

## Sample Exam Questions

### Defined Contribution 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. Which of the following is most likely to be offered in a Defined Contribution (DC) scheme designed by a paternalistic employer?**
    - A) A limited selection of investment funds
    - B) Employer contribution rates of 1.5 x the employee contribution rate
    - C) Statutory minimum employer contributions
    - D) Matching employer contributions
  
  - 2. The definition of 'Qualifying Earnings' for automatic enrolment purposes includes:**
    - A) Basic pay and other types of earnings
    - B) Basic pay only
    - C) Basic pay and overtime only
    - D) Basic pay and bonus only
  
  - 3. Under automatic enrolment legislation, a worker who is aged 21 and has Qualifying Earnings of £25,000 would be classed as:**
    - A) An Eligible Jobholder
    - B) A Non-entitled Worker
    - C) An Entitled Worker
    - D) A Non-eligible Jobholder
  
  - 4. Which of the following statements best describes a Group Personal Pension?**
    - A) A trust-based arrangement where the trustees have a contract with the provider
    - B) The employer must legally maintain a robust governance structure
    - C) A contract-based arrangement where the member has an individual contract with the provider
    - D) The costs and investment risk are borne by the employer
  
  - 5. One of the main advantages to an employer of a Master Trust arrangement is:**

- A) The employer can retain control of the choice of investments
- B) The trustees choose the contribution rates on the employer's behalf
- C) The employer can select its own preferred advisers
- D) It is a low-cost solution that has a strong governance framework

**6. Collective Defined Contribution Schemes (CDCs) were first introduced by:**

- A) The Pension Schemes Act 2021
- B) The Pension Regulator's Single Code of Practice
- C) The Pensions Act 2014
- D) The Finance Act 2023

**7. The meaning of the term 'lifestyling' in relation to a DC scheme is:**

- A) Allowing members to choose their own investment funds throughout their scheme membership
- B) Moving funds gradually into less volatile investments as the member approaches retirement age
- C) Enabling members to take a break from contributions if they are under financial pressure
- D) Increasing the level of employer contributions in the 5 years preceding the members retirement age

**8. Where a scheme provides information via its 'intranet':**

- A) All scheme members have the facility to update their personal details
- B) The data held is less secure than if it was provided via an internet website
- C) Only active employees can view the information
- D) Employees can have real time access to scheme information

**9. The core component of the Pensions Dashboard that facilitates the finding an individual's pension savings is known as:**

- A) Pension Tracing Service
- B) Dashboard User Interface
- C) Digital Identity
- D) Pension Finder Service

**10. The Scheme Return provides detailed scheme information to:**

- A) The Financial Conduct Authority
- B) The Pensions Regulator
- C) HMRC
- D) The Scheme Administrator

**11. The formal guidelines relating to an occupational DC scheme's financial statements and disclosures are set out in a:**

- A) Statement of Investment Principles
- B) Event Report
- C) Statement of Recommended Practice
- D) Trustees' Report

12. **Where a DC scheme provides death benefits, separate insurance not required if the death benefit provision only consists of:**
- A) The return of the value of the member's fund
  - B) Spouse pensions payable on death
  - C) Death in service lump sum benefits
  - D) Children's pensions payable on death
13. **The maximum amount of tax privileged savings in a DC scheme for the 2024/25 tax year is:**
- A) 100% of the member's taxable earnings
  - B) £40,000
  - C) £60,000
  - D) £215,000
14. **The Money Purchase Annual Allowance (MPAA) is triggered in a DC scheme when:**
- A) Contributions exceed £10,000 annually
  - B) The member accesses flexible benefits such as drawdown
  - C) Only employer contributions are made
  - D) The member reaches age 75
15. **A Statutory Money Purchase Illustration is not a requirement for:**
- A) Members within 2 years of their Selected Retirement Age
  - B) A defined benefit (DB) scheme which has money purchase AVCs
  - C) Members of contract-based DC schemes
  - D) Schemes which have both DB and DC sections
16. **When a member leaves a DC scheme with at least 30 days' qualifying service:**
- A) They must be granted a deferred benefit with the option to transfer their benefits at a later date
  - B) They can choose to either transfer their benefits or receive a refund of their contributions as they are not entitled to a deferred benefit
  - C) Their fund value remains in the scheme and the value at their date of leaving remains fixed until they draw the benefits or transfer them out of the scheme
  - D) They are not able to change their investment choices after they leave the scheme
17. **In a DC scheme, a member's statutory right to transfer benefits out of one scheme into another applies:**
- A) Up until the member reaches the scheme's Normal Pension Age
  - B) Where the Scheme Rules do not provide a right to transfer
  - C) To all of their benefits up to and beyond the scheme's Normal Pension Age
  - D) Only if the member transfers all benefits out of the scheme at the same time

18. **In a DC scheme, Flexi-Access Drawdown allows members to:**
- A) Draw income from a drawdown fund, subject to a maximum annual limit
  - B) Draw down income without triggering the Money Purchase Annual Allowance
  - C) Draw down income regularly on a tax-free basis
  - D) Draw the maximum Pension Commencement Lump Sum immediately and defer taking income from their drawdown fund

19. **When a trust-based DC scheme is winding up due to the insolvency of the employer:**
- A) An insolvency practitioner takes over responsibility for paying scheme benefits
  - B) The trustees can make a bulk transfer without member consent, based on the advice of an independent professional
  - C) The trustees can make a bulk transfer to an Authorised Master Trust, provided the consent of the members is obtained
  - D) The market value of any scheme assets invested in the employer's business are protected by the trust

20. **Which of the following areas of information are not legally required to be included in a DC scheme's Annual Chair's Statement?**
- A) The extent to which good value for members has been achieved
  - B) The amount of AVCs paid into the scheme
  - C) The extent to which the trustees have met the legislative requirements of 'Trustee Knowledge and Understanding
  - D) Core financial transactions

**21. What is the main difference between gilts and corporate bonds?**

- A) Gilts are issued by the UK Government
- B) Gilts have a fixed yield and corporate bonds have a variable one
- C) Corporate bonds are longer dated than gilts on average
- D) Income from corporate bonds is subject to corporation tax and gilts are subject to income tax

**22. What was the purpose of the Investment Governance Group?**

- A) To produce tools and guidance in order to improve investment governance
- B) To manage investments on behalf of those charged with governance
- C) To recommend the best value investments
- D) To replace the FCA and TPR as the main investment regulatory body

**23. Which is one of the benefits of Collective Defined Contributions (CDC) over traditional DC?**

- A) CDC provides an income in retirement, as opposed to the member having to choose from a range of options
- B) CDC has higher contribution levels than DC
- C) CDC is government-backed
- D) CDC members can invest in a range of equities and bonds

**24. What authority does The Pensions (Extension of Automatic Enrolment) Act 2023 give to the DWP Secretary of State?**

- A) Make regulations to increase employer contributions to 8% minimum
- B) Make regulations to reduce the minimum auto-enrolment age from 22 to 18
- C) Make regulations to widen the definition of qualifying UK earnings to include property and investment income
- D) Make regulations to increase employee contributions to 8% minimum

**25. What percentage of working age people did recent DWP research show were under-saving for retirement?**

- A) 1 out of 5
- B) 2 out of 5
- C) 3 out of 5
- D) 4 out of 5

**26 . An investment manager changes a fund strategic benchmark without notification. What is the primary risk for the default?**

- A) The risk that the employer will be unable to claim corporation tax relief on their contributions.
- B) The risk that the risk profile and objective of the fund has fundamentally changed.
- C) The risk that all members will be required to seek independent financial advice within 30 days.
- D) The risk that the fund will no longer be eligible for the purposes of Automatic Enrolment.

**27. A stewardship report shows zero proxy voting activity for six months. What governance conclusion is most appropriate?**

- A) The manager should be summarily fired for a material breach of general Trust Law.
- B) The ESG rating of the scheme should be increased because no vote is treated as a neutral stance.
- C) Trustees must evaluate whether the voting policy of the manager is being effectively implemented.
- D) The Trustees must personally take over all proxy voting duties for the underlying shares.

**28. What is the primary statutory disclosure document Trustees must provide to all DC members annually?**

- A) A personalised risk appetite questionnaire that must be completed and returned by the member.
- B) A choice of exactly 12 self-select funds ranging from low to high risk as defined by the SIP.
- C) A Statutory Money Purchase Illustration contained within a personalised annual benefit statement.
- D) A full copy of the audited accounts of the scheme and a list of all underlying shareholdings.

**29. Why has cybersecurity become a top tier fiduciary priority for DC Trustees in the current regulatory environment?**

- A) Because Trustees are data controllers responsible for highly sensitive personal and financial data.
- B) Because it is the most effective way to lower the Annual Management Charge applied to members.
- C) Because it allows the administrator to automate the calculation of guaranteed minimum pensions.
- D) Because it is a legal prerequisite for investing the scheme assets in private equity or illiquid funds.

**30. Following a systemic valuation failure at a provider what action represents a specialist level of Trustee oversight?**

- A) Launching an immediate member marketing campaign designed to increase individual contribution rates.
- B) Permanently halting all member investment switching to prevent any further data corruption issues.
- C) Re-evaluating the carbon intensity metrics of the default fund to ensure alignment with the SIP.
- D) Requiring the provider to invoke their error correction protocol to ensure no member suffered detriment.

**True/False Questions: Defined Contribution 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)** Automatic enrolment in DC schemes requires the employee to contribute at least a minimum percentage of their qualifying earnings.

**(ii)** Employees enrolled under automatic enrolment requirements are not permitted to opt out of the pension scheme.

**32. (i)** Salary sacrifice contributions in a DC scheme can reduce the employee's National Insurance contributions.

**(ii)** Contributions made under a salary sacrifice arrangement are considered employer contributions.

**33. (i)** Target-date funds maintain a fixed asset allocation throughout the investment period.

**(ii)** A target-date fund in a DC scheme automatically adjusts its asset allocation as the member's retirement date approaches.

**34. (i)** In a DC scheme, members bear the investment risk associated with their pension savings.

**(ii)** In a contract-based DC scheme the employer guarantees a minimum return on investments.

**35. (i)** A bundled arrangement is attractive to employers who seek to control scheme costs.

**(ii)** A bundled arrangement allows the trustees to exercise greater control over the choice of providers.

**36. (i)** In a DC scheme, members can purchase an annuity to convert their pension pot into a guaranteed income for life.

**(ii)** A DC scheme member can transfer their benefits to another pension arrangement immediately before retirement to secure more attractive annuity rates.

**37. (i)** All DC scheme providers must offer the Pensions Advice Allowance to members.

**(ii)** Members of DC schemes can only use the Pensions Advice Allowance once in any tax year.

**38. (i)** When a member of a DC scheme moves their fund from one investment to another, there is no charge for doing so.

**(ii)** When a member of a DC scheme moves their fund from one investment to another, there is always a fee, which is a percentage of the fund value that is switched.

**39. (i)** The Finance Act 2024 abolished the Lifetime Allowance.

**(ii)** The Finance Act 2024 introduced the Lump Sum Allowance.

40. (i) It is a legal requirement for trustees of a DC scheme to ensure that core financial transactions are processed promptly and accurately.  
(ii) The DC scheme's risk register is a legally binding document.

## ANSWER KEY

1. Answer: B
2. Answer: A
3. Answer: D
4. Answer: C
5. Answer: D
6. Answer: A
7. Answer: B
8. Answer: C
9. Answer: D
10. Answer: B
11. Answer: C
12. Answer: A
13. Answer: C
14. Answer: B
15. Answer: A
16. Answer: A
17. Answer: C
18. Answer: D
19. Answer: B
20. Answer: B
21. Answer: A
22. Answer: A
23. Answer: B
24. Answer: A
25. Answer: A
26. Answer: B
27. Answer: C
28. Answer: C
29. Answer: A
30. Answer: D
31. Answer: D
32. Answer: A
33. Answer: C
34. Answer: B
35. Answer: B
36. Answer: A
37. Answer: C
38. Answer: D
39. Answer: A

40. Answer: B