Institute of Actuaries of India

Subject SA4 – Pensions and Other Benefits

November 2020 Examination

INDICATIVE SOLUTION

Introduction

The indicative solution has been written by the Examiners with the aim of helping candidates. The solutions given are only indicative. It is realized that there could be other points as valid answers and examiner have given credit for any alternative approach or interpretation which they consider to be reasonable.

Solution 1:

i) **Information to be sought during the meeting:**

Scheme features:

- Who will be covered? Definition of "small" farmers [0.25]
- Age & other limits, if any? [0.25]
- Whether one person per family or more than one person from a family may join [0.25]
- Details of normal pension- Life pension with or without spouse pension; Fixed pension or increasing pension; if increasing, then whether increases will be fixed or linked to some index [0.5]
- Benefits payable before age 60 either due to death, disability or early withdrawal [0.25]
- If disability benefits are provided, then definition of disability [0.25]
- Whether DC, DB or a hybrid scheme [0.25]

Financing: (0.25 for each point- max 2)

- How the Scheme will be financed? Fully by the Government or by members or shared by both?
- Scheme will be fully funded or partly funded or will be run on PAYG basis
- If the Scheme is Pre funded, how the funds will be managed or invested
- If members participate in financing, whether any individual accounts will be maintained for their contributions
- Whether funds to be invested in fixed interest securities or a combination of fixed interest & equities etc.
- If combination, then whether there will be multiple schemes with different proportion of equities & fixed interest
- If multiple schemes, then whether members given choice
- If choice given, then whether switches will be allowed in future
- If switches allowed, how often

Operational/Governance issues: (0.25 for each point- max 2)

- How pensions will be paid out? Will there be any "buy out" on vesting?
- Who will be the administrator? Appointment of any Trustees
- Role of Fund Managers, Record keeping Agencies etc
- Enrolment process
- Conditions of reinstatement of a pension account after temporary discontinuance
- Likely size of membership
- Portability issues
- How expenses of the Scheme will be met
- Controlling mechanism
- engaging professionals eg Actuaries, Auditors etc

[6]

ii) **Derivation of Schedule of Contributions & demonstration of the uncertainties associated with the Contribution Rates:**

The Scheme provides a guaranteed pension of K 3000/- per month from age 60. Pension [1]

is guaranteed in nominal terms. But the contributions of the members & the Government are also defined. The member's accounts are to be maintained separately. The Scheme is therefore a hybrid type as it combines the features of DB & DC

The schedule of contributions for this hybrid scheme should adequately reflect the value of pension benefits & the expenses associated with the Scheme. [0.5]

As the scheme is targeted for weaker section, the schedule of contributions should not have excessive margins and should be attractive for high take-up rate [0.5]

Since age wise schedule is to be set, the model points of all entry ages need to be considered for pricing ie all ages between 18-40 [0.5]

Parameters to be considered for this purpose include

- Pre-vesting investment return
- Pre-vesting mortality
- Pre-vesting withdrawal rates
- Pre-vesting disability
- Post vesting mortality
- Post vesting investment return
- Proportion of members having spouse on death after vesting
- Spouse mortality
- Discount rate
- Expenses.

(0.25 for each parameter- max 2)

The parameters should reflect the expected experience of the scheme & serve the primary objective of contributions adequately reflecting the benefits & expenses, if any [0.5]

For eg the investment return should reflect the long-term investment return likely to be earned by the funds taking into account the investment strategy to be adopted. For instance, a higher equity exposure may be considered by the Trustees considering the longer duration of the benefits and the investment return should reflect the higher expected return & the associated volatility. [1]

Since the Scheme provides return of contributions on pre-vesting withdrawal, disability & death, these parameters can be ignored for pricing by placing zero value on these parameters [0.5]

Alternatively, pre-vesting withdrawal, disability & mortality rates may be assumed to arrive at a lower schedule of contributions and hence making the scheme attractive to achieve high take-up rate. [0.5]

However, if pension is payable in case of disability, then consider not only disability rate but also mortality of disabled persons [0.5]

Post Vesting mortality be set with reference to the Census Data with suitable adjustments to reflect the rural characteristics of the population. However, since scheme is optional, post vesting mortality may be different (generally lighter) from the Census as members will have their own post retirement income rather than depending on others [1]

As the pension is guaranteed in nominal terms, it requires matching assets. Yield on [0.5]

Government and Corporate Bonds of appropriate term can reflect the Post Vesting investment Return with suitable adjustment for reinvestment risk.

Long Term Bond Yield may be used to discount the cash flows [0.25]

Allowance for expenses may be set explicitly (eg per member expense with allowance for inflation) or allowed implicitly through a deduction from investment return [0.5]

Entry Age (EA) approach will provide a stable contribution rate for each age. [0.5]

Cash flow approach projects all cash-flows (contributions, investment return, pension pay-out & other benefits, expenses etc.) over the entire life time of members. Cash flows are projected for all model points using the parameters and discounted to the present time to equate the value of benefits & contributions. [1]

By equating the value of benefits with the contributions at each entry age, the contribution schedule may be arrived at [0.25]

Cash flow method is superior to formula method as it provides insight into the cash flows, flexibility to vary interest rates & other parameters over the term. [0.25]

It is unlikely for the member's contribution to be enhanced in future, particularly without enhancement of benefits. Hence if any shortfall is found in the fund in future, the same has to be met by the Government [0.5]

It is advisable to have "sensitivity check" on the schedule of contributions to demonstrate the volatility of contributions for different parameters eg discount rates, investment return, longevity etc [0.5]

Stress testing using some severe shocks may help to demonstrate the additional financial strain to the Government. [0.5]

Contribution requirements of the Government for different size of membership with different age distribution profiles may help to understand its budgeting requirements [0.5]

[Max 13]

iii) a) Significance of withdrawal assumption while deriving the schedule of contributions for a DC Scheme:

DC Schemes are necessarily funded with members contributing partly or fully; the pension benefits on vesting would depend upon the accumulation available in the member's account [0.5]

On early withdrawal from the Scheme, the accumulated amount is generally refunded with or without interest [0.25]

In contributory schemes the refund amount may generally be member's own [0.25]

contribution

But both member’s and company’s contributions may also be refunded [0.25]

The accumulated amount may be used to buy pension benefits [0.25]

In case of hybrid schemes, some minimum pension may also be paid on leaving, particularly if some minimum service condition is fulfilled [0.5]

Where pre-mature exit does not create any gain/loss (eg refund of full accumulated account), the withdrawal rate does not have any significance and can be ignored while setting contribution rates [1]

Where pre-mature exit yields gain/loss, withdrawal rate will be significant [0.25]

[Max 3]

b) How the withdrawal experience can be a source of risk to the Government under the current scheme:

Actually, the current scheme is a DB scheme in which member’s contribution is fixed and the Government will contribute the balance. [0.5]

Further, in case of early withdrawal, member’s own accumulated pot is refunded [0.25]

In such a scheme, withdrawal rate assumption is important as

- A nil or low withdrawal assumption will yield high contribution rate schedule [0.25]
  - It will reduce the risk of future shortfall in the scheme for the government [0.25]
  - However, the take up rate will be low which would defeat the main objective of the government for introduction of the scheme [0.5]
- A high withdrawal assumption will yield low contribution rate schedule [0.25]
  - It will enhance the take up rate thus fulfilling the objective of the government [0.25]
  - But will increase the risk of future shortfall for the government to make good [0.25]

Therefore the schedule of contributions is likely to be drawn considering a withdrawal rate which is either best estimate or a little prudent [0.5]

Members are not impacted by early withdrawal as they will be getting their accumulated contributions [0.5]

The Government Share of accumulated contributions in respect of the withdrawing members will remain in pension fund which will act as source of surplus for the scheme [0.5]

If the withdrawal experience is lower than expected, there will be lower surplus in the Pension Fund. This will increase the financing requirements for the Government. The lower schedule of contributions will aggravate the issue [0.5]

Lower withdrawal experience will also increase the cost of guaranteed benefits as benefits are to be paid for more members as they approach age 60 [0.5]

The impact of withdrawal experience also depends upon the age profile of withdrawing members. If less members withdraw at higher ages, then adverse impact will be more or vice versa [0.5]

On the other hand if less members than expected withdraw at lower ages, then impact may not be significant or vice versa [0.5]

[Max 6]

iv) Primary (& other) objective of having an Actuarial Investigation on annual basis:

This is a hybrid Scheme having features of both DC & DB. The Trustees will be concerned for adequacy of the fund in meeting the Defined Pension Obligations as & when they fall due. The annual valuation would assess the risk of DC accumulations before age 60 not sufficient to provide the defined pension benefits [1]

Further the annual valuation:

- may provide guidelines on the additional financing, if any required in case deficit arises [0.25]
- may comment on the investment strategy & ALM [0.25]
- may analyse the experience of several parameters eg Pre vesting withdrawal, mortality etc [0.25]
- may recommend enhancement of benefits, if the experience is found favourable on a regular [0.25]

[Max 2]

v) a) **Data including validation checks:**

Earlier Report: This is the first year of valuation hence there will not be earlier valuation report. However, the report/basis on which schedule of contributions was set will be available. The same will need to be called [0.5]

Trust Deed & Scheme Rules: Provide features of the scheme such as information on eligibility conditions of members, enrolment process, collection of contributions, investment of monies collected, roles & responsibilities of different parties involved eg Government, Trustees, CRA, Fund Manager, Pension Provider, members [1]

Member's data: Such as membership id, gender, DOB, DOE, monthly contribution rate, contribution collected, interest credits & fund at end of year. Will also include data of members exiting before age 60 with cause of exit & details of benefits settled/to be settled for these members [1]

Investment data: Will provide details of assets held, investment performance of the assets, interest earned on the funds etc [0.5]

Financial Statements of the scheme [0.25]

Validation checks on data: (max 3)

- Existing no. of members with those enrolled less exited/withdrawn [0.25]
- Age validation (age at entry should be 18-40) [0.25]
- Current age should lie between 18 & 41 [0.25]
- contribution rate consistent with age at entry [0.25]
- duplicate checks will verify members are not enrolled more than once [0.25]
- Government contribution & members' total contribution should be equal [0.25]
- invested money should broadly tally with the collection, investment return less claims paid [0.25]
- Member's accumulated account should be reasonable having regard to contribution rate, interest rate declared and time elapsed since entry [0.5]
- Exiting members' id may be checked with membership data [0.25]
- Benefits settled should have regard to member's contribution rate, length of their membership [0.5]

- Year's contributions collected, investment returns, benefits etc should be consistent with financial statements [0.5]

[Max 6]

b) Approach to develop a basis for various parameters:

APS 20 needs to be considered while making actuarial investigation under Social Security Programmes [0.25]

A best estimate may normally be considered and in case prudence needs to be built in, then degree of such prudence should be specified [0.5]

Each assumption should be individually set and should be explicit to the extent possible [0.25]

While setting assumptions care should be taken to ensure that all assumptions are mutually consistent as well as overall consistent [0.5]

Parameters to be used are investment return (pre & post vesting), Pre & post vesting mortality, Pre vesting withdrawal, proportion of spouses of pensioners at death, spouse mortality, expenses, discount rate etc [0.5]

The starting point may be to consider the basis adopted in setting contribution rates as no previous valuation report will be available [0.5]

Investment return should reflect the investment performance of various asset classes held in the portfolio, their appropriateness of matching the pension benefits in terms of nature & duration. Allowance should be given for the possible reinvestment risk. [0.5]

As a different investment strategy will generally be adopted for vested pension, the investment return should reflect the investment performance of the fund on such vesting [0.25]

It is reported that the first year exits are few. However, it is too early to form a view and hence a prudent approach will be to consider a low withdrawal rate [0.5]

Pre-vesting mortality may be a proportion, say 80 to 90% of rural mortality as per last census. [0.25]

Post vesting gender-based mortality needs to be projected as it will be very long term (first pensioner may be after 10 years). The basis used in setting contribution rates may be looked into as also the Census data [0.5]

Consider explicit expenses unless they are provided separately by the government. [0.25]

Valuation rate of interest to discount the cash flows should be set with reference to the risk-free bond yields. [0.25]

Proportion of spouses of pensioners at death may be projected by reference to previous Censuses [0.25]

The rationale used for determination of all the assumptions used for projections needs to be described [0.25]

All parameters need to be consistent to each other [0.25]

[Max 5]

c) Methodology used in the valuation:

This is a DB scheme in which member's contribution is fixed with balance of the cost to be met by the government. Initially the government is contributing at member's level. [0.5]

The liability under such a scheme will be arrived at equal to the value of benefits (DB Pension & pre vesting withdrawal and death benefits) and expenses, if any less the value of future contributions of both the members and the government. The liability so arrived at will compared with asset values to assess the funding level. [1]

Prospective cash flow method may be used to project various cash flows over the entire future period of the scheme using the members' data & using the valuation parameters. [0.5]

Cash flows projected will include both cash outflows (pension pay outs of members and spouses, expenses, if any, pre vesting withdrawal & death pay-outs) & cash inflows (contribution of members & the Government, investment return etc. [0.5]

By discounting such cash flows to the valuation date, the value of liability as on the valuation date is obtained. [0.25]

Cash flow approach helps to find out factors causing surplus/deficit (if any) eg if one or more age categories are causing the stress, lower attrition rates compared to the pricing basis, lower investment performance etc. [0.5]

Reconciliation of results with previous report is generally made but since this is the first valuation of scheme no such reconciliation can be possible. However, reconciliation with pricing valuation (vide which the contribution schedule was set) may still be made. [0.5]

If deficit is found in this valuation or consistently in a number of valuations, the trustees may require the government to fund the deficit immediately or enhance their contributions in future or both [0.5]

Similarly, if surplus is found consistently in a number of valuations, then the trustees may recommend for enhancement of benefits [0.5]

For sensitivity analyses, the model will be run with changes in various parameters. This is to show the degree to which the financial projections are affected by each assumption. This will also help to understand the significance of various parameters on the funding level. [1]

Stress testing will help to understand the impact of extreme events (For eg equity crash, large influx of members etc.) [0.25]

[Max 6]

d) Key aspects in communication of results with reference to professional standards:

Section D of APS 20 in India sets the professional guidelines on the information to be included in the actuarial report while communicating results to the Trustees. [0.25]

The Introduction should include the addressee, name of SSP, purpose of report, starting and ending dates of the projection period, reference to the report vide which contribution schedule was set and the contemplated date of next report [0.5]

The report should include results of demographic & financial projections in a form that is consistent with the specific terms of reference of the valuation and should have regard to the legislation under which the SSP has been introduced [0.5]

The financial projections in the report should include cash flows of Contributions, Investment earnings, Benefits, Expenses, Asset values etc. [0.25]

The report should explain the variability of the results due to the actual experience different from the assumptions by the sensitivity results as also how the scheme will be impacted by extreme events (eg equity crash, bulk entries at a specific age, bulk exits etc.) [0.5]

The Conclusions part of the report should provide a sound understanding of future financial prospects for the SSP as also an indication of the eroding effect of inflation on the real value of benefits [0.5]

The Attestation part should provide opinion of the actuary regarding sufficiency & reliability of data, appropriateness of the methodology, and a statement that the report complies with the standards of the local actuarial professional body. If there are departures from those standards, the same need to be mentioned along with reasons thereof. The opinion should also include on the financial soundness of the SSP including adequacy or otherwise of contributions and required future level of contributions. [1]

[Max 3]

[50 Marks]

Solution 2:

i)

Marks allotted for understanding the clauses of PCS and not reproduction of book work. Specific clause nos. may be included

Valid Certificate of Practice in Pensions when you take up the assignment [0.25]

Necessary expertise and experience for the assignment [0.25]

As per **PCS Ver 3.0** that sets standards to be followed when appointed as an advisor by the company for the first time [0.25]

Company has the right to choose or change its professional advisor or take a second opinion or choose different advisors for different aspects [0.5]

The new advisor who has agreed to take up the assignment for the first time should contact the previous actuary (if applicable) and inform him of the assignment he proposes to take up. He should further ask if there are any professional reasons not to accept the assignment or any other particular considerations that ought to be borne in mind while giving advice [1]

Prior actuary, upon receiving such an enquiry, must provide the required information as soon as possible. No attempt should be made to obstruct the client who wishes to appoint advisors [0.5]

If it is required that one needs to contact the previous actuary then the assignment can be taken up provisionally and the client needs to be informed of the same and the actuary may provide advice only after receiving an undertaking from the client that the advice will not be acted upon or communicated to others until the prior actuary has had sufficient opportunity/time to reply. [1]

If, however, the client, having been informed of the obligation to make contact, refuses to consent to contact being made, the appointment should be declined. [0.5]

Before agreeing for the assignment, the actuary should consider the conflict of interest, if any between two or more of his clients or the client and himself or his firm or any employee of the firm. He should also consider the nature & extent of such conflict [0.5]

Other points:

Both the actuaries should take care that no action of theirs should injure professional reputation. While criticism of the other's work may be made, it should be done in the utmost professional manner [0.25]

It should be noted that different professionals may have different views based on circumstances and these aspects should be borne in mind while making criticism of the other actuary [0.25]

[5]

ii)

Candidate has to mention the relevant clauses in his/her own words not a copy/paste of book work

Clearly specify actuary's role and capacity in the assignment. Detail the scope, purpose and the intended audience for the actuarial work. Mention the Accounting Standard applicable [0.5]

Limitation of use by third party and extent to which they can use the results (e.g. auditors, unions) [0.5]

Data: Source, extent of the checks applied as to the accuracy and relevance of the information (e.g. employee and pensioners data, assumptions, understanding of plan provisions, asset information, benefit payments, inputs from company on any pension increases in the past, information on future business plans that may have been shared) [1]

Assumptions: appropriateness of assumptions, extent to which assumptions take account of past experience of discretionary practices and information about the exercise of discretion in the future. [0.5]

In case the assumptions have been received as an input for the valuation and the same has been relied on or has not been validated for appropriateness or adequacy, the report shall clearly spell out the same. [0.5]

In case any proxy has been used for assumptions these need to be mentioned [0.5]

Mention the reason for changes in assumptions, if any, from the previous investigation. [0.5]

Outline the investigations done on data obtained to develop/validate the assumptions, if any [0.5]

Method of assessing the liability and if prescribed by standard, mention that [0.5]

Details of any major events occurred during the inter-valuation period as well as material events that have occurred between the valuation date and date of report [0.5]

Mention factors that the results will be most sensitive to, and draw attention to aspects in the report that highlight the same [0.5]

[6]

iii)

Most Defined Benefit schemes allow members to commute part of the pension (essentially exchange) for a lump sum. It is popular due to its flexibility and attractiveness from tax perspective. And the fact that it is an option and is perceived as a greater choice and flexibility from employee point of view. Hence it is an important consideration in a scheme design [1]

Very attractive for an employee who does not have good health at retirement [0.25]

But since commuted pension is restored after 10 years, commutation is equally good for an employee who has good health and is going to survive longer [0.5]

The commutation factors should seem equitable to those who opt for it vs. those who don’t [0.5]

The factors should not leave the fund better or worse off i.e. they should not cause additional stress or cost to the fund [0.5]

However, from employee/pensioner perspective, lumpsums reduce the overall pension payable on retirement and hence erode the adequacy of the pension provisions [0.5]

Affects the availability/level of discretionary increases unless allowed for in the commutation factors [0.25]

Commutation factors are typically based on the value of the annuity, taking into account possible pension increases. They vary by age [0.5]

It is usually safe to assume that members will elect to take the maximum amount of cash available from an individual arrangement at retirement [0.5]

If the commutation factors are calculated using a best estimate basis and assumptions are actually borne out in practice, then the commutation is cost neutral [0.5]

While the interest rates may vary and hence the actuarial equivalence may imply varying commutation factors, it is administratively convenient to have fixed factors [0.5]

There could be an overall profit or loss depending upon the current interest rate and take up of commutation, but these would eventually cancel out each other in the long run [0.5]

While a fixed factor may be easier for the employees to understand, they may need to be reviewed and updated frequently [0.5]

From an administration standpoint, it is easier to have factors that are tabulated. Commutation factors should vary according to the members' age at retirement [0.5]

The Trustees may retain the right to revise commutation factors considering cost neutrality, fairness and practicality. They would, however need to ensure proper communication to the employees and pensioners [0.5]

Pensioner mortality assumption used to calculate the commutation factors is the key. They should reflect improvements in pensioners longevity [0.5]

A prudent basis (low pensioner mortality or high pension increases) would result in a more generous commutation factors and effect the overall financial position of the scheme adversely since most employees are expected to take up this option [0.5]

On the other hand a more realistic (or optimistic) basis would make the commutation factors less generous to the members opting for it and hence become financially advantageous for the scheme [0.5]

However, this would usually not affect the take up rate of the commutation option [0.25]

Overall, by exchanging pension for a cash sum as commutation, the mortality and investment risk is removed from the scheme in respect of the pension that is commuted since the company bears the mortality and investment risks of pensions in payment. [1]

[10]

iv)

Any other design options that may seem reasonable can be considered - the candidate would need to give some reasoning on the approach

Differences between defined benefit and defined contribution schemes

Investment risk: In a defined benefit scheme the employer bears the investment risk. Part of it does get managed through investment returns, however the benefits to the employees would remain unchanged regardless of the cost to the employer. In a defined contribution scheme the employees carry the investment risk both in terms of the investment return on the fund and also the uncertainty in the cost of purchasing annuities. [1.5]

Actual cost of scheme: The actual cost in a DB scheme is known only when the benefit is paid out though the employer has some flexibility (subject to any regulations) on the level and timing of contributions payable to the pension fund. Under a DC scheme, the employer typically does not enjoy any contribution flexibility but the costs are stable and predictable. The employer may also have to bear higher administrative expenses under a DC scheme to keep track of individual fund values. [1.5]

Level of benefits and perceived value by employees: The design of a DB scheme may be complex for employees to understand. However, depending on the level and form of benefits provided, a DB scheme is highly appreciated by long serving employees and high salary earners. A DC scheme on the other hand is easier for employees to understand and appreciate. These schemes are usually valued by the younger and more mobile employees because of the relatively larger benefits to early leavers. An employee may [1.5]

also have more flexibility in the form of benefits in a DC scheme as compared to a DB scheme where the form of benefits is generally defined as per the scheme rules.

Reporting requirements are generally higher for DB schemes [0.25]

Considerations while looking at various options to de-risk the employer in the DB scheme:

The options may be offered to non-pensioners to encourage them to opt out of the scheme [0.25]

One option may be to offer a lump sum in exchange for the pension rights of the DB scheme. No new plan is introduced. [0.5]

Since the company does not seem to have a supplemental DC plan for those who joined after 1st January 2016, this would seem equitable [0.5]

Tax implications of the lump sum payout to employees while in active service need to be assessed [0.25]

The lump sum may be used to purchase a deferred annuity from a life insurer to avoid immediate tax [0.5]

Another option may be freezing the past service benefits under the existing DB scheme based on certain criteria such as service and salary as on date of transfer. After the date of transfer, the regular contributions to the DC scheme would commence. [0.5]

The transfer value (or the lump sum in first option) could differ between those who have not completed 10 years of service and/or 50 years of age and those who have completed 10 years of service and 50 years of age. [0.5]

Transfer of equitable interest to the DC scheme is the most common design option that completely extinguishes all future liability under the DB scheme by transferring a calculated equitable interest at the time of conversion to a DC scheme and allowing it to accumulate as a part of the DC fund in the individual member's account. The equitable interest would be a "value" offered on the level of DB benefit that would be transferred to the DC fund. [1]

However, the company does not have an existing DC plan. So they would need to set it up. Would depend upon the market practice of offering supplemental DC plans [0.5]

To make it seem fair and equitable to those who are not a part of the DB plan, the company would need to offer it to all employees [0.5]

This would imply additional cost to the employer [0.25]

The decision to offer a new DC supplemental plan and the contribution % would depend upon the overall tax exemption allowed for the company towards employer sponsored pension plans (in addition to EPF) [1]

The option to move out of DB plan should be voluntary and seem fair and equitable to long serving employees as well as the less tenured employees since there would be some employees whose benefit is not vested [0.5]

The design option should seem attractive enough to employees while de-risking the company's exposure to longevity, investments and inflationary risks [0.5]

Expected take up rate of the option would depend upon the option value to employees - Too little an amount may not make it attractive and
- Too attractive an amount may increase the take up rate and result in a more adverse funded position at least in the short term [1]

Simplicity in terms of administering and communication and tax implications of the payment should be taken into account [0.5]

Communication with members should be clear, unambiguous, fair and unbiased [0.25]

The design option should be such that it can be extended to the unionized employees as and when the collective bargaining agreement is discussed [0.5]

Practice followed by other competitors in similar situations would be easier to communicate to the employees [0.5]

Labor laws compliance and the perception that employees should not be worse off due to transition to DC scheme is equally important [0.5]

So far as pensioners are concerned, they will continue to receive their pension and will not be affected by any change [0.5]

Company can consider for their old and very senior employees, particularly close to retirement to continue in DB scheme. If it is done they will become part of pensioners after they retire [0.5]

Those employees who will not opt will continue under DB scheme [0.25]

[16]

v)

Changes in Trust Deed and Rules to allow for the final design that the company decides to adopt [0.5]

Will require IT approval for an approved fund for purpose of tax benefits both to the Company and the employees. [0.5]

Should be made flexible for including the unionised employees as and when the collective bargaining agreement is renewed and the option is extended to the unionised employees also [1]

Employee communication would be very important - Make the conversion attractive especially to the younger employees [0.5]

Employee's written consent would be important since the original benefit would have been a part of the employment letter [1]

Though the transfer from DB is voluntary, communication should be clear and unambiguous including tax aspects and the risks that the employee would be exposed to post the transfer since the transfer will be irrevocable [0.5]

Communication could take various forms like Emails, Town hall, helpdesk, Brochures, FAQs [0.5]

Revisit the current funded position as well as the future funding pace after the transfer of equitable interest or lump sum amount is paid [0.5]

The demographic profile of the DB scheme would change. [0.5]

The assumptions for the continuing group would also need to be reviewed [0.5]

[6]

vi)

The CFO would have financial knowledge of the scheme and can use it to the scheme's advantage to help other trustees understand the nuances of the actuarial valuation [0.5]

Will have sufficient expertise to evaluate advice of external investment consultants and take proper investment decisions [0.5]

Can oversee the investment subcommittee and balance between security of the members' benefit and the investment returns on the fund [0.5]

Will be able to ascertain the effect of the financial situation of the company on the pension scheme and its overall health [0.5]

[2]

vii) Multiple points, max of 5 marks

The topics should definitely cover Indian Trust Laws and Roles and responsibilities of Trustees [0.5]

What is a Trust? - Retirement Benefit Trusts are different from other types of Trusts due to the nature of their relationship with the company [0.5]

Objectives of a Trust, requirement of exemptions for Retirement Benefit Trusts and [0.5]

approval from Commissioner of Income Tax
Difference between Trust Deed and Trust Rules [0.25]
Activities that can be outsourced to external service providers [0.25]
Difference between Defined Benefit and Defined Contribution schemes including risks associated with the schemes for various stakeholders [0.5]
Regulation associated with retirement benefit schemes in India including Income Tax provisions and Rules [0.5]
Basics on understanding the financials and what to look for (especially actuarial valuation report) [0.5]
Basic difference between accounting and funding valuations [0.25]
Any recent compliance related decisions issued by the regulator [0.25]
Understanding funding strategy and concept of risk vs. reward [0.25]
Risk vs. reward for various asset classes [0.25]
Managing conflict of interest [0.25]
Liabilities on the Trustee due to breach of trust [0.25]

[5]

[50 Marks]

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