

Sample Exam Questions

Core Unit 4- Financing & Investing of Retirement Provision

Instructions:

- This is only a sample paper and therefore consists of 40 multiple-choice questions.
 - This provides an indication of the typical mix and style of questions across the exam paper. **Please note, this is only a guide and therefore the actual balance of questions in the live exam paper may vary.**
 - Choose the correct answer from the options (A, B, C, or D).
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1. Under the Statutory Funding Objective of the Pensions Act 2004, which specific financial metric must a defined benefit scheme assets be sufficient and appropriate to cover?

- A. The total buyout cost of all liabilities with an insurance provider.
- B. The technical provisions as calculated by the actuary.
- C. The Minimum Funding Requirement as defined by the 1995 Act.
- D. The current market value of the sponsoring employer equity.

2. Which specific tax charge is triggered when a member total pension input across all arrangements exceeds the prevailing Annual Allowance?

- A. A capital gains tax charge on the excess growth.
- B. An income tax charge designed to recover the relief received on the excess.
- C. A flat 55 percent penalty charge payable directly to the Pension Protection Fund.
- D. A corporate tax surcharge levied against the sponsoring employer.

3. For a defined benefit scheme, what is the primary legal purpose of the Schedule of Contributions agreed between the trustees and the employer?

- A. To list the individual salary details of every active member in the scheme.
- B. To set out the rates and due dates of contributions payable over a specified period.
- C. To document the investment manager performance related fee structure.
- D. To provide a historical record of all tax relief claimed by the employer since inception.

4. What constitutes a Serious Ill Health Lump Sum under HMRC regulations and what is the primary condition for its payment?

- A. A payment made to a member with a life expectancy of less than 12 months as certified by a medical practitioner.
- B. Any lump sum paid to a member who has reached the Normal Minimum Pension Age.
- C. A discretionary payment made by the employer to cover private medical insurance premiums.
- D. A refund of contributions made to a member who leaves service within two years.

5. Within a Career Average Revalued Earnings scheme, which mechanism is typically used to maintain the value of accrued benefits for an active member?

- A. Revaluation linked to a specific index such as CPI or a fixed percentage.
- B. An annual bonus paid directly by the employer based on corporate profitability.
- C. The member final salary at the date of their actual retirement.
- D. The dividend yield of the scheme equity portfolio at the end of each tax year.

6. What is the primary objective of a Recovery Plan when a triennial valuation reveals that a scheme has a funding deficit?

- A. To recover overpaid benefits from members who have already retired.
- B. To set out how the funding shortfall will be eliminated over a specified period.
- C. To provide a strategy for firing the investment manager responsible for the deficit.
- D. To allow the employer to cease all contributions until the market recovers.

7. How does Prudence in actuarial assumptions serve to protect the interests of pension scheme members?

- A. By ensuring the employer contribution rate is kept as low as possible to protect jobs.
- B. By providing a reasonable margin for adverse deviation in future experience.
- C. By mandating that 100 percent of the scheme assets are held in cash at all times.
- D. By prohibiting the trustees from hiring any external investment consultants.

8. Why might a company choose to issue Preference Shares instead of Ordinary Shares when raising new capital?

- A. Because preference shares do not offer the holder any dividends.
- B. Because preference shares typically offer a fixed dividend and rank ahead of ordinary shares in a wind up.
- C. Because preference shares give the holder 10 times the voting rights of ordinary shares.
- D. Because preference shares are exempt from all forms of corporate taxation in the UK.

9. Which specific economic risk are Index Linked Gilts primarily designed to mitigate within a pension scheme portfolio?

- A. The risk of the UK government defaulting on its sovereign debt obligations.
- B. The erosion of the purchasing power of capital and income caused by inflation.
- C. The risk that the scheme active equity manager will underperform the benchmark.
- D. The risk that members will live longer than the actuary mortality assumptions.

10. Why is Commercial Property often viewed as a useful diversifier in a balanced pension portfolio?

- A. Because its returns are guaranteed to be higher than global equities every year.
- B. Because it provides rental income and its returns have a low correlation with equities and bonds.

- C. Because commercial property can be sold instantly for its full market value at any time.
- D. Because the government provides a 100 percent guarantee against any loss in property value.

11. Which risk is a significant concern for trustees investing in Private Equity or Infrastructure compared to publicly traded stocks?

- A. Liquidity risk as these assets are not traded on an exchange and have long lock up periods.
- B. Regulatory risk as the Pensions Regulator must approve every individual asset purchase.
- C. Dividend risk as these assets are legally prohibited from paying any income to the scheme.
- D. Currency risk as all private equity must be held in US Dollars by law.

12. What distinguishes a Forward Contract from a Future in the context of investment management?

- A. A Forward is traded on a public exchange while a Future is a private agreement.
- B. A Forward is a private bespoke OTC agreement whereas a Future is a standardised exchange traded contract.
- C. A Forward is only used for buying physical gold while a Future is used for all other assets.
- D. A Forward is legally binding while a Future can be cancelled by either party at any time.

13. What is the purpose of Currency Hedging when a pension scheme invests in overseas equity markets?

- A. To speculate on the movement of global currencies to generate extra profit.
- B. To reduce the impact of exchange rate fluctuations on the value of the overseas assets.
- C. To comply with HMRC rules that prohibit schemes from holding non UK currencies.
- D. To ensure that all dividend payments are received in physical gold coins.

14. How does the Yield Curve assist trustees in evaluating the pricing of fixed income securities?

- A. It shows the relationship between the age of the members and their remaining life expectancy.
- B. It plots the interest rates of bonds with similar quality but different maturity dates.
- C. It tracks the historical growth of the FTSE 100 index over a 50 year period.
- D. It indicates the percentage of the employer profit that is paid as a dividend to shareholders.

15. When trustees assess the Employer Covenant, what fundamental question are they seeking to answer?

- A. How many employees does the employer intend to hire over the next 12 months?
- B. What is the employer legal obligation and financial ability to support the scheme?
- C. Does the employer logo match the brand guidelines of the pension scheme?
- D. Is the employer willing to provide a 10 percent discount on its products to the scheme members?

16. Which event typically triggers an Employer Debt in a multi-employer defined benefit scheme?

- A. When the scheme achieves a funding surplus of more than 120 percent on a technical provisions basis.
- B. When an employer ceases to participate in the scheme or becomes insolvent while the scheme is in deficit.
- C. When the employer decides to change its corporate name or registered office address.
- D. When the trustees appoint a new investment manager without the employer written consent.

17. What is the primary risk addressed by a Longevity Swap within a DB scheme?

- A. The risk that the equity market will crash and reduce the value of the scheme assets.
- B. The risk that members will live longer than expected increasing the total cost of pensions.
- C. The risk that the sponsoring employer will go into liquidation within the next three years.
- D. The risk that inflation will exceed the cap on annual pension increases.

18. What is the strict legal limit for Self Investment by the trustees in the sponsoring employer business?

- A. 1 percent of the market value of the scheme assets.
- B. 5 percent of the market value of the scheme assets.
- C. 20 percent of the market value of the scheme assets.
- D. There is no limit provided the employer covenant is rated as Strong.

19. Which assumption in a DB valuation is most sensitive to changes in long dated Gilt yields?

- A. The member withdrawal and staff turnover rate.
- B. The discount rate used to value the liabilities.
- C. The rate of future promotional salary increases.
- D. The expected cost of the scheme annual audit and legal fees.

20. How does Asset Liability Matching help trustees manage the risks of a mature DB scheme?

- A. By ensuring that the duration of the assets is aligned with the duration of the liabilities.
- B. By matching the names of the investment managers to the names of the scheme founding members.

- C. By ensuring that the scheme assets are always exactly equal to the employer annual turnover.
- D. By mandating that 100 percent of the scheme assets are invested in the employer own corporate bonds.

21. What does a Section 143 valuation determine during the wind up process of a defined benefit scheme?

- A. The amount of commission the trustees are allowed to pay to an insurance broker.
- B. Whether the scheme assets are sufficient to secure benefits at least equal to PPF levels.
- C. The total amount of tax relief the employer must pay back to HMRC upon closure.
- D. The order in which the trustees will be interviewed by the Pensions Regulator.

22. What is the primary objective of a Life styling strategy in a DC arrangement?

- A. To increase the investment risk as the member approaches retirement to maximise the pot.
- B. To protect the value of the member pot by shifting to lower risk assets as retirement approaches.
- C. To ensure that the member spends their entire pension pot within the first five years of retirement.
- D. To allow the trustees to use the member funds to pay for the scheme administrative costs.

23. How does Flexi Access Drawdown fundamentally differ from purchasing an Annuity at retirement?

- A. Drawdown provides a guaranteed income for life whereas an annuity is a high risk investment.
- B. Drawdown keeps the fund invested with flexible withdrawals while an annuity provides a guaranteed income.
- C. Drawdown is only available to members who have a DB pension in addition to their DC pot.
- D. Drawdown is tax free whereas all annuity payments are taxed at a flat rate of 50 percent.

24. What is a Master Trust as defined by the Pension Schemes Act 2017?

- A. A scheme where the employer is the sole trustee and investment manager.
- B. An occupational DC scheme used by multiple non connected employers.
- C. A trust that only invests in government guaranteed gilts and cash.
- D. A scheme that only allows members who have at least 25 years of service to join.

25. How does Pound Cost Averaging benefit a member making regular contributions to a DC scheme?

- A. It guarantees that the member will never experience a capital loss on their investments.

- B. It means more units are purchased when prices are low and fewer when prices are high.
- C. It allows the member to pay their contributions in any currency they choose.
- D. It ensures that the employer contribution is always double the member contribution.

26. What is the defining characteristic of Active Management within a DC fund?

- A. The manager tracks a market index at the lowest possible cost to the member.
- B. The manager attempts to outperform a benchmark through stock selection and market timing.
- C. The manager only makes one trade every five years to reduce transaction costs.
- D. The manager is required to hold a meeting with every scheme member once a year.

27. Why are Target Date Funds often used as an alternative to traditional Life styling?

- A. Because they allow the member to choose the exact day they want to retire.
- B. Because the asset allocation is managed within a single fund that evolves over time.
- C. Because they are the only type of fund that is legally allowed to invest in cryptocurrency.
- D. Because they guarantee a specific cash lump sum will be available on the target date.

28. Under the Pensions Act 2004, what does the requirement for a trustee to be conversant with scheme documents technically mean?

- A. The trustee must have memorised every page of the Trust Deed and Rules.
- B. The trustee must have a working knowledge of the documents to use them effectively.
- C. The trustee must be a qualified solicitor with a specialisation in trust law.
- D. The trustee must provide a signed summary of the documents to HMRC every year.

29. How often must the Statement of Investment Principles be reviewed by the trustees?

- A. Every 12 months regardless of whether there have been any changes.
- B. At least every three years and without delay after any significant change in investment policy.
- C. Every 10 years in line with the sponsoring employer long term business plan.
- D. Only when the scheme actuary identifies a funding deficit of more than 20 percent.

30. What is the function of the General Code of Practice issued by the Pensions Regulator?

- A. To provide a set of mandatory laws that carry automatic criminal sentences if breached.
- B. To set out the standards of conduct and practice expected from those governing schemes.
- C. To mandate the exact asset allocation for every defined benefit scheme in the UK.
- D. To provide a list of approved firms that can provide auditing services to schemes.

31. What is the primary objective of a Conflicts of Interest policy for a trustee board?

- A. To ensure that all trustees always agree with the sponsoring employer decisions.
- B. To ensure that decisions are made in the best interests of the beneficiaries free from bias.
- C. To prevent trustees from ever speaking to the scheme investment managers.
- D. To ensure that only people who work for the sponsoring employer can be trustees.

32. What is the mandatory role of a Member Nominated Trustee on a board?

- A. To represent the trade union in negotiations with the company directors.
- B. To provide a member perspective while sharing equal legal responsibility with other trustees.
- C. To manage the scheme daily payroll and benefit calculations.
- D. To provide personal financial advice to other members of the scheme.

33. Which Enforcement Power can the Pensions Regulator use to require a person or company to pay money into a scheme?

- A. A Dividend Stop Notice.
- B. A Contribution Notice.
- C. A Trustee Removal Order.
- D. A Mandatory Redundancy Notice.

34. In the context of pension investments, what is Stewardship?

- A. The physical maintenance of the building where the trustee meetings are held.
- B. Monitoring and engaging with investee companies to protect and enhance long term value.
- C. Ensuring that the scheme pensioners receive their payments on the same day each month.
- D. Personally voting at the AGM of every company held in a passive index fund.

35. How is Tracking Error used to evaluate the performance of a passive investment manager?

- A. It measures the extent to which the manager has outperformed the FTSE 100 index.
- B. It measures the extent to which the fund returns deviate from the index it is tracking.
- C. It tracks the number of members who have moved their funds out of the scheme.
- D. It measures the number of administrative errors made by the investment manager.

36. What is the role of a Custodian in the management of a pension scheme investments?

- A. To provide legal advice to the trustees during a corporate merger or acquisition.
- B. To provide safe keeping of assets and process investment transactions.
- C. To calculate the scheme technical provisions and recovery plan.
- D. To market the pension scheme to new employees of the sponsoring company.

37. How does Beta assist trustees in understanding a portfolio risk profile?

- A. It measures the sensitivity of the portfolio to movements in the overall market.
- B. It indicates the number of different asset classes held within the portfolio.
- C. It shows the total amount of cash held in the fund to meet potential redemptions.
- D. It tracks the length of time the investment manager has been in their role.

38. What does Standard Deviation indicate when used as a risk metric in an investment report?

- A. The difference between the fund performance and its benchmark.
- B. The volatility or variability of the investment returns over a period.
- C. The total number of trades executed by the manager in a single day.
- D. The percentage of the portfolio invested in socially responsible funds.

39. Which costs are typically included in a fund Transaction Costs?

- A. The annual audit fee and the scheme actuary valuation fee.
- B. Brokerage commissions, taxes such as Stamp Duty, and bid offer spreads.
- C. The salary of the trustees and the cost of their training courses.
- D. The rent paid for the office where the administration team is based.

40. What is the primary objective of Diversification in a pension fund investment strategy?

- A. To increase the total amount of fees paid to as many managers as possible.
 - B. To reduce the risk of the overall portfolio by spreading investments across different assets.
 - C. To ensure that the scheme is invested in every single country in the world.
 - D. To meet the legal requirement to have at least fifty different asset classes.
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Answer Key

- 1. B
- 2. B
- 3. B
- 4. A
- 5. A
- 6. B
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- 8. B
- 9. B

10. B

11. A

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36. B

37. A

38. B

39. B

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