

Sample Exam Questions

Defined Benefit Arrangements

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. **In a Defined Benefit (DB) pension scheme, the retirement benefits are typically determined based on :**
 - A) The member's pensionable salary and years of pensionable service
 - B) The member's pensionable service and the employer's contributions
 - C) The value of the scheme's assets and a guaranteed rate of return
 - D) The scheme's funding ratio and the member's pensionable salary
2. **One of the measures introduced by the Finance Act 2023 is:**
 - A) The delivery of Pensions Dashboards
 - B) Abolition of the Lifetime Allowance
 - C) Removal of the Lifetime Allowance charge
 - D) A tougher funding regime for DB schemes
3. **Which of the following actions might a sponsoring employer of an underfunded final salary scheme take to reduce employer costs?**
 - A) Increasing the rate of future benefit accrual
 - B) Increasing the member contributions
 - C) Reducing the Normal Pension Age
 - D) Adding overtime and bonus to the definition of pensionable salary
4. **An employee joining a non-automatic enrolment DB scheme must provide:**
 - A) A completed application form to opt into the scheme
 - B) The Scheme Administrator with a copy of their contract of employment
 - C) A completed Expression of Wish form
 - D) Written authority for contributions to be deducted from their salary
5. **When contributions are processed under a salary sacrifice arrangement:**
 - A) Cost savings are delivered to the employer only

- B) Cost savings are delivered to the employee only
 - C) Cost savings are delivered neither the employer or the employee
 - D) Cost savings are delivered to both the employer and the employee
6. **A key feature of DB Additional Voluntary Contributions (DB AVCs) is typically:**
- A) The member can use the AVCs to purchase an annuity at retirement
 - B) The AVCs are usually expressed as a cash fund
 - C) Added years of pensionable service are provided in the scheme
 - D) The additional benefits the AVCs provide can be accessed earlier than the main scheme's benefits
7. **The 'normal pension age' in a DB scheme generally refers to:**
- A) The earliest age a member can join the scheme
 - B) The age at which a member can receive full benefits without reduction
 - C) The age at which employer contributions cease
 - D) The mandatory retirement age for all members
8. **The conditions that must be met to be eligible for retirement before Normal Retirement Age on ill-health grounds are determined by:**
- A) The scheme rules
 - B) The sponsoring employer
 - C) The trustees
 - D) HMRC
9. **The benefits payable on the death of a deferred member of a DB scheme would typically include:**
- A) A lump sum equal to 5 years' deferred annual pension
 - B) No lump sum payment
 - C) A lump sum equal to a multiple of the member's salary immediately prior to leaving the scheme
 - D) A lump sum equivalent to the member contributions paid to the scheme
10. **Since 2011, statutory revaluation increases to deferred benefits in a final salary scheme are based on:**

- A) The increase in the Retail Price Index
- B) A fixed rate of 5% per annum compound
- C) The increase in the Consumer Price Index
- D) A fixed rate of 2.5% per annum compound

11. **Members of DB schemes do not have a statutory right to transfer the cash equivalent of their deferred benefits to another pension arrangement if:**

- A) They have not yet used any defined benefits to provide a scheme pension
- B) The benefits are money purchase benefits
- C) The scheme is a funded public service scheme
- D) The application to transfer is received within one year of Normal Pension Age

12. **In pensions tax legislation, the 'Annual Allowance' limits:**

- A) The increase in in the value of a member's benefits in a tax year before a tax charge applies
- B) The amount of tax-free benefits an individual can take across all their pension arrangements in a tax year
- C) The amount of money purchase AVC contributions that can be paid in a tax year
- D) The total amount of pension savings an individual can accumulate

13. **If a Serious Ill Health Lump Sum is paid on or after the member reaching age 75:**

- A) The lump sum is not subject to any taxation
- B) Tax is charged on the full amount through PAYE at the individual's marginal rate
- C) 25% of the lump sum is paid tax-free and the remaining 75% is subject to tax
- D) Basic rate tax is charged on the full amount through PAYE

14. **The key duties of DB scheme trustees include the following, EXCEPT:**

- A) Acting in the best interest of beneficiaries
- B) Acting prudently, responsibly and honestly
- C) Acting primarily in the interest of active members, ahead of other members

- D) Acting in line with the Trust Deed and Rules
15. **The requirement for pension scheme trustees to have and maintain sufficient 'Knowledge and Understanding' was introduced in the:**
- A) Pensions Act 2004
 - B) Pension Schemes Act 1993
 - C) Pensions Act 1995
 - D) Finance Act 2004
16. **The 'Attained Age' method of funding a DB scheme:**
- A) Is more appropriate to schemes that are open to new entrants
 - B) Makes no allowance for Projected Earnings
 - C) Is the method of funding required under the major accounting standards
 - D) Is most suited to funding schemes which are closed to future accrual
17. **An example of a financial actuarial assumption is:**
- A) Earnings Progression
 - B) Withdrawals
 - C) Pension Increases
 - D) Death in Service
18. **Where a scheme does not meet the Statutory Funding Objective, the document that sets out how full funding will be achieved and by when is called :**
- A) Schedule of Contributions
 - B) Recovery Plan
 - C) Statement of Funding Principles
 - D) Summary Funding Statement
19. **The term 'employer covenant' in relation to a DB scheme means:**
- A) The strength of the employer's commitment to provide sufficient funding for the scheme
 - B) The risk appetite of the employer

- C) The employer's credit rating
- D) The maximum contribution an employer is willing to pay to the scheme

20. **Under the UK Accounting Standards, which standard might be used to calculate the cost of a DB pension scheme reported in the employer's company accounts?**

- A) FRS 17
- B) Section 715 of the FASB Accounting Standards Codification
- C) IAS 19
- D) FRS 101

True/False Questions: Defined Benefit Arrangements

For each question, select the correct answer from the following options:

- **(A)** Both True
- **(B)** Only (i) True
- **(C)** Only (ii) True
- **(D)** Both False

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21. **(i)** The terms of all public sector DB schemes are defined by statute.
(ii) Public sector DB schemes are not affected by changes in pension legislation.
22. **(i)** The Statement of Investment Principles (SIP) for a DB scheme is reviewed only once, at the inception of the scheme, and does not require regular updates.
(ii) The SIP outlines the trustees' investment strategy and risk management approach for a DB scheme.
23. **(i)** PPF compensation provides all scheme members with their full scheme benefits.
(ii) PPF compensation provides all scheme members with their full scheme benefits only if the member has not yet reached their Normal Pension Age in the scheme.
24. **(i)** 'Longevity risk' in a DB scheme refers to the risk of members living longer than expected, which increases the scheme's liabilities.
(ii) Longevity swaps are a popular way for larger DB schemes to remove the risk that members will live longer than expected.

25. (i) The earliest age at which a member can receive their scheme benefits without reduction is the Normal Pension Age.
(ii) The earliest age at which a member can receive their scheme benefits is the Minimum Pension Age.
26. (i) Inflation-linked benefits in a DB scheme mean that pensions in payment increase in line with inflation or a specified index.
(ii) DB schemes must provide full inflation protection on all accrued benefits.
27. (i) The 'balance of powers' for all DB schemes is determined by the Pensions Regulator
(ii) The 'balance of powers' in a DB scheme refers to the respective operational powers of the trustee and the employer.
28. (i) The Finance Act 2023 raised the minimum Money Purchase Annual Allowance to £10,000.
(ii) The Finance Act 2023 raised the minimum standard Annual Allowance for Money Purchase schemes to £60,000.
29. (i) A refund of the member's own contributions is generally an option where a member leaves a DB scheme after completing more than 2 years' pensionable service.
(ii) A refund of the member's own contributions is generally an option where a deferred member of a DB scheme dies before their Normal Pension Age.
30. (i) A deferred DB scheme member has a statutory right to transfer their benefits to another suitable pension arrangement in certain circumstances.
(ii) Trustees may allow a member to transfer their benefits where the member does not have a statutory right to do so.

ANSWER KEY

1. **In a Defined Benefit (DB) pension scheme, the retirement benefits are typically determined based on :**
- a. A) The member's pensionable salary and years of pensionable service
 - b. B) The member's pensionable service and the employer's contributions
 - c. C) The value of the scheme's assets and a guaranteed rate of return

- d. D) The scheme's funding ratio and the member's pensionable salary

Answer: A

2. One of the measures introduced by the Finance Act 2023 is:

- a. A) The delivery of Pensions Dashboards
- b. B) Abolition of the Lifetime Allowance
- c. C) Removal of the Lifetime Allowance charge
- d. D) A tougher funding regime for DB schemes

Answer: C

3. Which of the following actions might a sponsoring employer of an underfunded final salary scheme take to reduce employer costs?

- a. A) Increasing the rate of future benefit accrual
- b. B) Increasing the member contributions
- c. C) Reducing the Normal Pension Age
- d. D) Adding overtime and bonus to the definition of pensionable salary

Answer: B

4. An employee joining a non-automatic enrolment DB scheme must provide:

- a. A) A completed application form to opt into the scheme
- b. B) The Scheme Administrator with a copy of their contract of employment
- c. C) A completed Expression of Wish form
- d. D) Written authority for contributions to be deducted from their salary

Answer: D

5. When contributions are processed under a salary sacrifice arrangement:

- a. A) Cost savings are delivered to the employer only
- b. B) Cost savings are delivered to the employee only
- c. C) Cost savings are delivered neither the employer or the employee
- d. D) Cost savings are delivered to both the employer and the employee

Answer: D

6. A key feature of DB Additional Voluntary Contributions (DB AVCs) is typically:

- a. A) The member can use the AVCs to purchase an annuity at retirement

- b. B) The AVCs are usually expressed as a cash fund
- c. C) Added years of pensionable service are provided in the scheme
- d. D) The additional benefits the AVCs provide can be accessed earlier than the main scheme's benefits

Answer: C

7. The 'normal pension age' in a DB scheme generally refers to:

- a. A) The earliest age a member can join the scheme
- b. B) The age at which a member can receive full benefits without reduction
- c. C) The age at which employer contributions cease
- d. D) The mandatory retirement age for all members

Answer: B

8. The conditions that must be met to be eligible for retirement before Normal Retirement Age on ill-health grounds are determined by:

- a. A) The scheme rules
- b. B) The sponsoring employer
- c. C) The trustees
- d. D) HMRC

Answer: A

9. The benefits payable on the death of a deferred member of a DB scheme would typically include:

- a. A) A lump sum equal to 5 years' deferred annual pension
- b. B) No lump sum payment
- c. C) A lump sum equal to a multiple of the member's salary immediately prior to leaving the scheme
- d. D) A lump sum equivalent to the member contributions paid to the scheme

Answer: D

10. Since 2011, statutory revaluation increases to deferred benefits in a final salary scheme are based on:

- a. A) The increase in the Retail Price Index
- b. B) A fixed rate of 5% per annum compound

- c. C) The increase in the Consumer Price Index
- d. D) A fixed rate of 2.5% per annum compound

Answer: C

11. **Members of DB schemes do not have a statutory right to transfer the cash equivalent of their deferred benefits to another pension arrangement if:**

- a. A) They have not yet used any defined benefits to provide a scheme pension
- b. B) The benefits are money purchase benefits
- c. C) The scheme is a funded public service scheme
- d. D) The application to transfer is received within one year of Normal Pension Age

Answer: D

12. **In pensions tax legislation, the 'Annual Allowance' limits:**

- a. A) The increase in in the value of a member's benefits in a tax year before a tax charge applies
- b. B) The amount of tax-free benefits an individual can take across all their pension arrangements in a tax year
- c. C) The amount of money purchase AVC contributions that can be paid in a tax year
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Answer: A

13. **If a Serious Ill Health Lump Sum is paid on or after the member reaching age 75:**

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- c. C) 25% of the lump sum is paid tax-free and the remaining 75% is subject to tax
- d. D) Basic rate tax is charged on the full amount through PAYE

Answer: B

14. **The key duties of DB scheme trustees include the following, EXCEPT:**

- a. A) Acting in the best interest of beneficiaries
- b. B) Acting prudently, responsibly and honestly

- c. C) Acting primarily in the interest of active members, ahead of other members
- d. D) Acting in line with the Trust Deed and Rules

Answer: C

15. The requirement for pension scheme trustees to have and maintain sufficient 'Knowledge and Understanding' was introduced in the:

- a. A) Pensions Act 2004
- b. B) Pension Schemes Act 1993
- c. C) Pensions Act 1995
- d. D) Finance Act 2004

Answer: A

16. The 'Attained Age' method of funding a DB scheme:

- a. A) Is more appropriate to schemes that are open to new entrants
- b. B) Makes no allowance for Projected Earnings
- c. C) Is the method of funding required under the major accounting standards
- d. D) Is most suited to funding schemes which are closed to future accrual

Answer: D

17. An example of a financial actuarial assumption is:

- a. A) Earnings Progression
- b. B) Withdrawals
- c. C) Pension Increases
- d. D) Death in Service

Answer: C

18. Where a scheme does not meet the Statutory Funding Objective, the document that sets out how full funding will be achieved and by when is called :

- a. A) Schedule of Contributions
- b. B) Recovery Plan
- c. C) Statement of Funding Principles

- d. D) Summary Funding Statement

Answer: B

19. **The term 'employer covenant' in relation to a DB scheme means:**

- a. A) The strength of the employer's commitment to provide sufficient funding for the scheme
- b. B) The risk appetite of the employer
- c. C) The employer's credit rating
- d. D) The maximum contribution an employer is willing to pay to the scheme

Answer: A

20. **Under the UK Accounting Standards, which standard might be used to calculate the cost of a DB pension scheme reported in the employer's company accounts?**

- a. A) FRS 17
- b. B) Section 715 of the FASB Accounting Standards Codification
- c. C) IAS 19
- d. D) FRS 101

Answer: D

True/False Questions: Defined Benefit Arrangements

For each question, select the correct answer from the following options:

- (A)** Both True
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- (C)** Only (ii) True
- (D)** Both False

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21. **(i)** The terms of all public sector DB schemes are defined by statute.
(ii) Public sector DB schemes are not affected by changes in pension legislation.

Answer: D

22. **(i)** The Statement of Investment Principles (SIP) for a DB scheme is reviewed only once, at the inception of the scheme, and does not require regular updates.

(ii). The SIP outlines the trustees' investment strategy and risk management approach for a DB scheme.

Answer: C

23. (i) PPF compensation provides all scheme members with their full scheme benefits.
(ii) PPF compensation provides all scheme members with their full scheme benefits only if the member has not yet reached their Normal Pension Age in the scheme.

Answer: D

24. (i) 'Longevity risk' in a DB scheme refers to the risk of members living longer than expected, which increases the scheme's liabilities.
(ii) Longevity swaps are a popular way for larger DB schemes to remove the risk that members will live longer than expected.

Answer: A

25. (i) The earliest age at which a member can receive their scheme benefits without reduction is the Normal Pension Age.
(ii) The earliest age at which a member can receive their scheme benefits is the Minimum Pension Age.

Answer: A

26. (i) Inflation-linked benefits in a DB scheme mean that pensions in payment increase in line with inflation or a specified index.
(ii) DB schemes must provide full inflation protection on all accrued benefits.

Answer: B

27. (i) The 'balance of powers' for all DB schemes is determined by the Pensions Regulator (ii) The 'balance of powers' in a DB scheme refers to the respective operational powers of the trustee and the employer.

Answer: C

28. (i) The Finance Act 2023 raised the minimum Money Purchase Annual Allowance to £10,000.
(ii) The Finance Act 2023 raised the minimum standard Annual Allowance for Money Purchase schemes to £60,000.

Answer: A

29. (i) A refund of the member's own contributions is generally an option where a member leaves a DB scheme after completing more than 2 years' pensionable

service.

(ii) A refund of the member's own contributions is generally an option where a deferred member of a DB scheme dies before their Normal Pension Age.

Answer: C

30. **(i)** A deferred DB scheme member has a statutory right to transfer their benefits to another suitable pension arrangement in certain circumstances.

(ii) Trustees may allow a member to transfer their benefits where the member does not have a statutory right to do so.

Answer: A