Actuarial Society of India

EXAMINATIONS

14th November 2005

Subject SA4 – Pension and Other Employee Benefits

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

Total Marks 100

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."

Candidates are advised that a reasonable standard of handwriting legibility is expected by the examiners and that candidates may be penalized if undue effort is required by the examiners to interpret scripts.

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

Q.1) An Enterprise employing about 10,000 employees is operating as a company under Indian Companies' Act 1956 and has been in operations for the last about 15 years. Besides Statutory Employee Benefits of Provident Fund and Gratuity under Payment of Gratuity Act which is funded, it has an approved superannuation scheme of DB type. You are advisor to the Enterprise on all Employee Benefits matters including actuarial valuation for reporting in financial statements and funding. In the context of recent developments on various aspects of employee benefits you have been asked by the Enterprise to prepare Notes on the following aspects expected to facilitate management understanding and necessary decision. Please draft such a note;

(a) Key differences between AS 15 and AS 15 (Revised, 2005) and the impact which AS 15 (Revised, 2005) will have on financials of the Company in P&L A/C expensing and Balance Sheet disclosure if the Enterprise were to move over to AS 15 (Revised, 2005) reporting for DB schemes. **(15)**

(b) The consequences of Fringe Benefit Tax on Superannuation scheme contribution to the Enterprise and alternatives that could be available if it were to avoid paying the Fringe Benefit Tax but still would want to pay to the employees the cash equivalent of contribution. **(15)**

(c) The Enterprise has decided to freeze the contribution to approved superannuation fund to which employees have agreed and have proposed to purchase instead annuities from life insurer for the contribution that the Enterprise has now agreed to pay them in lieu of the earlier superannuation rights. Such contribution rate is pre-determined as percentage of the salary. The Enterprise has proposed to continue your services as an actuary to help individual employees to achieve their target pensions combining the benefits under both the existing superannuation scheme and annuity schemes. You will, therefore, be monitoring the pension provisions of the individual employees from now onwards and submitting an annual report recommending the contributions required by concerned individual employees in order to achieve their target pension;

- **i.** List the main items of data you would need **(3)**
- **ii.** List the assumptions you would make and describe how you would arrive at such assumptions. **(4)**
- **iii.** Describe your approach in helping individual employees in assessing the likelihood that they will be able to retire with their target benefits. **(5)**
- **iv.** Discuss the applicability of GN14 of ASI under this case and summarise the points you would keep in mind while preparing the report. **(8)**

Total [50]

Q.2) A manufacturing company under Indian Companies Act 1956 is listed on New York Stock Exchange and besides having all statutory employee benefits has an approved superannuation scheme, Death-in-service benefits related to service and salary at the point of death and a post retirement health plan. The Gratuity scheme is funded. In the context of required financial statements of the Company, prepare Notes explaining the following;

(a) The applicable Accounting Standards and the body issuing the same. **(2)**

(b) General aims and objectives of the Defined Benefit Retirement schemes related accounting standards, explaining as to what problems might be caused if the amount of contributions that the company actually paid in to the Trust Funds were expensed as "cost" of the benefits in the Company's Financial statements. **(10)**

(c) For the purpose of financial statements required as a listing condition on New York Stock Exchange of the Company, define the following;

- **i.** Net Periodic Pension Cost including elements constituting it. **(10)**
- **ii.** Projected Benefit Obligation **(1)**
- **iii.** Accrued Benefit Obligation **(1)**
- **iv.** Vested Benefit Obligation **(1)**

(d) From the financials of the Company given hereinafter, calculate stating assumptions, if any;

- **i.** Net Periodic Pension Cost at the beginning of the year **(5)**
  Actual Return on assets **(1)**
- **ii.** Net Periodic Pension Cost at the end of the year **(4)**

The Financials;

- Standard Contribution Rate – 09.50 percent.
- Rate of actual contribution to be paid by the Employer – 10.00 percent
- Discount rate – 05.50 percent.
- Long-Term expected return of Assets – 07.00 percent
- Pensionable Payroll for the year – 1,250,000/-
- Expected Net Benefits Outgo – 100,000/-
- PBO at the beginning of the year – 1,300,000/-
- Value of Assets at the beginning of the year – 1,300,000/-
- Value of Assets at the end of the year – 1,450,000/-
- Past Amortised amount – Nil
- Contribution paid during the year – 165,000/-
- Net Benefit Outgo during the year – 120,000/-

e. Describe the treatment of lump sum Death–in-service benefit for funding valuation. **(3)**

f. For the valuation of DB schemes of the Company in the context of Financial Statements as requirement of listing under New York Stock Exchange describe and explain the difference between "Discount rate" and "Long-term return on Assets". **(5)**

g. You are required to draft a Guidance Note for ASI for valuations carried out normally for reporting Enterprises in India such as the one described in this question under requirements of Accounting Standards applicable for listing in New York Stock Exchange. List and describe the key points to be included in the GN. **(7)**

Total [50]

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