

Actuarial Society of South Africa

EXAMINATION

27 October 2014

Subject A302 — Communications

EXAMINERS' REPORT

Question 1

Letter

Up to 50% of the marks are available for the mechanics of the communication.

Length: Award 2 marks if the actual word count is between 475 and 500 or between 600 and 625. No marks if the word count is outside the 475 to 625 range. Else 4 marks.

[4 marks]

Format: Sender's address can be an address on right or left of page and include correct address details (no punctuation, etc.). The date should be on right OR left. It should be written out formally e.g. 27 December 2014. No need for recipient address as this is not a formal client letter. The format mark also includes a friendly salutation (e.g. Dear Aunt Christina) and close (Regards, Best wishes, All the best). Marks will be lost if the student does not address the recipient directly as her name is given.

[6 marks]

Language: A personal, consultative style would be appropriate. Not too informal or slangy as this is a professional request and from an older relative. Tone should be friendly but also respectful and courteous. This section includes choice of words, register/level of language, avoidance of jargon and overly numeric approach, style & tone, grammar, punctuation, spelling etc. Contractions permitted as family member (can't, don't etc.)

[15 marks]

Planning and structure: This involves the use of headings in the letter. Also includes the logical, coherent arrangement of information, good sentence and paragraph structure, good clear use of information without technical formulae etc. as well as good beginning, middle, end conventions: Opening paragraph: goodwill and topic identification; relevant body explanations and close: goodwill once again and pointing the way ahead. May include a personal note in the opening and closing relating to family.

[15 marks]

Overall impression: How does the whole letter 'hang' together? Would Aunt Christina be satisfied with this reply or would she have further queries/requests for clarification?

Content

Up to 40% of the marks are available for the content of the slides. Content marks for each point may be scaled down where the content is unclear.

The following points **should** be included:

1. Index-linked government savings bonds

- Twice yearly income (1), capital repayment at term end (1) [2]
- Both (1) increase with/in line with/linked to price inflation (1) [2]
- Guaranteed inflation increase on capital if buy 10 year bond [1]
- Can reinvest income [1]
 - Impact explained eg i.t.o. extra money [1]

2. Equity unit trust

- No regular income/ income automatically reinvested [2]
- Unit trust prices volatile / fluctuate / similar [3]
- Total growth expected to exceed other asset classes over long term [2]
- Long term return aim
 - 2% above inflation [1]
 - No guarantee over 10 years [2]
 - Possibly some extra money for holiday [1]
 - Sale price can fluctuate dramatically [2]
- Risk = may not afford car / similar eg not as sure that can afford car as under bonds [2]

3. Property

Direct property investment [1]

- No regular income unless rented out *{mere reference to renting or wording assuming renting out insufficient}* [2]
- Need to reinvest rental income *{bonus mark}* [2]
- Rental expected in line with inflation over long term [2]
- Properties need maintenance or need for expertise [1]
- Need to sell property at term end [2]
- Owner needs to be more involved than desired [2]

Property unit trust [1]

- same operation as equity unit trust [2]
- unit price depends on rental income and underlying property prices [1]

- no guarantee of growth in line with inflation [2]
- property prices could improve, stagnate or decline / fluctuate / similar [2]

4. Summary

Only index-linked government savings bonds suitable for aunt's needs [3]

{Notes on above point:

- *bonds are most suitable*
- *suggest direct property = fatal flaw*
- *will accept property or equity unit trust only if risk is clearly highlighted; risk = not being able to afford car if property or equities underperforms price/car inflation*
- *if suggest any of 3 will suffice = fatal flaw; exception: risks of property unit trust and equity clearly highlighted;*
- *accept split between 2 if risks clearly highlighted;*
- *suggest equity or property with no mention of risk = fatal flaw*
- *if imply equities guarantee inflation return = fatal flaw}*

Max 40

Meeting the overall objectives

Up to 10% of the marks are available for meeting the objectives of the communication.

Overall, will Aunt Christina

- Understand:
 - Cash flows and price movement potential of 3 investment [3]
 - Property investment does not suit her needs: amount of effort and inflation related growth guarantee [2]
 - Equity does not offer inflation related growth guarantee [1]

{ could argue for property UT or equity and get marks if risks clear; no mention of risk = no marks for above 2 bullets }

 - Index-linked government savings bonds offer inflation related return guarantee [2]
- Be left with a positive view of you as a relative and actuarial student? [2]

Question 2

Presentation

Up to 50% of the marks are available for the mechanics of the communication.

Range of slides: Title slide, background/agenda slide which refers to the purpose of presentation; 'body slides' covering various ideas/concepts/sections; concluding/summary slide with offer to take questions. Two marks would be lost if too few or too many slides. As students asked for 7-9 slides, 9 recommended so slides not too crowded.

(10 marks)

Headings & Titles: This includes major and sub-headings and numbering (internal & slide). Question headings may be sued. This mark also includes all titles and labels (graphs/tables) and correctness of names and dates in headings and titles (e.g. firm, fund, people, etc.). Headings need to be explanatory and informative so communicative at a glance (not just Background, for example but Background to what? (e.g. presentation, fund, change etc.) Labels, especially table headings, are accurate and complete.

(10 marks)

Structure & Design: This has more to do with appearance and layout of slides. It includes use of space and composition; size/clarity of writing (font); number of bulleted/numbered sections; choice, type and execution of graphic (appropriateness). Any visual must add value, not be merely decorative, and must be clear at a glance. In this question, a table is probably only real choice for visuals. Better scripts may attempt flow diagrams or other visuals.

(10 marks)

Language: Actual wording of headings and bullets (phrases, not full narrative sentences), grammatical parallel structure throughout, consistent use of language and punctuation, headings neither too cryptic nor longwinded, overall grammar, spelling, overall tone (not too familiar, chatty or emotive). Use of rhetorical

(10 marks)

Overall impression: How does the whole presentation 'hang' together in terms of coherence, logical development, structure of message and 'look' – all the elements above working together to create good impression.

(10 marks)

Content

Up to 40% of the marks are available for the content of the slides. Content marks for each point may be scaled down where the content is unclear.

1. Financing of benefits
 - Expected value of pension benefits estimated in advance [2]
 - Contributions pre retirement, to fund for these benefits [2]
 - Contributions invested until pension payments made [2]
 - Need to estimate unknown factors (assumptions) [2]

2. Risks of current payment method
 - Actual experience worse than assumed [2]
 - Lifespan, investment returns, admin expenses [2]
 - Direction of risk [3]
 - Actual experience is worse overall and [2]
 - Employer unable to contribute more (or give indication of impact on employer eg required to contribute more) [2]
 - Consequences: future pensions increases reduced (1) or even zero (1) or 8% becomes unaffordable (2) [2]

3. Insuring pension benefits
 - Once-off payment to insurance company or buy from insurance co [2]
 - Future pension payments = that of rules (current + 8% p.a. increase) [2]
 - Price set by insurer and depends on their assumptions [2]
 - May differ from that used to set contributions [1]
 - Built in profit and solvency margins [1]
 - Can differ across insurers [1]

4. Risks associated with insuring pension benefits
 - Fund has sufficient money to pay for annuity purchase [2]
 - Lifespan, investment returns, expenses risk passed to insurer [3]
 - Remaining risk = insurer fails (e.g. bankrupt), [2]
 - Responsibility passes back to Fund [2]
 - Unlikely (1) as insurers well regulated (1) [2]

- Pension payments guaranteed by insurer and Fund (0.5); better security (1.5)

[2]

Max 40

Meeting the overall objectives

Up to 10% of the marks are available for meeting the objectives of the communication.

Overall, will the Trustees understand

- Current method of funding (1), for expected value of benefit (1) [2]
- Risks of current method (1) including impacted if worse overall (1) [2]
- What buying an annuity entails: transaction (1) and price issue (1) [2]
- Risks of buying annuities [2]

...be left with a positive view of you as an actuary [2]