



Institute of Actuaries of India

Subject

**SA4 – Pensions and Other Benefits
Specialist Advanced**

For 2020 Examinations

SA4 – Pensions and Other Benefits Specialist Advanced

Aim

The aim of the Pensions and other Benefits Specialist Advanced subject is to instill in successful candidates the ability to apply knowledge of actuarial and related subjects as these apply to Pension, Social Security and other Employee Benefits in India (in particular and including actuarial and employee benefit work carried out in off-shored functions), UK and across the globe (in general)

Links to other subjects

Subject SP4: Pension and other Benefits Specialist Principles: provides the underlying principles upon which this subject is based. It is assumed that candidates have a good understanding of the principles covered in subject SP4.

Objectives

On completion of this subject the candidate actuary will be able to:

(a) Define the principal terms used in India (in particular), UK and across the globe (in general)

(b) Describe the roles of each of the following parties who may be involved in the provision of pensions in India (in particular), UK and across the globe (in general):

- the State
- the Pensions Regulator, PFRDA
- Taxation Authorities, CBDT
- employers or groups of employers
- individuals or groups of individuals
- trustees
- actuaries
- other Employee Benefits advisers

(c) Describe how the legal framework for pensions & other long term employee benefits that applies in India (in particular), UK and across the globe (in general) such as Gratuity, Provident Fund, Pensions (including National Pension System, Atal Pension Bima Yojana), Leave Benefits and Medical Benefits, attempts to:

- encourage appropriate non-State provision,
- ensure security for non-State provision,
- ensure adequacy of non-State provision,

And with particular reference to scheme entity, funding, solvency and others.

(d) Discuss the implications, for the parties in (b), of the environment in which Pensions and Employee benefits in India (in particular), UK and across (in general) the globe are provided in

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terms of the effect of:

- different presentation and reporting of benefits and contributions
- accounting standards; Indian and International

- the professional guidance for actuaries contained in Guidance Notes/Actuarial Practice Standards mentioned below, as issued by the Institute of Actuaries of India (updated versions as on 21 July 2018);
 - APS15 – Pension Fund Terminology (Ver. 1.1/ 01.01.2012)
 - APS20 - Actuarial Practice for Social Security Programmes (Ver. 1.01/ 01.01.2012)
 - APS27 - Employee Benefits - (Ver.1.00 / 01.01.2018)
 - GN29 - Valuation of Interest Rate Guarantees on Exempt Provident Funds (Ver. (1.00/ 01 04 2011)

(e) Describe the ways in which providers in India (in particular), UK and across the globe (in general) may be able to finance the benefits to be provided in terms of:

- the alternatives that exist relating to the timing of contributions relative to benefit Payments,
- the forms and characteristics of investment (including those provided by life insurers) that are available if contributions are made before benefits are due for payment.
- The alternatives to pension available to individuals – these include Regular income products available in Indian Markets including immediate & deferred annuities provided by Insurers, Small savings instruments provided by post office to Senior Citizens

(f) Discuss the factors to consider in determining a suitable design, in terms of benefits and contributions in India (in particular), UK and across the globe (in general), in relation to:

- the level and form of benefits to be provided,
- the method of financing the benefits to be provided,
- the choice of assets when benefits are to be funded.

(g) Discuss the issues surrounding sponsor covenant in India (in particular), UK and across the globe (in general) in terms of

- what is meant by sponsor covenant
- how to measure the willingness of the sponsor to contribute
- how to measure the ability of the sponsor to contribute
- when the other parties involved should consider the sponsor covenant

(h) Describe the risks and uncertainties affecting:

- the level and incidence of benefits,
- the level and incidence of contributions,

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- the level and incidence of return on capital,
- the overall security of benefits in India.

(i) Analyze the asset-liability matching requirements of a provider in India (in particular), UK and across the globe (in general) of pensions and related benefits in relation to:

- the trade-off between risk and reward,
- an awareness of adding value to the shareholders of the business, and
- describe how projection models may be used to develop appropriate strategies.

(j) Describe the problems that arise in relation to the transfer of pension rights in the event of a company purchase or merger, including matters relating to:

- the different interests and responsibilities of the parties involved,
- the terms that might be set out in the Pensions Clause of a Sale and Purchase agreement.

(k) Determine an appropriate basis for the valuation of defined benefit scheme open to new entrants in India (in particular), UK and across the globe (in general).

(l) Discuss the principles behind the determination of discontinuance terms in respect of benefits from an occupational pension scheme in India (in particular), UK and across the globe (in general), in relation to how the following may be taken into consideration when determining discontinuance terms:

- rights of beneficiaries,
- other benefit expectations,
- the availability and selection of a method of provision of discontinuance benefits,
- the level of available assets.

(m) Discuss how to determine values for assets, future benefits and future contributions in India (in particular), UK and across the global (in general) environment, in terms of:

- the data requirements,
- the need for placing values on assets, future benefits and contributions and the extent to which values should reflect risk management strategy,
- the reasons why the assumptions used may differ in different circumstances, the reasons why the assumptions and methods used to place a value on guarantees and options may differ from those used for calculating the reserves needed,
- how sensitivity analysis can be used to check the appropriateness of the values and be able to perform calculations to demonstrate an understanding of the valuation methods.

(n) Discuss the principles underlying the use of re-insurance, and the choice of re-insurance contract, as a means of reducing some of the risks and uncertainties associated with the provision of pensions.

(o) Identify the sources of surplus/deficit for a benefit provider and discuss the factors that affect the application of this surplus/deficit.

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(p) Describe how the financial significance of deviations from expectations should be monitored and assessed, in terms of:

- the reasons for monitoring,
- the data required,
- the process of analysis of the various factors affecting the experience,
- the use of the results of to help develop solutions to the problems faced in pension provision.

(q) Solve complex problems associated with:

- pension scheme design,
- setting funding rates,
- monitoring asset adequacy,
- investment policy,
- protecting members rights.

And, through integrating and critically evaluating the results, draw conclusions there from, in particular in relation to:

- the risks undertaken,
- the level of funding,
- ownership of surplus and handling deficiencies,
- future contributions,
- mergers and takeovers,
- winding up a scheme,
- sponsor covenants.

Study Materials

Study Material supplied by Actuarial Education Company - Year 2020

Study material for subject SA4 supplied by Actuarial Education Company for usage of the Institute and Faculty of Actuaries, UK subject to the following;

Chapter 1: Introduction – included only Section 1 and 2

Chapter 5: Professional Guidance- Replace professional guidance of IFoA with that of IAI

Other Chapters included without any exclusion

India Specific Material

1. India Specific Legislation, Environment and Practices – Pension and Other Retirement Benefits by G N Agarwal – Version 1.07 (August 2010). **(to be supplied by IAI)**
2. Supplementary Note (updated) on India Specific Legislation, Environment And Practices – Pension and Other Retirement Benefits by Anuradha Sriram **(to be supplied by IAI)**

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3. Employee Pension Scheme, 1995 (EPS) and Employees' Deposit Linked Insurance Scheme, 1976 (EDLI) **(available in the market)**
4. Payment of Gratuity Act 1972 (including amendments till March 2018) **(available in the market)**
5. Part A, B and C of Fourth Schedule of Income Tax Act, 1961. **(available in the market)**
6. Part XII, XIII and XIV of Income Tax Rules, 1962 **(available in the market)**
7. Approaches for Valuing Interest Rate Guarantees under AS 15 (revised, 2005) by Dr. K Sriram – Version 1.00 (April 2008)
8. National Pension System and Atal Pension Bima Yojana – Benefit design, features, investment norms, role of intermediaries & delivery mechanism (available in the market)
9. Funded Products available in Indian Insurance market, Benefits & features (IRDAI Regulations available in the market)
10. Annuity products(both immediate & deferred) available in Indian Market, Small savings products available to Senior citizens
11. Features of the Social pension benefits promoted by Government of India through the Schemes PM Laghu Vyapari Maan Dhan Yojana (PM_LVMY), PM Kissan Maan_Dhan Yojana (PM_KMY), PM Shram Yogi Maan Dhan Yojana (PM_SYM)

GNs and APSs issued by IAI

1. Professional Code of Conduct Version 3.0
2. APS9 – Continuing Professional Development (CPD) and the Actuary (Ver. 3.00/ 21.07.2018)
3. APS15 – Pension Fund Terminology (Ver. 1.1/ 01.01.2012)
4. APS20 – Actuarial Practice for Social Security Programmes (Ver. 1.01/01.01.2012)
5. APS27 – Employee Benefits (Ver. 1.00/01.01.2018)
6. GN29 – Valuation of Interest Rate Guarantee on Exempt Provident Funds (Ver.1.00/01.04.2011)

Accounting and Other Standards

1. Accounting Standard AS 15 (revised, 2005) and Ind AS 19 on Employee Benefits issued by ICAI
2. AS 15 (revised, 2005) – Guidance on implementation issued by ICAI
3. AS 15 (revised, 2005) – Opinion on Transitional Liability issued by ICAI
4. AS 15 (revised, 2005) – Opinion on Leave valuation issued by ICAI
5. International Accounting Standard 19 (IAS 19) on Employee Benefits (including Amendments issued up to January, 2016) issued by IASB
6. Section 715 of ASC (FAS 158)
<https://asc.fasb.org/subtopic&trid=223501>