

Core Unit 3 Examiners' Report

There were two parts to the question paper:

- Part One consisted of 50 multiple choice questions
- Part Two consisted of seven short answer questions

Part One – Multiple choice questions

The total number of learners who took this exam were 48.

The total number learners who passed this exam were 25.

Part Two – Short answer questions

Average scores for Part 2 of the paper were lower than for Part 1. Overall the standard of answers for the majority of the questions was good. The best answered question was Question 2. A number of candidates struggled with questions 4 and 5 on average scoring less than one third of the marks available for those questions.

1. Explain the rights members of DB schemes have in relation to transferring their benefits to another pension arrangement. (7 marks)

On average members picked up around half the available marks for this question. The examiners were specifically looking for candidates to cover members rights. Many candidates included information on disclosure requirements which was not relevant to the question. To gain full marks candidates needed to cover the following points

- Statutory right to transfer if member has a deferred benefit.
- Transfer to a registered scheme or QROPS
- Member must be at least one year from NPA
- Right doesn't apply to pre 6 April 1988 benefits if member is still in employment
- Rules / Trustees may allow transfer if member doesn't have a statutory right
- Some Trustees now provide a CETV alongside retirement quotes
- If transfer is to DC and value is £30k or more member must receive independent advice
- Trustees / advisers must check this has been received
- Members can't transfer to DC from public service schemes

The relevant section of the manual was Part 3 Chapter 2.

2. List the key activities the Pension Regulator expects a DB scheme to complete within two years of their winding up date. (7 marks)

This question attracted the highest average scores. The activities which should have been included in the answer were:

- Calculating and serving and S75 debt.

- Obtaining terms from insurers for pensioners and non-pensioners
- Allocating assets to members in line with statutory priority order.
- Issuing option letters to non-pensioners.
- Paying benefits in accordance with options exercise.
- Securing benefits
- Providing details of benefits secured with an insurer.
- Conducting a final actuarial valuation.
- Obtaining final audited accounts.

The relevant section of the manual was Part 6 Chapter 2.

3. Outline the main features of a master trust. (8 marks)

This question was generally well answered. To get maximum marks candidates simply needed to include the following points.

- Central clearing house responsible for:
 - Collecting contributions from employers
 - Handling employer queries
 - Keeping records of contributions
 - Allocating contributions to the right funds
- Administration of members' accounts:
 - Handling member queries
 - Giving members information about their accounts
- Investing contributions on behalf of members
- Managing investment funds
- Enabling access to benefits at retirement.

The relevant section of the manual was Part 2 Chapter 2.

4. Describe the main features of the Special Annual Allowance introduced by the April 2009 budget. (4 marks)

This question attracted the lowest average scores of the paper with a number of candidates failing to score any marks. Whilst many candidates may not have encountered the Special Annual Allowance at work it is covered in the manual and candidates should bear in mind that all topics in the manual can be examined. A small number of candidates did manage to score well on this question by covering most of the following points:

- Anti-forestalling provisions in relation to proposed limits to apply from April 2011.
- Took effect immediately and applied to 9/10 and 10/11 tax years.
- Initially applied to individuals with taxable income of £150k or more in any tax year or either of the previous 2 tax years.
- Limit was reduced to £130k.
- Special Annual Allowance charge applied where pension input amount exceeded greater of:
 - Special Annual Allowance or
 - Regular pension input amount being made before April 09 budget

- Special Annual Allowance was either £20k or greater amount subject to a maximum of £30k
- Impact was to reduce basic rate tax relief.

The relevant part of the manual was Part 3 Chapter 3.

5. List the core areas that DC code of practice 13 focusses on.

(10 marks)

Average marks scored for this question were also low. Rather than focussing on the DC code many candidates instead focussed on the Chair's statement. Where they made points relevant to the questions marks were awarded but focussing on Chair's statements meant that they failed to include much of the detail required to get a good score. Examiners were expecting candidates to list the following points:

- Trustee Board continues to be suitable:
 - Demonstrates honesty and integrity
 - Manages risks and relationships with providers
- Scheme management skills
 - Trustees have adequate knowledge and understanding of DC schemes
- Administration of DC benefits is conducted efficiently
 - Suitable reports provided to trustee board
- Investment governance
 - Suitable investments available and monitored
 - Information provided to members
- Value for members
 - Benefits provided compared with cost of member borne charges
- Communicating and reporting
 - Members provided with suitable / clear information and relevant information is reported to the Pension Regulator.

The relevant section of the manual was Part 2 chapter 3

6. Explain why real time investment switching is not the standard approach adopted by DC schemes.

(10 marks)

On average candidates scored around half of the marks available for this question. Examiners were looking for candidates to include the following points:

- Trustees / managers are wary of members making a decision without the administrators first having sight of the action:
 - Worry members don't understand dealing cycles
 - Members may not understand cut off points for requesting a switch
 - Members may not understand price for deal may be different to that on screen
 - Administration costs if switching is unlimited and Trustees are charged per transaction
- Technology is a major barrier:

- Interfaces between systems are rare
- Where they exist they may only work on a common platform
- Unwillingness to take responsibility for / pay for integration between platforms
- Starting to change with advent of straight through processing
- Until recently no industry standard means of communicating electronically between investment managers and different admin platforms

The relevant section of the manual was Part 1 Chapter 4.