REPORT OF THE

BOARD OF EXAMINERS

ADVANCED DIPLOMA IN RETIREMENT PROVISION

APRIL 2017

THE PENSIONS MANAGEMENT INSTITUTE

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Introduction

The purpose of this report is to review candidates' performances in the twelve units examined in April 2017.

The examinations are either 'Core' or 'Specialist' Units. The Core Units consist of short answer questions and multiple choice questions. The performance of these examinations was mixed, with some high scores being achieved across in some but not all of the units. The Specialist Unit examination papers consist of a number of questions and three hours being allowed to answer the questions. Each specialist unit is supported by two study manuals; a unit specific manual and a generic communication manual.

When marking, examiners give marks for **relevant facts**. They also give marks for showing that candidates have **understood** the subject and, where appropriate, that they can **apply it** to the question asked. They also give marks for **communication** for some questions in the Specialist Units and Professionalism and Governance unit**.** Candidates, where requested to answer in a specific format, are encouraged to do so, so that format marks are not missed. The emphasis on understanding, application and communication increases further with the later units.

In all units, the examination questions are designed where possible to cover a wide range of the syllabus. Candidates therefore need to have reviewed all the study material. Distance learning courses and revision courses are recommended. Past examination papers will be useful and are available on the PMI website.

Examination questions are also drawn up where possible with an emphasis on the industry today. So extra reading will benefit candidates, particularly on the topics that are concerning the industry generally in the current environment.

Further details on the examination can also be found in the Test Specifications published on the website.

Candidates may be interested in knowing how the marking process works. The examiners are qualified members of PMI with broad experience in the industry. There is a separate group of examiners for each unit. They produce a marking schedule for each question, and then they mark some sample scripts and refine each of their marking schedules. Each script is marked twice completely independently. In the Core Units, the multiple choice questions are scanned at PMI and the analysis is reviewed by the examining teams to see how candidates have performed on this aspect of the examination and any alterations made where necessary. The total for the multiple choice aspect is added to the short answer question total to give the candidate one overall mark.

The examiners for each unit recommend a pass mark for their unit based on the scripts submitted, above which they feel the candidates have demonstrated a knowledge and understanding of the subject worthy of a pass. All scripts near the pass mark are reviewed again, question by question and mark by mark, at an examiners meeting, to ensure that the candidate receives every mark warranted. A moderator looks at a selection of scripts from all the units to ensure consistency, and adjustments to the pass mark can be made in a final Board of Examiners meeting, taking account of the moderator's comments.

The table below summarises entries and performances across the units.

Unit	Entries	Absent / Withdrawn	Number of Scripts	% Pass
Core Unit 1A	103	10	93	**39**
Core Unit 1B	17	4	13	**61**
Core Unit 2	92	6	86	**70**
Core Unit 3	101	9	92	**52**
Core Unit 4	56	8	48	**67**
Defined Benefit Arrangements	26	5	21	**71**
Defined Contribution Arrangements	15	14	1	**79**
Reward and Retirement Provision	54	4	50	**70**
Retail Advice and Regulation	19	6	13	**15**
Taxation, Retail Investment and Pensions	11	3	8	**50**
International 2	25	6	19	**58**
Professionalism and Governance	43	8	35	**54**
Total				

Following the April examinations, 23 candidates completed the Advanced Diploma, 1 candidate completed the Diploma in Regulated Retirement Advice. 35 candidates completed the Diploma in Retirement Provision qualification, 34 candidates completed the Diploma in Employee Benefits and Retirement Savings and 11 candidates completed the Diploma in International Employee Benefits.

The rest of this report looks separately at each unit examined in April 2017. It gives a guide as to how the question paper overall and each of the questions were answered by candidates, an indication of what was required in response to the questions, and any common errors or omissions. For the Core Units, some feedback on the multiple choice aspect of the examination is given. **Please note the April 2017 examinations were based on the 2017 syllabuses and on the law as it existed at 6 April 2016.**

Core Unit 1A - Understanding Retirement Provision (UK)

This was a 2 hour exam split between multiple-choice questions and free-format questions. Equal weighting of marks was given to both sections.

Multiple-choice questions

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

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

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

Subject	Study manual reference
Public sector schemes	Part 4, chapter 2.3.1.
Insurers	Part 2, chapter 1.22
The Pensions Regulator	Part 2, chapter 1.1.1
Automatic enrolment	Part 3, chapter 3.2.3
Investment manager	Part 2, chapter 1.21

Short answer questions

There were 7 questions where candidates were required to write their answers in free format. Candidates are encouraged to devote one hour to this part of the examination but many answers were very brief and lacking in detail and this is inevitably reflected in the marks awarded. Indeed, some candidates did not even attempt to answer some of the questions.

Question 1

Write brief notes on the Public Services Pensions Act 2013 and the report that preceded it.
(10 marks)

This question related to fairly recent changes in public sector pensions following the Hutton Report. It was considered to be topical and disappointing therefore that, with few exceptions, candidates scored low marks. In some cases the question was understood but scant detail was provided.

Those candidates who did score a reasonable number of marks tended to score better on the changes implemented by the Act rather than the detail of the report. Candidates picked up marks for explaining the switch to Career Average Revalued Earnings (CARE) Schemes and the linking of normal pension age to State Pension Age (with some exceptions).

A number of candidates identified that the question was focused on the public sector but then devoted their answer to describing features of public sector schemes in general (such as the provision of a lump sum at retirement additional to the pension, and the 'transfer club') which were outside the scope of the question.

The relevant section of the study manual was Part 4, Chapter 2.3.1.

Question 2

Describe how defined benefit schemes are funded. (5 marks)

In general this question was reasonably well answered. Many candidates identified that defined benefit schemes are funded by contributions from the employer and the members, and the role of the actuary in determining the rate of the employer's contributions. Fewer mentioned that members' contributions are a fixed amount and set out in the Rules or the expectation that employer contributions are usually at a higher rate than members' contributions. Very few mentioned investment returns or the fact that some defined benefit schemes are financed on a pay as you go basis.

The relevant section of the study manual was Part 4, Chapter 2.1.1.

Question 3

List the five statutory objectives of the Pensions Regulator. (5 marks)

This question specifically asked candidates to <u>list</u> the <u>statutory</u> objectives of the Pensions Regulator, and these are set out in the five bullet points in Part 2 Chapter 1.1 of the study manual on page 23. A number of candidates, however, chose instead to write a significant amount of detail about the various powers and activities of the Pensions Regulator. Candidates are strongly advised to note carefully the wording of the question and the number of marks allocated and tailor their answer accordingly.

Many candidates identified the objectives of protecting benefits of members, promoting good administration and reducing the risk of situations leading to claims for compensation from the Pension Protection Fund, but considerably fewer knew about its role in maximising employer compliance with automatic enrolment duties and very few mentioned the Regulator's new objective of minimising any adverse impact of defined benefit funding needs on employers' sustainable growth.

The relevant section of the study manual was Part 2, Chapter 1.1.

Question 4

Explain briefly

(a) How the NEST is funded (6 marks)
(b) The investment options it offers. (4 marks)

Part (a) of this question was generally well answered with reasonably good detail where most candidates were able to identify the annual management charge of 0.3% of the fund and the 1.8% charge on contributions, and most mentioned the DWP loan. However, few candidates referred to the £4900 maximum applicable up to 2017 or the fact that additional charges can be levied on an employer if it causes additional costs to be incurred.

Part (b) was fairly well answered too with the majority of candidates understanding the concept of Retirement Date Funds and recognising that although this is the default option other fund choices are available. Few made reference to what Retirement Date funds actually invest in – pooled funds with broad and diversified asset classes.

A number of candidates incorrectly interpreted the question as asking about the benefit options open to members on retirement.

The relevant section of the study manual was Part 3, Chapter 3.3.

Question 5

Outline how capped income drawdown works. (5 marks)

Candidates generally scored well on this question with most being able to demonstrate a good understanding of the concept and operation of income drawdown. Most candidates noted that there was a cap on the amount of money that can be withdrawn each year and that this is designed to ensure that funds were not drawn too quickly such that the member's retirement fund could be depleted.

Only a few candidates made reference to income drawdown enabling an individual to draw varying amounts from year to year as an alternative to regular payments from an annuity, or that the funds not withdrawn remain invested for future years.

The relevant section of the study manual was Part 1, Chapter 1.4.4.

Question 6

Write brief notes on the three key areas of the recommendations set out in the report published in March 2016 as a result of the Financial Advice Market Review. (5 marks)

The results for this question were disappointing as many candidates demonstrated very little knowledge of this topic. Indeed a number did not even attempt an answer, implying that they had failed to consider that questions in the exam may be set on any area covered in the syllabus and the study manual. Those candidates who were familiar with this topic identified the three key areas: Affordability, Accessibility and Liabilities and consumer redress and were able to provide a little detail about each.

The relevant section of the study manual was Part 1, Chapter 2.4.6.

Question 7

Describe the New State Pension. Note: you are not required to provide details about the 'Starting Amount' (previously referred to as the 'foundation amount'). (10 marks)

This was another topical question and the examiners were pleased to note that most candidates were able to demonstrate a good degree of knowledge about the subject. Most recognised the flat rate nature of the pension, the fact that 35 qualifying years were required for the full amount, the "triple lock" for annual increases and the ability to postpone receipt beyond State Pension Age for an increased amount. Fewer candidates mentioned that the self-employed are eligible or that the amount of the pension is set above the Guarantee Credit.

Despite the signposting in the question a number of candidates wrote at length about the transitional arrangements for people with qualifying years before 6 April 2016.
The relevant section of the study manual was Part 3, Chapter 1.4.

International 1: Core Unit 1B – Foundation in International Employee Benefits

Multiple choice questions

Questions 1 through to 40 asked the candidate to choose a correct answer to the question from a choice of 4. Questions 41 to 50 asked the candidate to consider two statements and then to state whether neither, one or both of them were correct. On average, both question types were answered with a similar degree of success.

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

Short answer questions

Candidates are recommended to always answer a question on a fresh page to assist the examination marking process. Candidates must be mindful to be familiar with ALL of the manual, as questions may be set based on any of the sections, including any of the country profiles. Candidates must allow sufficient time during the examination session to allow for the longer questions, and not just focus on the multiple choice questions, as equal marks are available for both sections and a pass mark is more likely to be achieved by giving full and relevant answers in both sections.

Candidates are reminded to write their answers in a clear and eligible manner.

Question 1

You are the Group Employee Benefits Manager for an international organisation. Summarise for your Executive Committee the main reasons why companies provide employee benefits.
(10 marks)

Most candidates demonstrated that the employment objectives for offering employee benefits were well understood and, as a result, many scored very good marks in this section of the question. However, the indirect reasons for offering employee benefits were less well covered and did not include the detail in the manual of where certain factors (business, employees profile and preferences, country, taxation) can influence employee benefits offered.

The relevant section of the study manual was Part 1, Chapter 1.2.

Question 2

Set out in bullet point form the key reasons a company would give for introducing an Employee Share Plan. (5 marks)

This was generally a well answered question with most candidates achieving full/near full marks, although a majority missed out on the marks available for explaining the tax treatment of share plans usually determines their prevalence or not within a particular geography, and the common countries where they are prevalent for this reason (France, UK and US).

The relevant section of the study manual was Part 2, Chapter 6.1.

Question 3

List the key considerations in the development of an international benefit strategy. (5 marks)

A majority of candidates demonstrated a good understanding of the question being asked with most achieving very good marks.

The relevant section of the study manual was Part 3, Chapter 3.2.3.

Question 4

The Treaty of Rome was followed by a series of amendments and new treaties.

(i) Briefly describe the key points of the Schengen Agreement and the Maastrict Treaty.
(ii) List the exceptions of in respect of the Member States of the European Union participation in the "Schengen Area"/Eurozone".

(10 marks)

Some candidates did not attempt the question and of those who did only a minority achieved anywhere near the full marks available. Those who did answer the question showed an understanding of the principles of the Schengen Agreement, i.e. the opening of intra-EU borders, but not the effective dates etc.

Very few candidates gave an answer in relation to the Maastricht Treaty, but those who did demonstrated that they understood that one of the key areas was that it paved the way for the Eurozone, but not that it actually created the EU itself. Most candidates did not correctly quote the countries who do not participate in the Schengen Area and or/Eurozone, for which a number of marks were available and therefore missed, even though these were listed in the manual.

The relevant section of the study manual was Part 5, Chapter 1.1.

Question 5

Summarise the key features of the regulatory system for DB plans in the United Kingdom. (10 marks)

This was poorly answered, even though it is covered fully in a section of the manual. Candidates who did attempt the question sometimes had a tendency to simply give any information they knew about UK DB plans - e.g. investments/assets, trustee requirements, valuation and accounting standards - rather than summarising the key features of the regulatory system for these types of scheme.

Few candidates fully explained the roles of the Pensions Regulator and HMRC in the regulation of UK DB plans, even though they have a very significant influence on the regulatory system of pensions in the UK. However, candidates who answered the question did, in the main, show an understanding of minimum and maximum funding and benefit limits.

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

Question 6

Outline the Social Security pension arrangements in Canada. (10 marks)

A majority of candidates did not make an attempt at this question and those who did scored very few marks, which indicated that many candidates were not sufficiently familiar with the material in this part of the manual. Some candidates attempted to answer the question by including information about Social Security arrangements in other countries and more generic details - such as taxed as earned income, indexation etc. - which was not applicable to this question and, therefore, no marks were given.

The relevant section of the study manual was Part 4, Chapter 8.

Core Unit 2 - Regulation of Retirement Provision

This is the third time the paper has been sat the new format of multiple choice answers and short answer questions. There was an improvement in the quality and marks gained for the short form written answers in the examination. The poor results of the April 16 and October 16 exams reflected that candidates hadn’t studied the manual thoroughly. This was possibly because candidates had perceived the examination to be easier because of the new structure.

<u>Multiple choice questions</u>

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

Subject	Study manual reference
Trustee decisions	Part 2 Chapter 2
Trustees annual report	Part 2 Chapter 2
Balance of powers	Part 2 Chapter 2
Reviewing a Definitive Trust Deed and Rules	Part 2 Chapter 3
Data Protection 1998	Part 3 Chapter 1
European Union Law	Part 3 Chapter 1

Short answer questions

In these April 2017 exams most candidates showed a knowledge across the syllabus by attempting all questions and there was no particular less well answered question. The quality of hand writing made the answers difficult to mark in some cases.

Question 1

Write notes on the “Scheme Pays” option in relation to payment of a member’s Annual Allowance Charge. (10 marks)

The points required were the conditions around when a member can require a Scheme to pay the Annual Allowance charge on their behalf. i.e. that their AA charge is over £2,000, the member’s pension input amount for that particular scheme for the year must exceed the AA for that year and the member must make the request by means of an irrevocable election in a prescribed form. Marks were also given for the deadline for making the request, who has liability for the charge and that members’ benefits are reduced by the amount of the AA charge and the scheme can voluntarily pay the charge.

Most candidates answered this question well. However very few candidates mentioned that the member had the right to require the scheme to pay in certain circumstances or that where the scheme does pay the scheme Administrator (i.e. trustee or manager of the scheme) and member have joint and several liability for the charge.

Some candidates wrote at length on what the Annual Allowance is which was not required in the scope of the question and so wasting time that could have been spent on other questions.

The relevant section of the study manual was Part 1, Chapter 1.4.

Question 2

Write notes on each of the following duties of pension scheme trustees which stem from general trust law principles (i.e which have been developed by the Courts and which apply to trustees of all trusts).

(i) Duty to act impartially
(ii) Duty to exercise reasonable skill and care
(iii) Duty to act without charge
(iv) Duty not to delegate
(v) Duty to not profit from Trust Property.

(10 marks)

This question required notes on each of the duties listed. Many candidates repeated the words used in the question here rather than expanding on what the duty was. Others wrote at length on each duty not acknowledging that there were only 10 points to gain overall.

On duty to act impartially many candidates incorrectly wrote that all beneficiaries have to be treated the same way, when in fact the duty requires trustees to consider the interests of all beneficiaries (and different classes of beneficiaries) when making decisions, but it does not mean they then need to treat beneficiaries the same way. A number of candidates also wrote about managing conflicts of interest which is not what was required by the question.

On duty to act with reasonable skill and care some candidates wrote about trustee knowledge and understanding and TPR’s toolkit. Which although related to Trustees having skill and care was not about the duty. The answer should have included that lay trustees should use such skill and care as men of ordinary prudence and vigilance would in the management of affairs of a third party for whom they felt morally bound. A higher standard of care is required from professional trustees.

The relevant section of the study manual was Part 2, Chapter 1.4.4.

Question 3

DC arrangements can be structured as "bundled" or "unbundled" arrangements. Explain the difference between these two approaches, and list five advantages of a "bundled" arrangement. (10 marks)

This was question was answered well. Most candidates understood that a bundled arrangement is where all services, such as administration, actuarial and investment are provided by one provider and that unbundled is where these services can be outsourced to
“best of breed” different providers for each service. Marks were available for stating if each arrangement is suitable for Contract and / or Trust Based schemes and how costs are split between members and employer but few candidates mentioned these points.

Most candidates were able to list 5 advantages of the bundled arrangements including, there being only 1 point of contact for the employer to manage, use of standard communications and online access can be easier for members as there is only 1 system to refer to.

The relevant section of the study manual was Part 5, Chapter 1.2.5.

Question 4

List the Statutory Objectives of the Pensions Regulator in its role as the UK Regulator for workplace pensions. (5 marks)

Most candidates correctly picked up the majority of the objectives, for example to protect the benefits of members of workplace pensions, promote and improve understanding of good administration and reducing the risk of a situation that might lead to a claim on the PPF.
The objective that was not listed by a lot of candidates was to maximise compliance with duties relating to auto enrolment.
Some candidates wrote about what the Regulator does rather than its statutory duties.

The relevant section of the study manual was Part 1, Chapter 3.2.

Question 5

List the factors to be considered as a good practice approach when producing communication for pension scheme members. (5 marks)

Most candidates where able to list a number of factors in answer to this question. The list of factors includes having a clear communication plan, consider needs of difference categories and tailor to audience and to not use jargon.

The relevant section of the study manual was Part 5, Chapter 1.7.3.

Question 6

Sometimes it is necessary to amend the provisions of a trust in order to meet changes in circumstances. Outline the possible methods for doing this. (5 marks)

Most candidates correctly made reference to exercising the amendment power in the Trust Deed and Rules, subject to its terms, obtaining a Court Order and exercising a Statutory Power to amend the Rules. Less mentioned was that the Rules can be changed by obtaining the consent of all members.

The relevant section of the study manual was Part 2, Chapter 1.7.

Question 7

List the bodies that are charged with the regulation of the UK financial services industry. (5 marks)

This final question was easy to obtain marks from with most candidates listing the Bank of England and Prudential Regulation Authority and Financial conduct authority. Most candidates however failed to mention the Competition and Markets Authority or the Pensions Regulator. Many candidates confused H.M Treasury, which was one of the answers, with Her Majesty's Revenue and Customs (HMRC).

The relevant section of the study manual was Part 1, Chapter 4.2.

Core Unit 3 - Running a Workplace Pension Scheme

There were two parts to the question paper:

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

<u>Multiple choice questions</u>

Candidates 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 8 questions where over 95% of candidates selected the right answer. These covered areas such as:

- Annual Allowance
- Data Protection
- Preserved benefits
- Open market options
- Automatic enrolment
- Straight through processing
- Lifestyling
- Pension Sharing

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

Subject	Study manual reference
State Pension Age	Part 2 Chapter 1
Fixed Protection	Part 3 Chapter 3
Limited Price Indexation	Part 5 Chapter 3
DC Schemes	Part 1 Chapter 1

Short answer questions

Average scores for Part 2 of the paper were lower than for Part 1. In a number of cases candidates scored well on some questions but picked up very few marks on others suggesting that they may not have studied the whole of the manual.

Question 1

Outline the different routes available to DB schemes to demonstrate that they are a qualifying scheme for automatic enrolment purposes. (10 marks)

The standard of responses to this question was mixed. A few candidates scored maximum marks but many picked up less than half the marks available. The examiners were looking for candidates to include the following in their response:

- Before April 2016:
  - Contracted out on RST basis
  - Benefits broadly equivalent to test scheme. Minimum 1/120th of final qualifying earnings (averaged over final 3 years) for each year of pensionable service
  - For CARE minimum level of revaluation
- Alternatives from April 2015
  - Cost of accrual test
  - Shared risk test
- For transitional period scheme level costs of accruals test for schemes that were contracted out on 5 April 2016. Only available for:
  - Jobholders in contracted out employment on 5 April 2016
  - Scheme rules not amended so contracted out requirements would no longer be met

The relevant section of the study manual was Part 2 Chapter 1, 1.6.

Question 2

Outline the items which must be included in the Chair’s Statement for a DC scheme. (6 marks)

On average this question was not well answered with the majority of candidates picking up less than half the number of available marks. The points to be covered as set out in the manual were:

- Latest statement of investment principles for default fund
- Description of any review of default fund in last year or if no review date of last one
- Whether core financial transactions have been processed promptly and accurately
- Level of charges and transaction costs in default fund
- Range of costs and charges in other funds and assessment of whether offer good value
- If information on transaction costs is missing, reason why and how it will be obtained in the future
- Description of how TKU requirements have been met

The relevant section of the study manual was Part 6 Chapter 3.

Question 3

Outline the key disclosure requirements that schemes must satisfy so that they do not breach the disclosure of information regulations. (8 marks)

The main points as set out in the manual were:

- Provision of basic scheme information to prospective members within one month of jobholder information or within two months of joining scheme
- Provision of annual report within two months of request
- Benefit statements for benefits other than DC benefits within two months of request
- Benefit statements for DC benefits within 12 months of scheme year end
- Summary funding statement within reasonable period (three months) of last date on which scheme is legally required to obtain a valuation
- Flexible access statement within 31 days of member flexibly accessing benefits
- Information on death of member within two months of death being notified
- Notice of winding up of a scheme when winding up begins and details of discharge of liabilities for particular individuals

The relevant section of the study manual was Part 6 Chapter 3.2.

Question 4

List the advantages of giving members access to static information about their pension arrangement online. (6 marks)

This question was generally well answered. The points to be included in the answer were:

- Can be amended quickly
- Can be amended cheaply
- Avoids costs associated with hard copies eg printing
- Instant access to up to date information for scheme members

- Information can be emailed as a hyperlink
- Saves money on stationary and postage
- Repository for scheme information

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

Question 5

Outline the main features of flexi-access drawdown and UFPLS. (10 marks)

A number of candidates confused the features of these two methods of accessing DC benefits. In addition a number included information about capped drawdown which was not relevant to the question asked. The features as set out in the manual are:

Flexi-access drawdown:

- DC pot is invested and income drawn from it
- Can take PCLS of 25% of pot and designate rest to drawdown
- Whole amount tested against LTA when designated
- Can draw as much / as little income as like
- Income is subject to tax at individual's normal marginal rate

UFPLS

- Can be taken from uncrystallised funds
- 25% tax free & rest subject to individual's marginal rate of income tax
- Single or multiple lump sums
- Multiple lump sums may reduce tax paid
- Most trust based schemes don't offer multiple lump sums because of admin
- Member can transfer out to access
- BCE / tested against LTA

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

Question 6

List which types of pension arrangements are covered by the SORP and which are not, in relation to the format and content of scheme accounts. (10 marks)

The arrangements covered by the SORP were:

- Occupational DB and DC schemes
- Fully insured schemes
- Earmarked schemes
- Employer financed retirement benefit schemes
- Earmarked schemes
- Schemes in wind up
- Overseas schemes
- Trust-based stakeholder schemes

The arrangements not covered by the SORP were:

- Unfunded schemes
- GPPs / PPs
- FSAVCs

- Non trust based stakeholder schemes
- Death benefit only schemes

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

Core Unit 4 - Financing and Investing for Retirement Provision

Multiple choice questions

Generally the multiple choice questions were answered very well and the average score was high.

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

Subject	Study manual reference
Socially Responsible Investment	Part 5 Chapter 3

Question 1

Describe what a lifestyle investment strategy is and outline its key features.
(10 marks)

This question was well answered on the whole. Most candidates gained marks for explaining that a lifestyle strategy automatically switches to lower risk investments with no active decision from the member as the member approaches retirement. Marks were available for explaining that there are two phases, the first being a growth phase which operates until 5-10 years before the member's selected retirement date and then a consolidation phase. The examiners were looking for candidates to explain that in the growth phase investment is mostly in equities or DGFs and in the consolidation phase, investment moves to bonds and cash. Good candidates explained that this provides the best opportunity for long term growth but reduces volatility as retirement approaches. Some candidates also mentioned that a lifestyle strategy is common as a default strategy and that the features of a typical lifestyle strategy may change following the introduction of DC flexibilities in 2015.

The relevant section of the study manual was Part 5 Chapter 1.3.1.

Question 2

Outline the principles behind tax charges on investments held by pension schemes and the rules relating to the various categories of investment held. You are NOT required to cover the tax charges on payments to members or to define what "correspondence requirements" means.
(10 marks)

This question was answered very poorly, as is often the case with tax questions. Candidates could have picked up some easy marks which were missed by many. Despite the clear indication in the question, many candidates wasted time by attempting to define correspondence requirements, for which no marks were available.

The examiners were looking for candidates to state that scheme investments are free of income and capital gains tax if they relate to the investment of assets to provide scheme benefits. Marks were available for stating that schemes cannot reclaim withholding tax on UK dividends and that there is an exemption for overseas investment income although there may be tax in the country in which the investment is held. Candidates should have stated that rental and capital gains on property investment are free of tax. There were marks available for explaining that VAT may be payable and that there is no exemption for investment in a property LLP.

The examiners also wanted candidates to explain that insurance policies are exempt from corporation tax provided they are identifiable as pensions business which allows the insurer to charge lower premiums. Candidates could have gained marks for stating that buy out policies may qualify as pensions business and that exempt unauthorised unit trusts will be CGT exempt if participants are limited to those who are CGT/CT exempt. Marks were also available for explaining that pension fund pooling schemes are transparent for tax purposes and that assets may be transferred in without stamp duty.

The relevant section of the study manual was Part 1 Chapter 2.3.

Question 3

Describe the factors that affect bond values. (10 marks)

This question was very disappointingly answered, despite the fact that bond values are fundamental to many other areas and some candidates appeared to be confused as to the effect of certain changes on bond values. Most candidates stated that bond values are affected by interest rates, inflation and the economic outlook. Good candidates went on to explain that actual and expected changes in both interest rates and inflation affected value, that a rise in interest rates makes the coupon on a bond less attractive so that price is adjusted and that in a strong economy equities become more popular resulting in a reduced demand for bonds. Marks were also available for mentioning the credit environment, that corporate bonds must be made more attractive due to higher risk, that supply and demand affects values and that a mismatch can lead to fluctuations in value.

The relevant section of the study manual was Part 4 Chapter 2.1.2.

Question 4

Explain how the following asset classes are valued for the purposes of the Fund Account and Net Asset Statement:

(a) Property;
(b) Derivatives;
(c) Pooled Investment Vehicles; and
(d) Listed Securities (Quoted).

(10 marks)

Candidates who had studied this part of the manual were able to gain marks easily in this question. Most candidates gained marks for explaining that property requires expert valuers and that schemes with a significant allocation would generally have an independent valuation to tie in with their actuarial valuation. Marks were available for stating that the frequency of valuation is decided by trustees, subject to requirements of the scheme documents. In relation to derivatives, the examiners were expecting candidates to explain that value is derived from the price of the underlying asset. Marks were available for stating that derivatives are valued at fair value and disclosed separately as assets and liabilities. For Pooled Investment Vehicles, marks were available for stating that unitised funds are valued at bid price or bid/offer and that the closing price is used if there is a single price. Candidates could have gained marks in relation to listed securities by stating that closing prices are used and these are last date prices or bid price depending on the exchange.

The relevant section of the study manual was Part 3 Chapter 2.3.2.

Question 5

Describe multi manager funds and the benefits of using them as part of the overall investment management of a pension scheme. (10 marks)

Some candidates did very well on this question. The examiners wanted candidates to explain that a multi manager approach involves a specialist management structure with specific areas of responsibility delegated. Most candidates gained marks for describing manager of managers and fund of funds, although some failed to pick up marks for explaining that MoM selects the specialists, monitors their performance and may alter the manager team. Marks were also available for stating that FoF generally involves an ICVC or investment trust. Most candidates mentioned that the benefits can include increased diversification and access by small funds to funds or expertise which may not usually be available to them. Marks could have been gained for also mentioning the expertise brought to manager selection and economies of scale gained in fees despite the potential for two layers of cost with MoM.

The relevant section of the study manual was Part 6 Chapter 1.3.1.

Defined Benefit Arrangements

The paper covered a rage of questions that covered the syllabus. All the questions could be answered by candidates who had reasonable knowledge of the subjects covered in the manual.

Question 1

Under a salary related pension scheme, outline the factors which contribution levels depend upon, paying attention to whether the scheme is in surplus or deficit.
(20 marks)

Although most of the points were covered by candidates, some answers referred to valuation methods which were not required.

Few candidates mentioned consideration should be given to accounting standards. Little reference was made to any conditions set out in the Trust Deed and Rules.

The relevant section of the study manual was Part 4, Chapter 2.2.

Question 2

Once in payment, pensions are increased according to legislation, scheme rules and employer practice. Taking these into account, write a short article for a company newsletter detailing the pension increases which may apply for a pension scheme that was contracted out. (10 marks)

Most candidates made little attempt to write their answer as an article, losing marks.

There was some confusion over the date ranges for statutory increase and the caps for increases to excess pensions and post 6.4 88 GMPs were either missing or wrong.

The relevant section of the study manual was Part 2, Chapter 3.1.8.

Question 3

Describe how the Pension Regulator may scrutinise and intervene in the funding of a defined benefit pension scheme. (10 marks)

While most candidates listed the ways in which the Pensions Regulator may intervene, few failed to mention how the Regulator would scrutinise the valuation.

The relevant section of the study manual was Part 4, Chapter 3.

Question 4

Outline how flexible or phased retirement has been impacted since April 2015.
(5 marks)

This question was generally well answered and scored the best marks. However, only a few candidates identified that people with protected pension ages had to take their benefits at the same time.

The relevant section of the study manual was Part 2, Chapter 3.1.9.

Question 5

Explain the consequences that the cessation of contracting out in April 2016 may or will have on employers and scheme members. (20 marks)

Most candidates were aware of the main consequences of the cessation of contracting out although some points were missed including the need to preserve contracting out benefits and the fact that integrated schemes made need to change their design.

The relevant section of the study manual was Part 1, Chapter 1.2.2.

Question 6

Describe the circumstances when a member might have a lifetime allowance factor applied to the lifetime allowance. (10 marks)

Most candidates correctly identified primary protection although some answers lacked relevant points.

Enhancement factors for people with either overseas service or who had received a pension credit were generally missed. Many candidates referred to fixed, enhanced and individual protection. As these types of protection do not have an enhancement factor they were not relevant to the question.

The relevant section of the study manual was Part 3, Chapter 1.2.1 and 1.2.4.

Question 7

Explain how a scheme based PPF levy is calculated. (25 marks)

Overall this question was poorly answered and scored the lowest number of marks with many candidates not providing enough detail. Many answers included information that was not required such as details on PPF benefits and writing about the risk based levy. There was also confusion between the treatment of assets and the treatment of liabilities.

The relevant section of the study manual was Part 5, Chapter 2.6.3.

Defined Contribution Arrangements

Overall the standard reached by the candidates in this sitting was pleasing by comparison with October 2016 sitting and it was evident that several had studied the material diligently. There were some very good answers to questions 1, 2 and 3 and this was gratifying given that they accounted for 80% of the marks and were highly topical. The two short answer questions were not so well answered and there was a lack of knowledge around trustee reports and accounts presumably because this is a highly specialised area. Once again some candidates penalised themselves by appearing to study only parts of the course. Each area of the syllabus warrants due attention and the examiners are anxious to see that candidates maximise their chances of success by devoting sufficient time across the whole course.

As in previous years some candidates need to practice hand writing under examination conditions as some scripts were not easy to read and it is important that each question is answered on a fresh page. In general however the results produced bode well for the future.

Question 1

Outline the following aspects of personal pension plans:

(i)	Eligibility	(5 marks)
(ii)	Contributions	(5 marks)
(iii)	Relevant UK earnings	(5 marks)
(iv)	Benefits	(5 marks)
(v)	Death benefits	(5 marks)

Part (i) was well answered with most candidates covering the residency conditions clearly. However, very few mentioned that a Relevant UK Individual is also a person who has or is the spouse of a person who has for a given tax year general earnings from overseas Crown employment subject to UK tax. Hardly anyone made the point that it is possible for an individual to contribute to a personal pension plan and obtain tax relief even if they have no earned income.

Part (ii) also produced some good replies and there was a good level of understanding of the contribution limits but very few mentioned the ability to absorb any excess over the annual allowance by the use of the 'carry forward' provisions.

Part (iii) was soundly answered but there was hardly any mention of income arising from patent rights and treated as earned income.
Part (iv) again was well answered and it was plain that candidates had a good grasp of the different types of income that can be paid from a personal pension plan.

Key omissions however were the raising of the minimum retirement age to 55 from 6th April 2010 and the ability to commute pots worth less than £10,000 under the small lump sum rules.

Part (v) was not so well answered; a surprising number did not make it clear that the benefits on death before vesting are based on the value of the fund accumulated to the date of death. In addition the benefits payable on death whilst income is being drawn in drawdown were not well understood at all. Benefits payable include either a lump sum, or a dependant's annuity or an income payable to a dependant from a flexi-access drawdown fund.

The relevant part of the study manual was Part 5 Chapter 2, 2.1.2 to 2.1.5.

Question 2

A new pensions administration team has been set up in a PLC which sponsors a defined contribution occupational pension scheme. As the Senior Pensions Administrator, draft a training note for the administration team which explains the lifetime allowance charge and shows how the pension scheme members can mitigate this charge. Your answer should include an explanation of the types of transitional protection that are available.

(30 marks)

On the whole this question was well answered; most candidates demonstrated a firm understanding of the lifetime allowance tax charge and how it should be applied in the context of the pension scheme given in the question. The examiners were pleased to see that a good number were able to track the gradual reduction of the lifetime allowance from ££1.8m in the 2011/12 tax year to £1m in the 2016/17 tax year. Generally the suite of Fixed Protections, their respective limits, the deadlines for applying for them and the requirements to be met to retain them were well covered although there was the occasional tendency to confuse them. Similarly Primary Protection and Enhanced Protection and their respective purposes were explained quite clearly.

The types of Individual Protection were also understood and the thresholds which apply to each were correctly given.

The common omissions were:

- If the excess over the lifetime allowance is taken as a pension it is taxed at the member's marginal rate under PAYE.
- Members must be informed of the amount of LTA used up within three months of the benefits being brought into payment.
- Applications for Primary and Enhanced protection had to be made 5th April 2009.
- Scheme specific tax-free cash protection brought into force on 6th April 2006 was hardly mentioned.
- Members can apply for Individual Protection 2014 or 2016 if they already have either of the Fixed Protections but Fixed Protection takes precedence until it is lost.

The relevant part of the study manual was Part 3 Chapter 1 1.10 -1.10.2.

Question 3

(a) You are a Pensions Consultant for XYZ Limited. A Trustee who has recently been appointed to the Board of the XYZ Limited Defined Contribution Pension Scheme would like to gain a better understanding of ''Bundled Arrangements' and 'Unbundled Arrangements' 'in the context of group pension provision. Draft an email to the Trustee in response to this request.

(20 marks)

(b) Draft an email to the HR Director of XYZ Limited which explains 'Master Trusts' and why they might appeal to employers. (5 marks)

In Part (a) the quality of the answers to this question was not quite as good as it was for Nos 1 and 2 but generally candidates were able to distinguish between 'bundled' and 'unbundled' arrangements. Few noted that a 'bundled arrangement' could accept employer and employee contributions however and not many realised that the contributions could be invested into one or more funds offered under the arrangement by the provider.

Common omissions on ‘bundling’ were:

- External links may be available allowing contributions to be invested into funds managed by other investment managers.
- Poor performing managers can be replaced relatively easily without having to change arrangements which can be costly and time consuming

Common omissions on ‘unbundling’ were:

- Trustees can make changes to their investment manager appointments depending on performance and investment strategy.
- Trustees should ensure that they have sufficient governance procedures in place to ensure that decisions are made which will result in the best outcome for scheme members whilst receiving good value for money.

There was evidence that some answers were a little sketchy but the main points were brought out.

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In Part (b) there were some good quality answers were submitted to this question and it was plain that the candidates had kept abreast of developments in this arena which was refreshing. The main points were covered well but common omissions were:

- Master trusts provide a trust based solution for those employers which do not want to have to fulfil governance requirements arising from having their own trust.
- Trustees retain control of the provider and the investments while the participating employers typically are able to choose their own contribution rates.

The relevant part of the study manual was Part 1 Chapter 2, 2.8.1-2.9.

Question 4

Explain the following terms:

(a)	a Pension Input Period	(5 marks)
(b)	a Pension Input Amount	(5 marks)

The quality of answers to this question was varied; some candidates had clearly learnt the topic well and understood how the two concepts are applied in practice to defined contribution schemes. Others however simply did not have an adequate grasp of these terms and in particular struggled to cope with tapering introduced in the 2016/17 tax year.

On a positive note the arrangements in force in the 2015/16 tax year were generally well understood and the annual allowance limits for the pre and post alignment tax years were brought out. The fact that the PIPS are aligned to the tax year from the 2016/17 tax year was generally appreciated by candidates.

For part (a) the common omissions were:

- Trustees could nominate a different PIP end date to coincide with the scheme year.
- The annual allowance was restricted from the 2016/17 tax year for high earners with the introduction of the tapered annual allowance.

For part (b) the common omissions were:

- The dates for determining in which PIP a contribution falls differ between ‘net pay’ and ‘relief at source’ schemes.
- For ‘relief at source’ schemes it is the date on which the contribution is received.

The relevant part of the study manual was Part 2 Chapter 2, 2.3.2- 2.3.3.

Question 5

List the items of information that make up the Trustees’ report section of the Trustees Annual Report & Accounts. (10 marks)

This was the least well answered question and it was evident that many candidates had not really learnt this part of the course. Whilst a handful had a good grasp of the subject and were able to score high marks the majority did not do themselves justice. The latter tended to mention aspects which were irrelevant to the question presumably because they could not recall the pertinent points.

Common omissions were:

- Contribution rates
- AVC providers
- Registration under the Data Protection Act
- The Internal Dispute Resolution Procedure
- Membership movements

The relevant part of the study manual was Part 2 Chapter 1 1.7.4.

Reward and Retirement Provision

This year’s examination paper followed the revised format introduced in 2016, but extended the range of questions from 5 to 6 which enabled the Study Manual to be even more widely covered. The question paper was made up as follows:

- one question of 35 marks,
- two questions of 20 marks each,
- two questions of 10 marks each
- one question of 5 marks.

This should also have helped candidates spend more time on questions with the highest marks and spend less time on the remaining questions.
Four of the questions required the answer to be written in a specific format and whilst there were many good examples there were also a significant number where there was little or no regard to the formatting instruction contained in the question and hence candidates lost valuable formatting marks. It is also worth noting that some candidates failed to start each question on a new page. There seemed no logic in starting a new question two lines from the bottom of a page. This made it difficult for the examiner to identify where one question finished and the next one started.

For a number of candidates, examiners were able to award additional marks by checking through notes not crossed through. It is worth remembering that if ‘readable’ notes have been made it might be worthwhile not to cross them through as any point made in the notes which has not been incorporated into the answer could pick up additional marks.

Candidates are encouraged to read the PMI Communications manual and familiarise themselves with questions requiring answers in different types of format.

Question 1

In preparation for the next Board Meeting, the Compensation and Rewards Manager has requested that you prepare a table setting out the main differences between a workplace pension and a Lifetime Individual Savings Account (LISA). You need only make comparisons between the following points:

- Eligibility
- Purpose
- Minimum age to draw benefits
- Personal contributions
- Tax relief on contributions
- Tax on death
- Charges

(20 marks)

This question contained 20 marks and required the answer to be in a table format. It was a topical subject and candidates may have anticipated a question in this area. It was generally well answered with a number of candidates gaining high marks. Some points of detail were muddled or missed including the following:

- Employer contributions to a workplace pension are not treated as a benefit-in-kind,
- Under LISA
  - the eligibility age being 18 to 40
  - the cost for a first time house is up to the value of £450,000
  - the Government is due to consult on contributions being paid past age 50

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

Question 2

An international service company is setting up an office in the UK and is considering private medical insurance. However, this type of insurance is becoming increasingly expensive to provide.

In your role as the company's benefit consultant you have been requested to prepare a report, for consideration by the HR and Finance Directors, of the ways claims under this type of insurance can be controlled and the costs of claims contained.

Your report should be based on the following ways of controlling costs:

- Managed Care
- Directional Care
- Deferred Access Plans
- Excesses
- Co-insurance
- No claims discount

(35 marks)

This question contained 35 marks and the answer required to be written as a report. While some candidates were able to formulate their answers correctly, there were others who did not and as a result lost formatting marks. There were a number of good answers where candidates could provide the details required under each heading. In other cases much of the detail required to gain good marks was missed.

A number of candidates provided well written introductions/executive summaries and conclusions to their report, but were unable to provide sufficient detail under the individual sub-headings. These sub-headings were listed in the question to guide candidates, however some candidates included irrelevant information which wasted valuable time and gained no marks, such as

- Details of hospital costs for in-patient care;
- Types of cover;
- Cash benefits for using an NHS hospital;
- Exclusions including dental/cosmetic surgery.

Some points missed by candidates included:

- Deferred Access Plans – these are more popular in the individual policy market;
- Co-insurance - being an arrangement where the cost of treatment is shared between the employee and insurer and the employer and insurer;
- No Claims Discount – this applies to individual rather than Group Plans;
- Examples to supplement the general descriptions of points made.

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

Question 3

As Benefits Manager prepare a summary for the Finance Director which outlines the different types of shares your company could offer and the taxation considerations for employees, under its proposed Share Incentive Plan. (10 marks)

This was a 10 mark question and there were many very good answers with candidates able to name the different categories of shares offered under a Share Incentive Plan. It was obvious that many candidates had gained a good knowledge of this topic. The least well answered section was the relevant tax considerations.

Some candidates wasted time by providing an explanation of a SIP and who the plan should be offered to or included detail on CSOP and SAYE arrangements which were not required – candidates should have observed that the question asked for a summary and had a maximum of 10 marks.

Under taxation considerations, it is worth noting that:

- reference should have been made to the special provisions which applied for retirees and others leaving under similar circumstances;
- leaving employees were not obliged to withdraw shares if they wished to obtain full tax relief;
- whilst reference to capital gains was made some candidates failed to mention that CGT would become liable on the entire value *if not held within exemptions.*

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

Question 4

As benefits adviser write a briefing paper to the HR Manager setting out the key points of Universal Credit.

Your briefing paper should also cover the purpose of Universal Credit, who it is intended to help and the benefits it will replace.

(20 marks)

This question had a total of 20 marks and was reasonably well answered with many candidates able to name most of the benefits Universal Credit was replacing. However, some candidates appeared to list as many statutory benefits as possible in the hope that some would be correct. A number of candidates failed to obtain any formatting points – the question asked for the answer to be in the form of a briefing *paper* which required a heading, an introduction, an analysis of the relevant points and a summary. This should not be confused with briefing *notes*.
Some points to note:

- Some candidates were unable to identify the key points required in order for an individual to qualify for this benefit;
- A number of candidates made reference to disability benefits but these were replaced by the Employment and Support Allowance;
- Few candidates made reference to the fact that any claim to legacy benefits closed from 2016 when the new system was due to be introduced;
- Candidates were able to state that the new single payment was relevant to individuals on low incomes but often failed to mention it is also relevant to individuals looking for work.

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

Question 5

As HR Manager, you are considering introducing a long service awards scheme. Write brief notes on the conditions that must be met for long service awards to be made tax free to employees.

(5 marks)

This was a five mark question asking for brief notes. In general, it was well answered with candidates able to provide the relevant facts relating to long service awards. Some points that were often missed included:

- that the period of service completed before the award can be made must be at least 20 years *with the same employer;*
- that the award should not be disproportionate as it could fall foul of age discrimination legislation.

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

Question 6

Outline the disadvantages of a company operating a flexible benefits scheme.

(10 marks)

This question carried 10 marks and required factual points only. On the whole it was well answered but one of the points commonly missed was the fact that any flex plan had to fit in with an organisation's culture/reward strategy. Whilst most candidates mentioned the risk that employees could make unsuitable benefit decisions, some lost a mark by failing to give an example of this, such as, an employee with a family opting out of life assurance and leaving their family with no protection in the event of death.

The relevant part of the study manual was Section 3 Chapter 2.

Taxation, Retail Investment and Pensions

A small number of candidates sat the paper and overall, the standard was mixed. However, the examiners were encouraged to note that there were a few good attempts and one candidate in particular produced an excellent paper.

As was the case at the previous sitting, in setting an appropriate pass mark, the examiners allowed for the fact that the study manual contains a significant amount of material for candidates to digest.

Question 1

In your role as a pension consultant to the WHL Limited Pension Scheme, prepare a briefing paper for the trustees on the Annual Allowance. Your paper should explain:

(a)	the purpose of the Annual Allowance	(4 marks)
(b)	how it applies to both DB and DC schemes	(8 marks)
(c)	how it has changed since its introduction.	(8 marks)

This question was reasonably well answered with some candidates picking up most of the relevant points.

Under part (a) good answers should have noted that the AA was introduced on 6 April 2006 to replace complex rules governing contribution limits. A tax charge applies on any excess above the AA and it was introduced specifically to limit the amount of tax relief which can be claimed by higher/additional rate taxpayers.

Under part (b) it should have been noted that the amount tested against the AA is the pension input amount (PIA). Prior to 6 April 2016 the pension input period (PIP) need not necessarily have been aligned with the tax year. Under a DB scheme the PIA is the benefit accrued over the PIP multiplied by a factor. For PIP's up to 2010/11 the factor was 10 and subsequently it is 16. Under a DC scheme the PIA equates to the total contribution (employee plus employer) paid in the PIP. NI rebates or transfers in are not included.

Under part (c) most candidates noted that the AA in 2006/07 was £215,000 and that it increased progressively to £255,000 up to 2010/11. It was reduced to £50,000 in 2011/12 with the facility to carry forward any unused AA for the previous 3 years. The AA was deemed to be £50,000 in each of those 3 years and the carry forward facility was introduced to limit the effect of a spike in the PIA due to a one-off event e.g. promotion (DB) fluctuating earnings (DC). The AA reduced to £40,000 as from 6 April 2014 and from 6 April 2016, a money purchase AA of £10,000 was introduced for anyone in flexi access drawdown. Carry forward is not available in these circumstances but where applicable, a balance of up to £40,000 is available for DB members.

The relevant section of the study manual was Part 1, Chapter 7.4.

Question 2

Briefly explain Universal Automatic Enrolment Schemes. (6 marks)

The question was poorly answered as candidates tended to look at automatic enrolment in general rather than concentrating specifically on universal automatic enrolment schemes such as NEST.

Answers should have noted that the Pensions Regulator's website lists master trusts which have indicated that they are open to small employers. These schemes have been independently reviewed to help them demonstrate that they meet certain standards of administration and governance. This review is known as the "master trust assurance framework" and was developed by the Institute of Chartered Accountants in England and Wales in association with the Pensions Regulator. Examples of such schemes are The People's Pension, Now Pensions or NEST. The website also includes links to insurance companies which provide GPP's for automatic enrolment purposes.

The relevant section of the study manual was Part 1, Chapter 4.2.8.

Question 3

Outline the tax position which applied pre 6 April 2016 for investors in OEICs and unit trusts. (7 marks)

Apart from one or two exceptions, the question was not particularly well answered. Details are set out on pages 223 and 224 of the study manual and the main points are:

- Realised gains for individual investors on disposal are subject to the normal CGT rules.
- CGT will not apply if the fund is help under an ISA/pension wrapper.
- Dividends are received with a 10% tax credit.
- There is no additional liability for a basic rate taxpayer but a further tax charge applies to higher/additional rate taxpayers.
- Where funds hold more than 60% of their assets in cash or fixed interest securities, 20% income tax is deducted from interest payments.
- Non taxpayers can reclaim the tax deducted, there is no further liability for a higher rate taxpayer but higher/additional rate taxpayers have a further liability.
- In the case of accumulation units or where dividends are reinvested, a potential income tax liability still arises for higher/additional rate taxpayers.

The relevant section of the study manual was Part 3, Chapter 5.2.7.

Question 4

In 2016/17, Harry's salary from his employment as an IT consultant amounted to £122,000 and his taxable benefits in kind totalled £3,000. He also received savings income (gross interest) of £2,500 and dividends of £3,500. During the year, his gross personal pension contributions totalled £15,000. Calculate Harry's income tax liability for the year. (6 marks)

Although no candidate was able to arrive at the correct answer, most made a reasonable attempt. The examiners noted that, although implied, the question does not specifically indicate that the contribution was to a DC scheme and was deducted under the net pay system. Had any of the candidates assumed that net contributions were paid to a GPP out of net salary, marks would have been awarded accordingly. However, under the net pay system the workings are as follows:

Total taxable income – £131,000
Less pension contributions (£15,000) = £116,000
Personal allowance reduced by £1 for every £2 over £100,000
Therefore, PA = £11,000 - £16,000/2) = £3,000
Harry is a higher rate taxpayer so £500 of savings income is exempt.
The dividends are not subject to income tax due to the £5,000 exemption limit.
Computation
Earned income
£32,000 @ 20% =£6,400
£75,000 @ 40% = £30,000 (allows for deduction of pension contributions)
Savings
£2,000 @ 40% = £800
Total liability = £37,200

The relevant section of the study manual was Part 2, Chapter 1.6.1.

Question 5

Outline the tax treatment applicable to payments on termination of employment.
(8 marks)

Apart from one candidate who produced an excellent answer, the responses were generally disappointing. The relevant points are as follows:

- Lump sums paid on termination of employment where the employee has no contractual entitlement are subject to special taxation rules.
- The first £30,000 is tax free but any excess is taxable at the employee's marginal tax rate.
- Benefits that continue after the termination date of employment are taxable (allowing for the £30,000 limit) in the tax year that they are received.
- A statutory redundancy payment is tax free subject to the £30,000 limit.
- Other tax free payments can include payments as a result of injury, disability or death and certain lump sums from private pension schemes.

Other tax free payments of up to £30,000 can be made in respect of compensation for loss of employment and pay in lieu of notice if there was no entitlement to it under contract or otherwise.

The relevant section of the study manual was Part 2, Chapter 1.6.6.

Question 6

(a) List the types of assets that are chargeable to capital gains tax on sale or disposal. (5 marks)

(b) Outline the process for calculating the capital gain/loss on the sale/disposal of shares. (10 marks)

(c) Lisa has a Section 104 holding of £10,000 shares in COYS plc. The cost is £15,600 and she intends to sell 2,000 shares. Calculate the cost of the shares being sold. (3 marks)

Parts (a) and (c) were generally well answered by most candidates but part (b) less so. The examiners noted a typo in part (c) which referred to £10,000 shares in COYS plc rather than 10,000 shares. However, candidates appeared to realise this and all scored full marks for this section.

Under part (a) the assets are:

- Shares in a company.
- Units in a unit trust.
- Land and buildings.
- Higher value jewellery, paintings, antiques and other personal effects.
- Assets used in a business.
- Foreign currency not held for personal use or in connection with an overseas property.

Under part (b) the process is as follows:

- Look separately at each asset disposed of and calculate gain/loss.
- Add together gains and subtract losses.
- Deduct annual exempt amount and calculate tax due on overall gain.
- Identification rules apply to shares acquired at different times in the same company.
- First march any shares sold or disposed of with any shares bought on the same day.
- Next, match any shares sold/disposed of with shares acquired in the 30 days after the sale.
- Then look at shares bought at any other time which are pooled together and known as a Section 104 holding.
- Shares held on 31 March 1982 are included in the S104 holding at the 31 March 1982 value.
- Sale of total holding – total cost used for CGT computation.
- Sale of part holding – proportion of total cost used for CGT computation.

Under part (c) the calculation is as follows:

- Proportion being sold – 2,000/10,000 = 20%.
- £15,600 @ 20% = £3,120.
- Cost of shares being sold = £3,120.

The relevant section of the study manual was Part 2, Chapter 3.4, 3.6 and 3.7.

Question 7

Outline the different methods used by investment professionals to value ordinary shares.
(7 marks)

The question was generally well answered with several candidates scoring maximum marks.

Good answers noted that the methods used include:

- Evaluating the return on invested capital = profits divided by the amount of capital required to generate the profit.
- Price to earnings ratio = share price divided by historic earnings per share.
- Dividend yield = dividend per share divided by the share price.

Price to book ratio = share price divided by net book value per share.

The relevant section of the study manual was Part 3, Chapter 4.

Question 8

Identify the main conditions which must be met to enable an individual to claim Income Support and the circumstances under which a person will be disqualified from claiming.
(8 marks)

The response was mixed with some candidates scoring well and others failing to identify most of the relevant points.

Good answers noted that the conditions apply to those living in England, Scotland and Wales. To be eligible, an individual must be between 16 and Pension Credit qualifying age. They must be pregnant, a lone parent with a child under 5 or a carer. In some cases an individual may be eligible if he/she is unable to work due to sickness or disablement. The individual must either have no income or a low income allowing for their partner's income and savings. They must be working for less than 16 hours per week and their partner less than 24 hours per week.

An individual will not be eligible if they have savings above £16,000 and Income Support will be limited where savings are £6,000 or above. Anyone who needs permission to enter the UK, gets Jobseeker's Allowance or Employment and Support Allowance or is a young person looked after by a local authority will also not be eligible.

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

Question 9

In your role as a financial adviser, draft an email to a new client describing the four main stages of an economic cycle. (20 marks)

Overall, this question was well answered with some candidates scoring full marks.

The question required candidates to identify the four stages and the underlying features of the economy during each stage which are as follows:

Economic boom

- National output rises at a faster rate than the long-term trend of around 2.5% per annum.
- There is a strong and rising level of aggregate demand.
- Employment rises together with real wages.
- There is a high demand for imported goods and services.
- Tax revenues rise sharply.
- Company profits and investment increase.
- There is increased utilisation of existing resources.
- There is a danger of overheating which could trigger a rise in interest rates.

Economic slowdown

- Output continues to rise but growth slows resulting in a soft landing if a recession is avoided.

Economic recession

- Economic growth is negative.
- There is a declining aggregate demand for output.
- Employment contracts/unemployment rises.
- There is a fall in business confidence, profits and investment.
- Price discounting and de-stocking are prevalent.
- Inflation falls and there is less demand for imported goods.
- Government borrowing increases.
- Interest rates fall.

Economic recovery

- Output picks up from the low point of the recession.
- The pace of recovery depends upon how quickly demand starts to rise as well as the extent to which producers raise output and rebuild stock levels.

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

Retail Advice and Regulation

The overall standard of this paper was poor, although it was felt that the paper was of a similar standard to the previous papers. Candidates are reminded that all sections of the manual may be covered by the exam and the questions should be read carefully to ensure an appropriate answer is provided. Candidates should also ensure it is written in the format requested, as marks are awarded for this.

Question 1

As a Financial Adviser, you have recently acquired a new client. Your client has numerous existing investments which they have asked you to review. Their investments (which include direct shares, overseas stocks, property, and funds held on deposit) were set up a few years ago, but they are now looking to simplify their portfolio with a view to taking an income in the future to supplement their retirement income. The attitude to risk when the portfolio was originally established was deemed to be high. Produce a suitability report confirming your recommendations. You should be aware that marks are available for the format and clarity of the suitability report. Your report should focus on:

(a) the relevant information that has been collated as part of the fact-finding process, both on a personal basis and information in relation to the existing benefits;

(20 marks)

(b) the recommendations in relation to your client's existing investments based on tax wrapper and asset allocation. There should also be explanations as to why the recommendation is suitable for your client and why other solutions have been discounted;

(15 marks)

(c) the risks or any changes that the client needs to be aware of in relation to their existing and the recommended investments, and (5 marks)

(d) the costs and consequences of implementing the advice and the service levels to be expected from you as the Financial Adviser. (5 marks)

(45 marks available for this question)

Generally, this question was answered adequately. Reviewing past examinations will assist candidates in preparing for question 1 which covers a large proportion of the marks for the paper. Candidates generally covered Section A adequately highlighting personal information, objectives, attitude to risk and details of the existing arrangements, all of which are uncovered as part of the fact-finding process. Section B enabled candidates to evidence their understanding of advice and its suitability, the quality of which varied across answers although there was no evidence of unsuitable advice. Candidates often omitted reference to tax wrappers, which would be important in the advice process to demonstrate tax efficiency of recommendations. Section C was poorly answered, this was somewhat surprising as the risks are clearly listed in the manual – namely inflation, market, volatility, currency, credit, liquidity to name but a few, but the majority of candidates provided the answer in the correct format.

The relevant section of the study manual was Part 3, Chapter 1 (1.1) and Part 2 Chapter 2 (2.1 – 2.6).

Question 2

Outline the "Guidance Guarantee" service created by the Government. (10 marks)

Candidates overall answered this well. Candidates who hadn't adequately prepared for the exam demonstrated this providing poor quality answers. The question required the candidate to evidence they were aware it was for defined contribution benefit only. Most answers highlighted it is free impartial guidance and that Pension Wise is part of the process, with Citizens Advice Bureau providing face to face meetings. The better candidates could highlight the requirement of trustees and providers to signpost the service and that the FCA is responsible for setting the standards.

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

Question 3

Describe the additional requirements a public limited company and the Company Secretary of such a company have to fulfil when it becomes listed on the Stock Exchange.

(10 marks)

Again, candidates who had adequately prepared evidenced this in their response to the question. The better answered questions could state the minimum capital requirement, what paid up % was required and the number of directors/shareholders which were applicable. They were also able to demonstrate their understanding of the role of the secretary and the requirements to enable them to hold such a role.

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

Question 4

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:

- the FCA rules (10 marks)
- the actions the customer must take when they wish to make a complaint (2 marks)
- the requirements the firm must fulfil when it receives a complaint. (7 marks)

(this question includes 1 mark for formatting)

This was one of the better answered questions on the paper. Most candidates were able to demonstrate an understanding of the DISP (FCA redress handbook) requirements, with the relevant actions and timescales needed in order to comply with the rules. A few candidates appeared to confuse the complaints procedure to the Internal dispute resolution procedure which would be applicable to the Pension Administration environment.

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

Question 5

Explain:

- the aim of the Insurance Mediation Directive (IMD) (5 marks)
- the requirements the IMD imposes on UK firms (10 marks)

A few candidates, appeared to be confused with MIFD. Candidates who scored well on this question, were clearly able to explain the aim of the directive – professional, competence, protection and the requirements on UK firms – registered by FCA, appropriate system and controls, minimum PII requirements.

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

International 2: Managing International Employee Benefits

The paper had 5 short-answer questions (with 5 or 10 marks each) and 3 longer-answer questions (with 20 marks each.

The overall quality of scripts was good and the pass rate was relatively high.

Candidates that demonstrated a depth of understanding and knowledge, including - for the longer-answer questions - appropriate examples; tailoring responses to the situation in the question; and a good structured response generally did well.

In order to pass the exam, candidates had to demonstrate enough expertise to be potentially awarded the Diploma in International Employee Benefits. There were a few candidates whose responses generally consisted of bullet points and repeating of information from the text. However some of these responses did not demonstrate sufficient depth of knowledge and understanding, and therefore not at the level expected for Diploma holders - these candidates did not pass.

Question 1

Describe the purpose of Social Security Agreements ("SSA") with respect to globally mobile employees, explaining the three principal SSA designs including an example.
(5 marks)

Most candidates scored 3-4 marks for this question. Some candidates provided the names of the three designs (totalisation, reciprocal credit and contribution only) but gave incorrect or confused explanations. Not all candidates gave an example.

The relevant part of the study manual was Section 6, Chapter 1.5.

Question 2

State five reasons why a company would use an electronic database to capture information on employee benefits? (5 marks)

This question was from Section 1 of the manual which has not featured in many exam questions in the past. It was well answered with many candidates scoring 4-5 marks. Full marks could have been achieved by stating reasons in the manual; but the examiners also gave marks for other good relevant reasons.

The relevant part of the study manual was Section 1, Chapter 1.4.

Question 3

Describe the financial and non-financial advantages of a captive approach for financing risk benefit. (10 marks)

This question was generally well answered with several candidates achieving 8 or more marks. As for the previous question, candidates also gave marks for advantages that did not feature in the list in the manual; but were good relevant reasons eg economies of scale from captive purchasing power, more flexible underwriting, use of company internal expertise.

The relevant part of the study manual was Section 4, Chapter 1.3.1.

Question 4

Distinguish between the key features of open and closed funds as they operate in Brazil. Your answer should include information on the regulatory environment they are covered by, the governance structure and the mode of operation. (10 marks)

The examiners included this question to check candidates' understanding of the Brazil pensions market, which is very large with many large multinationals operating pension funds locally. The question was generally well answered with several candidates scoring full marks. A few candidates scored very poorly in this question (especially compared to other questions) indicating that they were not so familiar with this part of the syllabus or lacked adequate country specific knowledge.

The relevant part of the study manual was Section 5, Chapter 1.2.2.

Question 5

Describe at least four non-mandatory benefits typically provided by employers in India. Your answer should include examples of the typical benefit levels provided and make reference to any recent trends. (10 marks)

As for the previous question, several candidates scored very well, and others did very poorly indicating potential lack of adequate country specific knowledge. Examiners were looking for descriptions on medical; life & accident; voluntary superannuation; accumulated time-off plans. Some candidates also wrote notes about the mandatory Employer Deposit-Linked Insurance, Workers Compensation and the roll-out of the National Pension Scheme on a voluntary basis – however, as these relate to mandatory benefits no marks were given.

The relevant part of the study manual was Section 5, Chapter 3.3.

Question 6

You are a global benefits consultant working with the new Chief Financial Officer ("CFO") of a multinational with defined benefit plans in many countries. Historically, pension plan funding decisions have been made by local business units. However, the new CFO is keen for funding decisions to be made at a central level.

Draft a report for the CFO setting out why the company should have a global pension funding policy. The report should also cover developments in pension funding and risk transfer options, including some country-specific examples.

(20 marks)

There was a wide range of responses to this question. Despite being asked for in the question, not all candidates provided country-specific examples or stated recent market developments, and these candidates missed out on potential marks. In order to show demonstration of knowledge and understanding, the examiners were looking for several examples from different countries – some candidates only mentioned examples from the UK (but not, other big defined benefit locations such as US, Netherlands or Germany).

The relevant part of the study manual was Section 3, Chapter 1.1, 1.2, 1.3.4 and 1.4.5.

Question 7

You are the newly appointed International Benefits Manager of a medium-sized multinational company. You are the first person to have this role in the company. Previously international benefits management was carried out by the Head of HR as part of his wider roles and responsibilities. However, due to the increased amount of time being spent in this area, you have been appointed in this new role.

The company does not have an International Benefits Policy, and you believe that the company should have formal policies in this area.

Draft a paper to the Head of HR setting out

(a) Why employee benefits need managing at a head office level

(b) What factors and local considerations should be considered in the development of an International Benefits Policy including examples.

(20 marks)

For part (a), the examiners were looking for comments on the financial, compliance and reputational risks faced by companies in relation to benefits; and why these are difficult to manage (eg requires specific skills and knowledge). Examiners also gave marks for comments in relation to advantages of head office involvement (eg obtaining economies of scale, improving central oversight, meeting employee needs on a consistent basis globally)

For part (b), examiners were looking for descriptions of key reasons mentioned in the manual, eg strategic considerations, market positioning, culture/custom/practice. Candidates who provided examples and good descriptions scored more highly than those who just listed points.

Formatting awards were available for candidates who provided a response in the form of a paper –some candidates just provided lists of points, and missed out on formatting marks.

The relevant part of the study manual was Section 2, Chapter 1, 1.1, 1.5 and 1.6.

Question 8

You are an international pension & benefits consultant that has a long standing UK-based medium-sized client. The client is looking to expand by buying a smaller competitor, which is a subsidiary of a large multinational group. The competitor has operations in the UK, France, Netherlands and Germany.

The seller has told your client that they provide typical pension and benefit programmes in each country. Your main contact at the client is considering recommending that the deal can proceed without undertaking further investigation on the pension and benefit programmes. You have arranged a meeting with the HR and Finance directors to discuss.

Draft a presentation to set out the high level rationale for undertaking due diligence, explaining in detail how the transaction may impact on employee benefits.

(20 marks)

The question asked for responses in presentation format. Many candidates tried this, but ended up with a response that looked like a paper (eg long sections, lots of text). Conversely some candidates did produce a response that looked like a presentation (eg slide format with short concise points) – but some of these responses were too short and did not go into detail.

Overall the examiners felt that candidates found it difficult to actual draft presentations despite the wide use of presentations in day-to-day business life. As a result many candidates missed out on formatting marks.

The question related to the acquisition of the subsidiary of another company. As well as general M&A employee benefit points, the examiners were looking for candidates to provide specific comments on this type of transaction eg carving out of seller's plans; possible continuation in multi-employer plans (eg in Netherlands); impact on insurance risk premiums.

The relevant part of the study manual was Section 7, Chapter 1.2 and 1.3.

Professionalism and Governance

The PMI's Professionalism & Governance exam is intended as the final stage in the Advanced Diploma.

The study material consists of two core Manuals on Governance and Communications and the PMI's Code of Professional Conduct. 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. Part two consists of three or four short questions. These can be drawn from the syllabus or the Code of Conduct. Candidates may be expected to assess a given situation where a professionalism issue arises and identify how it relates to the Code, writing a short response referencing the relevant section of the Code. Other, part two questions may address a governance issue. Part two carries 40% of the marks available and the Professionalism Manual is available to assist candidates in their preparations. All members of the PMI are required to adhere to the Code of Professional Conduct, which is available for download from the PMI website. All PMI members should therefore be familiar with this.

There is no requirement for candidates to achieve a specific percentage in each part of the exam. However as the majority of marks are gained from the case study, candidates are unlikely to gain sufficient marks to pass the exam unless they have studied the Governance Manual. Failing to learn the Code of Conduct and understanding how to respond to the short questions restricts the opportunity to gain marks and places too much emphasis on the case study. This is a high-risk exam strategy. We were pleased to note the majority of candidates have taken this into account and candidates seem to better understand the study material is the key to passing this exam. Attention has been paid to both the Manual content and the Code. This was reflected in their marks and a number of candidates scored highly this time.

The questions can be answered in any order in the exam and many candidates chose to answer the short questions first. However there were quite a few candidates who spent so much time on the short questions, they severely constrained their chances of gaining good marks in the case study. Many candidates wrote a number of pages on each of the short answer questions. Candidates need to appreciate the short questions do not require a long essay style answer. There are no communications marks allocated for these. The exam paper shows the marks each question has been allocated and this should be taken into account when deciding how much time to spend on them.

The candidates who wrote too much on these questions tended to focus on the practical issues rather than the professionalism issues the question required them too address.

In our professional lives we are rarely asked to draft work in written form. This is a challenge when it comes to written exams! Whilst there is no 'mark' for handwriting, the examiners need to be able to decipher what is written in order to reward candidates with marks. We recommend candidates practice handwriting answers, including asking others who are unfamiliar with their writing to read them. This will give candidates an idea of how clear their work is. The other disadvantage of written exams is that once candidates are committed on a question, they can only change their ideas by starting again. This is an expensive waste of time and in some cases we have seen this cost candidates a pass mark through lack of preparation. Planning is the best way for candidates to overcome this obstacle. However candidates decide to plan, they should ensure the time they allocate to each answer reflects the marks to be awarded. When they are drafting their answers, they should stick to their plan and if they have not finished they should move on to the next question. If the planning has included reading time at the end, it should be possible to go back and finish. But if lack of time management has led to a question not being attempted appropriately, this can be the difference between pass and failure.

As stated in previous reports, planning assists time management, it avoids repetition and aids the flow of answers. If time is spent on ordering thoughts and the structure of answers, before starting the answer, this will help avoid candidates going off track in the middle of a question and ensure they do not waste their time. Whilst we appreciate planning is a personal thing and candidates should plan in a way they know works for them, plans should help candidates in framing their answers. Plans should be drafted as aide memoires for answering questions, they should not be crossed out until candidates are confident they have extracted all the information they need from them and have finished their answer.

The case study question, covered item 7 of the syllabus and could be found in Part 3, Chapter 2 of the Governance Study Manual. The Communications Manual assists candidates in understanding how to frame the format of their answers, 12 relatively easy, but important, marks are available for communication.

Question 1

You have recently completed your PMI Diploma and have been asked by PMI to write a technical article for inclusion in PMI News. The subject you have been asked to cover is the governance framework surrounding the selection and replacement of investment managers by occupational pension schemes. Typically, technical articles in PMI News are three or four pages and are designed to appeal to the range of pensions professionals. The Editor has also asked that the article includes:

- factors trustees should consider when selecting an investment manager
- risks involved in using investment managers, and how those risks can be mitigated
- documentation required to ensure good governance of investment managers
- role of custodians and investment banks in investment governance
- role of transition management in moving assets from one investment manager to another and
- examples of good administration practices by investment managers

(60 marks)

The order of the required areas to cover in the bullet points are directly reflected in the Manual. This was picked up by many candidates, those who had studied and understood the Manual gained good marks in the case study. There were still some candidates who do not appear to have learned the manual, which is a pity. Whilst 60 marks are allocated, there are always more than this available. Candidates have every opportunity of gaining the higher marks if they have both learned and understood the study material, rather than relying on personal experience. Some candidates omitted to include all the required points, or cover these in enough detail to gain sufficient marks.

The Communication Manual is provided so candidates can familiarised themselves with the styles and typical content of formats, that may be required in the exam, as part of their wider revision process. As is always the case with a case study answer, it is not enough simply to know the facts. The answer must be placed in context of the format and style required. In this case an article was required. A good answer was judged on both the style of writing and its format. Candidates should ask themselves about the type of publication they are being asked to write for. In the case of an article for PMI News, a degree of pensions knowledge can be assumed. However as the publication is read by both candidates and experienced professionals, the style of the article should accommodate this broad readership. Chapter 2 of the Manual describes how to approach various types of articles. Some candidates produced papers which were simply essays and therefore lost out on the 12 communication marks available. In some cases this was the difference between a pass and a fail. Sadly, there were some candidates who put a lot of effort into the style of their answers but missed the substance of the technical detail required. Some candidates are still writing detail which was not asked for in the question. Candidates need to remember, no marks are gained for writing additional and unnecessary detail, and this simply wastes time.

Overall, the case study was answered well by a many of the candidates and it was pleasing to award good marks here.

Two of the short questions could only have been answered fully if candidates had read and learned the PMI Professional Code of Conduct, its sections and references, as well as understanding the syllabus. Ideally candidates should have worked through the Professionalism Manual so they know how the Code is applied in specific circumstances. Candidates 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 candidates to know the broader application of the organisational principles underlying the Code. Candidates should bear in mind that whilst the Code is the main focus, the short professionalism questions can be based on any area of pensions. The third short question covered material from the Governance Manual.

The short questions were:

Question 2

A friend, who knows you work in the pensions industry, asks for advice on whether he should transfer out of his defined benefit pension scheme and into an offshore flexible drawdown arrangement. What do you say to him? (15 marks)

This question was answered fairly well by most candidates, but many missed potential issues in relation to the offer being made and focused on explaining the transfer value. Candidates must remember, whilst knowledge of the technical aspects is necessary to understand the implications of the question, they need to be applying the professional issues which relate to this. A number of candidates wrote detailed answers on how transfer values work, rather than thinking about the professional challenges this scenario raises. Just as in the case study answer, unnecessary information attracts no additional marks and wastes time.

Question 3

As Pensions Manager, you are in the process of carrying out the annual audit of your third party pensions administrator and you discover numerous cases of incorrect benefit calculations. In your discussions with the assistant administration manager, you begin to suspect that you are being encouraged to ignore the incorrect calculations in return for some form of personal gain. What should you do? (15 marks)

This question was the least well answered overall. Many candidates simply dealt with the problem of dealing with wrong calculations and how this could be addressed. A number had not read the question correctly and so did not understand this was an out-sourced relationship. Many wrote answers assuming a bribe was definitely being offered, rather than exploring the possibility of misunderstanding. The question was intended for candidates to address the professionalism issues a situation like this would represent.

Question 4

Outline the key steps for operating a risk register as set out in the Pension Regulator's Code of Practice on Internal Controls. (10 marks)

This straightforward bookwork question was well answered by most candidates.