Examiners' Report - Defined Benefit Arrangements – April 2025

Question 1

In your role as a benefit consultant, prepare a report for submission to the Company's HR Director to identify the death benefits payable from the company pension scheme.
The Report should cover:
The three main types of lump sum death benefits (13 marks)
What benefits are payable should a member
1. Die in service before Normal Pension Age (NPA) (6 marks)
2. Die in Service after NPA (8 marks)
3. Die in Retirement after NPA (5 marks)
4. Die following flexible retirement (5 marks)
5. Become a Deferred Pensioner (3 marks)

(40 marks)

(Including 2 format marks)

This question was generally very well answered. It carried 40 marks, so it should have taken approximately 1 hour 12 minutes to answer. It was well signposted, so candidates only had to logically progress through the sections, taking account of the marks allocated to score a high mark. Without exception, candidates used the Report format as requested in the question, earning the format marks. Candidates were able to provide details on general death benefits such as defined benefits, lump sum death benefit, a lump sum paid from a defined benefits arrangement on the death of a member, lump sum death benefits based on multiples of earnings or service, and pension protection lump sum death benefit. Omissions included lump sum guarantees following the death of a member, and members must specify if they want a lump sum death benefit to be treated as a pension protection lump sum death benefit. Under deferred pensioners, few marks were obtained. Benefits payable - dependants' pensions payable to a spouse/civil partner and possibly to qualifying children and/or a refund of the member's own contributions.

Question 2

During your recent client meeting, the Finance Director requested that you, as a pensions adviser, draft an email

1. Identifying the advisers and other providers the trustees should appoint. (6 marks)

2. Outlining The Regulator's guidance on trustee relationships with advisers and service providers. (14 marks).

(20 marks)

(Including 1 format mark)

This question was well answered and used the required email format. Especially pleasing was when the candidates identified the advisers and other providers the trustees should appoint. Such as a Scheme Actuary to provide advice on the statutory funding requirements and other matters of an actuarial nature, a scheme administrator to manage the scheme's membership records and to calculate and pay member benefits and an investment manager or managers and an investment adviser. Most other areas were covered by at least one candidate, but less well covered were that trustees should consider the associated costs and any impact which there might be on members, conflicts of interest - the trustees should establish how each adviser or service provider manages conflicts of interest and the specific processes which they have in place to achieve this and Contractual terms - a contract should be agreed which sets out the terms under which the adviser or service provider is appointed and their fee basis.

Question 3

In your role as their advisor, the trustees have asked you to write an email outlining the role of the Pension Protection Fund and Financial Assistance Scheme in the event of employer insolvency. You should include when and the acts under which they were established, and the schemes and members to which they provide benefits/compensation.

(15 marks incl. 1 mark for formatting)

This question was in an email format where an extra mark could be gained by complying with this request. Most candidates complied with the format. Candidates scored really well on this question, showing they had thoroughly revised and learned the facts. The question was well signposted, so candidates just needed to systematically work their way through the question. The only section where higher marks were less than consistently obtained was under FAS Under Section 286 of the Pensions Act 2004, the Secretary of State for Work and Pensions was given powers to establish the Financial Assistance Scheme. Areas covered fully included under PPF - The PPF was established under the Pensions Act 2004 and applies, broadly, to the schemes of companies that become insolvent from 6 April 2005. The PPF is designed to provide compensation to members of DB schemes of an insolvent employer where the scheme is underfunded on the PPF basis.

Question 4

In your role as the Pensions Manager the trustees have asked you to draft a paper outlining the scrutiny and intervention of the Pensions Regulator in relation to scheme funding. This should include:

- Its focus and considerations (9 marks)

- Its views on arbitration (8 marks)

- Measures it may consider imposing where the objectives of the employer and trustees cannot be reconciled (8 marks)

(25 marks)

(Including 2 format marks)

This question was either really well answered, with some candidates scoring high marks, or very poorly answered, where candidates had not learnt the manual. All candidates, however, used the prescribed format of a paper, earning the format mark. Of those who omitted points, the most common omissions were as follows: view on arbitration - While the trustees are responsible for producing the SFP, they will often need to obtain the agreement of the employer (depending on the scheme rules) when deciding on the assumptions used to calculate the technical provisions, and where necessary, setting the recovery plan. The regulator has stated strongly that it does not wish to become an arbitrator in cases where agreement proves difficult and formal intervention will not occur unless necessary. Measures it may consider imposing - The regulator recognises that in some circumstances the objectives of the employer and trustees cannot be reconciled, and obtaining a skilled person's report, e.g., on the technical provisions and issuing a direction on the operation of the recovery plan.