INSTITUTE OF ACTUARIES OF INDIA

EXAMINATIONS

19th September 2017

Subject SA4 – Pensions and Other Employee Benefits

Time allowed: Three hours (14.45* - 18.00 Hours)

Total Marks: 100

INSTRUCTIONS TO THE CANDIDATES

1. ***Please read the instructions inside the cover page of answer booklet and instructions to examinees sent along with hall ticket carefully and follow without exception.***
2. **** You have 15 minutes at the start of the examination in which you are required to read the questions. You are strongly encouraged to use this time for reading only, but notes may be made. You then have three hours to complete the paper.***
3. ***You must not start writing your answers in the answer sheet until instructed to do so by the supervisor.***
4. ***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 is meant for UK Fellowship examination. The core reading also contains some material which is India Specific applications or work carried out from within India, mostly the APS/GNs issued by ASI/IAI, Accounting Standards by ICAI, Indian Tax and other relevant documents and funding or accounting standards issued by other bodies outside India. In view of this, it should be noted that focal point of answers is expected to be India Specific application for work generally carried out of India. However if application specific to any other country is quoted in the answer, the same you should answer the question with reference to Indian environment.***
5. ***Attempt all questions in order of sequence.***
6. ***Begin answer to each question on a separate sheet, however answer to sub-questions can be on the same sheet.***
7. ***Mark allocations are shown in brackets.***
8. ***Please check if you have received complete Question Paper and no page is missing. If so then kindly get new set of Question Paper from the Supervisor.***

AT THE END OF THE EXAMINATION
Please return your answer booklet and this question paper to the supervisor separately. You are not allowed to carry the question paper in any form with you.

Q. 1) As a result of the Union Budget in 2016, a simple modification to the Finance Act was made to recognise that a transfer of member accumulated balances from an Income Tax recognised Superannuation/Pension Trust to the National Pension System ("NPS") would not be deemed taxable.

No other changes to legislation or further regulatory notifications about implementing this have developed.

As a pension consulting actuary you have been asked, by a Ministry of Finance, Government of India representative, to assist them about the implications related to developing regulatory guidance related to the implementation of this for Superannuation/Pension trusts.

In particular in the context of a perception of a member of the public that has written to the Ministry that; **"All superannuation trusts can now transfer all their funds to NPS and wind up…"**

Set out the points you would make that cover:

i) The landscape in India of the different type of Superannuation plans in India today; their attributes, types of trusts and investments and categories of membership affected (6)

ii) The key design and regulatory differences of the National Pension System and Superannuation plans (5)

iii) An outline of the key stakeholders and their responsibilities that would be potentially involved as part implementing this for a Trust (9)

iv) What changes/updates of a Trust Deed and Rules may be required and how the guidelines could be made to assist the process (7)

v) Considerations to be borne in mind by stakeholders with respect to investments of Superannuation Trusts (5)

vi) Other Implications related to implementation of this initiative (5)

vii) A comprehensive section on special considerations for members' defined benefit plans

a) Describe alternative methods that may be used to represent the defined benefit value for a member, along with comments on their suitability (7)

b) Considerations in developing a suitable set of assumptions to calculate the value for a member, with outline of the potential Regulatory considerations/guidance that may need developing for the calculations (6)

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Q. 2) You are a consultant actuary practising in the area of pension in India. One of your clients, an NBFC (unlisted) operating in India, is interested in understanding the new accounting standard (Ind AS), its scope, key features, and implications on accounting of the pension cost. You are in the process of preparing the summary of Ind AS features

i) In this context, define the following features of Ind AS 19

a) Road Map for implementing Ind AS (2)

b) Other Comprehensive Income(OCI) (2)

c) Pension cost to be recognised in Profit & loss account (1)

d) Discount rate (2)

e) Disclosure requirements (2)

The NBFC, a stand-alone company, which started its operations about 25 years ago with ambitious growth plans, provides the following retirement/death benefits to its employees:

	Lump sum	Pension
Retirement at age 60/early retirement after completing 25 years of service	3 times of annual pensionable salary	20% of final pensionable salary
Death	7 times of annual pensionable salary	No benefit
Resignation after completing 10 years of service	2 times of annual pensionable salary at the time of exit	No benefit

The company sets aside an annual contribution of 10% of annual pensionable salary bill (AWB) to fund the above retirement benefits. The annual contribution, which was determined at the time of benefit design when the NBFC started its operations, has not been revised. It has accumulated a fund of Rs. 24 crore as on 31.03.2017 for these benefits. The death benefits are insured on one year renewal term assurance basis.

The company presently measures the retirement/pension cost for AS 15 (R) on annual basis. The parameters used in the valuation & profile of members covered under the scheme as at 31/03/2017 is given as under:

Parameters	Rate
Discount rate	7.75%
Salary escalation	9.00%
Expected return on plan assets	9.00%
Actual return on plan assets	8.50%

Average Age as at 31/03/2017	Average Annual Pensionable Salary	Average Past service	Number of members	Value of past service benefits for the group (in Crore Rs.)	Current service cost (in terms of annual pensionable salary)
25	2,40,000	3 years	1000	11.34	21 %
40	5,00,000	10 years	300	25.18	23%
50	8,00,000	20 years	75	17.97	21%

ii) Discuss the factors that could have been considered by the company in adopting a funding strategy different from the accounting measurement for AS 15(R) (9)

iii) Discuss the impact of the funding approach used by the Company on the pension cost for AS 15 (R) by analysing the impact of underfunding on each of the components. Also state the assumptions and the limitations, if any you have considered made in the analysis. (8)

Based on your opinion, the company intends to change the funding strategy to be in line with Accounting with effect from the next year i.e. from year ending 31/03/2018. As a result, the company will be adopting the PU method in its funding arrangement.

iv) Discuss the impact of changing the funding strategy on the financing of the scheme (You should also state the assumptions in the discussion) in the immediate year ending 31/03/2018 and over the longer period. (8)

v) The Company is planning to adopt Ind AS 19 from the year 2019 -20. What will be the changes in the pension cost figures, due to the adoption of Ind AS 19 (5)

The company is also planning to go for "listing" in next few years. It therefore plans to provide detailed disclosure information on the risks & uncertainties associated with the pension cost.

vi) Discuss the areas of uncertainty associated with the pension cost and how the uncertainty in each area can be illustrated in the disclosure. (11)

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