident in the UK are taxed in the same way as resident domiciliaries unless the remittance basis is claimed. However, a claim is not necessary if the taxpayer is under 18 or the remitted income and gains do not exceed £2,000. If the remittance basis is claimed, any overseas income and gains are not taxed until brought into the UK. Non domiciliaries who have been UK resident for 7 out of the preceding 9 years can only claim the remittance basis on payment of a remittance basis charge of £30,000. As from 6 April 2012, a higher
annual charge of £50,000 applies if the individual has been UK resident for at least 12 of the last 14 years. Special rules apply to indirect remittances, for example, gifts to connected persons.

The relevant part of the 2013 study manual was Section 1, Chapter 1.2.3.

**Question 4**

Harry attains age 65 in the tax year 2012/13. His gross income for the year amounts to £29,500 and the gross contributions he pays to his employer’s pension scheme total £1,000. Calculate the level of income on which Harry’s income tax liability will be based.

(10 marks)

A number of candidates scored full marks on this question. The object of the question was to ensure candidates were aware that, for age allowance purposes, where taxable income exceeds £25,400 in the tax year 2012/13, the taxpayer will lose £1 of his/her age allowance for every £2 over the £25,400 limit. In this example, the total income of £29,500 is reduced by the gross pension contribution of £1,000 to leave £28,500 taxable income. As this is £3,100 over the age allowance limit, Harry loses £1,550 of his age allowance. When the age allowance is included, the total personal allowance for 2012/13 is £10,500. Therefore, Harry’s allowance is reduced to £8,950 and his liability is based on income of £19,550.

The relevant part of the 2013 study manual was Section 1, Chapter 1.3.2.

**Question 5**

New rules were introduced in the Finance Act 2008 to allow any unused inheritance tax nil-rate band to be transferred to the surviving spouse or civil partner who dies on or after 9th October 2007.

Christopher died in October 2007 when the nil-rate band was £300,000. He had made a lifetime gift (in excess of the annual exemption) of £120,000 to his daughter, Lisa, in June 2001 and on his death his entire estate was left to his wife, Nicole. She died in May 2012 leaving an estate of £460,000. In December 2007 she had made a gift (in excess of the annual exemption) of £100,000 to Lisa.

Calculate the inheritance tax liability payable on Nicole’s estate assuming that the unused nil-rate band on Christopher’s death is claimed by the executors of Nicole’s estate.

(10 marks)

A number of candidates scored well and but failed to attain full marks as a result of not understanding that taper relief only applies on any excess amount of a PET over and above the nil-rate band.

The gift of £120,000 from Christopher to Lisa was made within 7 years of his death and therefore used part of his nil-rate band - £120,000/£300,000 = 40%. Therefore, 60% remains unused as his entire estate was left to Nicole. Her estate amounted to £460,000 plus the failed PET (the gift to Lisa in December 2007) of £100,000. Her total estate was therefore £560,000. From this, the 2012/13 nil-rate band of £325,000 is deducted together with £195,000 (60% of £325,000) transferred from Christopher. The taxable amount is therefore £40,000 and the liability £16,000.

The relevant part of the 2013 study manual was Section 1, Chapter 1.6.3.
Question 6

Identify the four main stages of an economic cycle and outline the main features and characteristics of each stage.

(25 marks)

Overall, this was the best answered question with most candidates scoring high marks.

Very few candidates failed to identify the four main stages of an economic cycle – economic boom, economic slowdown, economic recession and economic recovery. Most candidates highlighted the fact that in times of an economic boom, national output is rising faster than trend rate of growth of around 2.5% per annum. Output is expanding, demand for goods and services is high and businesses raise output and widen profit margins. There is both a rise in employment and real wages and a high demand for imported goods and services together with rising tax revenues. However, there is a danger that the economy could overheat requiring the Bank of England to increase interest rates to dampen demand. As the economy starts to slowdown, the rate of growth slows without going into a recession and is regarded as a soft landing. A recession brings a fall in output and is officially recognised by a contraction in GDP over two successive quarters. A recession results in rising unemployment, a fall in business confidence and profits, price discounting, a falling demand for imports, increased government borrowing and lower central bank interest rates. As a recovery sets in, output picks up from the low point of the recession although the pace of recovery partly depends upon the speed of increase in demand and the extent to which producers increase output and rebuild stock levels in anticipation of an increase in demand.

The examiners awarded additional marks where candidates were able to demonstrate an understanding and make mention of economic issues, for example, the quantitative easing programme which has been ongoing in the recent past.

The relevant part of the 2013 study manual was Section 2, Chapter 1.1.4.

Module 301 – Employee Compensation and Benefits

While there were a high number of good scripts there were also a high number of not so well answered scripts. If the content of the tuition manual is known, students will achieve a pass; it is not sufficient to rely on knowledge gained in day-to-day pensions work. There were students who wrote extensively in response to each question but did not include important facts - it is important to take time to read each question carefully before attempting an answer.

Questions 2 and 3 were the best answered questions. The latter question should not have presented well prepared students with any issues, but many candidates overlooked this area of the manual and so were unable to secure valuable marks. Candidates are therefore reminded that they must study the whole manual as examination questions can be set on any section.

This year’s paper followed the practice requiring candidates to not only recall pertinent factual information from the manual, but to apply it in the context of the question. This style challenged students to think carefully about their target audience and the required format of communication. Students need to take note of the format requested in the question; by getting the format correct students can pick up easy marks.

It also greatly assists examiners if students start each question on a new page.
Question 1

In your role as a benefit consultant prepare a report for submission to the Company’s Finance Director to identify the new rules introduced to tackle arrangements where employers use trusts or other vehicles to avoid, defer or reduce tax liabilities. Your report should cover the following:

- Arrangements where a possible charge to income tax and NI contributions may arise;
- The taxation position if a charge arises;
- The dates the taxation and NI contributions came into force; and
- Exemptions which are not tax avoidance arrangements, including the types of employee share plans excluded.

Your report should refer to the situation under pre-existing arrangements. However, you do not need to include reference to the grant and exercise of share options or deferred bonus plans.

(35 marks)

This question contained the highest marks. This question centred around recent disguised remuneration legislation and most students were able to achieve reasonable marks, through recall of factual detail.

However, detail relating to the treatment of FURBS and EFRBS, for outlining the impact on pre-existing arrangements at the point that the rules came into place and exemptions was commonly lacking.

Most candidates attempted to address the tax and National Insurance situation so generally picked up marks here. Most candidates obtained the marks for the types of share schemes that are excluded from the new regime but a lot of students missed the other exemptions for day-to-day arrangements. Many included detail that was not relevant to the question e.g. the way in which these plans operated, reference to various insurance arrangements including private medical insurance and the ways in which this can be funded. Despite the question explicitly stating that reference to grant and exercise of share options or deferred bonus plans was not required, some candidates wasted time and effort by covering such areas. No additional marks were scored by their efforts.

There was some doubt as to the date the new arrangements came into effect and whilst most candidates identified that the income tax liability came into effect from 6 April 2011, fewer candidates were able to state that the NIC liability was effective from 6 December 2011.

The requirement to present the answer in a report format proved to be challenging for many candidates. A title page, contents section, executive summary and analysis in numbered sections together with conclusions and recommendations would have gained full marks for communication.

The relevant part of the 2013 study manual was Section 3, Chapter 1 (1.8).
Question 2

You are the UK Compensation and Benefits Manager for XYZ Ltd, a multinational organisation. As part of its total reward package, the Company provides Private Medical Insurance for its employees.

(a) A foreign national employee (and his family) is being seconded to the UK office of XYZ. He has sent an email to you asking how the Company’s UK Private Medical Insurance will interact with the NHS and what the taxation implications will be. Draft an email to him which responds to his concerns.

(10 marks)

(b) In connection with the forthcoming renewal of the scheme, the Finance Director has requested that you provide a brief summary of options that will assist with claims control and costs containment. Write an email to the Finance Director in response covering the options of Managed Care and Directional Care.

(15 marks)

For a multinational company, the secondment of staff between the UK and overseas parent/subsidiary is a common occurrence and the first part of this question required students to put provision of healthcare, both in terms of NHS and private, into this context.

While most candidates could provide details of the taxation position of private medical insurance, much of the detail of the interaction with the NHS was omitted. Candidates were generally able to cover the essential services provided by the NHS. Marks were lost where candididates omitted to state that GPs deal with routine ailments, a service not available under private healthcare; but GPs have a crucial role to play in the operation of private healthcare because for a valid claim, the patient will normally have had to be referred to a specialist by a GP.

The second part of the question centred on the ever increasing cost of private healthcare and two methods that can be adopted to help contain claims and therefore the cost of cover. Many candidates included reference to all options available and did not focus their answers on Managed Care and Directional Care, and some students confused the definitions for Managed Care and Directional Care. Few students picked up on the fact that whilst Managed Care and Directional Care are ways of controlling claims, they do not detract from the aims of private healthcare. Under Directional Care, students correctly stated that due to bulk purchase of services with a provider, costs were reduced, but invariably omitted to state that such providers agree to provide the services to agreed protocols and clinical standards. Very few mentioned that Benefit in Kind P11D tax only applies to those earning over £8,500 or directors. Most lost marks for not going into detail about the types of medical provision that may be covered by Directional care – i.e. physiotherapists, diagnostic centres, etc.

Almost all candidates answered in the form of an email so picked up the format marks.

The relevant part of the 2013 study manual was Section 2, Chapter 2.

Question 3

During your recent client meeting, the Finance Director requests that you prepare a briefing paper that explains how to value employee benefits and when to use the different valuation approaches.

(25 marks)
The majority of candidates achieved reasonable marks detailing the salient details of the two methods of valuing employee benefits and the circumstances in which they are used. There was some confusion as to when employer cost and employee cost would be used in different valuation approaches.

In terms of Employer cost, Recruitment and Retention was least well covered. Not many outlined the difference between employer costs when calculated on an individual basis or on an average cost ‘per head’ basis. Many dropped marks by failing to go into detail about using the employer cost for the introduction of a flexible benefits arrangement. Almost all candidates picked up the marks for mentioning annual Total Reward Statements.

The concept of a briefing paper which is a more informal style of report proved challenging and so few candidates gained full marks for communication.

The relevant part of the 2013 study manual was Section 1, Chapter 2 (2.1.2).

**Question 4**

Prepare a summary of the current Pension Credit which could be made available to people over age 60, including reference to where further information is available.

(15 marks)

Pension Credit was outlined in a succinct section of the manual. The examination question on this area would not have presented any issues for those candidates who had studied the relevant section of the manual. Some candidates scored excellent marks but in general the question was poorly answered and marks were dropped here.

In general, much of the detail required was omitted. Many candidates failed to recognise that pension credit is means tested and is a non-taxable benefit. Candidates also did not appear to be aware that anyone previously receiving Income Support was automatically transferred to Pension Credit. Most candidates were aware that there were two parts to Pension Credit, i.e. a guarantee credit and a savings credit; however most did not know the rates that are payable, although those that did picked up valuable marks for taking the time to learn these.

Candidates were also aware that the savings credit was given to those with modest savings, etc but a number failed to state that it was only available to those aged 65 and over. Some candidates thought that the pension credit was only available to those who had been paying national insurance contributions for a qualifying number of years. Candidates also failed to recognise the various sources of further information for this benefit.

There were many scripts showing poor examples of a summary document. Ideally, the summary should have included a title, introduction and bullet points, set out in a clear style to enable the reader to quickly and easily identify the salient points.

The relevant parts of the 2013 study manual were Section 2, Chapter 1 (1.1.6).
Module 302 – Management, Risk & Governance

The examination paper was in the same format as previous years, requiring candidates to answer a compulsory question, drawn from the theory part of the syllabus, together with a case study. As in previous years, the case study was intended to test how candidates apply theory to a practical example.

Part One of the paper (the compulsory question) was fairly well answered with most candidates able to take advantage of the relatively low level of detail required to score a reasonable number of marks.

As in previous years, the quality of answers for the case study which comprised Part Two of the paper was mixed. There were some good answers, but many candidates appeared to find it difficult to apply the theory to the case as set out in the question, to come up with an answer which was both practical and realistic. A number of candidates also missed out on marks by failing to answer the question in the format requested. Candidates should remember that of the 65 marks available for the case study 15 are for communication.

In general, the quality of answers could have been improved by candidates:

- giving more thought to the role of the person who has been tasked with writing the paper/report and really trying to put themselves into that person’s shoes;
- thinking about the audience for the report/paper;
- making and stating sensible assumptions based on the background information provided in the question;
- including an appropriate level of detail for example outline project plans should clearly show all project steps;
- making sure that options are discussed in full and that any recommendations follow logically from that discussion;
- not wasting time including irrelevant information, for example, by reproducing large chunks of theory from the manual;
- answering the question in the format requested; and
- spending more time planning the structure and layout of the answer.

PART ONE

Describe the main trends in the structures used by Trustees to monitor risk since the Pensions Regulator was created in 2005.

(35 marks)

The information the examiners were expecting candidates to include in their answers was clearly set out in the manual. The five key trends we expected candidates to describe were:

- Structures appropriate for the scheme in question
- Independent Trustees
- Make up of Trustee Board
- Trustee sub committees
- Proportionate approach

Although there were some marks available for referring to the use of risk registers a number of candidates wasted a lot of time going into details of how risk registers are drawn up and used which was not required by the question and did not score additional marks.

The relevant sections of the study manual were Section 1 Chapter 2 2.4.2 and 1.4.
PART TWO

Question 1

GFK Ltd has an occupational pension scheme which has three sections:

- Final salary – closed to future accrual.
- Career Average (CARE) – closed to new entrants but open to future accrual.
- Defined contribution.

The scheme is administered in house with GFK Ltd providing administration services for the Trustee. The Company is concerned about the increasing cost of administering the scheme and has agreed with the Trustees that the current administration arrangements should be reviewed to see if they are still appropriate.

You are a consultant who has been appointed by the Company to review the administration. Prepare a report for the Company and Trustees setting out your analysis of the current situation, options going forward and recommendations. Your report should include:

- A brief, high level overview of the current administration arrangements.
- Options for organising the administration work and possible service delivery models.
- How the performance of the new structure should be assessed and measured.

The question required candidates to prepare a report setting out their findings and recommendations following a review of the current administration arrangements. The information examiners expected candidates to cover in their answers is set out below.

A brief high level overview of the current administration arrangements
The examiners expected candidates to use the information set out in the questions together with some sensible assumptions to provide the overview. For example details of how the work is split, team structure, number of staff and concerns etc.

Options for organising the administration work and possible service delivery models
Most candidates identified the main three options which were: in house; external; or combination of the two. Detail about structures for managing work was often missed out altogether or poorly covered. We were looking for candidates to make sensible suggestions eg team for each scheme section; split by function; outsourcing some functions etc. We also expected candidates to cover the pro’s and cons of outsourcing which were covered in the table on page 22 of the manual.

Assessment and measurement of the new structure
In terms of quality of answers this was the weakest part of the question for most candidates. We expected answers to include

- Use of targets (and target setting options)
- Aim of setting targets
- Measurement of results (quantitative and qualitative)

In general candidates took note of the instruction to include recommendations in their report. Marks were available for including recommendations and candidates could have improved their scores by ensuring their recommendations were fully explained and followed on logically from the material included in their answer.

The relevant sections of the course material were Section 2 Chapter 1 1.1 – 1.3.
Question 2

You are the pension manager for XYZ Ltd which has a defined benefit scheme which is closed to new entrants but open to future accrual. The membership profile is:

- Active members – 20,000
- Deferred members – 50,000
- Pensioners – 30,000

The Company wishes to consider the following options for reducing the costs and liabilities of the scheme:

- Increasing member contributions and Normal Retirement Age and capping future increases to pensionable salaries for active members.
- Enhanced transfer values for deferred members.
- A Pension Increase Exchange for pensioners.

The Finance Director is aware that assessing the viability of the above options and any subsequent implementation could be costly. He has asked you to prepare a report setting out:

- A financial appraisal of the costs and benefits of assessing and implementing the above measures.
- The issues that could cause your budget for costs to be inaccurate.
- The measures you would put in place to control variances against budget.
- How you would report progress against budget during the project.

(65 marks)

In order to score well candidates needed a good understanding of project management and setting and managing budgets in order to apply the theory to the situation outlined in the question. The examiners expected candidates to cover the following points in their answers:

**A financial appraisal of the costs and benefits of assessing and implementing the above measures**

This part of the report should have included a cost benefit analysis. Marks were awarded for all sensible suggestions for costs and benefits which may have arisen in relation to the project for example:

- Costs – actuarial / legal advice; implementation costs; labour; consultants fees; systems changes; communications; stakeholder management; project management; data cleansing; financial advice; admin fees; member helpline; cash to fund PIE / ETV
- Benefits – Risk reduction; risk control; increased security; greater flexibility; cost reduction

**Issues that could cause budget to be inaccurate**

This section of the question was generally not very well answered. Marks were available for all valid points raised. The sorts of factors we expected candidates to include were:

- Poor data
- Higher fees than expected
- Scope creep
- Poor decision making
- Poor stakeholder engagement
- High volume of queries
- Additional communications required
- Higher than expected take up of PIE / ETV
Measures to control variances against budget
In this section we were looking for candidates to identify measures to control the risks identified in the previous section. For example
- Assessing data before starting the project
- Agreeing capped / fixed fees
- Project scoping workshop
- Stakeholder workshop
- Project planning and management
- Contingency plan / budget to cover potential risks

Reporting progress against budget
Again this section was not particularly well answered. We were looking for candidates to explain how the budget should be used and what reports they would expect to provide. Marks were available for the following:
- Brief explanation of the role of the budget
- Frequency of review
- Content and timing of reports
- Focus on variations and reasons
- Use of forecasting

The relevant sections of the course material were: Section Chapter 3 3.2-3.4 and Section 3 Chapter 1 1.5.3

Module 304 – Explaining Pension and Benefit Matters
The format this year was a change to previous exams. The subject title was altered from ‘Communications’ to ‘Explaining Pension and Benefit Matters’. It was felt this better described what is required of candidates. The exam subject area was published in September 2012 so that candidates could ensure they can focus on the method and content of their answers. Although the area was broad, Auto Enrolment is highly topical and candidates will have received exposure within their professional lives. There was an expectation that reasonable technical scores were achievable by most candidates.
Marks for this exam were split between technical content (50%) and communications (50%). There is no requirement that candidates score a minimum level across each, but achieving a pass is unlikely if a reasonable contribution cannot be made across both. Candidates needed to demonstrate more than a superficial knowledge of the subject matter and clear professional communications skills to score well.
The information and instructions given in the question were often not used and so answers were often general rather than specific. There were fewer very low marks this year, which indicated that students had revised the subject matter. There were no very high marks and candidates who passed, tended to be clustered just above the required pass level.
The question this year was:

You are the Pensions Manager of XYZ Limited, which currently employs a total of 15,000 staff. The company operates a final salary pension scheme which is closed to new members but within which 3,500 staff are still accruing benefits. There is also a money purchase scheme which is open to all staff who are not members of the final salary scheme. Currently this scheme has 4,000 active members. Both schemes are ‘Qualifying Schemes’. XYZ Limited intends to use the existing money purchase scheme as the vehicle for automatic enrolment.

You must prepare the in-house pensions administrators of both schemes for the upcoming changes both in their pension processes and the queries that they are likely to receive from employees. Create a training presentation with slides and accompanying technical presenter notes covering:

- The requirements of automatic enrolment.
- The impact of the changes on employees.
- The planned communications timeline associated with the changes in the run up to XYZ Limited’s staging date of October 2013.

The question was clear on the requirement for a presentation format and the details necessary for a full answer. Whilst most candidates did present their answers in the format requested, with good opening structure, regrettably most answers had little in the way of conclusion and guidance on next steps. Unfortunately this meant candidates lost many marks in both the technical and communications areas. For some candidates this meant the difference between a pass and a fail.

Some candidates confused the requirement for Technical Notes, with instructions on how to make a presentation. The syllabus describes how presentations should be approached. Most candidates were strong in identifying the different categories of employee and the resulting entitlement in respect of auto-enrolment for each category. However the legislative background was not well covered and surprisingly, some students were not able to use the correct terminology or describe the workforce assessment required. Most students missed marks available around the bringing forward and postponing staging dates.

Candidates were generally weaker in identifying the employer’s responsibilities and the specific statutory communication requirements of auto enrolment. Instead, candidates tended to offer commentary on a communication strategy derived from their own experience and missed the statutory timelines. Where candidates covered statutory requirements, they tended to consider these for eligible jobholders only and missed most of the detail. In short candidates were generally better prepared this time but many lost valuable marks on both the technical and communication aspects which could have been avoided if they had been better prepared.
Module 305 – International 2

Question 1

You are the International Benefits Manager for a multinational company with employees based in the USA & Japan

(a) Describe the typical employer provided employee risk benefits in each of those countries. (8 marks)

(b) Your HR Director has been asked to meet with the Finance Director and Group Risk Manager to discuss the possibility of using the Company’s own captive insurance company as a financing vehicle for employee risk benefits.

Draft your preparatory notes for the meeting covering the advantages of using a captive and the additional requirements of a captive approach. (17 marks)

The syllabus for Module 305 requires students to build on the material covered in International 1. Full marks could be obtained in the first part of the question without providing detailed information. Most candidates achieved high marks, although answers relating to Japan were generally weaker than those relating to USA. Some candidates included retirement benefits in their responses – as this is not regarded as a risk benefit it was not required and no marks were available.

Part (b) was generally well answered although some candidates provided a detailed description of the various types of loss management systems and others discussed the range of possible levels of captive insurance/re-insurance – the question did not ask for this information.

The relevant parts of the Study Manual were Manual 303 Section 4, Chapter 4 (USA), 7 (Japan) and Manual 305 Section 4, Chapter 1.

Question 2

You are an international benefits consultant and have been asked by your client to report on current topics and future long term trends in international employee benefits. Draft your report. (25 marks)

This question was answered very well. A few candidates lost marks by not formatting their responses into a report. Many candidates could have picked up more marks if they had made reference to changes in accounting standards and in European legislation. Extra marks were available, for example mention of increase in healthcare costs.

The relevant part of the Study Manual was Section 8, Chapter 1.
Question 3

You are the Group Employee Benefits Director of a large US multinational company that will be making sizeable acquisitions. The Board of the company has asked that you establish and chair a Global Benefits Committee.

(a) (i) list reasons for setting up a Global Benefits Committee (3 marks)
(ii) draft suitable terms of reference for the Committee (7 marks)

(b) describe the main issues relating to employee benefit plans for the Committee to consider when the company makes an acquisition. (15 marks)

Those candidates who had studied the tuition materials gave comprehensive and accurate responses to the first part of the question and gained high marks. The second part of the question was generally not so well answered and some candidates provided extensive information on the due diligence process preceding an acquisition and the adequacy of pension funding, neither of which were relevant to the question.

The relevant parts of the Study Manual were Section 2, Chapter 1 and Section 7, Chapter 1.

Question 4

(a) You are a pensions consultant advising a client on a potential acquisition of a large company in Brazil. The target company has a closed defined benefit pension fund

(i) Describe how closed pension funds are typically structured and financed in Brazil
(ii) Outline current trends in benefit design in Brazil (15 marks)

(b) Your client also has a pension plan in the UK whose investments are managed on a passive basis. However the pension fund assets in Brazil are managed on an active basis. Draft a short note for the client highlighting the advantages and disadvantages of the two types of approach.

(10 marks)

Part (a) required factual information which is covered comprehensively in the tuition materials. Those students who relied on general knowledge did not gain many marks. Part (b) was generally answered well although candidates could have scored more marks by accurately defining passive and active investment management. Others lost marks for not formatting their answers into a short note for the client.

The relevant parts of the Study Manual were Section 5, Chapter 1 and Section 3, Chapter 1.
Module 306 – Retail Investment Advice and Regulation

The second sitting of the paper saw an increased number of candidates sitting the paper which was encouraging, the standards of the paper were also high, again which pleased the examining team. The paper covered a good spread of the syllabus allowing candidates to demonstrate a broad understanding of the subject matter.

The examination team would like to comment on the presentation of the scripts and the handwriting – candidates need to ensure they are as neat as possible as it is extremely difficult to award marks for appropriate comments if the handwriting is illegible. In addition candidates should read the question and answer appropriately in particular when the question requires a certain format to be used.

Question 1

A client has recently asked for details of the Financial Services Compensation Scheme. The client has suffered a considerable loss on some insurance and investment business and is looking for sources of compensation. He believes that the firm conducting his business was authorised by the FSA.

(a) Describe the main sources of business covered by the FSCS. (5 marks)
(b) Detail any limits that may apply to amounts of compensation. (5 marks)
(c) Describe the reasons for the establishment of the FSCS and how it came about. (5 marks)

Overall this question was answered well in the majority of cases.

Whilst the majority of candidates could provide an accurate description of the coverage, some candidates confused the limits of loss, the correct answer was 100% of the first £85,000 for deposits, 100% of the first £50,000 for Investments and home finance, and Insurance and General Insurance was 90% of the claim with no upper limit.

The relevant section of the manual was Section 1, Chapter 1.3.10.

Question 2

List the constituent factors of a robust Transfer Value Analysis System (10 marks)

The standard of answers for this question was surprisingly overall poor, the marks on average being the lowest scoring question. Whilst candidates could identify that a TVAS compares the projection of a deferred pension with a personal pension and mentioned the critical yield, what an adviser would take into account and what assumptions would be used and reference to FSA’s policy statement was often omitted. Candidates that had studied the manual obtained good marks.

The relevant section of the manual was Section 5, Chapter 1.7.4.
Question 3

A client has approached your firm looking to set up an ongoing relationship, however before he commits he has requested an overview of how the firm operates. He also would like a brief explanation of the information that he would need to provide in order for any advice to be provided. Draft an email for approval from your compliance officer providing the information requested. Examples should be provided for the information that the firm would need to collate.

(30 marks)

The majority of candidates provided a reasonable answer to this question. The information and examples that a firm would need to obtain was well covered which provided candidates with a good level of marks. However, the first part of the question wasn’t that well covered, with candidates often omitted to cover an adviser’s qualifications and experience, conflict of interest, scope of service offered, conditionality and whether the firm was restricted or and IFA. Candidates should remember that whilst the fact-finding aspect of the question was significant, the compliance is an important requirement of an FCA regulated firm. Some candidates did not answer the question in the form of an email which was the required format of the answer.

The relevant section of the manual was Section 2, Chapter 1.4.2, 1.4.3.

Question 4

(a) Within the FSA’s complaint handling rules, describe who would be defined as an “eligible complainant” (5 marks)

(b) Briefly explain how the Financial Ombudsman’s Service (FOS) deals with a complaint, following receipt of a complaints form (5 marks)

The first part of the question was generally well answered, however candidates often referred to the individual firms complaint procedures when answering section (b) which was not relevant to the question asked. As a result candidates marks were reduced, as the focus needed to be on the FOS’s complaints’ procedure after receiving a complaints form.

The relevant section of the manual was Section 1, Chapter 1.3.8 & 1.3.10.

Question 5

(a) List the requirements which a qualifying enduring power of attorney must meet (5 marks)

(b) Explain the two types of lasting power of attorney (5 marks)

Overall this was the best answered question on the paper, candidates were knowledgeable and able to list the requirements requested and also demonstrated the ability to explain to types of lasting power of attorney as requested by the question.

The relevant section of the manual was Section 4, Chapter 1.2.1 & 1.2.2.
Question 6

Describe the following tax wrappers, which should be considered when providing advice:

- Offshore life assurance bonds
- ISA (individual saving accounts)

(10 marks)

Whilst this should have been an easy question for the candidates to obtain good marks on, it was evident that ISA’s was better understood than an offshore bond tax wrapper. Candidates often provided too much information, which wasn’t required bearing in the mind the number of marks for the question, this is often interpreted as ‘waffle’ and can distract from the relevant points that a candidates makes, ‘waffle’ should therefore be kept to a minimum. The main points required in relation to the offshore bond aspect was that they have the same characteristics of a UK bond, but the fund is not subject to UK tax so should grow faster, they are suitable for non tax payers or non residents.

The relevant section of the manual was Section 3, Chapter 1.2.3.

Question 7

What conditions does a pension scheme member have to satisfy in order to have a statutory right to a pension transfer?

(15 marks)

This question was generally well answered, most candidates could demonstrate an understanding of the statutory right to transfer and the amendments to include those with over 3 months but less than 2 years service. Candidates that obtained the higher number of marks explained the requirement to leave employment and that the trustees can allow transfers even when the statutory requirements haven’t been met.

The relevant section of the manual was Section 5, Chapter 1.1.2.