Actuarial Society of India

EXAMINATIONS

13th June 2005

Subject: SA4 – Pensions and Other Employees Benefits

Time allowed: Three Hours (10.15* am - 1.30 pm)

INSTRUCTIONS TO THE CANDIDATE

1. ***Do not write your name anywhere on the answer scripts. You have to write only your Candidate Number on every answer script.***

2. ***You have 15 minutes at the start of the examination in which to read the questions. You are strongly encouraged to use this time for reading only. But notes may be made. You have then three hours to complete the paper.***

3. ***Mark allocations are shown in brackets.***

4. ***You must not start writing your answers in the answer papers until instructed to do so by the Supervisor.***

5. ***Attempt all questions, beginning your answer to each question on a separate sheet.***

6. ***Fasten your answer sheets together in the numerical order of the questions.***

7. ***The answers are expected to be India Specific application for the syllabus and corresponding core reading. However, substantially the core reading material is still taken from material supplied by Actuarial Education Company which are meant for UK Fellowship examination. The core reading also contains some material which is India Specific, mostly the IRDA regulation. In view of this, it should be noted that focal point of answers is expected to be India Specific application. However if application specific to any other country is quoted in the answer the same should answer the question with reference to Indian environment.***

8. ***In addition to this paper you should have available Actuarial Tables and your own calculator.***

Professional Conduct:

"It is brought to your notice that in accordance with provisions contained in the Professional Conduct Standards, If any candidate is found copying or involved in any other form of malpractice, during or in connection with the examination, Disciplinary action will be taken against the candidate which may include expulsion or suspension from the membership of ASI."

AT THE END OF THE EXAMINATION
Hand in both your answer script and this question paper to the supervisor

Q.1 The Scenario for pension benefits is changing fast in India. The interest rates have reduced substantially during last 5 – 6 years. The cost of annuitisation has gone up. The employers with defined benefit pension schemes are finding it difficult to afford the cost of accruing pensions. On the other hand, in case of defined contribution schemes, employees are dissatisfied due to the pension purchased for them from the accumulated fund being lower than expected. The government is introducing tax reforms. Though it wants to continue to encourage tax benefit on savings, it seems to use regressive approach in it. The government is also in the process of setting up a Pension Fund Regulator.

The life insurance industry has become competitive for last 5 years. Earlier only Deferred annuities and Deposit Administration Plans were available for funding of pension benefits. After entry of new life insurers, unit-linked (UL) plans have become popular.

i) You are a consulting actuary in employee benefit area. One of your clients has invested in the deposit administration plan (DAP) of a life insurer. An agent of another life insurer has approached your client with a proposal to switch over from DAP to UL plan of his insurer. Your client has, in turn, approached you to analyse the proposal of the agent and suggest whether or not they should switch over to the new plan.
List the points you would make in your reply to the client. **(10)**

ii) In the process of setting up a Pension Fund Regulatory system in India, the government has formed a committee to suggest the legal framework for such a system. You are a member of the committee and have been asked to respond to the following issues;

a) What are the main considerations for setting up an effective legal framework for a pension provision in a country? **(15)**

b) How far does the present system address these considerations in India? **(15)**

List and discuss the points you would make in respect of the above.

iii) Presently in India, it is mandatory (unless specific exemption granted by Government of India) for an approved superannuation fund to purchase annuities from a life insurer for a member when the pension comes for payment. A number of companies have approached the Government to allow exemption from this Rule. The government has, in turn, approached your firm to suggest what considerations they should take into account whether or not to allow exemption from this Rule.

Summarize the issues you would make in your report to the Government **(10)**
[Total 50]

Q.2

A multinational having number of business divisions has operated in India and has one Defined Benefit Pension scheme organized under one Approved Suerannuation Fund. The Company has decided to sell one of its divisions to another multinational operating in India and having its own Defined Benefit Approved Superannuation Fund. You as a consulting actuary have been asked to respond on number of aspects of this sale/purchase transaction. Some of these are listed below. With reference to the approved superannuation scheme/fund, articulate your response as required;

a. list the stages in the sale/purchase transaction. **(5)**

b. List the issues which the Seller has to consider. **(5)**

c. List the aspects including key definitions that the Sale/Purchase agreement needs to contain. **(10)**

d. Describe various methods which could be adopted to quantify the amount of fund to be transferred from the Sellers Fund to the Buyer's Fund. **(10)**

e. Discuss the relevance of the immediately preceding actuarial valuation carried out under AS 15 of the Sellers approved Superannuation Scheme. **(5)**

f. List the applicable GNs of the Actuarial Society of India which you need to consider while preparing your actuarial report. **(5)**

g. Assuming that you have been engaged as an Actuary by the Seller, prepared a report keeping in view the requirements of the GN 11 and GN 18 of the Actuarial Society of India. **(10)**

Total [50]

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