



Examiners Report: Defined Benefit Arrangements, October 2022

There were 42 papers in total with 26 passes and 16 failures, making the pass rate 62%.

In this session, there were some absolutely outstanding papers indicating a thorough knowledge by these candidates of the subject matter, including excellent presentation and precise concurrence with the question asked.

However, there were some very poorly answered papers where the candidate simply had not learned the manual. We reiterate that to pass the exam, a thorough knowledge of the manual is required which can partly be gained by completing the correspondence course in full to reinforce the principles learned.

While the candidates often provided some good and detailed answers, in some circumstances the question posed was not directly or fully answered.

Question 1

Analyse the different approaches to investment risk.

Lots of marks were lost where facts were given, but the analysis (i.e around the pros and cons of approaches to manage investment risk) were not well covered. The question required answering in three sections Liability Driven Investment (LDI), Longevity Swaps, and Buy Outs. With the majority of the marks being awarded to LDIs. Areas omitted included the solution-based approach to investing, diversifying asset classes, overfunding to avoid shortfalls, and counterparty risks and inflexibility.

Question 2

Draft an email to the trustee board explaining the current priority order for allocating resources of an underfunded scheme's liabilities on wind up and explain how surplus must be dealt with once all benefits have been secured in full.



This was the question that the majority of candidates scored well on, especially in relation to the priority order for allocating resources of an underfunded scheme's liabilities on wind-up and how surplus must be dealt with once all benefits have been secured in full. However, some candidates omitted to cover the provisions of the Pensions Act 1995. Nearly everyone scored full marks for complying with the request to draft an email

Question 3

Draft a paper that describes and explains the main demographic assumptions considered as part of a valuation.

Again, pleasingly the format request to draft a paper was complied with again earning valuable additional marks. This was an easy question to gain marks on if the candidates knew the subject material as all that was required was an explanation of withdrawals, death in service, early retirement, ill health early retirement, earnings progression, and mortality in retirement. Each should have been accompanied with relevant facts. Many candidates scored admirably on this question.

Question 4

You are the Pensions Adviser to a large company. Write a letter to a trustee outlining the circumstances in which a scheme is likely to commence winding up.

The letter format was again complied with. However, many candidates scored poorly on this answer. The main areas of omission were details about a wind-up being postponed, where only part of a scheme is wound up, whether circumstances are automatic or discretionary, and who has the powers of termination - be it the Pensions Regulator or via the Trust Deed. Generally, the actual reasons for the initial wind-up were fully elaborated upon.