INSTRUCTIONS TO CANDIDATES

General Instructions

1. This examination has a total of 100 points. It consists of a morning session (worth 60 points) and an afternoon session (worth 40 points).
   a) The morning session consists of 7 questions numbered 1 through 7.
   b) The afternoon session consists of 6 questions numbered 8 through 13.

The points for each question are indicated at the beginning of the question. Questions 3 and 7 pertain to the Case Study, which is enclosed inside the front cover of this exam booklet.

2. Failure to stop writing after time is called will result in the disqualification of your answers or further disciplinary action.

3. While every attempt is made to avoid defective questions, sometimes they do occur. If you believe a question is defective, the supervisor or proctor cannot give you any guidance beyond the instructions on the exam booklet.

Written-Answer Instructions

1. Write your candidate number at the top of each sheet. Your name must not appear.

2. Write on only one side of a sheet. Start each question on a fresh sheet. On each sheet, write the number of the question that you are answering. Do not answer more than one question on a single sheet.

3. The answer should be confined to the question as set.

4. When you are asked to calculate, show all your work including any applicable formulas.

5. When you finish, insert all your written-answer sheets into the Essay Answer Envelope. Be sure to hand in all your answer sheets because they cannot be accepted later. Seal the envelope and write your candidate number in the space provided on the outside of the envelope. Check the appropriate box to indicate morning or afternoon session for Exam RETDAC.

6. Be sure your written-answer envelope is signed because if it is not, your examination will not be graded.

Tournez le cahier d’examen pour la version française.
CASE STUDY INSTRUCTIONS

The case study will be used as a basis for some examination questions. Be sure to answer the question asked by referring to the case study. For example, when asked for advantages of a particular plan design to a company referenced in the case study, your response should be limited to that company. Other advantages should not be listed, as they are extraneous to the question and will result in no additional credit. Further, if they conflict with the applicable advantages, no credit will be given.
1. (5 points) Company ABC sponsors a defined contribution plan.

(a) (2 points) Describe the following risks from the perspectives of the participants and Company ABC:

- Investment risk
- Retirement risk
- Longevity risk

(b) (3 points) Explain how each of the Retirement Income Generators listed below addresses the longevity risk the participants face:

- Managed payout fund
- Immediate fixed income annuity
- Longevity insurance
2. (9 points) Company DEF is expanding its operations to other countries and is reviewing options with respect to implementing company-sponsored retirement plans in the new jurisdictions.

(a) (3 points) Explain why Company DEF may consider establishing an International Pension Plan instead of establishing local/host country pension plans.

(b) (6 points) Describe the issues with respect to an International Pension Plan from the perspectives of the employees and Company DEF for each of the following:

(i) Design/governance

(ii) Tax effectiveness

(iii) Funding
3. (10 points) Company XYZ is located in Gevrey and does not currently offer retirement benefits. Company XYZ would like to implement a plan that meets the following goals:

- Attract younger employees
- Provide predictable retirement income for long service employees
- Encourage employees to save their own money for retirement
- Provide valuable benefits with predictable company costs

Company XYZ is considering the following designs:

Option 1: Create a plan that combines the features of NOC’s Full-Time Hourly Union Pension Plan and Part-Time DC Pension Plan.

Option 2: Employer contribution of 5% where Company XYZ guarantees a minimum 4% return; plus a defined contribution feature where employee can contribute up to 10% of earnings with a company match of 50%.

(a) (5 points) Critique each option with regard to Company XYZ’s objectives.

(b) (2 points) Recommend one of the two plan design options.

Justify your response.

(c) (3 points) Recommend changes to the design in part (b) to better align with Company XYZ’s objectives.

Justify your response.
4.  (9 points)

(a)  (2 points) Describe the pension plan considerations associated with the following transactions, in the context of corporate mergers and acquisitions:

(i) Share Purchase Transactions

(ii) Asset Purchase Transactions

(b)  (4 points) Describe four options for a buyer with respect to pension plans in an asset purchase transaction and the effect on impacted parties.

The CEO of Company A is considering buying Company B in an asset purchase transaction and is evaluating options she should pursue with respect to retirement benefits for employees at Company B. She wants to ensure a smooth transaction and to treat the transferred employees fairly. Information on the open retirement plans at both companies is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Company A</th>
<th>Company B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension Plan</td>
<td>Traditional DB</td>
<td>DC</td>
</tr>
<tr>
<td>Formula</td>
<td>1% × 3 year final average pay × total service</td>
<td>Employer annually contributes 10% of pay</td>
</tr>
<tr>
<td>Funded Status</td>
<td>Slightly underfunded</td>
<td>100% funded</td>
</tr>
<tr>
<td>Participant Count</td>
<td>25,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

(c)  (3 points) Recommend a retirement plan option she should pursue for employees of Company B, including how it will impact both Company A and the transferred Company B employees.

Justify your recommendation.
5. (7 points)

(a) (3 points) Explain the advantages of the Association of Canadian Pension Management (ACPM) Target Benefit Plan concept (TBP) compared to a traditional defined benefit pension plan from the perspective of the plan sponsor.

(b) (2 points) Explain how the TBP may improve retirement outcomes for pension plan participants compared to a defined contribution pension plan.

(c) (2 points) Describe information that should be communicated to help members understand the risks of the TBP.
6.  (*10 points*) An employer is considering implementing one of the following pension plan designs:

Option 1: A traditional defined benefit (DB) final average pay plan.

Option 2: A plan in which earnings up to an inflation-linked threshold are covered by a traditional final average pay DB structure and earnings above that threshold are covered by a defined contribution (DC) structure. At retirement, a participant may receive an annuity from the benefit earned under the DB structure with an option to receive an annuity from the benefit earned under the DC structure.

Option 3: A plan in which the employer pays a fixed contribution toward a DB formula, but the benefit may change periodically based on the funded status of the plan.

Assume the above designs are permissible under the pension legislation applicable to the employer.

Describe the risks of each design from the perspectives of the employer and its employees.
7. (10 points) NOC is evaluating the medical trend assumption for the NOC Retiree Health and Welfare Program.

(a) (4 points) Describe considerations in determining the medical trend assumption according to the Canadian Institute of Actuaries Consolidated Standards of Practice and International Accounting Standard (IAS) 19.

(b) (2 points) Describe the purpose of and inputs required for the Getzen model.

(c) (2 points) NOC has decided to change the medical trend assumption effective January 1, 2016. You are given the following impacts from the updated medical trend assumption as of January 1, 2016:

<table>
<thead>
<tr>
<th>Impact (in 000’s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in Defined Benefit Obligation</td>
</tr>
<tr>
<td>Increase in Service Cost</td>
</tr>
<tr>
<td>Increase in expected benefit payments</td>
</tr>
</tbody>
</table>

Calculate the revised 2016 Benefit Cost under IAS 19.

Show all work.

(d) (2 points) Describe, in words, how your answer in (c) would differ under U.S. Accounting Standard ASC 715.

**END OF EXAMINATION**

Morning Session
USE THIS PAGE FOR YOUR SCRATCH WORK
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