INSTRUCTIONS TO CANDIDATES

General Instructions

1. This afternoon session consists of 5 questions numbered 8 through 12 for a total of 40 points. The points for each question are indicated at the beginning of the question. Question 12 pertains 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.
8. (6 points) Company ABC is establishing a defined contribution registered pension plan for its employees. Company ABC wishes to ensure compliance with CAPSA’s Guideline Number 3: Guideline for Capital Accumulation Plans.

(a) (3 points) Identify the investment-related information that Company ABC should include in the annual member statements.

(b) (3 points) Describe considerations for Company ABC when selecting investment options.
9. *(8 points)* An executive for Company ABC is offered an international assignment for a ten-year period.

During her assignment, the executive is eligible for the following two participation options:

1. She can continue her participation in the Home Plan or;
2. She can elect to participate in the Host Plan and the International Pension Plan.

You are provided the following design features about the different retirement programs:

<table>
<thead>
<tr>
<th>Design Feature</th>
<th>Home Plan</th>
<th>Host Plan</th>
<th>International Pension Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of Program</strong></td>
<td>Defined Benefit – Monthly pension at retirement</td>
<td>Defined Contribution – Lump sum of accumulated fund balance at retirement</td>
<td>Choice of lump sum or monthly pension at retirement</td>
</tr>
<tr>
<td><strong>Benefit Accrual</strong></td>
<td>1.5% of final year’s Earnings times years of service</td>
<td>Annual company contribution of 10% of Earnings</td>
<td>The International Pension Plan aims to keep the executive whole by covering any positive difference between:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• The Home Plan benefit payable at time of retirement assuming all years of service in the Home Plan and;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• The actual benefit payable at time of retirement from the Home Plan and the Host Plan for service accrued in these locations</td>
</tr>
<tr>
<td><strong>Employee Contribution</strong></td>
<td>5% of Earnings</td>
<td>Voluntary contribution of up to 5% of Earnings matched 100% by the company</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Earnings Definition</strong></td>
<td>Base salary only</td>
<td>Base salary plus bonus</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Retirement Age</strong></td>
<td>65</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td><strong>Social Security Benefit</strong></td>
<td>Flat annual amount of $15,000 payable upon retirement with minimum 25 years of service in the Home Plan. The amount is reduced by $1,000 for each $5,000 segment of other retirement income over $50,000</td>
<td>Not eligible for duration of assignment</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Funding Level per Last Actuarial Valuation Report</strong></td>
<td>80% Funded</td>
<td>100% Funded; Contributions are invested in a wide choice of funds.</td>
<td>Unfunded</td>
</tr>
</tbody>
</table>
9. Continued

You are given the following information about the executive:

- Salary: $150,000
- Annual bonus: $100,000
- Age: 55
- Years of service: 20

Assume the executive plans to return home after her ten-year assignment to retire.

(a) (5 points) Evaluate the plan design features for each participation option with respect to the benefit level and security from the perspective of the executive.

Justify your response.

(b) (1 point) Recommend an option for the executive using your evaluation from part (a).

Justify your response.

Company ABC is considering terminating the International Pension Plan or selecting an external vendor for the administration of the Plan. The external vendor would require the International Pension Plan to be funded.

(c) (2 points) Critique each option from the perspective of Company ABC.

Justify your response.
10. (7 points) Company ABC's pension plan actuary has sent the year-end accounting report to Company ABC’s auditors. Shortly after, the actuary becomes aware that the Company had announced a plant closure two days before fiscal year-end. Half of the active plan members of Company ABC’s pension plan will be terminated as a result of the plant closure. The actuary raises this oversight with Company ABC but the response is that the auditor has already approved the report and the report should not be revised so that Company ABC can meet its reporting deadlines.

(a) (4 points) Describe the potential violations of professional standards if the actuary does not file a revised report.

(b) (3 points) Outline the actions required for the actuary that will ensure compliance with professional standards.
11. *(12 points)*

(a) *(3 points)* Describe the differences between the Traditional Approach and the Spot Rate Approach for calculating Net Periodic Pension Cost under U.S. Accounting Standard (ASC 715).

Company XYZ is considering moving from the Traditional Approach to the Spot Rate Approach.

(b) *(6 points)* Currently, the yield curve is upward sloping. However, it is expected that in the long term, the yield curve will be downward sloping.

Explain the short term and long term impacts of moving from the Traditional Approach to the Spot Rate Approach on the:

(i) Net Periodic Pension Cost
(ii) Accumulated Other Comprehensive Income
(iii) Projected Benefit Obligation

(c) *(3 points)* Compare and contrast the impact of adopting the Spot Rate Approach under International Accounting Standard IAS 19, Rev. 2011 versus ASC 715.
**Question 12 pertains to the Case Study.**

12. (7 points)

(a) (2 points) Describe the plan design characteristics of a deferred retirement option plan (DROP plan).

(b) (2 points) Describe the advantages of a DROP plan from an employer and employee perspective.

NOC has decided to implement a DROP plan as an arrangement under its National Oil Full-Time Salaried Pension Plan as of January 1, 2019.

You are provided the following assumptions and information as of January 1, 2019 for Employee A, a participant in the Full-Time Salaried Pension Plan, who is considering participating in the DROP plan:

<table>
<thead>
<tr>
<th>Age:</th>
<th>62</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service:</td>
<td>25 years</td>
</tr>
<tr>
<td>Current salary:</td>
<td>$75,000</td>
</tr>
<tr>
<td>2018 earnings:</td>
<td>$72,500</td>
</tr>
<tr>
<td>2017 earnings:</td>
<td>$71,000</td>
</tr>
<tr>
<td>Best average earnings:</td>
<td>$70,000</td>
</tr>
<tr>
<td>Assumed salary increase:</td>
<td>3.0% per year</td>
</tr>
<tr>
<td>Age 65 annuitization factor:</td>
<td>15.0</td>
</tr>
<tr>
<td>Rate of return on DROP plan:</td>
<td>6.5%</td>
</tr>
<tr>
<td>Timing of plan contributions:</td>
<td>Middle of the year</td>
</tr>
</tbody>
</table>

(c) (3 points) Recommend whether Employee A should participate in the DROP plan or continue to accrue defined benefits assuming the employee retires at age 65. Show all work.

**END OF EXAMINATION**

Afternoon Session
USE THIS PAGE FOR YOUR SCRATCH WORK
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