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# **REPORT OF THE BOARD OF EXAMINERS**

## **ADVANCED DIPLOMA IN RETIREMENT PROVISION OCTOBER 2016**

# THE PENSIONS MANAGEMENT INSTITUTE

## REPORT OF THE BOARD OF EXAMINERS OCTOBER 2016

### Introduction

The purpose of this report is to review candidates' performances in the nine units examined in October 2016.

The examinations are either 'Core' or 'Specialist' Units. The Core Units consisted of short answer questions and multiple choice questions. The performance of these examinations was generally good, with some high scores being achieved across all of the units. The Specialist Unit examinations are examined similarly to the format used in the previous syllabus, with the examination papers consisting 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 House 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	104	14	90	39
Core Unit 1B	48	12	36	53
Core Unit 2	117	15	102	25
Core Unit 3	116	11	105	37
Core Unit 4	74	6	68	69
Defined Benefit Arrangements	32	8	24	63
Defined Contribution Arrangements	25	6	19	68
Taxation, Retail Investment and Pensions	28	10	18	39
Professionalism and Governance	47	7	40	13
<b>Total</b>				

Following the October examinations, 11 candidates completed the Advanced Diploma and 1 candidate completed the Diploma in Regulated Retirement Advice. 28 candidates completed the Diploma in Retirement Provision qualification and 2 candidates completed the Diploma in International Employee Benefits.

The rest of this report looks separately at each unit examined in October 2016. 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 October 2016 examinations were based on the 2016 syllabuses and on the law as it existed at 6 April 2015.**

## Core Unit 1A - Understanding Retirement Provision (UK)

This was a 2 hour exam split between multiple choice questions and short answer type 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. The questions which were answered by less than 50% of candidates correctly covered the following areas of the syllabus and study material:

Subject	Study manual reference
Public sector schemes	Part 4, chapter 2.3.1.
HM Revenue & Customs	Part 2, chapter 1.1.1
Appointment of advisers	Part 2, chapter 1.6
Disclosure requirements	Part 1, chapter 2.4.2
Working Tax Credit	Part 3, chapter 2.2.6
Pensions Act 2008	Part 1, chapter 1.7
Investment adviser	Part 2, chapter 1.6.2

### Short answer questions

There were 8 short answer questions of between 5 and 10 marks each.. 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.

#### **Question 1**

Outline the common factors that have been advanced for successive generations not making sufficient savings for their retirement. (5 marks)

This question was generally answered fairly well with many candidates making reference to the high cost of living meaning many people cannot afford to save for the future, and the "spend now, save later" culture. Many also noted the impact of the rise in the welfare state and how the removal of the threat of absolute poverty in old age has removed some of the incentive to save for retirement.

Very few candidates mentioned that fewer people have joined or remained in their employer's scheme since the removal of compulsory membership of occupational pension schemes in 1988, or that individuals may be put off joining a pension scheme by the complexity of the pension system.

The relevant section of the study manual was Part 1, Chapter 2.1.1.

### **Question 2**

In respect of the introduction of automatic enrolment, outline the requirements that can be "phased in", for both defined benefit and defined contribution arrangements.

(5 marks)

It was clear that most candidates had some knowledge of automatic enrolment. However, many were unclear about the details of how the minimum contributions for defined contribution schemes are being phased in towards the full rate of 8%, and even fewer demonstrated awareness of the phasing in arrangements for defined benefit schemes. Some candidates misinterpreted the question as asking about staging dates and focused their answers on describing when an employer would become subject to the automatic enrolment requirements.

Candidates were given credit either for stating the dates for the increases in mandatory contributions as set out in the 2016 study manual or for the later dates announced by the Chancellor in last year's Autumn Statement.

The relevant section of the study manual was Part 3, Chapter 3.2.

### **Question 3**

Outline the broad structure of the Pensions Credit. Note: you are not required to give monetary amounts of the benefits payable.

(5 marks)

In general answers to this question demonstrated a poor level of knowledge of the basic facts about the Pensions Credit. Whilst most candidates mentioned the two elements of Guarantee Credit and Savings Credit, few were able to provide any detail about either. Very few mentioned means-testing, that Pensions Credit is payable weekly or that it is paid at a higher rate if the claimant has a partner.

The relevant section of the study manual was Part 3, Chapter 1.3.

### **Question 4**

List the perceived attractions and disadvantages for an individual in buying a property to rent out (buy to let) as a form of investment.

(10 marks)

This question was generally well answered and the majority of candidates showed an adequate or strong grasp of the topic. Most understood the nature of the investment to be familiar and visible and identified at least some of the pros and cons of this form of investment. Perhaps because the UK housing market has generally gone up for so many years few candidates mentioned that if a person is heavily financed they can be badly exposed to downturns in the market and few mentioned that a

focus on short-term capital gain has developed rather than investors paying attention to long-term yields.

The relevant section of the study manual was Part 1, Chapter 2.3.3.

### **Question 5**

Describe the main characteristics of a master trust. (8 marks)

Few candidates scored highly on this question despite the fact that there has been much publicity about master trusts recently. Most knew that master trusts provide centralised administration and benefit from lower costs due to economies of scale but beyond that details were scant. Few mentioned that each employer has its own ring-fenced section and can determine its own eligibility conditions and contribution rates. Few also mentioned the nature of the trustee structure: master trusts have a single professional trustee which is responsible for administration and selecting service providers and the range of investment funds being made available, and are not subject to the member-nominated trustee requirements. Very few mentioned the independent assurance framework, or indeed governance in general.

Instead there was a tendency for candidates to turn their answer into a detailed description of the NEST.

The relevant section of the study manual was Part 4, Chapter 2.3.2 but credit was also given for material in Part 3, Chapter 3.3.

### **Question 6**

Outline the role of the Scheme Actuary in relation to a defined benefit pension scheme. (7 marks)

Most candidates were able to demonstrate at least some knowledge of the role of the Scheme Actuary although a number clearly thought the role encompassed accountancy, legal and general advice to the trustees too. Most understood the activities with respect to valuations and funding but a lesser level of knowledge was demonstrated in relation to advising the trustees about assumptions for transfer value calculations or calculations of Section 75 debts on the employer.

The relevant section of the study manual was Part 2, Chapter 1.6.3.

### **Question 7**

List some examples of de-risking strategies an employer may use to reduce its risk exposure whilst retaining its open final salary pension scheme. (5 marks)

The concept of de-risking was well understood by most candidates and this was the question candidates answered best. Most candidate's referenced buy-outs, buy-ins, enhanced transfer value and pension increase exchange exercises but few mentioned liability driven investment or the possibility of changing the scheme by, for example, reducing the future accrual rate. Despite the

wording of the question a number of candidates made reference to closing the scheme or switching to a defined contribution basis.

Candidates are encouraged to note the wording of the question carefully. This question asked for a list so they just needed to write a list. Instead a number wrote a substantial amount of detail about each option and thus used up valuable time without scoring any additional marks.

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

### **Question 8**

Write brief notes about Statutory Maternity Pay.

(5 marks)

This question was generally quite well answered. Many candidates were aware that Statutory Maternity Pay is payable for 39 weeks although the period was sometimes incorrectly stated as 52 weeks. Few candidates mentioned that the employee must have earned above an earnings threshold of £112 per week to qualify or that the self-employed are not eligible. Marks were also lost by not stating that the benefit is paid by the employer and is subject to income tax and National Insurance.

Some candidates misunderstood the question and wrote about maternity leave.

The relevant section of the study manual was Part 3, Chapter 2.1.2.

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

The examination consisted of a multiple choice section plus 6 short answer questions with question 4 divided into 3 separate sections. This is the first year that the exam has taken this format and candidates appear to have adapted well to the new format. In determining whether candidates passed or failed this examination, all marks counted equally, whether they arose from the multiple choice or short answer sections.

#### 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 covered the following areas of the syllabus and study material:

Subject	Study manual reference
Deferred compensation arrangements	Part 2 Chapter 4
Swiss pension funds	Part 4 Chapter 5
Defined Benefit plans in Japan	Part 4 Chapter 7
Pension payments	Part 2 Chapter 1
State Second Pension	Part 4 Chapter 2
EU Pensions Directive	Part 5 Chapter 1
Trade Unions	Part 3 Chapter 7
Financial implications of benefit plans	Part 3 Chapter 9
US State pension	Part 4 Chapter 4

#### Short answer questions

There were 6 short answer questions, 4 with a possible score of 10 marks and 2 with a possible score of 5 marks, giving possible 50 marks. The short answer questions were all based on the syllabus and text in the study manual. Although these questions were shorter than in previous years, answers were sought in a variety of styles and marks were awarded for appropriate formatting. Questions 2 and 3 (key issues in managing global pension plans and the role of trustees) attracted the best answers whereas question 5 (Pillar 3 savings arrangements in Germany) was the least well answered question.

Candidates are reminded to start a new question on a fresh page each time. As well as allowing space to add additional points later it assists the marking process.

#### **Question 1**

You are the International Benefits Manager for a global company and have been asked to prepare a short briefing paper summarising:

- (a) the main reasons that companies give for introducing flex benefits; and
- (b) what conditions to take into account when deciding whether the introduction of flex benefits is possible.

(10 marks)

Generally, candidates demonstrated a good understanding of flexible benefits and part b) of the question was often answered more fully/in detail than part (a).

Many candidates noted the need for the availability of a valuable benefit that could be flexed and the need for a supportive tax regime. Comparatively few candidates noted the need for the internal finance and HR functions to buy in to the process and that one of the desired aims of flexible benefits is to improve productivity, motivation and general health of employees. Few candidates included examples of countries where flexible benefits are prevalent, such as company cars in the UK and healthcare in the US.

The relevant section of the study manual was Part 2, Chapter 7.



## **Question 2**

Set out in bullet point form the key issues in managing global pension plans.  
(5 marks)

This question was answered well with marks being scored in all key areas including compliance with legislation, funding, accounting and risk management. Some good points were made over and above what was in the manual, particularly relating to good governance practice.

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

## **Question 3**

What are the key roles, tasks and objectives of the trustees of a pension plan?  
(5 marks)

This question was also answered well with most candidates noting the importance of implementing the terms of the trust and of acting impartially between beneficiaries. Fewer candidates noted the duties to administer the schemes in the interest of members and appointing third party advisers.

The relevant section of the study manual was Part 3, Chapter 8.

## **Question 4**

Write a paper for your Group Pensions Manager setting out the specific areas of regulation where a local regulator may impact the provision of employee benefits.  
(10 marks)

Many candidates noted the role of regulators in setting minimum and maximum benefit and contribution levels but comparatively few distinguished clearly the differences between DB and DC plans. Few candidates referred to the regulation of member representation.

The relevant section of the study manual was Part 3, Chapter 8.

## **Question 5**

Outline the different types of private retirement savings arrangements (Pillar 3) in Germany.  
(10 marks)

Some candidates answered this question well (including a number who scored full marks) which demonstrated that they had studied the country sections of the study material well, whereas other candidates answered this poorly, suggesting some entrants might have skipped this section of the manual.

Several candidates confused Pillar 2 and Pillar 3, and in many of those cases included significant detail of Pillar 2 retirement savings instead of answering the question. Whilst most candidates understood the three different types of savings, many confused the title of each type with the underlying detail.

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

## Question 6

As your Company's International Benefits Manager, write a briefing note to your Global HR Director that summarises the key features of Pillar 1 (Social Security Benefits) in the Netherlands. (10 marks)

This question was well answered where candidates had obviously studied the relevant section of the manual. Most candidates correctly noted the residence requirement for this pension and the 50 year period for the full benefit, but did not include that the benefit is flat-rate and "pay as you go". Many also quoted the correct amounts although fewer were able to recall the contribution rates and upper salary limit. Some candidates included detail about employer-funded retirement plans in the Netherlands (e.g. DB funding, recovery plans).

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

## Core Unit 2 - Regulation of Retirement Provision

Marks obtained from the short form questions were generally low and the written submissions poor. This is reflected in the percentage of candidates who passed this unit for this October 2016 sitting.

### 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
Marriage (Same Sex Couples) Act 2013	Part 3 Chapter 2.2.6
Definitive Trust Deed and Rules	Part 2 Chapter 3
European financial services regulations	Part 1 Chapter 5

### Short answer questions

The perception is that candidates are not spending sufficient time studying the manual. Whilst the marks available for each of these questions is only between 5 and 10 marks it means that each question will only cover a small part of the manual and will also cover a wider range of the syllabus. It is not therefore easy to pick up all marks unless the whole manual has been studied. The presentation of written answers has also tended to be poor with bad handwriting and punctuation continuing to be a problem as well as candidates not clearly numbering which question they are answering or where the answer begins and ends.

### **Question 1**

Write notes on the charge cap and how it relates to Defined Contribution Pension Schemes.  
(5 marks)

Most candidates scored good marks on this question, mentioning the charge cap rate of 0.75% applying on default arrangements in defined contribution pension schemes and applying to all member borne deductions paid to the pension provider or third party provider and excluding transaction costs. Points not generally mentioned were that the cap relates to arrangements used by the employer as a qualifying pension scheme in relation to auto enrolment obligations. Whilst candidates mentioned it applied to members who contribute to a default arrangement from 6 April 2015 they did not mention that it applies to all those members funds within the default arrangement regardless of whether the contributions were made before or after 6 April 2015.

The relevant section of the study manual was Part 5, Chapter 1.4.2.

### **Question 2**

Outline the impact on pension rights of adoption, maternity, paternity or parental leave (family leave).  
(5 marks)

The question was looking for the impact on pension rights depending on whether the family leave is paid or unpaid, whether it relates to a DC or a DB scheme and circumstances when the employee or employer is required to contribute. Most candidates mentioned about pensionable service and contributions continuing but did not specifically refer to this being the case for paid family leave or the difference between whether it is a DC or DB arrangement. Some candidates wrote about the amounts and timings of statutory and non-statutory maternity payments. Most candidates therefore only gained a few marks for this question.

The relevant section of the study manual was Part 3, Chapter 1.4.7.

### **Question 3**

Write notes on the Financial Conduct Authority's 6 Principles of Good Regulation.  
(8 marks)

This lists the Financial Conduct Authority's 6 principles of good governance as Efficiency and Economy, Proportionality, consumer responsibility, senior management responsibility, openness and disclosure and transparency and briefly expands on these points.

This question was however poorly answered. Most candidates instead listed the 6 outcomes for the consumer of financial services related to the principle of treating customers fairly or the Pension Regulators six Principles for good governance of workplace DC Schemes covered in Chapter 2 of Part 6. This indicates that candidates had not taken time to read the question properly or had not studied the manual sufficiently to differentiate the between principles of different authorities. Some candidates did not answer this question at all. Those that appeared to have studied the manual and identified what the question was looking for scored good marks.

The relevant section of the study manual was Part 1, Chapter 4, 4.1.1.

#### **Question 4**

List the trustees' policies that must be included in their Statement of Investment Principles.  
(10 marks)

Generally candidates should be able to attempt this question through general knowledge of what a SIP is, without recalling all the facts listed in the manual but the marks were still average.

The main points missed were how risk is measured and managed, realisation of investments, exercise of rights, e.g. voting rights and the investment options for defined contributions scheme.

The relevant section of the study manual was Part 2, Chapter 2.10.4.

#### **Question 5**

Write notes about the alternative Money Purchase Annual Allowance which applied from April 2015.  
(5 marks)

The question was looking for circumstances when the alternative Money Purchase Annual allowance of £10,000 applies ;-so that it applies to money purchase savings made by individuals where they have accessed pension savings flexibly, for example by taking an Uncrystallised Funds Pension Lump Sum or flexi access draw down. Further marks were available for mentioning how this interacts with the Annual Allowance for DB savings of up to £40k. Few candidates mentioned that the £10,000 AA also applies to payment of scheme pensions set up after 6 April 2015 from a scheme with less than 12 pensioner members.

However many candidates scored good marks for this question.

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

#### **Question 6**

A scheme merger can be achieved by the bulk transfer of assets and liabilities of one scheme into another. Outline the requirements where the transfer of member benefits is to be made without members' consent.  
(7 marks)

Most candidates covered the requirement for the sellers scheme actuary being required to provide a certificate (under Schedule 3 of the Occupational Pension Schemes (Preservation of benefit) Regulations 1991) that benefits in the receiving scheme are broadly no less favourable than those given up and that Trustees of the transferring scheme should consider that the bulk transfer would not adversely affect the security of members' rights. Very few candidates mentioned the requirement that the schemes should apply to employment with the same employer or that the transfer results from a financial transaction between the employers or the employers are in the same corporate group or that the Trust Deed and Rules must allow as transfer without consent. A number of candidates wrote about TUPE requirements and about future pension accrual which was not relevant to the question. Generally candidates scored below average marks for this question.

The relevant section of the study manual was Part 4, Chapter 1.9.1.

## Question 7

Outline the five main features of the taxation of Employer Financed Retirement Benefit Schemes (EFRBS). (10 marks)

This question was the worst answered question. The answer was covered by Part 1 Chapter 1.7.1 of the manual and the 5 features listed under the heading of Taxation outline of EFRBS. As these types of arrangements are not common candidates would need to have studied and understood the manual, unless they were familiar with them from other sources, to be able to answer this and some candidates did provide good answers..

The relevant section of the study manual was Part 1, Chapter 1.7.1.

## 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 seven short answer questions

### Multiple choice questions

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

- System design
- Automatic enrolment
- Pension taxation allowances
- Benefit crystallisation events
- Administration
- Employee communications

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 1.1.2
Scheme Actuary	Part 3 Chapter 6.1.1
Key Disclosure Requirements	Part 3 Chapter 7.4

### Short answer questions

Average scores for this part of the paper were lower than for the first part. This could be due to candidates spending too much time on the first part and not leaving sufficient time to give complete answers to all the questions in this part. Candidates are reminded that it is suggested that equal time is spent on both parts of the question paper.

### **Question 1**

Outline the main features of the operation of a centralised Master Trust.

(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 expecting candidates to include the following in their responses:

- collection, reconciliation and central functions
- handling employer and employee queries
- keeping records of contributions and ensuring contributions are allocated to the right funds
- administration of accounts
- investment and fund management
- accessing pension savings a retirement

The relevant section of the manual was Part 2 Chapter 4.2.

### **Question 2**

Describe the purpose and process of lifestyling.

(5 marks)

The points to be covered as set out in the manual were:

- funds are gradually moved into less volatile investments as member approaches retirement age
- some protection from market volatility drastically affecting the value of their fund at retirement
- designed by the trustees/managers using scheme NRA
- members can select target retirement age
- system should be able to handle either option

The relevant section of the manual was Part 1 Chapter 1.4.3.

### **Question 3**

The Code of Good Practice and Due Diligence aims to reduce the risk of pension scams. Outline the three principles it is based on.

(6 marks)

The three principles were:

- raising awareness
- assessment process
- awareness of current scam strategies

The examiners were looking for a brief description of each of the above.

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

#### **Question 4**

Outline the actions that an administrator of a UK Registered Pension Scheme would need to take before transferring pension benefits to an overseas arrangement.

(8 marks)

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

- receiving arrangement must be a QROPS
- if transfer includes contracted out benefits further requirements must be satisfied
- because transfer is a BCE member must complete declaration to enable administrator to determine available LTA
- member completes declaration acknowledging they may have to pay UK tax on transfer or on later payment from overseas scheme even if not resident in UK
- if value of benefits exceeds available LTA a tax charge of 25% must be deducted from the TV and accounted for to HMRC
- transfer must be reported to HMRC within 60 days
- if member has relied on LTA protection to avoid / reduce LTA tax charge this must be reported on schemes annual event report

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

#### **Question 5**

Where death benefits are insured, list the situations where a member may be required to provide evidence of health.

(5 marks)

The situations to list were:

- joining outside the normal eligibility conditions
- admission at employer's discretion
- non-compliance with overriding condition of the insurer
- eg employee must have been actively and continuously at work at their normal occupations for 2 months prior to date of joining
- member is re-joining scheme having previously opted out

The relevant section of the manual was Part 2 Chapter 2.5.1.

#### **Question 6**

Describe the eligibility criteria for entering the Financial Assistance Scheme and the benefits it provides.

(10 marks)

The eligibility criteria were:

- scheme started wind up between 1 Jan 1997 and 5 April 2005
- original employer insolvency requirement removed
- compromise agreement reached with employer to prevent insolvency

- conditions widened to include underfunded schemes where no employer debt at time wind up commenced
- members and surviving spouses or civil partners of members who died since wind up started qualify for top up assistance

The benefits provided were:

- improved since FAS established
- similar to PPF. Pensions topped up to 90% of accrued amount subject to cap
- normally paid from NRD
- members aged 60+ can apply for ill health early retirement
- compensation on ill health early retirement is reduced for early payment
- compensation for service after 6 April 1997 is increase annually in payment in line with inflation capped at 2.5%

The relevant section of the manual was Part 6 Chapter 2.11.

### **Question 7**

List the types of arrangements which are exempted from the requirements to appoint certain advisers under the Pensions Act 1995. (6 marks)

The types of arrangement were:

- unfunded arrangements
- non registered arrangements
- schemes with only 1 member
- schemes with fewer than 12 members provided other conditions are met
- lump sum death benefit only schemes
- some public sector schemes

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

### **Core Unit 4 - Financing and Investing for Retirement Provision**

This was the second time that the exam took place in the new format, where part 1 consisted of 50 multiple choice questions and part 2 consisted of five short answer questions.

#### Multiple choice questions

Candidates generally scored well on the first part of the paper, demonstrating a reasonable knowledge of the subject matter across the full syllabus.



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 3.1

### Short answer questions

There were five short answer questions with marks available across a very wide area of the syllabus. It was, as always, apparent which candidates had studied the entire manual and these candidates did somewhat better than candidates who had attempted to question spot. As usual, the examiners would remind candidates to answer the question that has been asked rather than the question they would have preferred to have been asked. There were gaps in some candidates' knowledge. Candidates are also asked to consider the number of marks available when deciding how much to write in an answer.

#### **Question 1**

Outline the role of the custodian and the issues trustees should consider when appointing one. (10 marks)

Answers to this question were disappointing with some candidates giving only two or three matters dealt with by a custodian rather than the longer list contained in the manual. The examiners were looking for candidates to set out that a custodian holds investments securely and accounts independently for them. Good candidates mentioned that this simplifies administration and paperwork for trustees. Candidates should have mentioned income collection, tax recovery, cash management, settlement of securities and exercise of voting rights. Marks were available for mentioning that custodians also deal with foreign exchange and stock lending. The issues to be considered by trustees should have included the custodian's insurance arrangements, arrangements with fund managers and sub custodians, the use of global custodians and whether there is a need for a custodian in a pooled fund.

The relevant section of the study manual was Part 6, Chapter 2.2.3.

#### **Question 2**

Write short notes on three types of money market instruments. (10 marks)

Many candidates failed to answer this question adequately. The types of money market instrument for which marks were available were any three of Treasury Bills, commercial paper, certificates of deposit and floating rate notes. Many candidates gained marks in relation to only one or two of these areas.

The examiners wanted candidates to explain that Treasury Bills are promissory notes issued by the Government, which repay a set amount at a set date, usually not more than three months in the future. Marks were available for mentioning the 25k minimum and the fact these are traded at a discount to par at a weekly auction.

In relation to commercial paper, candidates should have noted that these are issued by companies with a high credit rating and are similar to T bills, usually with 270 days to maturity and can be discounted or interest bearing.

Marks were available in relation to certificates of deposit for explaining that these are interest bearing savings certificates with fixed interest paid at maturity, usually with a duration of one year or less and are issued by highly rated banks and have a minimum value of £100,000.

Candidates who answered on floating rate notes should have explained that these are a debt security with a variable rate of interest, usually paying interest quarterly which may include a spread over an index tracked rate and that interest is reset periodically rather than tracked on a daily basis. .

The relevant section of the study manual was Part 4, Chapter 3.2.1.

### **Question 3**

Explain how employer and employee contributions may be determined and calculated in a DC arrangement. (10 marks)

Marks were available for noting that in a trust based scheme, contributions are determined in its scheme documentation while for other arrangements, the contract of employment may set out how contributions are to be calculated. Candidates should have mentioned that contributions are usually a percentage of earnings, which may be basic salary or may include other items such as overtime. Many candidates gained marks for explaining that the contributions may be a flat rate or a scale and may depend on a member's age or length of service. The examiners were also looking for candidates to mention that employer contributions may match the employee contribution or be dependent on it for example with an upper limit. Good candidates were awarded marks for explaining that while a DC arrangement is usually contributory for members it need not be. Candidates should also have outlined the auto enrolment requirements and could have gained marks for mentioning AVCs.

The relevant section of the study manual was Part 1, Chapter 1.3.

### **Question 4**

List the Pensions Regulator's objectives and describe the regulatory action it can take to protect the security of members' benefits. (10 marks)

Most candidates did well on this question and set out the five objectives, namely protecting the benefits of members, promoting/improving understanding of good administration for work based schemes, reducing the risk that schemes will enter the PPF, maximising employer compliance with auto enrolment requirements and minimising any adverse impact on sustainable growth for employers. The examiners were looking for candidates to mention improvement notices, recovery of unpaid contributions, freezing orders, prohibiting trustees and imposing fines or prosecuting offenders in certain cases.

The relevant section of the study manual was Part 3, Chapter 1.3.

### **Question 5**

Describe what is meant by equity type risk and the role of equity type investments in the funding of DB and DC schemes. (10 marks)

Candidates should have noted that equity type investments are also known as growth assets and their value is unrelated to liabilities. Marks were available for noting that equity markets can be volatile which may cause anxiety for a DB scheme employer in the short term though is not an issue if the markets recover in the longer term. The examiners wanted candidates to mention that equity type investments are important for DB schemes which often rely on the anticipated higher investment

return for their long term viability. Most candidates explained that equity type risk is considered a rewarded risk ie there is an expectation of reward for the risk though there is no guarantee of this. In relation to DC arrangements, candidates should have outlined that equity type investment is usually part of a scheme's default or lifestyle investment and is important to help members obtain adequate retirement income as part of the growth phase of their investment. Good candidates explained that it is possible to reduce equity type risk by diversification and that it may have an impact on company accounts for DB scheme employers.

The relevant section of the study manual was Part 2, Chapter 1.3.

### **Defined Benefit Arrangements**

It was apparent that some candidates were not adequately prepared for this examination and thus scored low marks. All the questions could be answered well from the study manual.

#### **Question 1**

Explain what the Financial Assistance Scheme is. (10 marks)

This question had the best answers although candidates gave unnecessary details on the benefits paid by FAS.

The relevant section of the study manual was Section 5, Chapter 2.7.

#### **Question 2**

Describe how TUPE affects pensions on the sale of a business and the requirements on the new employer. (10 marks)

Candidates who appeared to have prepared well obtained good marks for this question. Some candidates however scored few marks by missing key points such as the maximum value available and the relevant dates.

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

#### **Question 3**

What are HMRC's requirements for a transfer out? (10 marks)

With this question:

- Few candidates picked up marks for explaining what a permitted transfer is
- Few answers mentioned that a recognised transfer was not a BCE and that no tax charges applied

Candidates wasted time providing unnecessary details about transferring contracted-out benefits.

The relevant section of the study manual was Section 2, Chapter 4.2.4.

#### **Question 4**

Explain what assessing the employer covenant entails.

(10 marks)

This was the question with the poorest answers.

Few candidates obtained full marks on this question as many missed situations when the Trustee should consider the covenant.

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

#### **Question 5**

A company wants to set up a registered occupational pension scheme. Describe the scheme registration process.

(20 marks)

Most candidates gave adequate detail on the actual registration process. Some candidates wasted time giving unnecessary detail on the information required. Few candidates mentioned that HMRC can de-register a scheme and that a tax charge would be due if this happened.

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

#### **Question 6**

You are a pension consultant. Write a paper for a company managing director that identifies the separate and joint responsibilities of the trustee and the employer in managing a DB scheme.

(20 marks)

Some valuable marks were lost when the question was not answered in the format required. Common points missed were:

- Many candidates failed to distinguish between the powers of the trustees and the powers of the employer. As this was the basis of the question, valuable marks were lost
- The contents of the Trustee Deed and Rules were detailed by some candidates but this was not required
- Several candidates misinterpreted the question and provided details of the Trustees Principles not their powers

The relevant section of the study manual was Section 3, Chapter 2.1.2.

## Question 7

Explain the options members have for offsetting the annual allowance charge and the options available to members to settle this liability. (20 marks)

This was the best answered question with most candidates able to describe the fundamentals of Scheme Pays and Carry Forward although some candidates give unnecessary detail about how a pension input amount is calculated.

The relevant section of the study manual was Section 1, Chapter 1.3 and 1.4.4.

## Defined Contribution Arrangements

On the whole the standard achieved by candidates in this sitting was reasonable and there were a significant number of candidates who answered the questions well, with clear evidence that the required amount of study had been completed. However, it was evident that a number of candidates had not prepared themselves adequately as they were lacking in knowledge in some of the questions particularly the first two questions thereby giving the examiners the impression that they had studied only parts of the course.

Some candidates tended to stray from the confines of the question and this was especially apparent in question 2 (b). The questions must be read carefully and answers given in response to the question asked, not the question that was wished for.

On a positive note, all the questions were attempted which is refreshing and there was evidence that the timing was sensible as few questions seemed to be rushed.

## Question 1

(a) Describe the Single Tier State Pension and the transitional arrangements which relate to the current two tier system. (15 marks)

(b) Outline the proposed framework for Defined Ambition Schemes. (10 marks)

This question attracted some very good answers especially in part (a) and it was plain that some candidates knew the detail of the new regime well. The examiners were pleased to see a firm understanding of the transitional arrangements designed to protect entitlements built up under the current two tier system and the qualifying years requirement to receive the full weekly rate of pension were brought out by a large number. However, common omissions were:

- The single tier state pension is to be increased annually by at least the increase in the general level of earnings
- It is not possible to derive or inherit pension from a spouse or civil partner under the single tier system
- It is still possible to defer claiming the state pension in return for a higher weekly amount but it is no longer possible for individuals to receive a lump sum deferred payment instead.
- Pensions attributable to contracted-out periods of service will be deducted from the single tier state pension

Part (b) again produced answers of a mixed standard and most candidates grasped the central point that defined ambition schemes are designed to share the risk between the employer and the members and represent a promise on part of the pot or income thereby giving more certainty to members about pension outcomes than a defined contribution scheme. Frequent omissions however were:

- The Pension Schemes Act 2015 enables collective schemes that pool risks between members and contains measures relating to the valuation and reporting requirements for collective schemes.
- Contribution levels are fixed and pensions depend on investment returns as for defined contribution schemes.

The relevant section of the study manual was Part 6 Chapter 1, 1.1.1.

## Question 2

(a) You are a Pensions Adviser for a PLC which sponsors a defined contribution occupational pension scheme. A new Trustee has recently been appointed to the Board and he would like to obtain a better understanding of his obligations around the disclosure of information to the scheme members. Write a paper for him which explains the requirements which have to be met in this area.

(22 marks)

(b) Define the following in the context of auto-enrolment:

(i) Eligible Jobholders. (4 marks)

(ii) Non-eligible Jobholders. (4 marks)

As with question one, this question produced a variety of answers and it was evident that some candidates knew the disclosure requirements well but others showed a sparse understanding of them. In addition a number did not set out their answer in the form a paper as required by the question so lost a few valuable marks. Fortunately almost all were aware of the annual statement which has to be issued to DC scheme members and the need for SMPI illustrations. In addition a good number mentioned the trustee annual report and accounts and the auditor's statement but the examiners were surprised to see the following common omissions:

- The SMPI regulations apply to schemes with a money purchase element including defined benefit schemes with a defined contribution section and defined benefit schemes with a money purchase underpin.
- The SMPI projection must be in real money terms to allow a comparison of the outcome with the present day.
- The calculation uses prescriptive assumptions but regulations allow some flexibility to look at an individual's circumstances and scheme investment returns.
- The calculation basis is defined in TM1 effective for statements after 6<sup>th</sup> April 2015.
- Trustees/managers may allow the option of Combined Pension Statements in which members see the workplace scheme benefits from their current employer and their state benefits in a single statement.

Part (b) was generally well answered although several candidates strayed beyond the confines of the question and waded into a description of auto-enrolment albeit at a high level which was not asked for and hence wasted some time.

The relevant section of the study manual was Part 2 Chapter 1, 1.4 and Part 1 Chapter 2, 2.1.

### **Question 3**

You are a Pensions Specialist in an Employee Benefits Consultancy and a recently established defined contribution occupational pension scheme is about to deal with its first retirement. Your Manager would like a refresher on the process involved for dealing with this. Write a short report for her setting out the different types of retirement benefits including the annuity options available.  
(25 marks)

This was one of the better answered questions and candidates seemed to display a sound grasp of the issues although again many answers were not set out in the format required by the question. Many were aware of the need to carry out a lifetime allowance check as a benefit crystallisation event and of the open market option facility available to pension scheme members. The various types of annuity were covered well including annuities with guarantee periods and impaired life annuities. The examiners were pleased to see a reference to flexible annuities and the fact that they can decrease in payment as these were only introduced in April 2015. There were however some common omissions such as:

- The pension commencement lump sum is fixed at the lower of 25% of the fund value and 25% of the member's available lifetime allowance.
- Members must be recommended to take independent financial advice when they invoke the open market option.
- The cost of the annuity is closely linked to interest rates.
- Reference to any of the types of transitional protection which the member might have such as individual protection 2014 or fixed protection 2012, 2014 etc.

The relevant section of the study manual was Part 3, Chapter 1, 1.5.1, 1.5.2 and 1.5.3.

### **Question 4**

Explain 'Straight Through Processing' and outline the benefits of this approach to defined contribution schemes.  
(10 marks)

This question was well answered with a number of candidates scoring very high marks. Most were evidently very au fait with this area. The only real omission related to the historical way of processing business whereby the scheme would receive a written instruction from the member which would be checked by the administrator before the relevant disinvestment instruction was sent to the fund manager. The buying process could not commence until the selling process was complete.

The relevant section of the study manual was Part 1, Chapter 3, 3.8 and 3.8.1.

### **Question 5**

Write brief notes on the information required to be issued to members of a defined contribution scheme during a winding up period.  
(10 marks)

This question was relatively straight forward and attracted some high marks. Most candidates were aware of the basic provisions and demonstrated a sound understanding of the process trustees need to adopt in order to wind up a defined contribution scheme. The frequent omissions were:

- The need to tell the members whether or not an independent trustee or insolvency practitioner has been appointed although this is only of relevance to members of defined benefit schemes. .
- A summary of planned action to be taken
- Members need to be informed of the wind up within one month of the commencement date of the wind up
- A statement needs to be given to the active members, which tells them what the position is regarding the continuation of life cover during the winding up period.
- The action that is being taken to recover the assets that is not immediately available.
- The estimated date when the final details of the members' benefits are likely to be known.
- The extent, if any, to which the value of the members' benefits is likely to be reduced although this is of limited relevance to a defined contribution scheme.

The relevant section of the study manual was Part 3 Chapter 1, 1.11.2.

### **Taxation, Retail Investment and Pensions**

The examiners were disappointed with the overall standard of the papers. Under the revised examination format, this was the first sitting of this Group 1 Specialist Option Unit. The examiners are fully aware that the syllabus and study material are extensive in this unit.. Consequently, the examiners felt that this was a factor to take into account in setting an appropriate pass mark.

#### **Question 1**

Summarise the different ways in which a pension fund could invest in property.  
(15 marks)

This question was reasonably well answered with many candidates picking up most of the relevant points. Good answers should have noted that assets can be held directly in physical property or indirectly through unit trusts, real estate investment trusts (REITS) or property shares. Directly held property is more appropriate for larger funds as it is expensive, costly to maintain and lacks liquidity. Indirect property assets are more appropriate for smaller funds as they are more liquid. It should also have been noted that property is not closely correlated with other asset classes. The main sectors are retail, office and industrial together with small specialist sectors such as hotels and agricultural land.

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

#### **Question 2**

Outline the cover typically provided under long-term care insurance and identify alternative options that are available to help meet costs.  
(10 marks)

The responses to this question were mixed with some candidates wasting time by providing details of means-tested state benefits.

Answers should have noted that LTC insurance provides cover beyond a predetermined period and covers care generally not covered by health insurance. Cover usually includes home care, assisted living, adult day care, respite care, hospice care, nursing home and Alzheimer's facilities. Home care



is covered from the first day needed and provides for a visiting or live-in carer, companion, housekeeper, therapist or private duty nurse up to 7 days a week, 24 hours a day. Methods of self-funding can include savings, sale of property, pension freedoms, equity release and financial help from friends and family, Enhanced annuities can also help to offset the costs of care and nursing home fees. It should have been noted that pre-funded LTC plans are not currently available.

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

### **Question 3**

Identify the main features of Statutory Maternity Leave and Statutory Maternity Pay.  
(5 marks)

The question was generally well answered with most candidates picking up the majority of the relevant points. Details are set out in the study manual and the main points are:

- Up to 52 weeks maternity leave can be taken commencing no earlier than 11 weeks before the expected week of birth.
- SMP is paid for up to 39 weeks at a rate of 90% of average weekly earnings (AWE) for the first 6 weeks and then either £139.58 per week for the next 33 weeks or 90% of AWE if less.
- To qualify, an employee must have earnings of more than £112 per week (earnings threshold as at April 2016).
- SMP is subject to tax and NI.
- Employees must take at least 2 weeks leave following the birth of the child (or 4 weeks if a factory worker).

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

### **Question 4**

Describe the transitional protection arrangements available to individuals at A-Day (6 April 2006) who had pension rights under the pre A-Day regime that exceeded the new Lifetime Allowance.  
(8 marks)

Most candidates made a good attempt at this question with several scoring full marks.

Good answers made reference to primary and enhanced protection and that primary protection was only available to individuals with pension rights exceeding £1.5m on A-Day. Any such individuals were entitled to a Lifetime Allowance Enhancement Factor (LAEF) equivalent to the value of their pension rights at A-Day/£1.5m. Individuals with primary protection now have a personal LTA of £1.8m x (1 + LAEF). An Individual could register for enhanced protection regardless of the value of his/her pension rights at A-Day and in the case of DC rights, these can grow without limit. DB rights can increase broadly in line with earnings or RPI, or at a fixed rate of 5% pa. In order to retain enhanced protection, there can be no relevant benefit accrual after 5 April 2006 whereas primary protection allows further benefit accrual. An individual can hold both primary and enhanced protection and there is also transitional protection of pre A-Day tax free cash.

The relevant section of the study manual was Part 1 Chapter 8.

### **Question 5**

Explain what a CARE scheme is and its appeal as a final salary alternative to employers and certain employees. (7 Marks)

Again, this question was well answered by most candidates with many scoring full marks.

The examiners were looking for answers which defined CARE schemes as “career average revalued earnings” schemes and noted that they are DB arrangements. The benefits reflect earnings throughout the entire membership as opposed to being based upon final earnings. The total benefit is the aggregate of the benefit accrued each year revalued each subsequent year through to pension age. Good answers included an example. The appeal as a final salary alternative for the employer is the greater predictability and control over costs, the liability will usually increase with price inflation as opposed to final earnings at the date of leaving and it is therefore easier to match assets to liabilities. For employees, such schemes can be more appropriate for members with varying earnings patterns.

The relevant section of the study manual was Part 1 Chapter 5, 5.13.

### **Question 6**

The Trustees of a defined contribution pension scheme have asked you, as their benefit consultant, to provide a report explaining income drawdown as a retirement option for members, how it has developed since A-Day (6 April 2006), and any tax considerations for members. (20 marks)

The majority of candidates made a reasonable attempt at this question.

Good answers should have noted that capped drawdown allows members with DC benefits to drawdown and income from their fund rather than using it to purchase an annuity. There is a limit on the income allowed each year which must be reviewed at set intervals. The limit is 150% of GAD but prior to 27 March 2014, it was 120% of GAD. Flexible drawdown was introduced under FA 2011 but was only available to members who were no longer active members of any pension scheme. This allowed unlimited drawdown for those who satisfied a “Minimum Income Requirement” (MIR). This was initially set at £20,000 pa and subsequently reduced to £12,000 pa on 27 March 2014. MIR includes state pension, scheme pensions and lifetime annuities. Flexi-access drawdown was introduced as from 6 April 2015 with no restriction on the drawdown amount. Any income taken is subject to income tax at the member’s marginal rate. The Uncrystallised Funds Pension Lump Sum (UFPLS) option was also introduced on 6 April 2015. This allows regular withdrawals comprising 25% PCLS plus 75% taxable income which can be useful for tax planning purposes. Regardless of any income taken, the full amount designated for flexi-access drawdown is tested against the LTA at the point of crystallisation. A money purchase annual allowance of £10,000 applies to individuals who access their savings via UFPLS/flexi-access drawdown.

The relevant section of the study manual was Part 1 Chapter 1.14 Part 1, Chapter 7, 7.4 and Part 1 Chapter 11, 11.6.1 and 11.6.2.

### Question 7

Describe the characteristics of Venture Capital Trusts (VCT's), the tax advantages they offer to investors and the main conditions a company must satisfy for HMRC to approve it as a VCT. (20 marks)

This question was poorly answered with most candidates scoring very few marks. Details are set out in the study manual and it was disappointing to note that the majority of candidates had little or no knowledge of these tax efficient investment vehicles.

VCT's are similar to investment trusts and are designed to encourage individuals to invest indirectly in a spread of small, unlisted high risk trading companies. Such investment provides the underlying companies with funds to enable development and growth. Investors can either subscribe for new shares or shares that are currently trading.

An investment in new shares qualifies for tax relief at 30% provided the shares are held for at least 5 years. Shares are exempt from CGT on disposal provided they are held for at least 5 years and dividends are not subject to income tax. The maximum annual limit on which tax relief can be claimed is £200,000 and tax relief is only available to individuals (not companies, trustees etc.) over 18.

For HMRC approval purposes, income received in the most recent accounting period must have been derived wholly or mainly from shares or securities. Throughout the period, at least 70% of the investments must have been in "qualifying holdings". Throughout the period, at least 70% of the qualifying holdings by value must have been ordinary shares with no preferential rights to the company's assets on winding up and no right to be redeemed. There is a 15% maximum holding in any one company. The shares must have been listed on the LSE throughout the period. No more than 15% of the income derived from shares and securities must be retained within the VCT. Investment in any company must not exceed a £5m annual maximum. £12m is the maximum amount a VCT qualifying company can receive over its lifetime (£20m for knowledge intensive companies). Eligibility requires the first commercial sale to have been made in the past 7 years (10 years for knowledge intensive companies).

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

### Question 8

List the assets that are completely exempt from capital gains tax.

(8 marks)

The examiners considered this to be a very straightforward question which was not particularly well answered by the majority of candidates. Most candidates included "private residence" on the list but as set out in the study manual, there are circumstances where such an asset is not completely exempt from CGT (e.g. where the property has been let at some point).

The list set out in the study manual is as follows:

- Private cars.
- Cash held in Sterling.
- Foreign currency held for a family's personal use.
- Chattels, e.g. jewellery, paintings, antiques that are individually worth £6,000 or less.
- NS&I Certificates and Premium Bonds.
- Gilts.

- ISA's.
- Betting, lottery or pools winnings.
- Personal injury compensation.

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

### Question 9

Jill died on 26th May 2015. Prior to her death, she had made a gift of £400,000 to her son, Jack, on 6th June 2009. Calculate the inheritance tax liability that was due on the gift.  
(7 marks)

A few candidates scored full marks but there were others who tended to confuse IHT with CGT. Some candidates assumed that 2 years annual exemptions (£6,000) were available in addition to the IHT threshold resulting in tax being due on £69,000 as opposed to £75,000. This was quite acceptable from the point of view of the examiners. Good answers set out the computation as follows:

IHT threshold - £325,000  
 Tax due on £400,000 - £325,000 = £75,000  
 IHT at 40% - £75,000 x 40% = £30,000  
 Gift made 5 to 6 years prior to death, therefore qualifies for 60% taper relief  
 Taper relief - £30,000 x 60% = £18,000  
 Full tax charge less taper relief - £30,000 - £18,000  
 Therefore, taper relief reduces tax charge from £30,000 to £12,000

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

### Professionalism and Governance

October 2016 was the second sitting of this examination. It is a compulsory unit and it is intended as the final stage in the Advanced Diploma.

The study material consists of three study manuals: Governance, Communication and Professionalism which included the PMI's Code of Professional Conduct. It is also supplemented by a distance learning course. Part one of the examination is a case study which is based on information directly drawn from the Governance manual, this forms 60% of the marks available. Part two consists of three or four short questions from which candidates need to assess the issues and which part of the Code of Conduct a given situation relates and write a short response referencing the relevant section of the Code. This forms 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 also available for download from the PMI website.

Whilst there is no requirement for candidates to pass both parts of the exam, clearly the majority of the marks are gained from the case study. Therefore without being familiar with the syllabus and study material covered in the Governance Manual, candidates are very unlikely to be able to gain sufficient marks to pass the examination. Failing to be familiar with the Code of Conduct and understanding how to respond to the short questions, places too much emphasis on the case study and is a high risk examination strategy. When marking the October scripts, it was evident that many candidates were insufficiently familiar with the study material and particularly the Code of Conduct.

The examiners recognise that hand written material is rarely part of our professional work in the modern environment. Technology is the norm and many of us 'think' on screen, we have become used to being able construct our reports and other output like a jigsaw puzzle. Moving thoughts and

ideas around a page on a screen as our understanding develops. This is not possible in the examination scenario and places significant emphasis on planning the answer. It is evident some candidates had problems with both the flow of their answers and management of their time. Planning assists time management, avoids repetition and aids the flow of answers. Candidates are not required to answer questions in any particular order and as such, they need to be careful of their time management to ensure all questions are given appropriate time and focus. Planning is a personal thing and candidates should plan in a way they know works for them and keep referring back to the plan as their answer develops. However if more time is spent on ordering thoughts and the structure of answers, this will help avoid candidates getting off track in the middle of a question. Few candidates created the type of structured plans which the examiners felt could have supported them in their answers.

Candidates need to remember that whilst they will not be marked for their handwriting, their answers need to be read by the examiners in order for their marks to be granted. As such we recommend candidates practice writing by hand as part of their preparation.

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

### **Question 1**

You are the Secretary to the Trustees of the ABC Pension Scheme. Several new trustees have recently been appointed and as part of their initial training you are to give a presentation immediately before the next trustee meeting on monitoring the performance of the Scheme's active equity investment manager, XYZ Fund Management.

The presentation will cover the following areas:

- Why it is important to monitor the performance of the investment manager.
- Content of portfolio valuations.
- Purpose of performance reporting.
- Factors influencing rate of return.
- Content of performance reports.
- Factors influencing manager approach.
- The ways in which the performance of the investment manager can be measured.

Prepare the slides and the accompanying speakers notes. Your presentation should include slides and the technical notes required to deliver the training session. It will be kept as precedent for future new trustees and so should not include any colloquial comments or instructions for presenting.

(60 marks)

The order of the required areas to cover in the bullet points are directly reflected in the manual, the lack of focus and detail from many of the scripts evidenced that many were not sufficiently familiar with the material in the manual. Many candidates ignored the detail of the question, which asked for a precedent Trustee Training presentation for an active equity manager. Instead they chose to write a response on monitoring performance in any manager. This meant lost opportunities to score marks. Candidates should note that no marks are gained for writing additional and unnecessary detail, and this wastes time. There is a tendency for candidates to write all they know about a subject, instead of answering the question. This is where effective planning underpins a targeted answer. Candidates need to keep checking the flow of the plan against the requirements of the question. They will avoid including unnecessary detail.

If candidates had studied and understood the material covered in the Manual, they stood a good chance of gaining high marks on the case study. However few high marks were gained, given the straightforward nature of the question and the direct correlation between it and the Manual this emphasises the importance of familiarity with the study material.

It is not simply enough to know facts; candidates need to convey these facts in a clear and professional manner to gain higher marks. Whilst the presentation format required may not be as familiar as 'say' a report, the Communication Manual gives clear instructions on what is expected. A presentation will always require technical notes and slides. Candidates should note communication marks will be available if the slides are not simply bullet lists. This does not mean candidates should waste time with art work, but should understand graphs/tables/graphics have a place in a presentation. Sometimes graphics can take the place of words, or words can take the place of graphics. However if something is asked for in the question, it must be represented in one or the other. A proportion of candidates referred to a graphic rather than describing an aspect of their answer, but then did not draft the graphic. So no marks could be awarded. Candidates should always remember slides and notes should relate to each other.

Candidates should have familiarised themselves with the style and typical content of typical formats as part of their wider revision process. Candidates should go back to first principles when drafting their answers to ensure they gain all the communication marks available for the case study. These can make the difference between a pass and a fail.

**The short questions** could only have been answered fully if candidates had read and understood the PMI Professional Code of Conduct, its sections and references. Candidates should have worked through the Professionalism Manual so they know how the Code is applied in specific circumstances. It is also important for candidates to know the broader application of the organisational principles underlying the Code. Short questions can be based on any area in the syllabus. The short questions were:

### **Question 2**

You and a colleague overhear a visiting client talking about their company's takeover of another company. This is due to be announced in a week's time. The client expects the announcement will result in a large increase in their company's share price. The client does not know you overheard. Your colleague suggests you both buy some of the company's shares today. What do you do?

(15 marks)

### **Question 3**

A friend, who knows you work in pensions administration, asks for your advice on whether he should take the enhanced transfer value being offered by his employer. You know he is struggling financially and the extra money would really help him. What do you say to him?

(15 marks)

### **Question 4**

You manage a small pension project team which has a major deadline tomorrow. You know the client sent the data necessary to complete the project late and this has put pressure on the team. However one of your team has an exam the following day and you have already agreed to their taking tomorrow off as study leave. Without her it is unlikely the project will be finished which could impact on an already stretched client relationship. Do you revoke the study leave?

(10 marks)

Given there is no requirement for questions to be answered in order, many candidates decided to answer the short questions first. Whilst this is perfectly reasonable, time planning becomes vital so too much focus is not spent on questions which can only deliver a small proportion of the overall marks available.

Candidates often 'personalised' the questions too much, rather than objectively thinking about which section of the Code each question related too. If they knew there were wider Regulatory aspects to an answer, whilst the minutiae of detail are not required, often candidates were not clear in what they were. In addition, a number of candidates included technical detail on the subject matter given in the context. This was only relevant in as much as it could contribute to the scenario. Additional information attracted no additional marks and wasted time.

Due to the Code's brevity means there can only be finite numbers of interpretations. Candidates should become familiar with the Code itself. This will improve the detail and structure of the short answer questions and allow more marks to be awarded. It will also accompany them as they build their professional careers.

More candidates would have passed if they had learnt the Code and how to apply it.