Examiners' Report - Defined Benefit Arrangements – October 2024

Question 1

Trustees will need to obtain expert advice on matters such as funding, investment management and covenant assessment. The trustee of the DB scheme, you are the Pensions Manager for, has emailed you asking for advice. Please draft an email in response identifying –

a. the advisers that need to be appointed (9 marks)

b. the guidance provided by the regulator on trustee relationships with advisers and service providers (15 marks)

(24 marks)

(Including Format marks)

This question was generally very well answered. Without exception candidates used the email format as requested in the question earning the format mark. Candidates were able to name the advisers such as scheme actuary, a legal adviser, covenant adviser and auditor. In the second part candidates again showed their knowledge over for example; trustees should have an appointment process in place, ensure that the person or organisation has the appropriate level of skill and knowledge. Common omission included; data protection and the associated costs and impact on members of changing provider.

Question 2

Set out the provisions of the Finance Act 2022 and the Finance Act 2023 (8 marks)

Describe Salary Sacrifice (8 marks)

(16 marks)

This question was well answered. Candidates were able to set out the provisions of the Finance Acts 2022 and 2023 such as (2022); increases normal minimum pension age to 57 from 6 April 2028. Extends the deadlines by which members can elect for their scheme to meet an annual allowance tax charge on their behalf. Many candidates scored full marks under the salary sacrifice section covering points such as; employees do not contribute directly to pension scheme, agree to forgo a percentage of their salary normally equivalent to the scheme's contribution rate. Advantage - cost savings for the employer and the employee and a low-cost way of increasing the efficiency of pension contributions.

Question 3

In your role as a benefit consultant, the Secretary to the Trustees requests that you draft paper to address gaps identified in the knowledge and understanding of the board of trustees in relation to funding and investment. You report should cover / set out:

• The contents of a Scheme Funding Report (SFR) (26 marks)

• The Statement of Funding Principles (SFP) (5 marks)

• Schedule of Contributions (SoC) (6 marks)

• The issues trustees should take into account when considering the structure of a recovery plan where the SFO is not met. (3 marks)

(40 marks)

(Including Format marks 2)

This question carried 40 marks, double compared to the other questions (on average) so a candidate needed to have spent approximately one and a quarter hours answering it. It was in a report format where extra marks are always gained by complying with this request. Most candidates complied with the format. Candidates either scored really well on this question showing they had thoroughly revised and leant the facts or poorly which showed a lack of structured revision. The question was well signposted so candidates just needed to systematically work their way through the question.

Areas omitted by many candidates included the position of the scheme if the employer were to become insolvent and the scheme's membership profile under the recovery plan. Under the statement of funding principles, the period over which any shortfall will be made up and certain other information prescribed in The Occupational Pension Schemes (Scheme Funding) Regulations 2005/3377. Under the contents of the scheme funding report, a description of the risks to the financial position of the scheme, including any mitigating actions that the trustees have taken and how sensitive the results of the valuation are to changes in the key assumptions.

Question 4

The Trustees have been notified that the principal employer has become insolvent which will trigger the winding up of the scheme. In your role as a benefit consultant, you have been asked to draft a paper on the mechanisms that can be put in place to prevent any valid claims being made against the trustees, once the scheme is terminated and no assets are available.

(20 marks)

(Including Format marks)

This question was either really well answered, some candidates scoring maximum marks, or very poorly answered where candidates had not learnt the manual. All candidates however used the prescribed format of a paper, earning the format marks. Of those who omitted points, the most common omissions were as follows; The Pensions Act 1995 provides for trustees to be discharged if the benefits are dealt with in accordance with that section. If no claims are received, the trustees can use the scheme assets for the benefits of members of whom they are aware. The trustees would not be liable in respect of any claims from unknown beneficiaries that are made after the notice period has ended although there is debate as to the effectiveness of such notices. Many trust deeds provide trustees with an exoneration clause under which they are free from obligations to members other than those which arise out of wilful neglect or default.