

## Sample Exam Questions

### Defined Benefit Arrangements

#### 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. 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 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
- 21. Why does the requirement to automatically enrol all eligible jobholders exclude employees with enhanced protection, fixed protection 2012, fixed protection 2016 or individual protection 2014?**
- A) Because the employee is not legally able to accrue benefits in a new scheme.
  - B) Because the employee will lose benefits previously accrued if they join a new scheme.
  - C) Because the employee will lose that protection if they join a new pension scheme.

D) Because the employer only had to enrol a proportion of eligible job holders.

**22. Under the UK Funding and Investment Strategy regulations what is the primary objective of the Significant Maturity concept?**

A. To mandate that all schemes must move to a low dependency investment allocation and high funding level by the time they reach a specific duration of liabilities.

B. To ensure that the sponsoring employer is legally prohibited from paying dividends until the scheme has achieved a one hundred percent funding ratio on a buyout basis.

C. To provide a statutory mechanism that allows trustees to unilaterally increase the normal pension age for all active members to align with future state pension changes.

D. To require all schemes to switch from a trust-based governance structure to a contract-based arrangement once most members have reached retirement age.

**23. In a legacy Final Salary scheme why is the retention of accurate pensionable pay history and contracted out data considered a significant governance requirement?**

A. To allow the sponsoring employer to claim back historical National Insurance contributions from the revenue that were paid during the previous contracting out period.

B. To ensure that anti-franking legislation is correctly applied to protect the Guaranteed Minimum Pension value for members and prevent the erosion of other benefits.

C. To determine which members are eligible for the state pension triple lock and ensure that the scheme provides a matching level of indexation on all post 1997 accrual.

D. To ensure that members can be automatically enrolled into the scheme's DC section when they reach the maximum pensionable salary threshold defined in the rules.

**24. What is the strategic purpose of a Deferred Benefit Statement that is provided to deferred members?**

A. To encourage the member to transfer their benefits out of the scheme immediately to reduce the long-term funding risk for the sponsoring employer and the trustees.

B. To provide the member with an estimated annuity rate from the open market to allow them to compare the value of their deferred pension with a personal arrangement.

C. To confirm that the employer has paid its deficit recovery contributions for the previous year and that the scheme remains on track to reach its long-term funding goal.

D. To manage the liability of expectations by clearly outlining the member's preserved benefit and the statutory revaluation that will apply until the normal pension age.

**25. Why is poor data quality cited as a primary obstacle to executing a successful pension scheme End Game such as a Buy-out or Buy-in?**

A. Because the Pensions Regulator mandates that any scheme with a data score below ninety five percent must take actions to achieve that percentage number before considering any end game.

B. Because data deficiencies lead to risk loading in insurance premiums as insurers increase the cost to cover the uncertainty of potentially unrecorded member liabilities.

C. Because data errors primarily affect the scheme's ability to calculate to determine whether some or all of the membership should be involved in any buy-out or buy-in.

D. Because incorrect data is the only trigger that allows a sponsoring employer to provide an objection to a buy-out or buy-in because of the extra cost that is payable to the insurer.

**26. If a Trustee board chooses to adopt a more prudent discount rate what is the most likely strategic impact on the Sponsoring Employer?**

A. The employer will see an immediate increase in their net profit on the corporate balance sheet as the value of the future liabilities is reduced for accounting purposes.

B. It will likely result in a higher funding deficit requiring the employer to increase deficit recovery contributions which could potentially strain the corporate cash flow.

C. The employer will be legally required to close the scheme to all future accrual within six months to prevent any further increase in the total funding requirement.

D. It will reduce the employer insolvency risk score as calculated by the Pension Protection Fund and result in a lower risk-based levy for the following scheme year.

**27. A material deterioration in the Employer Covenant is identified. Why should this trigger an immediate review of the funding and investment strategy?**

A. Because it indicates that the underwriting of the investment risk has weakened and the Trustees may need to increase funding prudence to protect members.

B. Because it is a Notifiable Event that automatically results in the scheme's transfer to the PPF regardless of the current funding level on a technical provisions basis.

C. Because the Trustees must immediately switch the administrator to a more cost-effective provider to reduce the administrative burden on the sponsoring firm.

D. Because the discount rate must be increased to reduce the value of the liabilities on the company's accounts and improve the appearance of the corporate balance sheet.

**28. When a DB scheme begins a formal Winding Up what is the most critical strategic priority for member communications?**

A. To cease all communication with the membership until the final buyout price is confirmed by the Scheme Actuary to prevent any confusion or unnecessary member anxiety.

B. To issue a statutory notice that clearly manages member expectations regarding potential benefit reductions and explains the interaction with the PPF.

C. To advise all members to transfer their benefits out to a DC arrangement immediately to avoid the risk of losing their accrued rights in the event of an underfunded wind up.

D. To inform members that the employer is no longer responsible for any historical errors in calculation and that all future claims must be directed to the new insurer.

**29. During a PPF Assessment Period what is the primary fiduciary justification for Trustees reducing benefits to PPF Compensation Levels?**

A. To punish members for the financial failure of the sponsoring employer and to ensure that the corporate directors are held accountable for the loss of the firm.

B. To preserve the scheme's assets and ensure equitable treatment between members preventing the exhaustion of funds by those currently in receipt of a pension.

- C. To satisfy HMRC requirements for a one-off tax-free windfall for the remaining active members to compensate them for the loss of future service accrual.
- D. To incentivise the sponsoring employer's directors to find a rescue buyer for the company who is willing to take over the full liability of the pension scheme.

**30. Why is the purchase of a Bulk Annuity (Buy-out) considered the gold standard of risk transfer in a standard wind up?**

- A. It allows the Trustees to retain control of the investment strategy while the insurer pays the benefits to the membership from a segregated account for the trust.
- B. It guarantees that members will receive a twenty five percent increase in their monthly pension to compensate them for the closure of the scheme and the loss of service.
- C. It legally discharges the Trustees and Employer from all future liabilities by transferring the individual pension contracts to a PRA regulated insurer.
- D. It is the only way to avoid paying the annual administration fees to the third-party provider for the duration of the member lives and the life of their survivors.

**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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- 31. (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.

- 32. (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.

- 33. (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.

- 34. (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.

**35. (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.

**36. (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.

**37. (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.

**38. (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.

**39. (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.

**40. (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. Answer: A
2. Answer: C
3. Answer: B
4. Answer: D
5. Answer: D
6. Answer: C
7. Answer: B
8. Answer: A
9. Answer: D
10. Answer: C
11. Answer: D

- 12. Answer: A
- 13. Answer: B
- 14. Answer: C
- 15. Answer: A
- 16. Answer: D
- 17. Answer: C
- 18. Answer: B
- 19. Answer: A
- 20. Answer: D
- 21. Answer: C
- 22. Answer: A
- 23. Answer: B
- 24. Answer :D
- 25. Answer: B
- 26. Answer: B
- 27. Answer: A
- 28. Answer: B
- 29. Answer: B
- 30. Answer: C
- 31. Answer: D
- 32. Answer: D
- 33. Answer: C
- 34. Answer: D
- 35. Answer: A
- 36. Answer: B
- 37. Answer: C
- 38. Answer: A
- 39. Answer: C
- 40. Answer: A