Examiners' Report - Core Unit 4 – Financing and Investing for Retirement Provision-April 2025

Overview

This report provides an analysis of candidate performance in the CU4 module examination for the April 2025 session, based on the provided marksheet data. The examination consisted of nine questions covering various topics from the CU4 syllabus, with a total of 100 marks available. The minimum passing percentage was 65%, equivalent to 65 marks out of 100. Five candidates' results are available, with two candidates passing and three failing.

Question 1: Describe the risks and other factors to be considered when investing in commercial property. (12 marks)

Study Manual Reference: Section 2, Chapter 3.1, page 42

Reason for Asking the Question: This question tested candidates' understanding of the risks and considerations involved in commercial property investment, a critical component of pension fund asset allocation. It assessed the ability to identify and articulate both financial and non-financial factors.

Where Candidates Passed or Failed:

Passed:

- Provided a comprehensive list of risks, such as market volatility, liquidity risks, tenant default, and economic downturns.
- Included other factors like location, property type, lease terms, and regulatory considerations.

Supported answers with practical examples, e.g., impact of vacancy rates on returns.

Failed:

- Omitted key risks or factors, such as liquidity or regulatory compliance.
- Provided generic answers without linking to commercial property specifics.
- Lacked examples or depth in explanations.

Question 2:Briefly explain what is meant by a CDC scheme. (5 marks)

Study Manual Reference: Section 5, Chapter 2.6, page 104

Reason for Asking the Question: This question assessed candidates' ability to define Collective Defined Contribution (CDC) schemes and distinguish them from other pension arrangements, testing foundational knowledge of pension structures.

Where Candidates Passed or Failed:
Passed:

- Clearly defined CDC schemes as combining elements of defined benefit and defined contribution schemes with shared risk.
- Highlighted features like pooled contributions and target benefits.
- Explained benefits, such as cost-sharing among members.

Failed:

- Provided vague or incorrect definitions, e.g., confusing CDC with defined benefit schemes.
- Omitted key features like risk-sharing or pooled investments.
- Failed to differentiate CDC from other pension types.

Question 3:Describe the risks for a defined benefit pension scheme from holding growth assets and the impact of growth assets in actuarial valuations. (16 marks)

Study Manual Reference: Section 3, Chapter 2.3, page 63

Reason for Asking the Question: This question evaluated candidates' understanding of the risks associated with growth assets (e.g., equities) in defined benefit schemes and their implications for actuarial valuations, a key aspect of pension fund management.

Where Candidates Passed or Failed:
Passed:
- Identified risks such as market volatility, liquidity constraints, and currency risk for international assets.
- Explained impacts on actuarial valuations, e.g., increased funding deficits due to asset value fluctuations.
- Provided examples linking risks to valuation outcomes, such as discount rate adjustments.

Failed:
- Listed risks without explaining their impact on valuations.
- Omitted key risks or provided superficial descriptions.
- Failed to connect growth assets to actuarial processes.

Question 4:Outline the "Pension Freedoms" introduced in 2015 through the Taxation of Pensions Act 2014. (7 marks)

Study Manual Reference: Section 4, Chapter 2.2, page 81

Reason for Asking the Question: This question tested candidates' knowledge of the 2015 Pension Freedoms, a significant regulatory change affecting retirement planning, focusing on their ability to outline key provisions.

Where Candidates Passed or Failed:
Passed:
- Outlined key freedoms, such as flexible access to pension pots, lump sum withdrawals, and removal of annuity mandates.
- Mentioned tax implications, e.g., 25% tax-free lump sum and taxable withdrawals.
- Provided clear, structured responses.

Failed:
- Omitted major provisions or provided incorrect details.
- Failed to mention tax consequences or practical implications.
- Provided vague or incomplete outlines.

Question 5:Describe the "scheme pays" system for an annual allowance charge. (10 marks)

Study Manual Reference: Section 1, Chapter 2.4, page 31

Reason for Asking the Question: This question assessed candidates' understanding of the scheme pays mechanism, an important tax management tool for pension schemes, testing both technical knowledge and practical application.

Where Candidates Passed or Failed:
Passed:
- Described the scheme pays process, where pension schemes cover annual allowance tax charges, reducing members' benefits.
- Explained eligibility criteria, e.g., tax charges exceeding £2,000.
- Included practical examples or conditions for implementation.

Failed:
- Provided incomplete descriptions, e.g., omitting eligibility or benefit reduction details.
- Confused scheme pays with other tax mechanisms.
- Lacked practical context or examples.

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Question 6:List the questions trustees of a defined benefit scheme should consider when assessing their attitude to risk. (5 marks)

Study Manual Reference: Section 3, Chapter 3.1, page 68

Reason for Asking the Question: This question tested candidates' ability to identify key considerations for trustees in assessing risk tolerance, a critical governance skill.

Where Candidates Passed or Failed:
Passed:
- Listed questions such as scheme funding status, member demographics, investment horizon, and risk capacity.
- Provided comprehensive and relevant lists aligned with syllabus content.
- Structured answers clearly, e.g., in bullet points.

Failed:
- Provided incomplete or generic lists, omitting key questions.
- Failed to tailor questions to defined benefit schemes.
- Lacked specificity or relevance to trustee responsibilities.

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Question 7:List the disclosure requirements which apply to Statements of Investment Principles from 2019 onwards. (5 marks)

Study Manual Reference: Section 5, Chapter 3.1, page 107

Reason for Asking the Question: This question evaluated candidates' knowledge of regulatory requirements for Statements of Investment Principles, focusing on post-2019 changes.

Where Candidates Passed or Failed:
Passed:
- Listed requirements such as stewardship policies, ESG considerations, and arrangements with investment managers.
- Explained the rationale for these requirements, e.g., transparency for members.
- Provided a complete and accurate list.

Failed:
- Omitted key requirements or listed outdated ones.
- Provided vague or incorrect details, e.g., confusing with earlier regulations.
- Failed to address post-2019 changes specifically.

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Question 8:Describe the information needed by trustees to measure the performance of an investment manager. You should include details of the information provided by an investment manager in its investment reports to trustees. (20 marks)

Study Manual Reference: Section 6, Chapter 3.2, page 127

Reason for Asking the Question: This question tested candidates' understanding of investment manager performance evaluation, a critical trustee responsibility, and their ability to detail report contents.

Where Candidates Passed or Failed:
Passed:
- Described key metrics like returns, benchmarks, risk measures, and attribution analysis.
- Detailed investment report components, e.g., portfolio holdings, transaction costs, and compliance statements.
- Linked information to trustee decision-making processes.

Failed:
- Provided superficial or incomplete descriptions of metrics or reports.
- Omitted key report components, such as risk-adjusted returns or ESG compliance.
- Failed to connect information to trustee oversight.

Question 9:Describe the four main types of money market instrument used by pension schemes to invest in cash. (20 marks)

Study Manual Reference: Section 2, Chapter 3.2, page 43

Reason for Asking the Question: This question assessed candidates' knowledge of money market instruments, a key component of pension scheme cash management, testing both technical detail and application.

Where Candidates Passed or Failed:
Passed:
- Identified and described treasury bills, commercial paper, certificates of deposit, and repurchase agreements.
- Explained their use in pension schemes, e.g., liquidity and low-risk investment.
- Provided examples or characteristics, such as short-term maturity.

Failed:
- Omitted one or more instrument types or provided incorrect descriptions.
- Lacked pension-specific context or practical applications.
- Provided superficial explanations without technical detail.