Report of the December board of examiners for October 2018 exams

Contents

Introduction

This report is to review learners' performances in the 10 units examined in October 2018.

Overall learners' answers have improved dramatically this year with some units having the highest pass rates in over 2 years.

Marks are typically awarded for relevant facts, understanding, and application when appropriate. Marks are also awarded for communication for some questions in the Specialist Units and Professionalism and Governance unit, emphasis on understanding, application and communication increases further with the later units.

Completion of assignments in conjunction with the revision courses has proven to be useful to learners. Past examination papers will be useful and are available on the PMI website.

The table below summarises performances across the units.

Unit	Pass Rate October 2018	Pass Rate April 2018
Core Unit 1A	65%	34%
Core Unit 1B	50%	69%
Core Unit 2	58%	46%
Core Unit 3	81%	67%
Core Unit 4	72%	65%
Defined Benefits Arrangements	70%	67%
Defined Contribution Arrangements	50%	77%
Reward and Retirement Provision	Not examined this season	54%
Retail Advice and Regulation	50%	20%
Taxation, Retail Investment and Pensions	39%	18%
International 2	Not examined this season	80%
Professionalism and Governance	25%	21%

The rest of this report looks separately at each unit examined in October 2018. It gives a guide as to how the question paper overall and each of the questions were answered by learners, an indication of what was required in response to the questions, and any common errors or omissions. For the Core Units, some feedback on the multiple-choice aspect of the examination is given.

Please note the October 2018 examinations were based on the 2018 syllabuses and on the law as it existed at midnight on 6th April 2017

Core Unit 1A: Understanding Retirement Provision

There were two parts to this question paper:

- Part one consisted of 50 multiple choice questions
- Part two consisted of 8 short answer questions

Each section had equal weighting

Part one

There were 50 questions, each correct answer being worth 1 mark. There were two types of question, as follows:

- 40 questions where learners select one correct answer from a choice of four possible answers, and
- 10 questions where learners are given two statements and have to determine whether both are true, the first is true and the second is false, the first is false and the second is true, or both are false.

Examples of these types of questions can be found on the PMI's website.

The questions were broadly representative of the entire syllabus.

In general, learners achieved good scores on the multiple-choice questions.

For the multiple-choice questions areas that learners answered less well covered the following areas of the syllabus and study material:

Subject	2018 study manual reference
Public sector schemes	Part 4, chapter 2.3.1
Disclosure	Part 1, chapter 2.4.2
Corporate wraps	Part 1, chapter 2.3.2
Automatic enrolment staging	Part 3, chapter 3.2.3
SIPPs	Part 4, chapter 1.2.3

Part two

There were 8 questions where learners were required to write their answers in free format. Whilst learners did not score as highly as they did for the multiple-choice section, the examiners were pleased to note a clear improvement in the overall standard of answers compared to previous sittings for this module.

Question 1

Outline the basic structure of the 2013 Disclosure Regulations that apply to occupational pension schemes from 6 April 2014. (10 marks)

The relevant section of the 2018 edition of the study manual was Part 1, Chapter 2.4.2,

Most learners were able to demonstrate some knowledge of this subject, with many making reference to providing basic information to new members on joining, annual benefit statements, summary funding statements and wake-up packs prior to retirement. The more knowledgeable learners also referred to:

- documents available on request, such as the trust deed and rules and the annual trustees' report
- pension savings statements if the member has exceeded the annual allowance
- details of the member's lifetime allowance used on a benefit crystallisation event, and
- the need for independent advice when safeguarded rights over £30,000 are being transferred.

Question 2

List five de-risking strategies available to the sponsor and trustees of a defined benefit scheme faced with increased cost pressures. (5 marks)

The relevant section of the 2018 edition of the study manual was Part 4, Chapter 2.2.1.

This question was generally well answered. Most learners knew that sponsors or trustees have used buy-ins, buy-outs, enhanced transfer value exercises and pension increase exchange offers to limit or reduce the costs of funding defined benefit schemes. Fewer mentioned other strategies such as liability driven investment, closing the scheme or reducing future accrual.

Despite the wording of the question, a number of learners spent time unnecessarily describing these strategies in detail. Since learners were only required to list these strategies no additional marks could be awarded for such detail.

Question 3

Write brief notes to explain the basis of PPF levies and their purpose. (5 marks)

The relevant section of the 2018 edition of the study manual was Part 2, Chapter 1.8.4.

This question was poorly answered with a number of learners focussing their answers on the structure of the benefits promised by the Pension Protection Fund rather than the levies.

Many learners were confused about the two elements to the levy, although most knew that there is a risk-based element and a scheme-based element. The scheme-based element is based on the amount of PPF liabilities which a scheme would have rather than just being based on the size of the scheme. The risk-based element is based on the scheme funding level and the risk of employer insolvency (not scheme insolvency). Very few learners mentioned that the PPF collects additional levies to fund its administration and the costs of a fraud compensation scheme or that it collects the levy annually and that there is a ceiling on the levy which schemes must pay.

Most learners correctly stated that the purpose of the PPF levies is to fund the benefits which the Pension Protection Fund provides but a number incorrectly stated that all occupational schemes are required to pay the levy.

Question 4

Explain why the value of a member's retirement benefits payable from a defined contribution scheme is not known in advance. (5 marks)

The relevant section of the 2018 edition of the study manual was Part 4, Chapter 2.1.4.

Most learners knew that the benefits from a defined contribution scheme cannot be known in advance because they will depend on investment returns and then on annuity rates available at retirement. Far fewer mentioned other factors such as the size of the fund, the amount of employee and employer contributions and the flexibility which savers now have, to choose how they access their funds at or during retirement, such as level or increasing pension instalments or a dependant's pension.

Question 5

Identify the areas of work undertaken by pension investment advisers for trustees of an occupational pension scheme. (9 marks)

The relevant section of the 2018 edition of the study manual was Part 2, Chapter 1.19.2.

Whilst a few learners achieved good scores the majority of answers to this question failed to present a clear analysis of the types of work a pension investment adviser would typically undertake, and in consequence most learners failed to score well.

Answers should have covered reporting on scheme asset performance, advising and reviewing investment strategy, selection and monitoring the performance of the investment managers, asset transition management and investment trustee training. These points are all covered in the study manual and learners were also given credit for advising DC trustees on funds to offer and drafting the scheme's Statement of Investment Principles (SIP).

Question 6

Describe how a Group Personal Pension may differ from an individual personal pension. (5 marks)

The relevant section of the 2018 edition of the study manual was Part 4, Chapter 1.2.2.

Results for this question were mixed. Significant numbers of learners either achieved high marks or scored very low marks. A substantial number of learners failed to explain that a GPP is a collection of individual personal pensions with the same provider, typically for employees of a particular company or group of companies. Many failed to mention that the employer usually contributes to a GPP or that the employer may set up a management committee to oversee and review the governance of the GPP.

Question 7

Explain the eligibility conditions for Statutory Sick Pay, how it is paid and the amount payable. (5 marks)

The relevant section of the 2018 edition of the study manual was Part 3, Chapter 2.1.1.

This question was reasonably well answered. The majority of learners knew that statutory sick pay can be paid for up to 28 weeks, that it is paid after four consecutive days of absence from work through sickness and that it is subject to income tax and National Insurance deductions.

Fewer learners were able to accurately state the weekly amount payable and, of those who did, hardly any noted that it is a flat rate payable irrespective of the claimant's income.

Question 8

Describe the main characteristics of a master trust. Note: you are not required to describe the NEST. (6 marks)

The relevant sections of the 2018 edition of the study manual were Chapters 1.2.8 and 2.3.2 of Part 4.

Some learners scored highly on this question although others had very limited knowledge of this type of pension arrangement to which large numbers of employees have been automatically enrolled.

In general, learners tended to be aware that master trusts typically have a number of unconnected participating employers, each with its own ring-fenced section, and a single set of trustees.

Very few learners noted that a master trust has a single set of rules, is not subject to the member-nominated trustee requirements or made reference to the voluntary independent assurance framework produced by the Pensions Regulator and the Institute of Chartered Accountants in England and Wales.

Relatively few learners noted that master trusts are occupational schemes and are defined contribution arrangements.

Despite the sign-posting in the question a few learners included details of the NEST in their answers.

Core Unit 1B: Foundation in International Employee Benefits (International 1)

There were two parts to this question paper:

- Part one consisted of 50 multiple choice questions
- Part two consisted of 5 short answer questions

Each section had equal weighting

Part one

Of the 50 questions the first 40 marks were awarded for questions where four answers were provided and only one was correct and the last 10 marks were awarded for questions where learners were provided with two statements to consider and had to decide if neither, both or one of them was correct.

Learners scored well as usual in this part of the question paper, there were few instances where two responses were selected, thus resulting in no mark being awarded. There was a slight correlation between doing well in the multiple choice and doing well in the short answer. On average people tended to find the style of the last 10 questions harder than the style of the first 40.

Learners performed well in questions involving employee share plans, total reward packages, risk management processes, the responsibilities of the finance function of an organisation with respect to pensions, how employment objectives are categorised, jubilee/long-service awards; they tended to perform less well in questions concerning: Swiss employment contracts, risks covered by local benefit managers and professional advisers, the pillars of pensions provision in Japan, financing defined benefit plans in japan, the different approaches to providing flex benefits, pensionskassen, disability benefits within Dutch pension plans, post-retirement medical benefits, the pensions protection fund in the UK.

The areas that candidates answered less well were

Subject	Study manual reference
Dutch Disability benefits	Part 4 Chapter 6
State retirement pensions in the Netherlands	Part 4 Chapter 6
Swiss written contracts	Part 4 Chapter 5
Role of an Actuary	Part 3 Chapter 9
US Retirement Age	Part 4 Chapter 4
Flex benefits	Part 2 Chapter 7
Employee share plans	Part 2 Chapter 6
EU payments	Part 5 Chapter 1
Economic and monetary union	Part 5 Chapter 1
US Employee Contributions	Part 4 Chapter 4
International Benefits Strategy	Part 3 Chapter 3
Risk	Part 3 Chapter 6
Defined Benefit plan accounts	Part 3 Chapter 12
Post-retirement benefit plans	Part 2 Chapter 3

Part two

Learners are reminded to always start a new question on a fresh page and to use pen – black or blue ink – rather than pencil to aid legibility. Some learners did not read the question properly before attempting the answer sometimes writing anything known about a related topic, rather than answering the question being asked.

The highest achieving learners make it clear where they had studied the relevant sections of the manual, as the answers were direct and covered the relevant points specified in the question. Some of the top learners sketched out their answer before attempting the question in full. Learners are reminded to cross out any abbreviated notes if they do not wish these to be marked.

1. Write brief notes on the form and type of medical benefits provided to employees.

(5 marks)

This question covered Page 15, Part 2, Chapter 2, Section 2.2.3 of the 2018 study manual.

This was generally the most well-answered question, although only a few learners were awarded full marks

A majority of learners were aware that medical benefits vary by country and depend on its culture and the tax treatment of such benefits.

Most learners did not include that medical benefits can be provided as part of an employer's flexible benefits offering.

Some learners included details regarding the administration and financing aspects of medical benefits – whereas the question was asking for the "form and type".

Successful learners had clearly read the relevant section of the manual and recalled the salient points.

2. The company is considering implementing flexible benefits globally, where possible. You have been asked to write short notes on the aim, advantages and conditions required for these plans.

(10 marks)

This question covered Page 41, Part 2, Chapter 7, Section 7.2 of the 2018 study manual

Nearly all learners stated that flexible benefit plans are only possible in countries where these are legally possible and/or have tax advantages.

Most learners did not include that HR and Finance backup and buy-in is one of the keys to the success of an employer's flexible benefits plan. Some learners did not state that one of the main aims of a flexible benefits plan is to recruit and retain employees.

Many learners include detail of the different types of benefits package, their typical components and the benefits selection process, whereas the question was specifically asking for short notes on "the aim, advantages and conditions required for these plans".

A number of learners were awarded full marks, and this was where they had clearly read the relevant section of the manual and read the question.

Again, learners are reminded to read the question carefully to ensure that they are answering in accordance with what is being asked, not just writing what they know on the subject and want to write.

3: What are the main features of Pillar 1 Social Security provision in the Netherlands?

(10 marks)

This question covered Pages 135-136, Section 4, Chapter 7 of the 2018 manual.

A majority of learners knew that Pillar I Social Security provision in the Netherlands is flat-rate and linked to residence.

Many learners did not include that one of the key principles of Pillar I Social Security provision in the Netherlands is that it is PAYG.

Only a small number of learners answered fully enough to be awarded the total number of marks available.

A number of learners who were successful overall answered this correctly because they had clearly read the relevant section of the manual and understood the material.

4. Your Company is looking to set up operations in Japan. As International Benefits Manager, prepare a short paper on Pillar 11 provision in Japan. Your paper should include the regulation, benefits, and financing. (10 marks)

This question covered Pages 143-144, Section 4, Chapter 8 of the 2018 manual.

The exam paper contained a typographical error – it should have read “Pillar II”, not “Pillar 11”. Therefore, learners who answered the question assuming that it was asking for an answer relating to Pillar I provision in Japan were also awarded marks.

Where answered as Pillar II, learners had an awareness that DB pension plans are more prevalent in Japan than DC plans. Where answered as Pillar I, learners knew at a high level that there are two elements – the National Pension (NP) and Employees’ Pension Insurance (EPI).

Only a small number of learners achieved full marks, and this was where they had clearly read the relevant section(s) of the manual.

Whilst most learners knew the high-level detail of Pillar I and Pillar II pensions provision in Japan (depending on how they chose to read the error in the question text), in a majority of cases not enough detail was included for a 10-mark question.

5. List the relationships the HR function will have with other parties. (5 marks)

This question covered Page 53, Part 3, Chapter 4.4 of the 2018 manual.

The question asked for a “list”, but learners did not take the opportunity to include brief detail on these roles even though it was a 5-mark question and there were therefore additional marks available. It is acknowledged that the question could have therefore made this clearer.

A majority of learners provided a full/near full list based on the relevant section of the manual. Often no further detail other than a bullet point list was included

Most learners stated that some of the key relationships are between the HR function and the local/international benefit managers, the Finance function and benefit plan administrators.

Hardly any learners stated that the regulators were a key party that the HR function will interact with.

Learners should be aware that additional marks are available where they can demonstrate and articulate a deeper understanding of the subject matter (i.e. not just regurgitate text).

6. Write a short note that explains the impact of the Economic and Monetary Union (EMU) on pension plans. (10 marks)

This question covered Page 151, Part 5, Chapter 1.3 of the manual.

Marks were awarded where learners mentioned that EMU affected the assets held by pension plans (but not the detail of how).

A majority of learners wrote anything they knew about the EU and pension plans generally, and often focused on (and gave significant detail of) the IORP Directive, whereas the question was clear that is related to the impact of the introduction of EMU.

It was clear that most learners had either a) not read the question correctly, b) not studied the relevant section of the manual or c) both.

Only very few learners were awarded any marks for this question. It is important that learners read the question carefully and ensure that all areas of the manual are studied, as questions can be asked from anywhere within the manual.

Core Unit 2: Regulation of Retirement Provision

There were two parts to this question paper:

- Part one consisted of 50 multiple choice questions
- Part two consisted of 7 short answer questions

Each section had equal weighting

Part one

Of the 50 questions the first 41 marks were awarded for questions where four answers were provided and only one was correct and the last 9 marks were awarded for questions where learners were provided with two statements to consider and had to decide if neither, both or one of them was correct.

Learners scored well as usual in this part of the question paper, there were few instances where two responses were selected, thus resulting in no mark being awarded. There was a correlation between doing well in the multiple choice and doing well in the short answer. There was no significant disparity in how difficult people tended to find the style of the last 10 questions compared to the style of the first 40.

Learners performed well in questions involving the trustees' annual report for an occupational pension scheme, the annual allowance for contributions to registered pension schemes, the pensions ombudsman, expression of wish forms, why trustees can delegate some of their duties, how lump sum death benefits should be paid; they tended to perform less well in questions concerning: the trustees annual report and European financial services regulation.

Part two

This paper was generally well answered, and most learners scored above average marks, so together with good scores as well on the multi-choice questions, there was a higher percentage of passes than seen over the past few years. Some of the questions were topical or relate to the day to day work learners may be doing so these could be attempted from practical experience. The majority of learners did therefore attempt most of the questions. However, to achieve sufficient marks to pass the exam learners do need to have studied all parts of the manual and have a detailed recollection of the facts. This is evidenced particularly by the range of scores on question 5 on Excepted Group Life Schemes and question 6 on the Money Purchase Annual Allowance, (see comments below). Learners are also reminded to read the questions carefully to make sure they understand the scope of the question and what format the answer should take e.g. a list or describe and consider the number of marks allocated. This will guide the learner to how much detail is needed for the answer. Learners who did well gave concise and focussed answers. Handwriting continues to be a problem when trying to mark the papers.

1. Write brief notes about the Pensions Regulator's power to issue Codes of Practice.
(5 marks)

The relevant part of the manual was Part 2, Section 2.18.

The Pension Regulator (TPR) is required to issue Codes of Practice (COP's)on certain statutory Requirements and has the power to issue on other matters as it wishes. The question was looking for reference to this specific power and the purpose of the COP'S which contain practical guidance for Trustees to enable them to comply with Statutory instruments. Most learners picked up on these points and were able to list some examples of the Codes of Practice that have been issued. The points not picked up so well were that there is that the COP's are not a statement of Law and there is no direct sanction or breach. Few learners mentioned that a court or tribunal will take COP's into account when considering if Trustees have fulfilled legal obligations.

Some learners mis-understood this question and wrote about TPR's Powers in general.

2. List the most common types of trustee that can be involved in running a pension scheme.
(5 marks)

The relevant part of the manual was Part 2 Section 2.1.

This was a very basic question and possible to pick up the full 5 marks as there were more than 5 possible types of trustee to pick from which just needed to be listed. Most learners listed independent trustees, Member Nominated Trustees, and Corporate Trustee. Least mentioned was Custodian Trustee and Committee of Management. Most learners did get the full 5 marks on this question.

Some learners did list the types of trustees and then gave an explanation of each which was not required and no extra marks available for doing this.

3. Outline the compensation provided to members by the PPF when it takes responsibility for a scheme. (10 marks)

The relevant part of the manual was Part 1 section 3.3.2

This was a straight forward question and most learners were able to pick up some marks. However, this question did require quite a bit of information to pick up the 10 marks. In the answer we were looking for reference to the different levels of compensation payable to different groups of members. Most learners wrote about 100% of accrued benefits being payable to those over Normal Pension Age or in receipt of an ill health or survivors pension and that 90% was payable to others. Most also mentioned the indexation rate and that 50% spouses' pension is payable on death. Most learners also referred to the 90% being subject to a cap depending on age but very few expanded on this by referring to how the overall cap on benefits is determined. A number of marks were available for outlining how the cap is applied including the relevant amounts at different ages and how the cap is increased for those with long service. The learners that explained this correctly gained a good overall mark for this question.

4. Write notes on the charges that can apply to Defined Contribution Pension Schemes to cover the cost of administration and investing members' funds. (10 marks)

The relevant part of the manual is part 5, section1.5.1

This question was around the operation of DC schemes and the different charges that apply. It is quite a topical subject and most learners scored well on this, possibly helped by a working knowledge of DC schemes. Some of the charges to include were, annual management charge, policy fees, fund switches and bid offer spreads and transfer charges. The charge least referred to was allocation rates but this typically only refers to legacy policies and so it will be learners who studied the manual in detail who will have picked this point up. Average marks though were high for this question.

5.

(a) Explain what an Excepted Group Life Scheme (EGLS) is. (4 Marks)

(b) List the conditions that need to be met to qualify as an EGLS. (6 Marks)

The relevant part of the manual was Part 1, Section 1.6.3

This was the worse answered question on the basis that a number of learners could not attempt to answer it. It was clear from the answers which learners had read and recalled the facts from the manual, there being a clear split in the marks of good scores and a number of zero scores. Most learners will only come across this topic by reading the manual.

For Part a:

Part a) was the least well answered part. Most of the learners who answered the question well were able to explain that an EGLS allows employers to offer tax efficient benefits through lump sum death in service benefits as it does not count towards the Life Time Allowance and avoids the 55% tax charge. Most also mentioned that employer premiums receive tax relief and can be treated as a business expense but failed to add in that this is provided HMRC consider them wholly and exclusively for the purpose of trade as part of the remuneration of an individual.

Part b) was answered well by those who had studied the manual, with the higher scoring learners listing most of the conditions. These included that all members must have the same benefit formula, lump sums must be paid for deaths before age 75 and if the policy is cancelled it does not have a cash value, apart from a refund of unused premiums.

6. List the circumstances in which the money purchase annual allowance may be triggered. (5 marks)

The relevant part of the manual was part 1, Section 1.4

This was another question where there was a split of very good answers with learners getting the full 5 marks and some learners that could not get any marks, although most learners attempted the question. Some learners wrote about the Annual Allowance in general, either misreading the question or had not studied the manual sufficiently. The question was straight forward and just required a list. Most learners listed draw-downs from flexi access draw down funds and receiving an un-crystallised lump sum. Less mentioned was receiving a standalone lump sum from a money purchase arrangement where the individual was entitled to primary protection but not to enhanced protection.

7. With regard to corporate transactions, write notes on the pension matters commonly covered by indemnities in a Sale and Purchase Agreement. (5 marks)

This question was well answered, showing a good knowledge of the manual and quite a number of learners obtaining the full 5 marks. Most learners picked up at least some marks. Some of the points to mention were: Section 75 debts, any pensions liability which the Target may have as a result of any previous transfer of employees to the Target under Tupe (including reference to the Beckmann and Martin cases) or any pensions liability as a result of TPR imposing a Contribution Notice or Financial Support Direction.

Core Unit 3: Running a Workplace Pension Scheme

There were two parts to this question paper:

- Part one consisted of 50 multiple choice questions
- Part two consisted of 6 short answer questions

Each section had equal weighting

Part 1

Of the 50 questions the first 40 marks were awarded for questions where four answers were provided and only one was correct and the last 10 marks were awarded for questions where learners were provided with two statements to consider and had to decide if neither, both or one of them was correct.

Learners generally scored high marks for part one of the paper demonstrating a good knowledge of the subject matter across the full syllabus. In total there were 10 questions where over 95% of learners selected the right answer. These covered areas such as:

- Annual Allowance
- Pension Protection Fund
- Record keeping
- Life styling
- Retirement options
- Leaving service options
- Automatic enrolment
- Delivering pension benefits
- Overseas employees

For the multiple-choice part of the paper the questions where the lowest number of learners selected the correct answer covered the following areas of the syllabus and study material:

- Current issues – Financial Guidance Body
- Current issues – DC charges
- Pensioner payroll – pension increases
- Internationally mobile employees

Part 2

Average scores for Part 2 of the paper were lower than for Part 1. Overall the standard of answers was good. The best answered question was Question 4 and the question which attracted the lowest average score was question 2.

1. **Outline the interactive features typically included on pension scheme websites. (10 marks)**

The relevant section of the manual was Part 1 Chapter 3

The manual covers a number of different features which can be found on pension scheme websites including: static information; interactive information; ability to update; modelling tools and real time access. The focus of this question was on interactive features and many learners wasted time by covering static information in detail in their answer. To gain full marks learners needed to cover the following:

- Answers to FAQs
- Bulletin boards
- Hyperlinks to related pension sites
- Access to personal details for members
- Access to financial modelling tools
- Access to externally administered schemes for trustees / managers/ advisers / employers
- Access to high level scheme management information for employers / trustees / manager / advisers

Most learners picked up marks for modelling tools and access to personal details. The final two points listed above were missed by the majority of learners.

2. Explain what additional records a DB scheme would need to hold for deferred members to ensure revaluation of their pension is applied correctly. (7 marks)

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

This question attracted the lowest average scores. The question specifically requested details of the 'additional records' required. Many learners simply listed all the information they would expect to be included in a member record. As a result, they either included a lot of irrelevant information which attracted no marks or scored no marks at all because they did not include the information needed to apply deferred revaluation. The data items which should have been included in the answer were:

- GMP split pre / post 1988
- Pre 6 April 1997-excess split between elements which are / aren't subject to compulsory revaluation
- Pension earned April 1997 to April 2005
- Pension earned April 2005 to April 2009
- Pension earned from April 2009

3. List five different types of lump sum death benefit that may be paid by a pension arrangement and describe their tax treatment if the member is under age 75 at date of death. (10 marks)

The relevant section of the manual was Part 5 Chapter 3.

This question was generally well answered. There are 10 types of lump sum death benefit listed in the manual. Learners simply needed to list five of those with details of their tax treatment to gain full marks. It appeared that some learners did not read the question carefully enough as they included more than five types of lump sum and / or outlined tax treatment over age 75. There were no marks awarded for including information not requested in the question.

4. Explain how Qualifying Earnings are calculated and list the elements of pay which must be included. (8 marks)

The relevant part of the manual was Part 2 Chapter 1.

This was a very straightforward question on a topic most learners are likely to be familiar with through their day to day work. Consequently, it attracted the highest average score with a significant proportion of learners achieving the maximum available marks. This required learners to include the following points:

- Calculated using gross earnings
- Between upper and lower contribution limits
- Following elements must be included:
    - Basic salary or wages
    - Commission
    - Bonuses
    - Overtime
    - Statutory sick pay
    - Statutory paternity pay
    - Ordinary or additional statutory maternity pay
    - Statutory adoption pay

In a number of cases learners presented a list of the 'elements' but didn't explain how qualifying earnings are calculated which meant they missed out on some of the available marks.

5. Describe the special requirements that may apply to the payment of spouses' / civil partners' / dependants' and children's pensions. (7 marks)

The relevant section of the manual was Part 3 chapter 4

The quality of responses to this question was varied. A few learners scored maximum marks, but many missed out on marks because they described the various benefits payable rather than focussing on the special requirements that may apply to their payment. The following points should have been covered in the answer:

- Pensions taxed under PAYE

- Children's pensions should be set up in their name to ensure correct taxation
- Scheme rules may specify maximum age for children's pensions. It may depend of whether the child is still in education / training. HMRC set a limit of age 23 except in special circumstances
- Spouse's pension may be reduced if spouse is more than a defined number of years younger than the member
- Rules may define dependant. Even if they don't HMRC imposes conditions
- Rules regarding payment of benefits to civil partners and widows of female members under a same sex marriage.

6. Outline the conditions that need to be satisfied if a member is to have the right to require the scheme to pay their Annual Allowance tax charge. (8 marks)

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

This question was generally well answered with learners on average picking up around two-thirds of the marks available. Examiners were looking for learners to include the following points:

- Annual Allowance charge must exceed £2,000
- Pension input amount must exceed the general Annual Allowance. The tapered Annual Allowance is ignored
- Request must be irrevocable election in a prescribed form
- Deadline is 31 July after the end of the following tax year
- For 2011/12 the deadline was extended to 31 December 2013
- If conditions aren't met scheme may voluntarily pay the charge
- Member's benefits will be reduced to meet the charge

The main omissions / areas of confusion were learners failing to mention that the tapered Annual Allowance is ignored and stating that the election must be made by 31 July after the end of the tax year (the correct date is 31 July after the end of the following tax year).

Core Unit 4: Financing and Investing for Retirement Provision

There were two parts to this question paper:

- Part one consisted of 50 multiple choice questions
- Part two consisted of 5 short answer questions

Each section had equal weighting

Part one

Of the 50 questions the first 40 marks were awarded for questions where four answers were provided and only one was correct and the last 10 marks were awarded for questions where learners were provided with two statements to consider and had to decide if neither, both or one of them was correct.

Learners scored well as usual in this part of the question paper. There wasn't a statistically significant correlation between doing well in the multiple choice and doing well in the short answer. On average people tended to find the style of the last 10 questions easier than the style of the first 40.

Learners performed well in questions involving Statement of Investment Principles, capital gains tax liability, whistle blowing policies; they tended to perform less well in questions concerning: socially responsible investments, with profits policies, considerations relevant to an assessment of employer covenant.

Part two

Overall the short answer papers were fairly well answered, although some questions revealed surprising gaps in learners' knowledge, particularly in relation to DC matters which the examiners found particularly disappointing. As usual, learners who did well had clearly studied all areas of the manual while a number of learners appeared to attempt the paper based on pre-existing knowledge, which results in marks being missed.

1. **Describe the main reasons that pension schemes are funded. (10 marks)**

The relevant part of the manual was Part 1 Section 1.1.

Most learners gained marks for listing three or four of the five main reasons listed in the manual, which are: Scheme design, security, stability/cash flow, taxation and accounting standards. Many learners mentioned that some DB schemes may be unfunded, but few mentioned that funding is implicit for a DC scheme. The majority of learners gained a mark for explaining that a funded scheme is typically held in trust separate from the assets of the sponsoring employer so that it is not available to creditors on the insolvency of the employer. Good learners also gained a mark for explaining that the level of security provided depends on the size of the fund relative to its liabilities.

Most also gained a mark for explaining that if a scheme is not funded, benefits must be paid as they fall due by the employer. In relation to taxation, marks were available for stating that a scheme must be funded in order to be registered with HMRC so as to obtain tax relief. Learners were often confused about the fact that unfunded liabilities must be reflected in the employer's accounts.

2. **Explain how buy-ins and buy-outs operate. (10 marks)**

The relevant part of the manual was Part 2, Chapter 3.1

This question was reasonably well answered with many learners able to explain the main difference between a buy-in and a buy-out, although many missed out on easy marks which were available for stating that a buy-in is the purchase by trustees of a DB scheme of an annuity on a bulk basis with an insurer, in order to protect against longevity and other risks. Most learners gained a mark for explaining that members whose benefits are secured on a buy-in remain scheme members, although few went on to mention that a buy-in is a scheme investment.

Good learners explained that it is possible to purchase annuities for both pensioners and deferred members although the latter is less popular as it is more expensive. Most learners gained marks for stating that a buy-out typically happens when a scheme is being wound up and that members whose benefits are secured in this way cease to be members of the scheme, with benefits secured in their own name.

Marks were also available for explaining that the cost of a buy-in or buy-out depends partly on the quality of data provided to the insurance company as the better the data, the fewer assumptions the insurer needs to make. Many learners were aware that the Regulator is driving a move to improved data generally and good learners mentioned medical underwriting.

A mark was also available for describing synthetic buy-ins using a combination of interest rate, inflation and longevity swaps.

3. Outline the objectives and statutory powers of the Pensions Regulator. (10 marks)

The relevant part of the manual was Part 3 Section 1.3.

This question was well answered. Most learners were able to list the objectives of the Pensions Regulator: protect benefits of members, promote and improve understanding of good administration in work-based pension schemes, reduce the risk of situations which may lead to a claim on the PPF, maximise employer compliance with automatic enrolment obligations and minimise the adverse impact of pensions on the growth of an employer. Learners should be careful if they are paraphrasing these objectives; for example, “protecting the employer’s business” is not the same as minimising adverse impact of the pension scheme on an employer’s growth.

The second part of the question was less well answered; some learners were able to name a particular power but gave an incorrect description of it. Most learners stated that the Regulator has power to prosecute certain offences and impose fines, and many were aware that the Regulator may prohibit trustees who are not “fit and proper” from acting as trustees and can issue an improvement notice or third-party notice. Fewer learners referred to the Regulator’s power to recover unpaid contributions or issue a freezing order on wind up. Marks were also available for listing and describing correctly the Regulator’s power to issue a contribution notice, financial support direction and restoration order.

4. Write short notes on the following Private Equity Investments:

a. Venture capital (6 marks)

b. Replacement capital (1 mark)

c. Buy out (1 mark)

d. Special situation (2 marks)

(Total: 10 marks)

The relevant part of the manual was Part 4, Chapter 3.4.

Learners either did well, having clearly studied the relevant part of the manual, or very badly, having clearly not done so.

In part a), learners should have explained that a venture capital investor invests in an unquoted company with undeveloped products and aims to make a profit by selling that investment in an IPO on a stock market, having helped the company meet the stock market’s requirements in relation to minimum size or earnings. Learners could also gain marks by describing the three stages of developing companies, namely seed (where VCs finance research and assess the initial concept prior to start up), start up (where product development or initial marketing is financed) and expansion (where business growth for a profitable or break-even company is financed).

For part b), all learners needed to do was explain that an investor buys shares from another investor to reduce debt via refinancing.

For part c), the mark was available for stating that this is where an investor acquires a majority of shares in a mature company.

In part d), marks were available for explaining that special situations involve investing in assets such as distressed debt, project finance and one-time opportunities and for describing mezzanine debt.

5. Describe what is meant by “white labelling” in the context of a DC pension scheme.
(10 marks)

The relevant part of the manual was Part 5, Chapter 1.2.1.

This question was answered very poorly, which was disappointing given the significance and widespread nature of DC arrangements and the use of white labelling. Many learners seemed to be confused about the relationship between white labelling and the use of a life styling strategy in DC arrangements and some learners seemed to believe white labelling simply involved the use of a group personal pension.

The examiners wanted learners to explain that white labelling involves offering members funds of a specific type such as global equity funds, where the underlying composition of the fund may change from time to time in terms of managers and allocation between markets without the member being involved in that process. Learners should have explained that while the member needs to be aware of the characteristics of the fund, white labelling is designed to make communication with members easier and increase engagement, as well as being easier to operate as there is no need to inform members each time there is a change to the underlying investments.

Marks were also available for explaining that some schemes offer funds which indicate the risk profile of underlying assets, such as “high risk”/”low risk”, using a combination of different asset classes, whose composition may change over time based on investment advice, with the aim of allowing members to focus on the level of risk they are prepared to take.

Defined Benefit Arrangements

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. Several students provided too much detail for short answer questions, thus wasting valuable time.

1. **You are an in-house pensions specialist.**

Write an article about pension scams for your Scheme's newsletter. Describe:

(i) What they are and explain what pension scheme administrators can do to help a member avoid one. (12 marks)

(ii) and what developments there have been in this area. (6 marks)

Further marks will be awarded for ensuring that your answer is written in the style and format of a scheme newsletter article. (2 marks) (Total: 20 marks)

Study Manual Section 2, Chapter 4

For Part i:

Most students answered this section well although some students recognised the unauthorised transfer was subject to a charge but failed to note the amount of the charge or who it was paid to.

For Part ii:

This section was less well answered

Most students failed to mention the High Court's decision to overturn the Pensions Ombudsman's decision on the statutory right to transfer.

Few students failed to mention there has been an advertising campaign to highlight the issue.

Not many students mentioned cold calling is to be banned.

Only about half of students mentioned the Pensions Regulator's code of practice.

Some students made no attempt to write the answer in the style and format of an article.

2. Outline the information that a scheme administrator must provide to a member who requests a transfer to a Qualifying Recognised Overseas Pension Scheme in circumstances where:

(a) A transfer charge applies. (12 marks)

(b) A transfer charge does not apply. (8 marks) (Total: 20 marks)

Study Manual: Section: Part 3 Chapter 1

Most students who had read the study manual scored well in this question although many students failed to mention the timescales for notifying the member.

3. Describe the process, factors and considerations which should be taken into account when assessing the strength of the employer's covenant and explain ways in which the strength of the covenant can be improved.

(20 marks)

Study Manual Section: Part 4, chapter 6

This question was well answered by a few students, but many did not pick up all the points required.

Few students mentioned that the critical funding level should be quantified or listed the factors which would do this
Most students were able to name the considerations to be taken into account; although the consideration most frequently missed was the balance sheet.
Most students explained ways to improve a covenant although quite a few did not mention all of them.
Several students wasted time providing detailed information on valuations which was not required.

4. Outline the changes relating to the Annual Allowance and the Lifetime Allowance introduced by the Finance Act 2011, the Finance Act 2014, and the Finance Act 2016. (10 marks)

Study Manual Section: Part 1 Chapter 1

This was the best answered question with most pupils identifying the changes under each act and scoring full marks.

The students who didn't score as well either confused Fixed and Individual Protection and / or did not get the levels of reduction in the Lifetime Allowance right. Some students identified the wrong rate of Annual Allowance.

5. List the minimum information required when setting up a record for a new member of a pension scheme. (10 marks)

Study Manual Section: Part 2 Chapter 2

A mark was awarded for each piece of basic data mentioned and many students identified a lot of these.

However, data requirements frequently missed by students were sex; was age admitted; payroll number and normal retirement date.

Further marks were awarded for the additional data required for automatic enrolment, but many students failed to mention it at all

6. Explain how asset allocation is used in an investment strategy to meet a pension scheme's long-term liabilities. (20 marks)

Study Manual Section: Part 4 Chapter 4

This question received the lowest number of marks. Students seemed more familiar with the concept of strategic asset allocation than tactical asset allocation

Few students failed to mention the need for Trustees to provide instructions regarding the implementation of the asset allocation in an Investment Management Agreement
Many people did not mention how investment managers can take advantage of changes in market conditions.

Defined Contribution Arrangements

Overall the standard attained by learners was reasonable in this paper which was robust and the examiners were pleased to see that all the questions were attempted to varying degrees. It was evident that learners had studied the whole of the syllabus rather than just focussing on selected parts in the hope that these areas would be examined. Questions 1, 4 and 5 were relatively well answered while questions 2 and 3 proved somewhat challenging.

There was an improvement in the quality of the handwriting and it was pleasing to see that several learners had planned their answers before they wrote them, and this resulted in better structured and more relevant answers than has been in evidence in bygone years.

1. You are a Pensions Consultant for ABC Limited and the directors are contemplating the establishment of a Small Self-Administered Scheme (SSAS) for themselves. Prepare a report for them which covers the following:

(a) an explanation of what a SSAS is and why it is likely to appeal to the directors;

(5 marks)

(b) an outline of the SSAS investments which are permitted with restrictions only (NOTE: The restrictions are not required), and (12 marks)

(c) an outline of the consequences of deregistration of a SSAS. (8 marks)

(Total 25 marks)

The relevant part of the manual is Part 5, Chapter 1, 1.3.2, 1.3.3 and 1.3.4.

Part a:

This was intended to draw out the distinguishing features of a SSAS by comparison with other occupational pension schemes and most learners obliged accordingly. Most mentioned that a SSAS has the ability to finance the sponsoring employer by the provision of loan-backs and can be used to purchase the commercial property for lease back to the employer. In return the SSAS benefits from the receipt of interest and the rental income respectively thereby boosting the Directors' pensions.

The main omission was that the SSAS can lease the commercial property to a third party provided the rent charged is on commercial terms. Most learners mentioned that a SSAS cannot commit more than 5% of its fund value to the purchase of shares in the sponsoring employer.

Part b:

This Section was not so well answered presumably as some of the detail is quite technical. Common omissions were:

No more than 20% of the SSAS fund in aggregate can be invested in shares across all the sponsoring employers

A SSAS can purchase unquoted equities provided that the taxable property restrictions are not triggered and that the members (including connected parties) and the SSAS combined do not own more than 50% of the shares in any one company.

In addition, a SSAS member or a connected party should not be a controlling director of the unquoted company or another company which has an interest in it.

On a positive note the following correct points were made:

- A SSAS can invest in a hotel so long as no privileged rights are conferred on the SSAS members which would not be available to members of the public.
- A commercial property can be purchased by the SSAS provided that the rent paid by the employer is on normal commercial terms.

- A SSAS can purchase shares in a sponsoring employer (up to 100% of its shares) provided no more than 5% of the SSAS fund is invested in any one of the sponsoring employers.

Part c:

This section was answered well, and the vast majority of the learners mentioned the consequences that were asked for. The main ones are:

- Corporation tax relief on the employer's contributions is removed
- Members become liable to Schedule E tax on the employer's contributions and on their own
- Tax charges on investment income and capital gains within the fund are payable
- Lump sum death benefits cease to be free of inheritance tax

The main omission was there will be a de-registration charge of 40% of the value of the SSAS assets if the SSAS ceases to be a registered pension scheme.

2. As a Pensions Specialist for a Third-Party Administrator, draft a paper for your team which explains the regulations governing Trivial Commutation and Small Lump Sums. Your paper should cover the following:

(a)	**The pre 06.04.2015 position**	**(10 marks)**
(b)	**The post 05.04.2015 position**	**(15 marks)**
(c)	**Taxation**	**(5 marks)**
		(Total 30 marks)

The relevant part of the manual is Part 3 Chapter 1 Section 1.5.4.

Part a

This question proved challenging as it was focussed on a technical subject, but a number of learners scored well. The problem was that some learners confused themselves and so a) and b) got mixed up i.e. points which should have been made in answer to a) were made answer to part b) and vice versa.

There was a general lack of understanding of these regulations and of the conditions which have to be met for them to apply. Common omissions were:

- Prior to 27th March 2014 the upper limit for trivial commutation to apply was £18,000
- Prior to 6th April 2015 trivial commutation and small lump sums were only available for those people who had reached age 60.
- There are issues with small DC funds as it can be difficult to find a provider who is willing to offer a very small annuity.

Most learners did however make the following valid points.

- For trivial commutation to apply the value of the individual's pension rights from all registered schemes (including pensions in payment before this date) must not have exceeded £30,000

Part b:

The same observations applied to this Section as in Part a. Common omissions were:

- Payment can only be made under the Small Lump Sum rules if the rules of the scheme allow.
- The Small Lump Sum rules were introduced on 1st December 2009
- The upper limit at that time for a Small Lump Sum to be paid was £2,000.
- This £2,000 figure was increased from 27th March 2014 for Small Lump Sum payments made from that date.
- Small Lump Sums can be paid to members earlier than age 55 if they have a protected pension age or if they meet the requirements for an ill health pension to be paid.
- From 6th April 2015 it is no longer possible to pay a trivial commutation lump sum from a DC Arrangement under the £30,000 rules.
- It is however possible to pay such a lump sum or a Small Lump Sum under a DB scheme.

- In this instance any DC benefits held by a member must still be included in the valuation of benefits, but they cannot be included in the actual trivial commutation payment.

Most learners however made the following valid points:

- Where the fund value is less than £10,000 a lump sum payment can be made under the Small Lump Sum Rules
- If the member has a fund value of more than £10,000 and wants to receive their entire benefit as a one-off lump sum the payment of an Uncrystallised Funds Pension Lump Sum would be appropriate.
- Small Lump Sums can be paid to members from the age of 55.

Part c:

This Section was answered better than Parts a. and b.

Most learners made the following valid points:

- Small Lump Sums are paid via payroll because they need to be taxed under the PAYE System.
- The first 25% of the payment will be tax-free with the balance being taxed initially usually using the basic rate tax code.
- The 25% deduction is given to reflect that the member would have been entitled to a PCLS of 25% of the capital value of the benefit.
- If the member's benefits are in payment the whole of the benefit is taxed under the PAYE code already in operation.

3.

(a) Outline the key features of Master Trusts (8 marks)

(b) Describe how Master Trusts will be authorised and regulated in accordance with the Pension Schemes Act 2017. (17 marks)

(Total: 25 marks)

The relevant part of the manual is Part 1 Chapter 2, Section 2.9 and Part 6 Chapter 1 Section 1.5.

Part a:

This question was marginally better answered than question 2 but the examiners felt it could have attracted higher marks than it did as Master Trusts are a topical subject just now. The standard of answer submitted varied considerably across the sitting. The common omissions were:

- Master trusts provide a trust-based scheme for those employers who do not want the kind of onerous governance requirements which would arise from having their own scheme and trust.
- The trustees of the master trust retain control of the choice of providers and investments while the participating employers normally get to choose the contribution rates.
- Master trusts are cost effective and offer lower charges together with greater simplicity and expediency than is the case with traditional occupational pension schemes.

The learners in general made the following valid points.

- A Master trust is a multi-employer occupational pension scheme where each employer has its own ring-fenced section.
- Within the arrangement there is one trustee board.

Part b:

As with Part a), the standard of answer across the sitting was varied; a handful of learners had a good grasp of the subject and scored well but others showed a deficiency in their understanding of the requirements around authorisation and so did not do themselves justice. The most common omissions were:

- The Pensions Regulator has oversight of the new regime, and existing master trusts in operation prior to the Pensions Act 2017 coming into force are subject to the same requirements.
- Each scheme funder must meet specified requirements

- The systems and processes used in running the scheme are sufficient to ensure that it is run effectively
- The Pensions Regulator has a Code of Practice on the application process and the matters it expects to take into account when assessing whether a scheme should be authorised or not.
- The Pensions Regulator has six months in which to consider the application process.
- Existing schemes have six months to make the application, from when the legislation came into force.
- If the application is successful, the Master Trust will be added to a published list of authorised master trusts
- If the application is declined the Pensions Regulator will notify the applicant of the reason and will offer a procedure to lodge an appeal.

Most learners however made the following valid points:

- The persons involved in running the scheme must be 'fit and proper'
- The scheme must be financially stable.
- The scheme has an adequate continuity strategy
- A Master Trust will need to make an application for authorisation to the Pensions Regulator who may levy an authorisation fee.

4. List the powers of the Pensions Regulator under the Pensions Act 2004. (10 marks)

The relevant part of the manual is Part 2 Chapter 1 Section 1.2.8.

Overall this question was answered to a good standard with a number of high marks being achieved. Many learners seemed to be on top of the powers currently held by the Pensions Regulator. The most common omissions were:

- Order that financial support is put in place for an underfunded scheme.
- Direct schemes how to calculate their liabilities and the contributions required.

The points sought after were:

- Order an employer to pay a shortfall or late contributions to a scheme.
- Issue a contribution notice where there is an action to avoid a pension debt
- Order a scheme administrator to improve their service to the trustees and correct their mistakes
- Ensure money that is stolen from the scheme is returned
- Stop activity in relation to a scheme such as members paying into it or new members joining the scheme.
- Disqualify trustees who are unable to carry out their role adequately
- Modify future accrual of benefits in specific circumstances
- Impose civil penalties

5. Outline the provisions of the General Data Protection Regulation (GDPR) (10 marks)

This question was answered to a very reasonable standard with only a few marks' difference between the best and the worst scripts. This was to be expected given how topical GDPR is.

The most common omissions were:

- GDPR applies to data controllers and data processors
- GDPR places obligations on data controllers to ensure their contracts with processors apply.
- Data processors have direct obligations for the first time
- Data processors must appoint a representative in certain circumstances

The main points sought after were:

- GPDR came into force on 25th May 2018 and replaces the Data Protection Act 1998
- Trustees of pension schemes are data controllers and third-party administrators are data processors
- Data processors are required to maintain a written record of processing activities.
- Data processors are required to designate a Data Protection Officer where required
- Notify the Data Controller on becoming aware of a personal data breach without undue delay.

Retail Advice and Regulation

The standard of scripts for this module was mixed. In setting an appropriate pass mark, the examiners allowed for the fact that the study manual contains a substantial amount of material to be digested. It was clear to the examiners that two learners in particular had put a lot of effort into their studies and consequently, gained excellent marks.

1. In your role as an independent financial adviser, you have been approached by a client, Hugo, who is about to retire. Hugo has reached state pension age and has selected to draw his state pension. He is also entitled to benefits under a defined benefit pension scheme where the full pension is quoted to be £9,600 per annum, increasing in line with Limited Price Indexation and including a 50% spouse's pension. Alternatively, he has the option of taking a Pension Commencement Lump Sum of £44,342 combined with a reduced pension of £6,644 per annum. In addition, Hugo holds a personal pension plan which is valued at £455,000.

Draft a letter to Hugo summarising the options available to him in respect of his personal pension plan and highlighting the main features of each. In addition, your letter should detail the information you will require in order to prepare a report setting out a suitable course of action. (45 marks)

The relevant section of the study manual is Part 5, Chapter 2.

Overall, the question was reasonably well answered with two learners scoring high marks. With regard to the available options, mention should have been made of lifetime annuities including the facility to take a PCLS and residual annuity. The annuity can be level or escalating, single or joint life, include a guarantee period, an annuity protection lump sum or be investment linked. An enhanced or impaired life annuity may be available on medical grounds. Other options include a fixed term annuity, flexi-access drawdown and UFPLS. Death benefit options in respect of flexi-access drawdown and UFPLS should also have been covered.

In terms of information required, this includes marital status, spouse's date of birth, children/grandchildren, property value, investments, other assets, life assurance policies, mortgage, other liabilities, income required in retirement, annual expenditure, attitude to risk, capacity for loss, tax rate, main provisions of will, state of health and LTA protection.

2. As Compliance Manager of XYZ Limited, you are responsible for ensuring all members of staff are aware of your firm's Complaints Procedure. Write training notes for all your staff covering

(a) The FCA rules. (10 marks)

(b) The actions the customer must take when they wish to make a complaint. (2 marks)

(c) The requirements the firm must fulfil when it receives a complaint. (7 marks)

Note: This question includes one mark for formatting.

(Total: 20 marks)

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

Apart from one or two exceptions, the question was not well answered with most learners missing the majority of the relevant points.

Under part (a), it should be noted that authorised firms are required to publish written complaint handling procedures as set out in the Redress section of the FCA handbook. Complaints are to be investigated competently, diligently and impartially. They should then be assessed fairly, consistently and promptly. A decision should then be made as to whether or not the complaint will be upheld, any remedial action to be taken and any redress to be paid. Any complaint which is closed within one business day need not be reported to the FCA.

Under part (b), the customer should complain to the firm but if an intermediary is used, to the intermediary in the first instance.

Under part (c), customers should be made aware of the complaints procedure at the point of sale and the authorised firm must provide a copy of the procedure upon receipt of a complaint. A written acknowledgement should be sent followed by a final response once the investigation is complete. Reference to FOS/TPAS/TPO should be made in the final response and the complaint should be reported to the FCA.

3. Outline the rules which determine to whom a person's estate is distributed if they die intestate. (10 marks)

The relevant section of the study manual is Part 4, Chapter 5.

Most learners made a good attempt at this question with one or two scoring high marks.

It is important to note that intestacy rules apply, where an individual dies without having made a valid will. Their estate is then distributed depending upon their personal circumstances. If they leave only a spouse or civil partner, the entire estate goes to the spouse/civil partner. Where there is a spouse/civil partner and children, the spouse/civil partner receives the personal chattels plus £250,000. Any remaining estate is shared equally with the children. It should be noted that the share left to the spouse/civil partner must be held in a life interest trust with the children as remaindermen. Where there is no spouse/civil partner, the estate passes to any children in equal shares. Where there is a spouse/civil partner but no children, the personal chattels plus £450k passes to the spouse/civil partner. The balance is split equally between the spouse/civil partner and any blood relatives. If there are no beneficiaries, the estate passes to the Crown.

4. In relation to the Pensions Regulator (tPR):

(a) Explain the five objectives that tPR has. (5 marks)

(b) Outline the arrangements tPR has for

(i) pension schemes to be registered (5 marks)

(ii) workplace pensions to be regulated. (5 marks) (Total: 15 marks)

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

Most learners made a good attempt at part (a) but one or two, did not seem to cope quite so well with part (b).

Under part (a), the objectives include, protecting the benefits of members of workplace pension schemes, promoting good administration and improving understanding, reducing the risk of schemes having to go into the PPF, maximising compliance with employer duties (including AE) and certain employment safeguards, minimising any adverse impact on employers.

Under part (b), it should be noted that PA 2004 introduced the requirement for occupational and personal pension schemes to be registered and pay an annual levy. The pension tracing service was also introduced at the same time. Good answers should also have noted that tPR is the regulator of trust-based schemes while the FCA regulates contract-based schemes. There is a Memorandum of Understanding between the two regulators and they liaise to determine what action may need to be taken.

5. Explain what is meant by 'Behavioural Finance' — your answer should focus on the

` relevant theories and factors underpinning it. (10 marks)

The relevant section of the study manual is Part 3, Chapter 1.

The overall response to this question was mixed with one learner scoring maximum marks.

Learners should have noted that behavioural finance involves emotional and psychological factors impacting on investment decisions. The traditional theory is that investors act rationally and consider all available information. However, where behavioural finance comes into play, people do not always act rationally. For example, different weights can be placed on gains and losses and people become more distressed by prospective losses. They tend to play safe when protecting a gain but often take riskier decisions when attempting to avoid a loss. They can overestimate their skills and predictions of success whilst underestimating the likelihood of bad outcomes. They tend to be more optimistic when the market rises and very pessimistic when it goes down.

Taxation, Retail Investment and Pensions

The overall standard for this paper was disappointing. In setting an appropriate pass mark, the examiners allowed for the fact that the study manual contains a substantial amount of material to be digested.

A small number of learners scored reasonable marks but there were no outstanding papers.

1. **In your capacity as an independent financial adviser, you have been asked to advise a long-standing client of any potential inheritance tax (IHT) issues that may arise in respect of his SIPP when he dies. Draft an email to the client outlining how lump sum death benefits are treated for IHT purposes. (15 marks)**

The relevant section of the study manual is Part 2, Chapter 4

Overall, the question was not well answered with the majority of learners missing many of the relevant points. A few learners scored no marks at all.

None of the learners picked up on the fact that, although pension funds are generally established under discretionary trusts, they are not subject to periodic and exit charges. These charges apply to other discretionary trusts to limit avoidance of IHT. Mention should also have been made that contributions paid/transfers made within two years of a member's death could be subject to IHT if the member is in ill health at the point of making the contribution/transfer. In such circumstances, HMRC try to collect IHT once they have reviewed IHT 409 form if they can see opportunities for a possible charge. The cases of Arnold (2010) and Staveley (2014) should be noted.

2. **Helen lives in Tottenham, North London and her income for the tax year 2017/18 was as follows:**

   UK pensions - £32,462

   UK interest - £534

   UK dividends - £12,642

   During the year Helen made Gift Aid payments totalling £520

   Calculate Helen's income tax liability (Total: 10 marks)

The relevant section of the study manual is Part 2, Chapter 1

Despite the fact that the question referred to the tax year 2017/18 and a tax table was included, a few learners based their calculations on bands and allowances for the 2018/19 tax year.

Good answers should have noted that, as a result of making the Gift Aid payment of £520, Helen's basic rate band increased by £650 to £34,150. Consequently, after allowing for the Personal Allowance, all her income falls within the basic rate band. As a result, up to £1,000 of interest can be paid tax free. £5,000 of dividend income is also tax free and the balance (£7,642) is subject to tax at 7.5%. The total liability for the year is £4,765.55 and a few learners arrived at this figure.

3. **Eric's total taxable income in 2017/18 after deducting his Personal Allowance was £25,500. He also made capital gains in the year of £25,000. He was entitled to Entrepreneurs' Relief on £5,000 of the total gain and the remaining £20,000 related to the sale of a residential investment property. Calculate his capital gains tax liability. (5 marks)**

The relevant section of the study manual is Part 2, Chapter 3.

Although the question referred to the 2017/18 tax year, one or two learners based their answers on bands and allowances applicable to 2018/19.

Most learners correctly stated that the CGT rate is 10% where entrepreneurs' relief applies and therefore, the liability on the ER element is £500. After allowing for the annual CGT exemption (£11,300) on the balance, the chargeable gain is £8,700. The balance of the available basic rate band is £8,000 (£33,500 - £25,500) and so £8,000 is subject to tax at 18% and the balance of £700, at 28%. These rates apply as the gain is in respect of a residential investment property. The liability on this element is therefore £1,580, resulting in an overall liability of £2,080.

4. Describe the key features of Open-Ended Investment Companies (OEIC's) including how they are valued. (7 marks)

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

This question was generally well answered with most learners scoring good marks.

Good answers noted that OEIC's are structured as limited companies and can involve an umbrella structure holding sub funds. Different share classes and fee structures can be offered by each sub fund. OEIC's facilitate economies of scale and a wide range of investment options. The price of a share depends upon the value of the underlying assets and is usually based on a single swinging price structure. The sub funds expand and contract in line with inflows and outflows of monies.

5. In your role as a pensions consultant to WHL Enterprises Ltd, write a briefing paper for their new finance director outlining and describing:

(a) The different Benefit Crystallisation Events (BCEs) that will trigger a test of a member's benefits against the Lifetime Allowance. (15 marks)

(b) The criteria laid down by HMRC for valuing pension rights upon crystallisation.

(5 marks)

The relevant section of the study manual is Part 1, Chapter 7.

On the whole, the question was reasonably well answered with a few learners scoring high marks

Under part (a), most learners correctly identified the majority of the different BCE's although there was some uncertainty with regard to BCE's 5C and 5D involving death benefit nominees. Although one or two learners made good efforts, only one fully explained BCE 9 (miscellaneous events as set out in regulations). Most learners also failed to mention that, each time an LTA test is undertaken, a part of the individual's LTA will be used up.

Under part (b), most learners correctly explained the different valuation methods applying to DC schemes on the one hand and DB schemes on the other. However, only a few learners correctly explained the valuation method for benefits that were crystallised pre-6 April 2006.

6. (a) Detail the key criteria in determining whether the new State Pension will be paid at the full rate or a part rate.

(b) Outline the impact of deferring payment of the new State Pension.

(7 marks)

The relevant section of the study manual is Part 1, Chapter 2.

The responses to this question were mixed with a few learners scoring high marks.

Under part (a), good answers noted that, for individuals reaching state pension age post 5 April 2016, the full rate will be paid subject to them having 35 or more qualifying years. Qualifying years are those where NIC's have been paid or credited. A proportional amount is paid subject to an individual having at least 10 qualifying years. Class 3 NIC's can be paid to fill gaps and note should have been made concerning the interaction with the Additional State Pension/contracting out.

Under part (b), few learners mentioned that an increased amount would not be payable if the individual was receiving certain state benefits during the period of deferral or suspension.

7. Outline Statutory Paternity Leave and Statutory Paternity Pay. (8 marks)

The relevant section of the study manual is Part 4, Chapter 1.

In the main, the question was well answered with a few learners scoring full marks.

Most learners picked up on the fact that SPL can either be for one week or two consecutive weeks and that it cannot start before the child's birth. Hence it can start on the actual date of birth, an agreed number of days after the birth or an agreed number of days after the expected week of birth. It must finish within 56 days of the child's date of birth. The majority of learners also correctly noted that SPP is the lower of 90% of Average Weekly Earnings or £145,98 in 2018 and that, to qualify the Threshold earnings figure in 2018 is £116.

8. Explain what factors an individual should consider when choosing a lifetime annuity which could impact the level of income the lifetime annuity provides. (8 marks)

The relevant section of the study manual is Part 1, Chapter 11.

Again, the majority of learners made a good attempt at this question with some scoring either full or close to full marks.

The factors which come into play are whether or not a PCLS is taken, whether or not a dependant's pension is included, level or escalating, guarantee period, health considerations, timing and prevailing interest rates at the point of annuity purchase.

9. Explain what a Fund Supermarket is and how it operates, including the following:

(i) the typical services undertaken by a Fund Supermarket.

(ii) how charges are usually applied by the Fund Supermarket.

(20 marks)

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

Apart from one or two exceptions, the question was not well answered with most learners not picking up on the relevant points.

Common omissions were:

GIA's, ISA's and SIPP's can be held with a fund supermarket.

An investor has a contractual relationship with the supermarket as opposed to the underlying fund manager/s.

Fund managers have no knowledge of the individual investors.

Increasing transparency was required as a result of RDR which requires fund manager and supermarket charges to be separately identified.

New transparency rules for new sales came into effect from 1 January 2014 but from 1 January 2013 in respect of new business placed through financial advisers.

Post RDR, supermarkets charge an annual fee usually based on a percentage of funds on the platform.

Professionalism & Governance

The PMI's Professionalism & Governance exam is intended as the final stage in the Advanced Diploma. As such the expectation on learners is, they should be able to take the material available in the study manuals and interpret them to any given situation.

There is a range of study material available which consists of two technical Manuals, one on Governance and one on Professionalism. There is a supporting Communications Manual and also the PMI's Code of Professional Conduct (the Code). Part one of the exam is a case study, which is based on information directly drawn from the Governance Manual, this carries 60% of the marks available. These 60 marks are awarded mainly on learners' ability to draw from the technical information within the manual and overlay their interpretation of the case study and how they would respond to the situation presented. A smaller proportion of marks is awarded for the way leaners present their answers in the format required, their communications technique and style.

Part two consists of three or four short questions. These can be drawn from the syllabus or the Code of Conduct. Regardless of their status all PMI members are required to adhere to the Code, this is a key document for all PMI members. It is important PMI members are familiar with the Code and understand how they should behave when faced with various issues. The Code is two pages of A4 and is separated into six sections and is available for download from the PMI website.

Where questions relate to the Code, learners are expected to understand the Code itself <u>and</u> be able to apply the principles to a professional situation. Learners are expected to assess this situation, identifying which part of the Code it relates to. They will need to draft a short response referencing the relevant section of the Code. It is not simply enough to identify the problem, learners need to explain how they would resolve the issue. This may involve conferring with other parties, but simply handing the problem over to a 'Compliance Department' is not sufficient. Neither is refusing to address the problem without offering alternative solutions. Questions based on the Code require learners to interpret what actions and behaviours they need to demonstrate to find these solutions. Learners who do not give sufficient detail or rely on simply repeating the Code will struggle to pass the exam.

There may also be times where part two questions address a specific governance issue from the Manual. Here the questions may be more specific about Regulation or best practice. Part two carries 40% of the marks available and no communication marks are awarded. The Professionalism Manual is available to assist learners in their preparations.

Learners who had not studied and understood the Manuals provided, as well as applying understanding to the Code generally underperformed. Few learners demonstrated a good knowledge of both the Manuals and the Code. It was evident some learners were not familiar with the Manuals and relied on their own skills and experience to answer the case study question. Generally, this was insufficient to pass the exam. There is no requirement for learners to achieve a specific percentage in either part of the exam. The exam paper shows the marks allocated for each question and this should be taken into account when deciding how much time to spend on them. The questions can also be answered in any order. As 60 marks are available for part one, learners are unlikely to gain sufficient marks to pass unless they have studied and learnt the Governance Manual. However, it appeared there were some learners who gained reasonable marks on the case study but were let down by their knowledge and understanding of the Code. This was critical for some learners who then did not gain sufficient marks to pass the exam.

PMI is moving from paper based towards electronic exams to match the way pensions professionals work. However, in this exam there was still a reliance on handwriting and as examiners we must interpret learners' answers in order for them to gain the marks they need to pass. It was therefore imperative that as part of the preparation for this exam, learners had practiced writing freehand for prolonged periods. Some learners had clearly not considered this as part of their examination preparation. Whilst they were not penalised for their handwriting, there were times when examiners had difficulty in interpreting some answers.

It cannot be stressed enough that the ability to plan thoughts and ideas for an exam answer is extremely important, so it flows logically, and every opportunity has been taken to ensure the answer reflects the requirements of the question. There were some learners this year who ran out of time, or whose answers were clearly rushed towards the end of the paper. With planning some learners could have gained sufficient marks to pass. The plan is not simply a list, it should be the foundation of the final answer. As the plan develops, it should be referred back to the question to ensure learners are answering the question and not their own interpretation. A number of learners lost their way or did not answer the question asked, but unfortunately there are no marks given for irrelevant detail. Once the plan is complete and learners begin drafting their answer, it should follow the plan. This ensures the inevitable exam pressure doesn't push learners off track. Planning is integral to getting optimum marks, as is ensures sufficient time is allocated to reading through completed answers. This is where learners have the opportunity to test if their answers make sense and flow, to ensure they have not missed out any vital pieces of information and to add finesse.

Case Study

Question 1

The answer to this could be found in Part 2 Chapter 1 pages 26 – 31, 33 – 36 of the Governance Study Manual.

The Communications Manual assists students in understanding how to frame the format of their answers. Twelve relatively easy, but important, marks are available for communication.

Question 1

You work for a pensions consultancy providing pension administration services to both defined contribution and defined benefit pension schemes. You have recently recruited several new members of staff who are new to pensions. As part of their initial training you are to give a presentation on Service Level Agreements, between the consultancy and trustees of pension schemes, for providing administration services.
The presentation will cover the following areas:

- **The benefits of Service Level Agreements (SLAs) to both trustees of pension schemes and the pensions consultancy.**
- **How SLAs are established and implemented.**
- **What critical success factors and evaluation criteria are usually included in SLAs**
- **How these success factors and evaluation criteria can be reported to trustees.**
- **How the pensions consultancy can use SLAs to help manage and develop their relationships with trustees.**
- **Other methods used to understand and manage service quality.**

Prepare the slides and the accompanying speaker's technical notes.

Your presentation should include both the slides <u>and</u> the speaker's technical notes required to deliver the training session. The presentation pack will be kept, as precedent for future new staff and so should not include any colloquial comments or instructions for presenting.

Draft the letter and covering email.

(60 marks – including marks for communication)

Although this question asked for a presentation, the point to note here was it was to be accompanied by technical notes. Learners were expected to form their answer as such, but some did not include sufficient technical detail. Some answers were vague and did not demonstrate understanding in the required detail. The question followed the flow of the Manual and all of the information available to pass was contained here. There were still some students who do not appear to have learned the manual. Whilst 60 marks are allocated, there are always more available. Learners have every opportunity of gaining higher marks if they have both learned and understood the study material, rather than relying on personal experience. A number of learners omitted to include all the required points, or cover these in enough detail to gain sufficient marks. Many learners struggled to provide sufficient detail, or repeated points and so were unable to score highly. No additional marks can be awarded for points which are repeated.

Those learners who studied and understood the Manual gained reasonable marks in the case study. They did so by demonstrating this learning and reflecting it back in the context of the question.

The Communication Manual is provided so learners can familiarise themselves with the styles and typical content of formats required in an exam, as part of their wider revision process. To gain the communication marks, the answer must be placed in context of the format and style required. In this exam a presentation format was required. Whilst a sophisticated representation of a PowerPoint presentation was **not** required, learners were expected to understand the principles of a presentation where the ‘slide’ picks up key points and the technical notes contain the detail. Presentations are best received when they are not simply a list of bullet points. Recognition was given to learners who acknowledged this without compromising their time or their technical content. Format alone is not sufficient to gain full communication marks. Answers were marked on their style, whether it was appropriate for the specific scenario and its flow. If learners were unable to provide sufficient technical content, then the success of the communication was affected. Learners needed to think about their audience and what role they are fulfilling when composing their answers. Where learners were able to convey their answers appropriate to the format and with adequate technical detail, they gained higher marks.

Overall, the case study was not answered with sufficient detail by many learners.

Short Answer Questions

The three short questions could only have been answered fully if learners had read and learned the Code, sections and references, as well as understanding the syllabus. Ideally learners should have worked through the Professionalism Manual, so they know how the Code is applied in specific circumstances. Learners need to be familiar with the Code and its structure, so they can recall which area(s) a particular scenario relates to. It is also important for learners to know the broader application of the organisational principles underlying the Code. They should understand the Code is a guide to behaviour. They need to think about what behaviour they should exhibit in each circumstance and what would need to be done to resolve the issue at hand.

Whilst all three short answer questions were based on the Code, learners should bear in mind the short professionalism questions can be based on any area of pensions within the syllabus. It was disappointing to note many students did not know the Code well enough and those that did, did not think about how they would resolve the issue. In real working life, rarely can we say no with no alternative suggestion, nor can we simply pass the problem straight to a compliance department. Overall, many learners gave insufficient detail on their answers for the Code based questions.

The short questions were:

Question 2

A friend, who knows you work as an administrator in the pensions industry, asks for advice on whether he should transfer out of his defined benefit pension scheme into an arrangement which promises to pay him an immediate cash sum. What do you say to them?

(15 marks)

The relevant sections from the Code were 1b, 2d, 2e

This was the better answered short question with most learners picking up they would be unlikely to be qualified to advise their friend. Some learners did not reference the Code in their answers and lost easy and valuable marks. Only a few learners picked up they would be able to explain what the facts are around transfers from DB schemes and the things to watch out for. Some learners did talk about scammers and the potential for the friend to be left with a large tax bill.

Question 3

You are an independent consultant. You have been asked by an industry contact who works for a third-party administrator (TPA) to look into a complaint between his TPA and another. Whilst he hasn’t been explicit, he has indicated he expects you to influence the other TPA to the benefit of his firm. What do you say to your contact?

(15 marks)

The relevant sections from the Code were 1e, 2b, 2c, 3, 1d or 4a, 6c

Few learners understood that an independent consultant may not have a sophisticated compliance department. Although most picked up they needed to maintain their independence. Some learners became confused on who the parties were to the complaint. This was a dispute between two TPAs and not between the TPA and a member. Few learners attempted to clarify the perception and immediately talked of reporting the industry contact. Firstly, it is important to be aware of the facts and be sure, so clarifying the remit of the project is vital. Here the contact would have had to be explicit. Most learners talked about independence and the Code, but some then didn't reference the sections which could apply. Some learners listed nearly all the Code sections rather than discuss what they would do. Few learners suggested the appointment could be joint between the two TPAs or looked to a senior professional for support.

There was the option to politely decline, but only after exploring other options.

Question 4
Your company is about to be acquired, your employer has asked you to write an announcement for the employees on how TUPE will affect their pensions. You have no experience of TUPE, you are not legally qualified and have not yet completed your PMI exams. You know employees will be relying on this information. How do you resolve this?

(15 marks)

The relevant sections from the Code were 1d, 1e, 2d, 6a, 6c

This question was the least well answered of the short questions. Few learners asked why they had been asked to write the announcement. Some learners became confused about the implications of data protection, which was not relevant because the announcement was not personalised. Some learners felt only a qualified PMI person could write the announcement, which was not correct. To write the announcement someone must have relevant experience. Most learners did not cover this answer off in enough detail and several were quite repetitive in their answers. Some did not cover enough of the Code and some tried to cover too much.

Some learners suggested they could have some training and/or have their work overseen which was positive. Others identified HR or compliance could offer support.

There was the option to politely decline, but only after exploring other options.