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# **REPORT OF THE BOARD OF EXAMINERS**

## **ADVANCED DIPLOMA IN RETIREMENT PROVISION**

### **APRIL 2016**

# THE PENSIONS MANAGEMENT INSTITUTE

## REPORT OF THE BOARD OF EXAMINERS APRIL 2016

### Introduction

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

April 2016 was the first set of examinations since the restructure of the Advanced Diploma in Retirement Provision. 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 previous format, with the examination papers consisting of a number of questions and three hours being allowed to answer the questions.

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. They should also ensure they study any appendices which form part of each manual. Distance learning courses and revisions 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.

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	111	7	104	67
Core Unit 2	77	7	70	57
Core Unit 3	104	5	99	80
Core Unit 4	56	4	52	75
Defined Benefit Arrangements	30	2	28	43
Defined Contribution Arrangements	16	4	12	50
Reward and Retirement Provision	43	3	40	58
Retail Advice and Regulation	10	3	7	29
International 2	26	6	20	60
Professionalism and Governance	33	6	27	44
<b>Total</b>				

Following the April 2016 examinations, 24 candidates completed the Advanced Diploma. 18 candidates completed the Diploma in Employee Benefits and Retirement Savings examination and 1 candidate completed the Diploma in Regulated Retirement Advice. 44 candidates completed the Diploma in Retirement Provision qualification and 10 candidates completed the Diploma in International Employee Benefits.

The rest of this report looks separately at each unit examined in April 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 April 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 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 very good scores on the multiple-choice questions. The question areas which were answered by less than 50% of candidates correctly are as follows:

Subject	Study manual reference
Pensions Credit	Section 3, Chapter 1.3
Working Tax Credit	Section 3, Chapter 2.2.6
Pensions Act 2008	Section 1, Chapter 1.7

Examiner comments on the short answer questions can be found below.

### **Question 1**

Briefly summarise the main features of the new Individual Savings Accounts (ISAs) applicable after 1 July 2014. (7 marks)

This question was generally well answered with most candidates showing an awareness of the two types, although a large number missed the point that it is not permitted to have more than one of each in any one tax year. Most candidates correctly identified the annual contribution limit and were able to explain the tax position on payments in, investment gain and withdrawals. Few noted the flexibility to take money out at any time, subject to contractual notice periods.

The relevant section of the study manual was Section 1, Chapter 2.3.1.

### **Question 2**

Explain the eligibility conditions for Statutory Sick Pay, how it is paid and the amount payable. (8 marks)

Most candidates were able to demonstrate an awareness of the main points although a significant number failed to state the correct weekly amount that is payable or the weekly amount a claimant must have earned in order to qualify. Few candidates knew that it is not means tested or that different periods of sickness or disability are linked to determine the 28 week period over which statutory sick pay is payable.

The relevant section of the study manual was Section 3, Chapter 2.1.1.

### **Question 3**

In the context of automatic enrolment, define “eligible jobholder”, “non-eligible jobholder” and “entitled worker” and state the differences between each of them. (10 marks)

This was generally a very well answered question, with most candidates showing a clear understanding of the distinctions between these categories of employee. By contrast, a number of candidates scored very poorly, demonstrating that they had neither studied the manual nor had practical experience of this topic. Very few mentioned that ‘jobholder’ refers to workers in the UK only and includes temporary and agency workers.

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

#### **Question 4**

Write brief notes about Collective Defined Contribution Schemes (a type of defined ambition scheme). (10 marks)

It was clear that candidates had not anticipated this question as, with a few exceptions, scores were very low. Defined ambition schemes are mentioned in the syllabus and there are four paragraphs specifically on Collective Defined Contribution schemes in the study manual. Candidates need to be aware that questions may be set on any part of the syllabus and all questions are compulsory so they need to be suitably prepared.

Candidates had some idea that the benefit is targeted but not guaranteed and that the benefit depends on the funding level of the whole scheme rather than the individual member's pot but few could add any more than this.

Despite the signposting in the question a number of candidates interpreted the question as asking about Group Personal Pensions.

The relevant section of the study manual was Section 4, Chapter 2.2.2.

#### **Question 5**

List the main features of a stakeholder pension that are additional requirements to those of an ordinary personal pension. (5 marks)

Mixed results were achieved with some candidates scoring highly and some producing very poor answers. Most noted that the AMC may not exceed 1.5% of the fund in the first 10 years and 1% thereafter. Most mentioned that the minimum contribution cannot be set higher than £20 but a number thought this was £20 per week or per annum. Some candidates referred to accepting transfers in and not charging for transfers out but few mentioned the need to provide a default investment fund or that these schemes must have a statement of investment principles and an auditor.

The relevant section of the study manual was Section 4, Chapter 1.2.7.

#### **Question 6**

Outline the role of the trustees' legal advisers. (5 marks)

This was the question on which most candidates scored highest. Most knew that the trustees' legal advisers advise trustees on the legal and regulatory requirements applying to pension schemes, although fewer knew that they also advise trustees on their legal duties and responsibilities. Most knew that they advise on disputes, help in interpreting scheme documents and draft changes to the trust deed and rules.

Marks were most frequently missed where candidates did not comment on the production of deeds to appoint and remove trustees or on the legal advisers' role in drafting recovery plans, merger agreements and contingent assets agreements or that they advise on corporate transactions and sale and purchase agreements.

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

## Question 7

Identify the key points for effective communication to members of a pension scheme as an aid to ensuring employees' engagement.

(5 marks)

This proved to be quite a difficult question and scores were generally fairly modest. Most candidates recognised the need to consider the target audience and to consider the medium (paper, online, face-to-face) but few noted that the purpose of the communication should be considered in order to focus on the key message or that key messages should be relevant to the different stages of a person's membership in the scheme.

The relevant section of the study manual was Section 1, Chapter 2.4.1 but credit was also given for referring to the DWP Style Guide which is covered in Chapter 2.4.4.

## Core Unit 2 - Regulation of Retirement Provision

This unit is now made up of 50 multi choice questions of 1 mark each and a set of short form questions which make up the other 50 marks of the possible 100 mark paper. The short form questions are of between 5 and 10 marks each.

The questions are set to test for a broad knowledge across the whole of the syllabus and the majority of candidates performed well across both types of question. A number of candidates did perform badly in both the multi choice questions and the short form answer questions. This indicates that there had been insufficient time spent on studying and preparation for the exam by comparison with previous examinations in the old format where all 100 marks had to be obtained from written answers. This may be because there is a perception that this new format makes it easier to obtain marks and not requiring as much study time as previously. Unfortunately a number of candidates will have found this is not the case. As outlined above the new format makes it easier to test candidates across a broader spectrum of the syllabus and therefore it is important to study all sections of the manual thoroughly to obtain sufficient marks to pass.

In the multiple choice part of the paper, the questions which most candidates answered correctly included some of the following areas:

- The Annual Allowance
- Money Purchase Schemes
- Trust Deeds and Rules
- Tax Relief
- Resolving Internal Disputes

The areas that candidates answered less well were

Subject	Study manual reference
Trustees' Annual Report	Section 1, Chapter 1.8.4
Participating in a pension fund	Section 4, Chapter 1
European Financial Service Regulations	Section 5, Chapter 2
Human Rights Act 1998	Section 3, Chapter 1.3

Examiner comments on the short answer questions can be found below.

### **Question 1**

In relation to the monitoring of investments, list the key governance requirements for trustees of DC schemes under the Occupational Pension Schemes (Charges and Governance) Regulations 2015. (5 marks)

These key governance requirements were listed out as bullet points in the study manual and include, that core financial transactions must be processed promptly and accurately, default arrangements must be designed in the members' interests and kept under review and the scheme deed and rules must not restrict the choice of administrators, fund managers or advisers to the scheme.

This is quite a topical subject and whilst some candidates picked up full marks the majority of candidates only picked up a few of the points either because they had written very little at all or had not answered the question instead writing about Trustee Knowledge and Understanding requirements or delegation of monitoring.

The relevant section of the study manual was Section 5, Chapter 1.1.5.

### **Question 2**

Explain the circumstances where a Section 75 debt could be triggered in relation to a business sale or a share sale. (10 marks)

This question was the worse answered question of the 7 short form answers with most candidates getting mixed up with the circumstances of a business sale and share sale and not relating correctly on why a debt is triggered. Candidates also veered away from answering the question by writing in detail about withdrawal and apportionment arrangements and S75 debts being triggered by other reasons such as employers becoming insolvent or schemes winding up.

Some of the key points that were missed were: that a seller would normally be responsible for the debt triggered as a result of a business sale because the company that employed the transferring employees would still be part of the sellers group and; that a debt can be triggered by an asset sale where the seller withdraws from a multi-employer employer DB scheme by virtue of all the employees who are active members transferring to the purchaser as a result of the sale.

The relevant section of the study manual was Section 4, Chapter 1.8.1.

### **Question 3**

Explain the main distinctions between a trust and a contract. (10 marks)

This was a straight forward question and the majority of candidates scored above average marks. A number however scored very low marks on this question, through lack of content to the answer.

Points to mention were, that a contract is enforceable only if it is made by deed or if supported by consideration and that only the parties to a contract can enforce it as long as the Contracts (Rights of Third Parties) Act 1999 is excluded and a beneficiary under a Trust can enforce the Trust even if no consideration is given.

The relevant section of the study manual was Section 2, Chapter 1.9.

#### **Question 4**

Under the Pensions Act 2004, and related Regulations, there is an employer duty to consult on changes that affect a pension scheme. Write brief notes on the potential implications if an employer fails to comply with any of the requirements in connection with this duty.

(5 marks)

Most candidates failed to pick up many marks for this question. Points to include where, if it is believed any requirements in connection with the duty to consult have not been met a complaint can be made to TPR. TPR then has 2 main discretionary powers which are to issue an improvement notice to the person who has contravened the regulations, directing them to take steps to remedy the contravention; and imposing a penalty. A point was also available for mention that TPR has no power to alter any listed change.

Many candidates wrote about contribution notices and funding being affected and misunderstood the question.

The relevant section of the study manual was Section 3, Chapter 1.5.2.

#### **Question 5**

Outline the statutory duties of the Scheme Administrator in relation to record keeping.

(5 marks)

Generally most candidates picked up marks on this question.

It was important to identify that the reference to Scheme Administrator is in relation to the Statutory role as defined under the Finance Act 2004 and not necessarily the person that deals with the day to day administration of dealing with members and benefits. The Scheme Administrator is usually a Trustee or a person or corporate body appointed by the Trustee. Where candidates identified the correct role they were able to list the recording keeping requirements, as set out in a list in the manual. This included preserving documents related to monies received or owing, investments or assets held and any contracts to purchase lifetime annuities. Marks were also available for referring to the length of time the documents need to be preserved for.

Some candidates confused record keeping duties with TPR's Guidance on Record Keeping and wrote about common and conditional data.

The relevant section of the study manual was Section 1, Chapter 1.2.1.

#### **Question 6**

The making of an unauthorised payment from a Registered Pension Scheme will generate up to 4 different tax charges. Outline the charges payable.

(10 marks)

This question was well answered by most candidates, with the exception being the candidates who had struggled to answer questions across the board.

Most candidates should be aware of the unauthorised payments tax charges as part of their day to day role. The 4 tax charges referred to were; unauthorised payments charge, unauthorised payments surcharge, scheme sanction charge and de registration charge, together with outlining the related tax charges.

The relevant section of the study manual was Section 1, Chapter 1.5.1.



## Question 7

Identify 10 trustee powers commonly found in the Trust Deed and Rules of an occupational pension scheme. (5 marks)

This question was an easy and straight forward question to answer and candidates should have been able to attempt to list a number of powers contained in a Trust Deed and Rules without having studied the manual. Most candidates were able to list a number of powers but very few obtained a full 5 marks and as referred to in question 6 there were some low scores even on this question.

The relevant section of the study manual was Section 2, Chapter 3.1.

### 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

#### Part One

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 14 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
- Winding up

The two questions where the lowest number of candidates selected the correct answer were:

Subject	Study manual reference
State Pension Age	Section 2, Chapter 1.1.2
Fixed Protection	Section 4, Chapter 3

There was one question on the paper (Q48) which was incomplete. This was queried by a number of candidates. The question was not taken into account with the pass mark adjusted accordingly.

Examiner comments on the short answer questions can be found below.

### Question 1

As well as storing member data and calculating benefits list six other tasks which a computerised system may be used for in relation to a defined benefit (DB) scheme.  
(6 marks)

The examiners were looking for candidates to list any six out of the eight tasks set out in the manual which were:

- Production of letters and emails;
- Production of benefit statements;
- Data extracts for valuations and accounts;
- Data extracts for HMRC returns and reports;
- Operation of a payroll facility and production of P60s for pensioner members;
- Monitoring of work within the administration function (workflow);
- Electronic scanning and storage of documents; and
- Electronic transfer of data between papers.

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

### Question 2

Outline the advantages of adopting middleware as an automatic enrolment tool for an employer.  
(7 marks)

The advantages as set out in the manual are:

- Removes requirement for associated HR, payroll and pension administration tasks to be carried out manually;
- Employer and workforce see single joined up, end to end process;
- Management information available from one place;
- In house system development costs may be out of reach for most small to medium employers;
- Support available where there are changes to legislation or to the employers workforce; and
- Requirements can be complex and expertise to develop a system may put strain on available HR resources.

The relevant section of the manual was 2.1 of Chapter 2 of Part One.

### Question 3

Describe the two types of protection from the lifetime allowance tax charge which were made available when the lifetime allowance was introduced on 6 April 2006.  
(9 marks)

The majority of candidates were able to identify the two types of protection as 'primary' and 'enhanced'. The main points the examiners were expecting candidates to cover were:

Primary Protection:

- Available if benefits valued at £1.5m or more on 5 April 2006;
- Value of accrued benefits protected;
- Further accrual subject to charge;
- Individual gets enhancement to standard LTA based on higher of £1.8m and standard LTA when benefits are paid.

Enhanced Protection:

- Available to all;
- In practice only those with benefits valued at close to £1.5m were likely to apply;
- Complete protection from LTA charge;
- No further DC contributions and only limited DB accrual.

The relevant section of the manual was 3.1 of Chapter 3 of Part Four.

#### **Question 4**

Identify the options that may be available to a member when they retire at normal pension age. (10 marks)

This was the best answered questions with many candidates achieving the maximum possible marks. The options to be identified were:

- A Scheme Pension;
- A Lifetime Annuity;
- A Pension Commencement Lump Sum;
- A Trivial Commutation Lump Sum;
- A Small Lump Sum;
- Income Drawdown;
- Uncrystallised Funds Pension Lump Sum.

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

#### **Question 5**

Outline the four general accounting principles. (8 marks)

The four principles were:

- Going concern;
- Consistency;
- Accrual;
- Prudence.

The examiners were looking for a brief description of each of the above. The relevant section of the manual was 2.1.3 of Chapter 2 of Part 5.

#### **Question 6**

List the conditions an individual must meet to be a 'relevant UK individual' for a tax year. (5 marks)

The conditions were:

- Relevant UK earnings chargeable to Income Tax for that tax year;
- Resident in the UK at some time in the tax year;
- Resident in the UK at some time in the five tax years immediately before the tax year in question and also resident in the UK when they joined the pension scheme;
- They or their spouse or civil partner has general earnings from overseas Crown employment subject to UK tax for the tax year.

The relevant section of the manual was 1.1 of Chapter 1 of Part 6.

### **Question 7**

Outline the information which must be included in the notice that must be given to members and beneficiaries within one month of winding up commencing.

(5 marks)

This question was the least well answered. On average candidates picked up less than half the available marks. The points the examiners were expecting candidates to include were:

- Reasons the scheme is being wound up;
- Whether death in service benefits will continue to be provided to active members;
- Whether an independent trustee has been appointed (generally only DB);
- Name and address for enquiries.

The relevant section of the manual was 2.2 of Chapter 2 of Part 6.

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

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

#### **PART 1**

Candidates generally scored well on the first part of the paper, demonstrating a reasonable knowledge of the subject matter across the full syllabus. The questions where the majority of candidates struggled dealt with characteristics of equities, and holding cash in times of high inflation.

#### **PART 2**

Part 2 contained seven 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 some disappointing gaps in numerous candidates' knowledge.

Examiner comments on the short answer questions can be found below.

#### **Question 1**

Describe buy ins and buy outs and state the difference between the two.

(5 marks)

The examiners were looking for candidates to explain that in a buy in, annuities are purchased from an insurance company to protect against risk but the members remain members of the scheme. Good candidates mentioned that the insurer pays the pension to the scheme who then pays the pension on to the member. Candidates should have explained that in a buy out, annuities are purchased in members' names rather than in the names of trustees and as a result the members cease to be scheme members. Marks were available for mentioning that a buy out is typically used when a scheme is being wound up, and that the cost of purchasing a deferred annuity may be more expensive than purchasing an annuity for a pensioner.

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

## **Question 2**

Explain what a swap is and describe the types of swaps that are widely used.  
(10 marks)

Many candidates failed to explain adequately what a swap is, but picked up marks for listing some common types. Many candidates failed to mention that a swap is a type of derivative, for which a mark was available. The examiners also wanted candidates to explain that a swap is a contractual agreement, involving the exchange of a single or series of payments in the future. Candidates should have noted that the majority of swaps involved the exchange of a fixed payment for a floating series of payments. Most candidates noted that payments are typically netted off. Good candidates explained that contracts can be tailor made to an investor's requirements and that swaps are not traded on an exchange.

The main types of swaps for which marks were available are interest rate, inflation, index, currency, credit default and longevity swaps. Some candidates listed only two or three types of swap and then went into unnecessary detail about them, so did not receive full marks.

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

## **Question 3**

Outline the various ways in which the strength of the employer covenant can be improved.  
(5 marks)

Many candidates failed to understand what is meant by the employer covenant, which given its fundamental importance to trustees and their investment strategy, was disappointing. Marks were available for noting the three main ways set out in the syllabus namely a charge on assets (usually involving land or buildings, and where trustees take ownership in certain circumstances), a parent company guarantee, a legally binding guarantee to provide financial support in certain circumstances and an escrow account where an employer places money in a separate account to which the trustees have access in certain circumstances.

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

## **Question 4**

What are the fundamental objectives of with profits investments?  
(5 marks)

Again it was apparent that many candidates had failed to study this section of the manual. The examiners were looking for candidates to mention that a with profits investment seeks a good level of return from a mixed pool of assets without being exposed to the volatility of direct investment. Marks were available for explaining that contributions are accumulated in a single investment fund which is managed on a basis common to all investors with an asset mix determined by the investment manager. Most candidates mentioned that the returns achieved are distributed as bonuses, with some held back in good years to smooth out performance extremes in bad years. Marks were also available for explaining that there may be reversionary bonuses and that with profits investments typically provide steady growth.

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

### **Question 5**

Outline the factors which will influence an individual's view of how much to contribute to a DC arrangement. (10 marks)

It was heartening to see that this question was broadly well answered, although some candidates gave a lot of detail about two or three factors rather than listing more factors. Candidates should have noted that the factors include the amount of income needed in retirement, what accumulated pension or other assets the individual has available, the level of contributions made by the employer, expected retirement age, cash required at retirement, the member's relationship or marital status, the member's lifestyle/health or other life expectancy issues, the member's attitude to investment risk and whether there are any tax issues to be considered). Many candidates wrote at length about new DC flexibilities and the different ways in which a DC fund can be accessed, some including detailed descriptions of drawdown and uncrystallised funds pension lump sums, neither of which were relevant to this question.

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

### **Question 6**

Explain segregated and pooled approaches and explain the differences between them. (10 marks)

The examiners wanted an explanation that a segregated fund is managed according to the client's specific instructions whereas a pooled fund is managed according to the investment manager's philosophy. Good candidates went on to mention that a combination is often found in practice. Marks were available for noting that the fee structure is different, with pooled investments typically having a flat fee whereas a segregated approach typically bases a fee on fund side. Further marks were available for an example of the types of fee incurred with each approach.

Good candidates noted that the distribution of income may differ between the two approaches with a pooled approach having automatic distribution or reinvestment whereas a segregated approach can specify how the income should be distributed. Marks were also available for explaining that many smaller funds use a pooled approach and segregated investment has typically been the preserve of larger schemes.

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

### **Question 7**

Write brief notes on tactical asset allocation. (5 marks)

This question was answered very poorly by many candidates. The examiners were disappointed to note that so many candidates appeared to misunderstand such an important concept.

Candidates should have explained that tactical asset allocation is the day to day management for portfolios asset mix which is delegated from trustees to one or more investment managers. Marks were also available for explaining that managers may deviate from the asset mix to take advantage of short term opportunities, for example following a change in economic conditions. In this case, fund managers should revert to the former asset mix once conditions have reverted to normal. Marks were also available for explaining that the trustees may specify in their IPID a benchmark and a range of divergence from there.

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

## Defined Benefit Arrangements

It was apparent that many candidates were not adequately prepared for this exam and as a result scored low marks. All the questions could be answered well with a reasonable knowledge of the subject manual.

### Question 1

Describe the objectives of AVC administration. (10 marks)

This question drew the best answers although few candidates gained full marks. Points most commonly missed were:

- contributions are deducted from earnings;
- AVCs can be transferred separately;
- DB AVCs are invested in line with scheme assets.

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

### Question 2

Explain why a member would apply for Individual Protection 2014 and why they would apply for this rather than fixed protection. (7 marks)

This question was reasonably well answered although many candidates did not explain properly why you would apply for Individual rather than Fixed protection and missed out key dates.

The relevant section of the study manual was Section 3, Chapter 1.2.3.

### Question 3

Explain what contingent assets are in respect of a DB pension scheme. (10 marks)

Candidates had the potential to score well in this question and many did providing details of the various types of assets. However, there were also a number of candidates who did not know what a contingent asset was so could not expand on the details.

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

### Question 4

How does the employer's and the trustee's attitude to risk impact on DB pension schemes (consider investment strategy and employer contributions)? (8 marks)

Few candidates scored highly on this question with most missing the points that the Trustees do not need to follow employer's instructions when setting investment policy and the potential effect the investment strategy could have on the Company's accounts.

The relevant section of the study manual was Section 4, Chapter 6.

### **Question 5**

What is a Section 143 valuation?

(5 marks)

This was a poorly answered question with many candidates unable to identify the basic details of a section 143 valuation.

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

### **Question 6**

You are a pension services manager of an in-house pensions department. As part of a review of the department's processes you have been asked to write a briefing report for your administrators describing the options for a member reaching normal retirement age and identify the tasks the administrators must undertake.

(20 marks)

Some candidates scored reasonably well on this question although for many it was the worst answered. As usual, valuable marks were lost when the question was not answered in the format required. Common points missed were:

- Member's bank details required
- Details about pension increases, payment details and guarantees
- HMRC checks
- Duties after Retirement

### **Question 7**

Outline the differences between the main alternatives to traditional final salary DB pension schemes.

(20 marks)

Although most candidates gained reasonable marks, many wasted time explaining how final salary benefits are calculated which was not asked for. All identified a few alternatives but very few candidates mentioned EPPs/EFRBS or SSASs – which were all included in the manual.

The relevant section of the study manual was Section 1, Chapter 1.1.3.

### **Question 8**

Describe the background to the Myners review and the revised Myners investment principles.

(20 marks)

It was clear that very few candidates had read and understood the details of the Myners review and generally this was the worst answered question. The majority of candidates missed dates and details of the principles. Some provided unnecessary detail about the Statement of investment principles.

The relevant section of the study manual was Section 4, Chapter 6.



## Defined Contribution Arrangements

This was the first time that candidates had to answer five questions rather than the customary four. In view of this, it is arguable that it was easier to pick up half the marks in order to stand a good chance of passing but sadly the general standard was not as high as it has been in previous sittings. This was especially disappointing as two of the questions (numbers three and four) merely required regurgitation of fact but the examiners were surprised by the relatively poor performances in these questions. Question five in particular was very badly answered but happily question one attracted some high scores as did question 2 presumably because this question was topical.

As usual the standard of handwriting was not all that good making some of the answers very hard to read. Candidates would be well advised to practice writing for a three hour period before the exam to help to acclimatise themselves to examination conditions. Candidates also need to be careful that they answer the question asked, not the question they wish the examiners had asked. This was especially true in question five as some candidates were seduced into writing about SSASs which was clearly not required so they ended up wasting their time.

### Question 1

An Administration Sub-committee has been set up in a PLC which sponsors a defined contribution occupational pension scheme. As the in-house Pensions Specialist, prepare a presentation to members of the Sub-committee which shows the steps that need to be taken when death occurs:

- |       |                  |            |
|-------|------------------|------------|
| (i)   | in service       | (10 marks) |
| (ii)  | in deferment and | (10 marks) |
| (iii) | in retirement    | (10 marks) |

Your presentation should cover the processing and payment of the death benefits.

Overall this question was well answered and it was evident that some candidates had learnt this part of the syllabus thoroughly.

In Part (i) candidates picked up most of the marks but notable omissions were the following:

- Not many candidates realised that a successor can be nominated by a dependant of a member, a nominee of the member, a successor of the member or, in the absence of a nomination, by the Scheme Administrator.
- Very few included an example of a typical lifetime allowance test that is carried out when a death in service arises.

Part (ii) was again handled well with candidates demonstrating a firm understanding of the options open to the surviving spouse/dependant.

Part (iii) did not present any real difficulty to those candidates who were conversant in this area but surprisingly not many mentioned the need for the Administrator to refer to the scheme rules first to determine what is allowed and what isn't.

The relevant section of the study manual was Section 3, Chapter 1.3, 1.3.1, 1.3.2 and 1.3.3.

## Question 2

- (a) Outline the simplified taxation rules introduced from 6 April 2006. (11 marks)
- (b) Describe the reforms to tax relief introduced in the Summer Budget 2015. (14 marks)

Part (a) was reasonably well answered with many candidates showing a firm grasp of this area. They knew how the lifetime allowance is applied in practice and the vast majority were aware of the tax-free cash sum and how it is calculated. Notable omissions however were:

- Not many realised that a lifetime allowance tax charge of 55% applies to funds in excess of the lifetime allowance;
- There was only a limited awareness of the fact that the earliest date for early retirement increased to 55 from 6<sup>th</sup> April 2010 except for ill health;
- Very few mentioned the fact that the changes forced schemes to review their arrangements and to switch to a personal pension or stakeholder pension.

Part (b) attracted some high marks and it was evident that many candidates understood the concepts of 'adjusted income' and 'threshold income' well. However common omissions were:

- All pension input periods are aligned to the tax year from 2016/17 onwards
- A consultation exercise on changes to tax relief was announced in the Summer Budget 2015.

The relevant part of the study manual was Section 1 Chapter 1.3.2.

## Question 3

List the forms which Registered Pension Schemes must file with HMRC for online services electronically and list those additional forms which may be registered either online or in paper format.

(10 marks)

The standard of answer to this question was poor despite being a straight forward question. Common omissions were:

- Online electronically: a scheme administrator's declaration and notification of termination of a scheme administrator's appointment; and
- Either online or in paper format: relief at source details and pre-registration as scheme administrator/practitioner.

The relevant part of the manual was Section 2 Chapter 1, 1.1.2 and 1.1.3.

## Question 4

Write brief notes on Capped Drawdown, Flexible Drawdown and Flexi Access Drawdown.

(10 marks)

As with question 3 the standard of answer was poor which was disappointing given how topical drawdown is in the Industry today. Not many candidates seemed to know what 'capped drawdown' is and how it is calculated and very few realised that flexible drawdown is only available to members who were no longer active members of any pension scheme. Happily however a good number mentioned

the minimum income requirement required for flexible drawdown and how it changed from £20,000 to £12,000 from 27<sup>th</sup> March 2014.

Notable omissions were:

- Capped drawdown allows a variable level of pension without the need to purchase an annuity and is subject to a maximum annual withdrawal limit;
- Drawdown is taxed as income; and
- The money purchase annual allowance is triggered when a client draws down income from their FAD fund.

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

### **Question 5**

With regard to executive pension plans (EPP):

- (a) outline their main features. (12 marks)
- (b) explain why EPPs would appeal to:
  - (i) Controlling Directors (7 marks)
  - (ii) other directors and key employees (6 marks)

This was by far the least well answered question; many candidates simply did not know what an EPP is which thus set the tone for a very low standard overall. Answers were frequently irrelevant as many candidates wrote about SSAs and employer financed retirement benefit schemes which were not required.

Common omissions were:

- EPPs offer a large degree of discretion to employers as to who joins them and the level of contribution paid;
- Any contributions in excess of the annual allowance give rise to an annual allowance tax charge unless of course carry forward is available;
- EPPs are registered pension schemes and can be set up under a trust deed and rules, a master trust operated by a specialist provider or by an exchange of letters;
- The employer pays premiums into an insurance policy and the employee benefits are provided from the policy proceeds;
- EPPs can allow several employees and their insurance policies into one scheme under one set of documentation;
- Within an EPP funds are earmarked for individual members
- EPPs act as a tax shelter for accumulating funds for retirement as well as a shelter for bonus payments;
- Members are subject to the annual allowance and lifetime allowance on crystallisation of benefits;
- EPPs provide death in service and ill health early retirement benefits and can be used as the sole provision of pension benefits;
- EPPs may be necessary if an employer does not have an occupational pension scheme.

The relevant part of the manual was Section 5 Chapter 1.

## Reward and Retirement Provision

This was the first time the examination was based on the revised format. In this case the question paper comprised one question with 35 marks, two questions with 20 marks each, one question with 15 marks and one question with 10 marks. It is envisaged that the revised format will enable questions for each examination to be set over a wider section of the manual, therefore candidates should bear in mind that they are required to study the whole manual in preparation for the examination and not to concentrate on certain specific sections only. There were a number of scripts where it was obvious candidates had not studied the manual in sufficient detail and accordingly produced disappointing papers.

Formatting always seems to be an issue and while many candidates set out the questions in the format requested and gained valuable formatting marks, there were a number who did not do so. There were also some very 'untidy' scripts with little or no regard to the formatting instruction contained in the question.

### Question 1

In your role as a benefit consultant to XYZ Limited, a company with 200 employees, prepare a report for the HR Director explaining the five phases on which the successful implementation of a flex plan is built. (35 marks)

This question carried 35 marks and many candidates produced answers in the format required which was encouraging. It was reasonably well answered but there was some confusion between the **implementation** of a flex plan and the **introduction** of a flex package which is covered in a different section of the manual. Points referred to by a number of candidates and which were not relevant included:

- reference to salary sacrifice
- Different levels of staff – not indicated in question therefore not required
- Too much emphasis on the benefits which should/could be included

A number of candidates were not able to list the five phases around which a flex plan would be built. Details of the relevant testing procedures were also missed by some candidates.

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

### Question 2

As Pensions Manager for XYZ Ltd, you have been asked to prepare, for issue to employees, a summary regarding the replacement of the current State pension arrangements with the introduction of the new single-tier pension.

In your summary, you should include:

- Who will be affected by the changes;
- What the qualification requirements are for:
  - (a) The current state pension benefits and
  - (b) The new single-tier pension;
- How the new single-tier amount payable will be set;
- A list of the current State pension arrangements that the single-tier pension will replace;
- The basis of future increases to the single-tier pension.

You do not need to include any details relating to the current State pension arrangements or how these were previously calculated. In addition, there is no link between the company's own pension scheme and State pension arrangements. (15 marks)

This question, which carried 15 marks, asked for factual information and was reasonably well answered bearing in mind the single-tier state pension was only introduced as recently as 6 April 2016.

Although the question gave clear guidelines on what was required in the answer, eg factual information about the new single-tier pension, a number of candidates failed to do this and produced answers in a report/essay style.

One candidate failed to answer the question at all and one could only state that a new single-tier pension was introduced from 6 April 2016. The main points omitted by candidates included:

- Tax years during working life treated as having paid/credited with NICs on earnings could count as qualifying years;
- Single-tier pension simple flat rate amount;
- Amount set in regulations above level of Pension Credit Standard Minimum Guarantee;
- Pensions Act provides uprating of single-tier pension – reflect previous basic State Pension; and
- The availability on line of a government fact sheet on single-tier pension.

This was a relatively straightforward question and if sufficient time had been spent studying the relevant section of the manual many candidates could have obtained higher marks.

The relevant part of the study manual was Section 3 Chapter 3.3.7.

### Question 3

You are HR Manager for ABC Ltd and need to prepare for a short meeting with your Managing Director regarding Statutory Maternity Pay (SMP), Statutory Paternity Pay (SPP) and Statutory Adoption Pay (SAP).

To assist you in your meeting, list the main points relating to:

- |       |  |           |
|-------|--|-----------|
| (i)   | The background to SMP and basis payable  | (3 marks) |
| (ii)  | The payment periods for SMP, SPP and SAP | (4 marks) |
| (iii) | Employer recovery                        | (3 marks) |

This was a 10 mark question which required a list of the main points of SMP, SPP and SAP. It was generally well answered and most candidates gave a factual response as requested. Among the points omitted by a number of candidates were:

- The date SMP was introduced, ie. 6 April 1987;
- Payable to employees on Maternity Leave or who leave employment due to pregnancy/childbirth;
- Statutory SMP payable subject to qualifying conditions;
- State Maternity Allowance available if not qualify for SMP; and
- Payment of SMP through PAYE.

Most candidates could provide details of payment periods and also the amounts which employers could reclaim.

The relevant part of the study manual was Section 1 Chapter 1 (1.2.6).

#### Question 4

The HR Director is currently reviewing the compensation package available to employees. As Benefits Manager, you have been asked to draft an email to the HR Director covering the:

- Purpose and conditions for payment; (4 marks)
- main design features and (10 marks)
- taxation of benefits and contributions (4 marks)

of a typical Critical Illness arrangement.

2 marks are available in respect of appropriate formatting of your answer.

This question carried 20 marks and was reasonably well answered. However, there was some confusion with other types of private medical insurance and in particular with Personal Accident Schemes.

A number of candidates included details of waiting periods, dovetail with short term sickness provision, statutory sick pay which are not relevant to critical illness cover. There was also some confusion with Income Protection schemes, eg. waiting periods, benefit payable as income for set term, ceasing on retirement, death, return to work, etc, again not relevant to critical illness cover.

Points missed by some candidates included:

- Payment would be a lump sum and not as income;
- Whether spouse/family cover should be provided;
- That the insured should meet the definition of being actively at work;
- Definition of extra (or additional) cover; and
- Free cover limit.

The taxation of benefits was reasonably well answered.

The answer to the question should have been as an email which was often not taken into account by a number of candidates, eg. correct salutation, missing subject and date.

The relevant part of the study manual was Section 2 Chapter 2.8 – 2.8.2.

#### Question 5

As Benefits Consultant to XYZ Ltd, you have been asked by the Finance Director why he should consider offering an unapproved share scheme rather than an approved share scheme to Executive staff.

Draft a briefing paper to the Finance Director outlining:

- The reasons in favour of unapproved share schemes compared to approved share schemes (4 marks)
- The different types and features of unapproved share schemes that are available (14 marks)

You are not required to address the tax treatment of these schemes in the paper.

2 marks are available in respect of appropriate formatting of your answer.

This question carried 20 marks. Generally it was not well answered and there was too much confusion between the different types of company share plans but it was encouraging that some candidates could provide a good and accurate description of unapproved share schemes.

A number of candidates wasted valuable time referring to approved share plans which was not required. Answers included references/comparisons to other share schemes, approved share schemes, reference to CSOPs/EMI (company share option plan/enterprise management incentives). One candidate's answer comprised mainly of details of these schemes which was not required or relevant and therefore lost valuable time providing details for which there were no marks available.

Much detail of an 'unapproved option plan' was omitted but the section on restricted share plans was better answered although a number of candidates had problems in defining details/advantages of unapproved option plans and restricted share plan under the correct headings. Relevant points omitted by some candidates included:

- CSOPs do not allow for any discretion/performance related payment;
- Share Option mechanism seen as unattractive – so companies have switched toward 'restricted share' plans;
- Unapproved option plan can be simpler than operating CSOP;
- No ceiling on award sizes – *'other than any required by shareholders'*; and
- Unapproved option plan easier to unravel in the event that the plan is abandoned and the reasons why, eg. company takeover/employee leaving service.

The relevant part of the study manual was Section 3 Chapter 1, 1.5.

## **Retail Advice and Regulation**

### **Question 1**

A client has approached you for financial advice in relation to his deferred benefits under a Final Salary Pension Scheme as he is considering transferring them into a Flexi Access Drawdown contract (with no initial income). He is currently aged 60 and requires a lump sum (25% of the fund value would suffice) in order to pay off a large debt following his divorce. The normal pension age for his deferred pension is 65, however the trustees may consider offering payment from an earlier age. The pension has a 50% spouse's pension with some indexation.

Your client has asked you to produce a suitability report confirming your recommendations, focusing on:

- 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 scheme (15 marks)
- a comparison of benefits payable under the two schemes– to enable the client to make an informed decision (10 marks), and
- the advice given and the associated risks emanating from such advice. (10 marks)

Candidates should be aware that marks are available for the format and clarity of the suitability report. Consideration should therefore be given to the client's taxation status, attitude to risk, the costs and consequences of implementing the advice and the service levels to be expected from you as the financial adviser. (5 marks)

For your files, please state separately the records your firm needs to retain in order to comply with the FCA's requirements. (5 marks)

(45 marks available for this question)

Overall the majority of candidates had a good attempt at this question. Marks were easily obtainable in relation to the factfinding process and the majority of candidates highlighted the appropriate information that would need to be obtained.

Whilst the advantages and disadvantages of each option were provided, only the better candidates linked these into the client's objectives. Candidates who did this illustrated that they understood what the advice process was – to make a recommendation to the customer based on what they wanted as opposed to assuming that a transfer from a Final Salary scheme was not suitable. However, saying that provided a reasonable argument to advise the client to transfer or remain with the existing scheme was evidenced candidates received the relevant marks.

A key area of which the majority of candidates omitted was the client's capacity for loss, this is surprising due to the FCA's focus on this topical subject.

Details of the service charges and service level was often only brushed option – either mentioning that there was an adviser charge or that the product had a charge – this lack of details wouldn't have been appropriate for a 'live suitability report'.

The majority of candidates could state that the firm needed to maintain records indefinitely in relation to pension transfers.

### **Question 2**

Distinguish between a trust and a contract. (10 marks)

Overall this wasn't answered to the level that was expected, the reason being that a lot of candidates focussed on the difference between a pension trust and a pension contract. This wasn't what the question asked. It required a more generic answer as stated in the manual.

The relevant part of the study manual was Section 4 Chapter 6.

### **Question 3**

Money laundering is becoming more and more important. Explain:

- (a) what money laundering is
- (b) why it occurs
- (c) the threats posed by money laundering, and
- (d) the stages of money laundering.

(20 marks)

Overall this was a well answered question. The majority of candidates could explain what money laundering is, why it occurs and the stages involved. The threats posed by money laundering was often not answered in depth – candidates should have mentioned in their answers, the threat to financial system and stability of countries.

The relevant part of the study manual was Section 1 Chapter 4.



#### **Question 4**

You are a pension consultant and a new member Trustee has recently been appointed to the Board of Trustees. Write a briefing paper to the new Trustee providing information on the Payment Systems Regulator (PSR).

The paper should provide details of its:

- background – (8 marks)
- objectives – (6 marks), and
- vision – (1 mark)

This question was poorly answered. The PSR was a new section of the manual therefore it is surprising that candidates hadn't learnt the key information in relation to it. A few points were obtained from using common sense but unfortunately this is insufficient to evidence understanding. Candidates are reminded that if the question request a format, then this is what is required as part of the answer, with marks awards appropriately.

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

#### **Question 5**

Explain what is meant by 'Behavioural Finance' – your answer should focus on the relevant theories and factors underpinning it.

(10 marks)

Once again this question was poorly answered – despite it being a new section of the manual and a recent focus of the FCA. The majority of candidates could reference the Modern Portfolio Theory (MPT) and often focused too much on this in their answer. Behavioural finance however focuses on the theory that people don't always act rationally when making investors decisions which is opposite to what the MPT suggests.

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

#### **International 2: Managing International Employee Benefits**

This was the first year of a new format for the exam with 8 questions instead of 4. Questions 1-5 were short answer questions (total marks 40) designed to test broad international benefits knowledge; Questions 6-8 were long answer questions (total marks 60) designed to test understanding.

It was apparent that most candidates had prepared well for the exam. This was reflected in the pass rate and the number of scripts achieving high marks.

Generally; candidates needed to do well on the longer questions in order to pass. Unfortunately some candidates did poorly on some of the short-answer questions and, in some cases, did not provide very good responses to 1 or 2 of the short answer questions. Such candidates then missed out on a number of potentially "easy" marks; and, for these candidates, doing well on the long-answer questions was even more important.

Candidates from both the Pensions Management Institute (PMI) and the International Employee Benefit Association (IEBA) presented themselves for examination. The majority of candidates came via IEBA. Only a small number were PMI-only candidates, and unfortunately, none of the PMI-only candidates passed (despite appearing making reasonable attempts). It is possible that IEBA

candidates may have found certain aspects of the paper easier given it is expected they are working in the area of international benefits. For this reason, PMI candidates may have found the paper harder if they do not actually work in this area. It is therefore important for such candidates to be well prepared for the exam in order to demonstrate they understand the detail and can show understanding.

### **Question 1**

Briefly outline the advantages associated with multinational pooling. (5 marks)

Most candidates scored well on this section. Advantages include coordination of information, liberalised underwriting terms, cost savings/dividends, access to local market information, easier renewal processes.

The relevant part of the study manual was Section 4 Chapter 1.2.2.

### **Question 2**

Summarise the key features of an Enterprise Annuity in China. (5 marks)

A small number of candidates did not score very well on this suggesting that they were not familiar with this type of plan. Enterprise Annuities are one of the main forms of retirement plan in China and increasing number of multinationals are implementing/considering these plans in China. It is type of plan that international benefit practitioners should be familiar with.

The relevant part of the study manual was Section 5 Chapter 4.

### **Question 3**

Describe the medical and other non-pension benefits in Russia. (10 marks)

Most candidates did reasonably well. Marks were available for mentioning English-speaking clinics are available in key cities for international assignees; and for mentioning that employer contributions are tax deductible and employees generally do not contribute. Some candidates mentioned that disability benefits are widespread in Russia which is not the case.

The relevant part of the study manual was Section 5 Chapter 2.

### **Question 4**

Outline the key areas of focus of due diligence from the perspective of employee benefits in relation to mergers and acquisitions. (10 marks)

Scores were generally good. To achieve full marks, candidates needed to mention financial due diligence (looking at liabilities, costs, risks and cash flow requirements); reviewing legal documentation and member communications; identifying recent/pending disputes; understanding how benefits will be treated post-acquisition (including treatment of past service and any costs/liabilities triggered by the sale); and understanding the level ongoing support from the seller after the sale.

The relevant part of the study manual was Section 5 Chapter 2.

### **Question 5**

Summarise the benefits environment in Middle East and Africa. (10 marks)

The examiners split the marks evenly between both regions. Candidates generally scored more marks in relation to Africa than they did for Middle East. For the Middle East, candidates should have provided information on: end of service plans; life cover being problematic for locals on religious grounds; workers compensation for death and disability; medical insurance (including differences for expats and locals).

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

### **Question 6**

You are a newly appointed Global Compensation & Benefits Director of a technology company headquartered in Singapore. The company is listed on the US stock exchange.

The company has operations in Asia and South America.

The company has historically operated on a decentralised basis, but is now becoming more centralised.

List the various benefits to the company of putting in place a global benefits policy.  
(20 marks)

The examiners wanted candidates to apply knowledge from across the syllabus. To achieve good marks, candidates were expected to cover items including the following

- Consistency with company's approach to corporate governance;
- Sarbanes-Oxley requirements (as company is US listed);
- Monitoring costs and risks of benefit plans;
- Ensuring compliance with legislation;
- Global consistency in approach (including for expats);
- Helping with decision making; and
- Helping with market positioning when determining benefits.

Candidates were also expected to list benefits likely to be specific to the example company (ie a technology company in Asia Pacific) eg controlling medical costs; financing termination indemnity plans; helping to supplement state benefits (often low); providing benefits suitable for needs of workforce.

The relevant part of the study manual was Section 2 and Section 5 Chapter 5.

### Question 7

You are the International Benefits Manager for a large textile company with its headquarters in the UK. The HR Director has advised that the company is considering expansion into the Far East, Australia and North America, which will involve a number of UK employees being seconded there to help with the set up. He has asked for a paper from you covering the following things:

- (a) The data and information that should be captured as a minimum in the assignment documentation for each seconded employee. (5 marks)
- (b) The purpose of Social Security Agreements (SSA). This should also include a description of the type of SSA's and provide examples of those which will apply in the countries they are expanding into. (15 marks)

For Part (a), as well as basic employment and benefit plan information; marks were available for commenting on social security coverage and details of assignment allowances/relocation benefits.

For Part (b) to achieve full marks, candidates needed to describe the Totalisation, Reciprocal Credit and Contributions Only model; including country examples. Not all candidates gave correct country examples. However marks were also available for making general observations for having these agreements (ie to avoid paying contributions under 2 systems at the same time; to avoid employees paying contributions to systems where they may receive no benefit; and to try and treat employees as if they had never been away).

The relevant part of the study manual was Section 6 Chapter 1.

### Question 8

The Finance Director of a large multinational company has asked for a review of the financing of the defined benefit pension plans that the company sponsors around the world. She has been talking to various financial analysts who have suggested that the company would benefit from a change in approach. Draft a paper that includes the following areas:

- (i) The primary objectives of pension plan funding. (3 marks)
- (ii) The main reasons why a company would finance a plan through an insurance contract. (4 marks)
- (iii) How government bodies and pension regulators in different countries may influence the funding of a plan through a benefits trust, with specific examples. (8 marks)

The Finance Director has also mentioned that the analysts do not like the fact that the company's pension plan in Germany is financed through a direct pension commitment, and they have raised the idea of using a Contractual Trust Arrangement ("CTA"). The Finance Director would like to understand more about this arrangement. Describe how a CTA would operate and what benefits this would bring to the company.

Parts (i) and (ii) were generally well answered. In part (iii); the examiners were looking for comments on minimum/maximum funding rules; frequency of valuations; methods and assumptions for use in valuations including recovery plans; rules on minimum and maximum level of benefits and plan eligibility; treatment of surplus; and rules/guidance linked to investment strategy and assessing the strength of plan sponsor

In the final part; marks were available for commenting on the legal status of assets in the CTA (including use for paying pensions; but still being recognised as a company asset for legal purposes but a plan asset for IAS19 assets); and the impact setting up a CTA can have on the company's financial statements (ie lower balance sheet liability; lower net interest cost with reduced volatility; and positive response from investors).

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

## **Professionalism and Governance**

This April, candidates took the first Professionalism & Governance exam as part of the revised Diploma. Whilst there was no precedent to go by for the subject matter, the form of the questions is well established and study material is available. The study materials for Professionalism and Governance were issued later than would normally be expected. The standard of all different questions in the paper were similar suggesting the late issue of the material didn't impact on one part more than another.

We recognise hand written material is now rarely part of either study, or our professional work and technology has become the norm. Candidates need to remember that whilst they will not be marked for their handwriting, their answers need to be read by the examiner in order for marks to be granted. As such we recommend candidates practice writing by hand as part of their exam preparation.

The exam paper included one case study question, which covered the syllabus items 4 to 9 and could be found in Part 2, Chapter 1 of the Governance Study Manual. The Communications Study Manual holds information on how candidates are expected to present their answer. Candidates could gain 60 marks for the case study, with 12 of these available for communication. There followed three short scenario based questions worth 40 marks.

The format of this new exam means it is now critical for candidates to manage their time accordingly. 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. Lack of planning meant a number of scripts did not flow and more importantly some questions were rushed and superficially answered. Few candidates created the type of structured plans which could have supported them in their answers.

The case study question was:

**You are a newly appointed Scheme Secretary to the Trustee Board of the ABC Pension Scheme which has both a defined benefit (DB) section and a defined contribution (DC) section. The DB section is closed to new members, but open to future accrual. The DC section is the Registered Scheme for Auto Enrolment purposes. In your discussions with the Chair of Trustees, you discover the Trustees have no formal performance criteria for their service suppliers. Each supplier provides metrics on its performance based on its own interpretation of the Trustees' needs.**

**The Chair of Trustees is interested in your suggestion that each supplier reports, on their own performance, on a consistent basis which reflects the Trustees' needs through mutually agreed Service Level Agreements, which will include both qualitative and quantitative criteria. However he is conscious his peers may perceive this as being unnecessarily bureaucratic relative to the benefits they will gain from such a change. He has asked you to draft a report for the next Trustee Meeting covering the following issues:**

- **Why the ABC Pension Scheme should have Service Level Agreements (SLAs)**
- **How to go about establishing and implementing a SLA**

- **What critical success factors and evaluation criteria could they include in the SLAs**
- **How these success factors and evaluation criteria could be consistently reported by all suppliers**
- **How the Trustees can use SLAs to help manage and develop their relationships with the suppliers.**
- **What other methods can be used to understand and manage supplier service quality**

If candidates had studied and understood the Manual, they stood a good chance of gaining high marks on the case study. Sadly a number of candidates had not learnt the material. Even where they had, the tendency is still for candidates to write all the information they know on a subject, despite this not being required. No marks are given for irrelevant information. A good many candidates managed to pick up reasonable technical marks, but the majority did not put this in the context of the question posed – as is required by a case study.

Many candidates did not give any recommendations and of those that did, few gave any indication of implications and consequences following the recommendations. In a real life situation, trustees would expect to be given some form of steer and be made aware of the implications of following any recommendations. Candidates whose answers do not have a developed conclusion will always be at a disadvantage as is usual, a number of marks are awarded here.

As well as learning the Study Manual, candidates need to make sure they make use of the information given in the question and to apply that information in the way requested. This will give their answers shape and form. If something is asked for in the question, there will be associated marks awarded for it.

It is not simply enough to know facts; candidates need to convey these facts in a clear and professional manner to gain higher marks. The report format required should be familiar to people from their working lives, but if not, the Communication Manual gives clear instructions on what is expected. Sadly there are still candidates who do not present their answers in the required format and so lose easy marks. Of those that did, there were a number whose answers were not sufficiently developed. Candidates should have familiarised themselves with the style and typical content of a report to trustees as part of their wider revision process. Candidates also need to understand they should go back to first principles when drafting their answers to ensure they gain all the communication marks available for the case study. Valuable marks can be gained for the basics e.g. author, title, contents etc. After all, in a work environment communications need to include these to fulfil their objective.

For candidates to answer the short questions fully, they need to have read and learnt the PMI Code of Conduct. However they also need to 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.

Candidates should be familiar with the scenario based short answers question format from Level 2 APMI exam modules. In general, answers to questions 2, 3 and 4 were lacking in detail and poorly structured. This made it difficult to award all the marks available.

**Scenarios – total 40 marks covering syllabus items 1 – 3.**

**1. You have been asked to draft an Anti-Bribery policy for your organisation. Explain why such policies are important and outline their key aspects. 15 Marks**

1a, act in compliance with all the relevant statutory, regulatory and other legal requirements.

1f, not accepting or offering gifts, hospitality or services which could, or may appear to, imply obligation.

An anti-bribery policy is important as it can help protect the organisation, as it is illegal under the Bribery 2010 Act to offer, promise, request, accept/agree or receive bribes.

The organisation should have an anti-bribery policy if there is a risk that someone who works for it or on its behalf might be exposed to bribery. It should be proportionate to the risk posed

Maintaining and upholding a policy protects the organisation from reputational risk

Once the organisation has an anti-bribery policy they should tell their staff and make sure that they understand the policy. The policy should be monitored and reviewed regularly.

The anti-bribery policy should be appropriate to the level of risk the business faces.

It should include:

- the organisation's approach to reducing and controlling the risks of bribery/whistleblowing
- rules about accepting gifts, hospitality or donations/value/proportionality
- guidance on how to conduct business, e.g. negotiating contracts
- rules on avoiding or stopping conflicts of interest
- logging of gifts regardless of whether accepted

**2. One of your good friends has been transferred into the department you manage. When you were last out socially, she mentioned she was looking for promotion and that she thought this would be easier now she was working with you. Describe how you should approach this situation. 10 Marks**

1d, act objectively in all work they undertake, observing high standards of integrity and fair dealing

4c, behave in a manner consistent with the obligation to act impartially

6e, encourage others to attain their professional qualification and support their development

At the time, tactfully tell her you want to keep your personal and professional life separate.

When back in the office, arrange to speak with her privately, to ascertain her motives tactfully and make clear the separation between friendship and professional behaviour.

It may be she believes you are a good manager who will help her develop - this is probably not an issue but care still needs to be taken.

Is she trying to flatter and get special treatment - this is definitely an issue.

It may be she thinks the friendship gives her special privileges - this is definitely an issue.

Explain to her how promotion decisions are made in the department.

If a promotion opportunity arises, ensure the process is seen to be transparent and fair and unbiased.

Ensure that a line manager, or a similarly senior colleague in any face to face interview. The

selection should be based on an objective set of questions/tests/relevant skills and experience to ensure the basis for selection is the same for all candidates applying for the role.

Also discuss her career development with HR/line manager and arrange appropriate training

**3. You are travelling on a train and you overhear two employees of a competitor talking about a mutual client. They are going into some personal detail about your contact at the client and also the nature of the work they are carrying out for the client. You know**

**this is confidential. Describe what do you should do, both immediately and when you return to your office. 15 Marks**

4e, respect confidential information from any source and not use such information for personal or professional advantage

6b, conduct themselves with courtesy and consideration towards all persons with whom they come into contact with in the course of their professional work

Does the company have a specific policy on this? If not, use common sense.

The information must not be used for any personal or professional advantage

**Immediately** - away from the others so what they are saying cant be overheard, but make a note of the time and location of the overheard conversation. If this is not possible distract yourself and try not to listen to what they are saying. As a last resort make your presence known.

**On returning to the office** - arrange a meeting as soon as possible with a line manager and/or the compliance department to discuss the situation and let them have the details of when and where the overheard conversation took place. If asked to divulge the information overheard, whilst it might be acceptable to convey the personal statements, the content of the confidential information should not be repeated.

Determine level of the breach. Consider whether to tell the client and reach a decision on this.