

Sample Exam Questions

Core Unit 4 -Financing and Investing for Retirement Provision

Instructions:

- This is only a sample paper and therefore consists of 30 multiple-choice questions.
 - Choose the correct answer from the options (A, B, C, or D).
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1. The purpose of the Annual Allowance in a registered pension scheme is to:

- o A) Cap total pension benefits over a lifetime
- o B) Limit the annual tax-relieved contributions
- o C) Ensure equal contributions from employers and employees
- o D) Regulate the minimum contribution rates

2. Which of the following describes the primary function of Liability Driven Investment (LDI) in Defined Benefit schemes?

- o A) To increase exposure to equities
- o B) To manage interest rate and inflation risks
- o C) To diversify into alternative assets
- o D) To guarantee fixed returns

3. What is the main purpose of the Statement of Investment Principles (SIP) in pension scheme governance?

- o A) Set contribution rates for members
- o B) Detail the scheme's financial performance
- o C) Outline trustee responsibilities only
- o D) Define the scheme's investment objectives and risk strategy

4. A typical feature of a Defined Benefit (DB) scheme is that it:

- o A) Depends solely on investment returns
- o B) Provides benefits based on salary and service length
- o C) Requires no employer contributions
- o D) Pays out based on the member's own contributions

5. In a DC scheme, which type of asset typically involves higher volatility and potential for higher returns?

- o A) Cash
- o B) Government bonds
- o C) Equities
- o D) Fixed-interest securities

6. The Pension Protection Fund (PPF) primarily serves to:

- o A) Compensate members of defined benefit schemes when the employer fails
- o B) Provide tax relief for pension contributions
- o C) Regulate investment options in DC schemes
- o D) Set the Lifetime Allowance

7. A key consideration when investing pension funds in overseas equities is:

- o A) Fixed return rates
- o B) Currency exchange rate risk
- o C) Minimal risk exposure
- o D) Exemption from tax reporting

8. Which of the following asset classes is considered the most liquid?

- o A) Property
- o B) Equities
- o C) Bonds
- o D) Cash

9. The Lifetime Allowance was designed to:

- o A) Cap total tax-free pension withdrawals
- o B) Limit the total amount of tax-advantaged pension savings
- o C) Establish mandatory minimum contributions
- o D) Ensure equal employer contributions

10. For Defined Benefit schemes, 'employer covenant' refers to:

- o A) The employer's legal commitment to meeting the scheme's funding needs
- o B) An investment strategy agreed upon with the trustees
- o C) The guarantee of employee contributions
- o D) A tax relief policy for employer contributions

11. One advantage of using pooled investment funds is that they:

- o A) Guarantee returns above inflation
- o B) Allow smaller schemes to access diversified portfolios
- o C) Limit exposure to overseas markets
- o D) Exclude equity investments

12. Which of the following is typically the most volatile asset class?

- o A) Bonds
- o B) Cash
- o C) Commodities
- o D) Property

13. Which type of risk arises from fluctuations in foreign currency values in international investments?

- o A) Liquidity risk
- o B) Credit risk
- o C) Inflation risk
- o D) Currency risk

14. An advantage of using index-tracking funds within a DC pension scheme is that they:

- o A) Are actively managed to maximise returns
- o B) Guarantee returns that outperform the market
- o C) Focus solely on high-risk investments
- o D) Have generally lower management fees

15. The 'funding level' of a defined benefit pension scheme is typically calculated by comparing:

- o A) Member contributions to investment income
- o B) Scheme liabilities to scheme assets
- o C) Expected employer contributions to total payouts
- o D) Future returns to historical averages

16. A Defined Contribution pension scheme primarily relies on which of the following for funding retirement benefits?

- o A) Government contributions
- o B) Employer guarantees
- o C) Investment performance of accumulated contributions
- o D) Final salary calculations

17. A diversified investment strategy is used to:

- o A) Ensure only low-risk assets are included
- o B) Spread risk across different asset classes
- o C) Focus solely on equities
- o D) Avoid all exposure to market risk

18. The discount rate in a Defined Benefit pension scheme valuation is used to:

- o A) Determine the future value of assets
- o B) Project expected investment returns
- o C) Estimate the present value of future liabilities
- o D) Calculate contribution rates

19. Which of the following typically requires fewer regulatory requirements for small firms' pensions?

- o A) Small self-administered schemes (SSAS)
- o B) Large corporate pensions
- o C) Collective Defined Contribution schemes
- o D) Public sector schemes

20. The term "drawdown" in the context of pensions typically refers to:

- o A) A one-time cash withdrawal from a pension fund
- o B) Taking regular withdrawals from an invested pension pot
- o C) Transferring pension funds to another employer scheme
- o D) Decreasing employer contributions

21. In a Defined Benefit (DB) scheme, "employer covenant" refers to:

- o A) Employer's obligation to maintain sufficient funds for scheme members
- o B) Member's requirement to contribute a certain percentage of salary
- o C) Employer's option to opt out of the scheme
- o D) Member's retirement age agreement

22. In the context of pensions, the "Annual Allowance" refers to:

- o A) The maximum contribution eligible for tax relief each year
- o B) The minimum pension withdrawal age
- o C) The maximum lifetime savings cap
- o D) The minimum contribution employers must make annually

23. Under current(2025) UK regulations, the minimum age for accessing pension benefits is generally:

- o A) 50
- o B) 65
- o C) 60
- o D) 55

24. A "salary sacrifice" arrangement is primarily used to:

- o A) Convert employee income into tax-efficient pension contributions
- o B) Increase employees' annual leave entitlements
- o C) Decrease employer National Insurance contributions
- o D) Guarantee retirement benefits for employees

25. Which factor is NOT typically considered when selecting an investment strategy for a pension scheme?

- o A) Scheme member demographics
- o B) Interest rates and inflation trends
- o C) Current employee turnover rate
- o D) Employer covenant strength

26. A "cash balance" scheme combines elements of:

- o A) Defined Benefit and Defined Contribution
- o B) Public and Private Sector Schemes
- o C) Self-Directed and Insured Pension Plans
- o D) Non-contributory and Salary Sacrifice Schemes

27. What is a primary reason employers choose to fund pensions in advance?

- o A) To minimise employer tax liabilities
- o B) To provide greater benefit flexibility for employees
- o C) To enhance the security of promised benefits for members
- o D) To reduce the need for employee contributions

28. Investment-grade bonds are primarily used in pension funds to provide:

- o A) High capital growth potential
- o B) Short-term liquidity only
- o C) Stable income with lower risk
- o D) Access to international markets

29. Which of the following is NOT a typical responsibility of pension trustees?

- o A) Acting in members' best interests
- o B) Overseeing investment strategy
- o C) Ensuring compliance with regulations
- o D) Setting personal retirement targets for members

30. An effective risk management strategy for Defined Benefit schemes is to:

- o A) Maintain a single asset class
- o B) Exclusively use hedge funds
- o C) Avoid all government bonds
- o D) Match assets to liabilities through LDI

ANSWER KEY

1. The purpose of the Annual Allowance in a registered pension scheme is to:

- o A) Cap total pension benefits over a lifetime
- o B) Limit the annual tax-relieved contributions
- o C) Ensure equal contributions from employers and employees
- o D) Regulate the minimum contribution rates

Answer: B

2. Which of the following describes the primary function of Liability Driven Investment (LDI) in Defined Benefit schemes?

- o A) To increase exposure to equities
- o B) To manage interest rate and inflation risks
- o C) To diversify into alternative assets
- o D) To guarantee fixed returns

Answer: B

3. What is the main purpose of the Statement of Investment Principles (SIP) in pension scheme governance?

- o A) Set contribution rates for members
- o B) Detail the scheme's financial performance
- o C) Outline trustee responsibilities only
- o D) Define the scheme's investment objectives and risk strategy

Answer: D

4. A typical feature of a Defined Benefit (DB) scheme is that it:

- o A) Depends solely on investment returns

- o B) Provides benefits based on salary and service length
- o C) Requires no employer contributions
- o D) Pays out based on the member's own contributions

Answer: B

5. In a DC scheme, which type of asset typically involves higher volatility and potential for higher returns?

- o A) Cash
- o B) Government bonds
- o C) Equities
- o D) Fixed-interest securities

Answer: C

6. The Pension Protection Fund (PPF) primarily serves to:

- o A) Compensate members of defined benefit schemes when the employer fails
- o B) Provide tax relief for pension contributions
- o C) Regulate investment options in DC schemes
- o D) Set the Lifetime Allowance

Answer: A

7. A key consideration when investing pension funds in overseas equities is:

- o A) Fixed return rates
- o B) Currency exchange rate risk
- o C) Minimal risk exposure
- o D) Exemption from tax reporting

Answer: B

8. Which of the following asset classes is considered the most liquid?

- o A) Property
- o B) Equities
- o C) Bonds
- o D) Cash

Answer: D

9. The Lifetime Allowance was designed to:

- o A) Cap total tax-free pension withdrawals
- o B) Limit the total amount of tax-advantaged pension savings
- o C) Establish mandatory minimum contributions
- o D) Ensure equal employer contributions

Answer: B

10. For Defined Benefit schemes, 'employer covenant' refers to:

- o A) The employer's legal commitment to meeting the scheme's funding needs
- o B) An investment strategy agreed upon with the trustees
- o C) The guarantee of employee contributions
- o D) A tax relief policy for employer contributions

Answer: A

11. One advantage of using pooled investment funds is that they:

- o A) Guarantee returns above inflation
- o B) Allow smaller schemes to access diversified portfolios
- o C) Limit exposure to overseas markets
- o D) Exclude equity investments

Answer: B

12. Which of the following is typically the most volatile asset class?

- o A) Bonds
- o B) Cash
- o C) Commodities
- o D) Property

Answer: C

13. Which type of risk arises from fluctuations in foreign currency values in international investments?

- o A) Liquidity risk
- o B) Credit risk
- o C) Inflation risk
- o D) Currency risk

Answer: D

14. An advantage of using index-tracking funds within a DC pension scheme is that they:

- o A) Are actively managed to maximise returns
- o B) Guarantee returns that outperform the market
- o C) Focus solely on high-risk investments
- o D) Have generally lower management fees

Answer: D

15. The 'funding level' of a defined benefit pension scheme is typically calculated by comparing:

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- o B) Scheme liabilities to scheme assets
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- o D) Future returns to historical averages

Answer: B

16. A Defined Contribution pension scheme primarily relies on which of the following for funding retirement benefits?

- o A) Government contributions
- o B) Employer guarantees
- o C) Investment performance of accumulated contributions
- o D) Final salary calculations

Answer: C

17. A diversified investment strategy is used to:

- o A) Ensure only low-risk assets are included
- o B) Spread risk across different asset classes

- o C) Focus solely on equities
- o D) Avoid all exposure to market risk

Answer: B

18. The discount rate in a Defined Benefit pension scheme valuation is used to:

- o A) Determine the future value of assets
- o B) Project expected investment returns
- o C) Estimate the present value of future liabilities
- o D) Calculate contribution rates

Answer: C

19. Which of the following typically requires fewer regulatory requirements for small firms' pensions?

- o A) Small self-administered schemes (SSAS)
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- o D) Public sector schemes

Answer: A

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- o A) A one-time cash withdrawal from a pension fund
- o B) Taking regular withdrawals from an invested pension pot
- o C) Transferring pension funds to another employer scheme
- o D) Decreasing employer contributions

Answer: B

21. In a Defined Benefit (DB) scheme, "employer covenant" refers to:

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- o B) Member's requirement to contribute a certain percentage of salary
- o C) Employer's option to opt out of the scheme
- o D) Member's retirement age agreement

Answer: A

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- o A) The maximum contribution eligible for tax relief each year
- o B) The minimum pension withdrawal age
- o C) The maximum lifetime savings cap
- o D) The minimum contribution employers must make annually

Answer: A

23. Under current(2025) UK regulations, the minimum age for accessing pension benefits is generally:

- o A) 50
- o B) 65
- o C) 60
- o D) 55

Answer: D

24. A "salary sacrifice" arrangement is primarily used to:

- o A) Convert employee income into tax-efficient pension contributions
- o B) Increase employees' annual leave entitlements
- o C) Decrease employer National Insurance contributions
- o D) Guarantee retirement benefits for employees

Answer: A

25. Which factor is NOT typically considered when selecting an investment strategy for a pension scheme?

- o A) Scheme member demographics
- o B) Interest rates and inflation trends
- o C) Current employee turnover rate
- o D) Employer covenant strength

Answer: C

26. A "cash balance" scheme combines elements of:

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- o C) Self-Directed and Insured Pension Plans
- o D) Non-contributory and Salary Sacrifice Schemes

Answer: A

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- o A) To minimise employer tax liabilities
- o B) To provide greater benefit flexibility for employees
- o C) To enhance the security of promised benefits for members
- o D) To reduce the need for employee contributions

Answer: C

28. Investment-grade bonds are primarily used in pension funds to provide:

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- o B) Short-term liquidity only
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Answer: C

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- o B) Overseeing investment strategy
- o C) Ensuring compliance with regulations
- o D) Setting personal retirement targets for members

Answer: D

30. An effective risk management strategy for Defined Benefit schemes is to:

- o A) Maintain a single asset class
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- o C) Avoid all government bonds
- o D) Match assets to liabilities through LDI

Answer: D