

EXAMINERS' REPORT - DEFINED CONTRIBUTION ARRANGMENTS – APRIL 2025

Question 1

The Trustee Board requests that you, the Benefit Consultant, prepare a Report setting out what happens at each stage of the Defined Contribution and Investment Cycle.

Your Report should cover:

Payments (5 marks)

Checking/reconciling contributions (7 marks)

Switches (3 marks)

Forwarding (6 marks)

Contract Notes (5 marks)

Allocation (4 marks)

Reporting/Reconciling units purchased (5 marks)

Additionally, please outline straight-through processing within the Report (10 marks)

(45 marks including 2 format marks).

This question was satisfactorily answered. It was fully signposted, making the contents easier to cover and lessening irrelevant facts being included. A Report was requested in the question, which earned marks, and this was generally adhered to. The question carried 45 potential marks, so it should have taken about 1 hour and 20 minutes to complete. There were few notable omissions. Extra facts would have been good under forwarding, such as a final check should be made before sending the money, to ensure that the total of all contributions received equals the total amount remitted to all investment managers. Straight-through processing provides an industry standard means of communicating electronically between investment managers and diverse administration platforms, offering considerable benefits in terms of speed and cost savings. Under Reporting/Reconciling units purchased, checking may take place at any of the other stages, particularly when investing the contributions and failure results in incorrect records and ultimately incorrect benefits.

Otherwise, payments, checking/reconciling contributions, switches, contract notes, and allocation were all covered in detail.

Question 2

A senior manager in your HR department is looking at the current group life cover. He has asked for an email commenting on premium costs.

(15 marks including 1 format mark)

This question was either answered extremely well or very poorly, depending upon how conversant the candidates were with the manual material. An email was requested in the question, which earned marks, and this was generally adhered to. Common omissions included that the cost of

the insurance cover will depend on the size of the scheme. A small scheme may be required to pay a "single premium" charge for one year's cover based upon the age of each member, cost of the premium increases as the membership ages. Where the scheme is large, the premium is based on a unit rate for 1,000 members with different rates for males and females.

Question 3

Outline the requirements set out in Pensions Law which Trustees must consider when choosing investments.

(20 marks)

This question only asks you to outline requirements with no specific format requested. The question overall was answered well. Candidates especially knew the Pensions Act 2004 and European law. Trustees or fund managers need to exercise their investment powers prudently and that Trustees normally employ a regulated benefit consultant or investment consultant to determine which funds would be most appropriate for their membership, including the selection of a default fund and that charges that are applied to the investment vehicles can erode overall performance and growth of the assets. Areas not covered so well include the Pensions Act 1995 requires trustees, or delegated to a fund manager, to consider investment spread and the suitability of investments. Scheme assets should be invested mainly in regulated markets. Assets not traded on regulated markets are kept to a prudent level. The Annual Chair's Statement requires the trustees to consider and report on both charges and value for money.

If candidates had learnt the information, this was a straightforward question which was well signposted as to the information expected.

Question 4

As Pensions Manager of XYZ Limited please prepare a paper for the Finance Director explaining the impact of Collective Defined Contribution (CDC) schemes on DC pension provision.

(20 marks including 2 format marks)

This question was again in a paper format, which was almost universally complied with. This question was one of the best out of the four questions. Candidates fully understood the subject material and were able to apply it to the question asked. Candidates who had revised thoroughly earned respectable marks. The common omissions where CDC provides an income in retirement, avoiding the need for the potentially onerous member decision-making required by drawdown. Legislation for "single" employer or "connected" multi-employer schemes was introduced by the Pension Schemes Act 2021 July 2023, the Government announced its intention to consult on draft regulations to extend the CDC provision to whole-life multi-employer schemes, including Master Trusts. Committed to creating provision for CDC decumulation-only products. Once new regulations are in place, multi-employer schemes could come to market from 2026. A

"decumulation only" model of CDC may follow in the future, which would allow individuals who have built up DC pots during their working lives to buy a CDC annuity at retirement.