

## Defined Benefit Arrangements Examiners' Report

Overall the standard of papers this year was relatively high. Students who achieved the highest marks gave concise answers that related to the question asked and the points available. Students should pay attention to the amount of marks awarded to each question and take this into account when answering the question.

### **QUESTION 1: Explain the difference between a buy-out and a buy-in of a Defined Benefit scheme's benefits. (10 Marks)**

- Most students were able to identify the difference between a buy-out and a buy-in
- Not everyone referred to the premium paid to the insurance company.
- Few students mentioned the concept of synthetic buy-in, nor describe its features.
- Few students noted that the trustees are responsible for considering all factors when determining the level of risk they can take to ensure any shortfall in funding is met.

*Study Manual: Part 4 Chapter 6*

### **QUESTION 2: You are an in-house Pensions Administration Manager of a defined benefit pension scheme. The new Pensions Finance Manager has asked you to write a briefing paper explaining:**

**What an event report is (5 marks)**

**The events that must be included in the report(15 Marks)**

Most students failed to answer in the form of a briefing paper so valuable format marks were lost.

Part (i)

- Most students could identify the events that must be included in the event report.
- The dates / timescales for producing the event report were often incorrectly quoted.

Part (ii)

- The reportable events often had key details missing for example serious ill-health lump sums are only reportable if paid to a director or person related to the employer.
- Reporting where the annual allowance or MPAA was exceeded was frequently missed.

*Study Manual: Part 3 Chapter 1*

### **QUESTION 3: Describe the features of a hybrid scheme and give examples of the two main types.(10 Marks)**

This was a well answered question by students who were prepared, with some students achieving full marks.

- Failure to provide examples of the two main types of scheme meant some students lost marks.

*Study Manual: Part 1 Chapter 1*

**QUESTION 4: You are a Pensions Administration manager for an in-house department which manages the XYZ Pension Scheme.**

Write a paper for your administrators:

- a) outlining the requirements for the different types of early retirement situation they may have to process (7) and
- b) explaining the conditions, including those required by HMRC, which must be satisfied before ill health early retirement benefits can be paid (13)

This was the best answered question.

Again, this question was a format-based question. Students lost marks for not answering in the form of a paper.

Part (i)

- Under voluntary or redundancy early retirement, most student mentioned the minimum age was 55 but reference to protected pension ages was often missed.
- Most students correctly noted that benefits are usually reduced for early payment, but few mentioned that a pension can be unreduced or enhanced on redundancy
- Many students failed to mention that an LTA check was required.

Part (ii)

- For benefits taken on the grounds of ill health, many students gave a high level of detail regarding how a member would be assessed for ill health benefits.
- However, students frequently lost marks for failing to distinguish the difference in taxation before and after age 75.
- Several students wrote about flexible retirement questions. This was not necessary in the context of this question.

*Study Manual: Part 2 Chapter 3*

**QUESTION 5: Describe what the Myners investment principles are. (20 Marks)**

Students who were prepared did well in this question.

- Most students were able to identify the six principles, although some students were unable to expand on the details of each.
- The principle of Risk and Liabilities was often sparse in detail, with students failing to discuss strength of sponsor covenant and the risk of sponsor default.

*Study Manual: Part 4 Chapter 6*

**QUESTION 6: Explain what the purpose of a discontinuance valuation is and the factors which may affect its outcome (15 Marks). Include details of the statutory priority order (5 Marks).**

This was the poorest answered question.

Part (i)

- Only a few students knew the purpose of a discontinuance valuation, the factors which may affect its outcome and what would happen if the plan wound up.
- Time was wasted adding details of the PPF compensation scheme which was unnecessary.

Part (ii)

- Most students had good knowledge of the winding up priority order

*Study Manual: Part 4 Chapter 2*