

INSTITUTE AND FACULTY OF ACTUARIES

PAST EXAM

Subject CA3 – Communications

(Presentation)

Scenario: State Invalidity Benefits

Time allowed: 2 hours to prepare slides

Scenario

You work for an external consultancy that has been asked to research a proposal to change the way that State Invalidity Benefit (SIB) is indexed. The proposal is that the new measure will link the State Invalidity Benefit to an Invalidity Prices Index (IPI) (that more accurately measures the needs of individuals receiving the benefit) rather than Retail Prices Index (RPI). It is hoped that substantial savings will be made by changing the rate of indexation to be linked with IPI rather than RPI, as over the last 25 years RPI has on average been higher than IPI by approximately ½% per annum.

In order to assess public reaction to the proposal you have been requested to give a presentation to a consumer panel (consisting of individuals with some financial knowledge) explaining:

1. the background to the proposal.
2. what the expected savings of the change are ; and
3. any alternatives that will achieve the same projected savings.

Your presentation should last between 7–10 minutes.

An actuarial student in your department has provided you with further details showing how the IPI and the RPI have differed historically. All the information provided is factually correct.

<i>Year ending 31 May YYYY</i>	<i>Increase in IPI (%)</i>	<i>Increase in RPI (%)</i>
1980	5.3	5.9
1985	4.7	5.3
1990	6.2	6.7
1991	5.8	6.5
1992	6.7	7.2
1993	6.1	6.6
1994	5.6	6.1
1995	5.5	6.0
1996	7.0	7.5
1997	6.5	7.0
1998	5.4	5.9
1999	4.6	4.5
2000	4.5	4.9
2001	3.5	3.9
2002	2.9	3.2
2003	2.8	2.6
2004	2.6	3.2
2005	1.8	2.1
2006	2.6	2.8
2007	1.9	2.4
2008	1.5	1.7
2009	1.5	1.4
2010	1.8	2.2

A change was made to the way the IPI index was calculated in 1999. This change removed the direct cost of carers and “social apparatus required for home care” (SARFHC) from the index and replaced it with a 9.32% loading representing the increased living expenses experienced by invalids (ILEI). The ILEI was determined based on a survey carried out by the Independent Living Standards Association.

The current level of SIB is \$8,650 per annum. The SIB increases each year in line with the increase in the RPI up to a maximum of 2%. The proposal is that the SIB will increase each year in line with IPI subject to a maximum of 2%.

Based on a current annual spend on State Invalidity Benefit of \$200 billion – the proposal should save \$1 billion per annum. This is based on historical statistics since the IPI was started in 1980 that show that on average the IPI has been ½% per annum less than the RPI over the same period.

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