



J04

THE CHARTERED INSURANCE INSTITUTE

WEDNESDAY 21 OCTOBER 2009

**DIPLOMA IN FINANCIAL PLANNING
J04 – PENSION FUNDING OPTIONS**

SPECIAL NOTICES

- **All questions in this paper are based on English law and practice applicable in the tax year 2009/2010, unless stated otherwise and should be answered accordingly.**
- **Assume all individuals are domiciled, resident and ordinarily resident in the UK unless stated otherwise.**

INSTRUCTIONS

- **Two hours are allowed for this paper.**
- **Read the instructions overleaf carefully before answering any questions.**
- Fill in the information requested on the answer book and form B.
- If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements and you must enter the serial number, model and make on the form B.
- You are allowed to write on the inside pages of this question paper but you must **not** write your name, candidate number, PIN or any other identification **anywhere** on this question paper.
- The answer book and this question paper **must both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

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J04 – Pension funding options

CANDIDATE INSTRUCTIONS

READ THE INSTRUCTIONS BELOW BEFORE ANSWERING ANY QUESTIONS

Two hours are allowed for this paper.

The paper consists of 15 short answer questions and carries a total of 130 marks.

Read carefully the questions and information provided. You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.

Any rough notes made in your answer book must be crossed through before you hand it in.

Tax tables are provided at the back of the paper.

Answer each question on a new page and leave six lines blank after each question part.

It is important to show all steps in a calculation, even if you have used a calculator.

Please ensure that you understand the Special Notices printed in the box on the front page.

Subject to providing sufficient detail, you are advised to be as brief and concise as possible, using note format and short sentences on separate lines wherever possible.

Attempt ALL questions

Time: 2 hours

1. Julia, aged 47, works as an advertising executive and has a basic salary of £200,000 plus a bonus of £100,000 for the 2009/2010 tax year. Julia has never made any pension provision and has decided to use her bonus to pay a gross contribution of £100,000 into a personal pension plan in January 2010.
 - (a) Explain how Julia will receive tax relief on her pension contribution. (2)
 - (b) Explain how the special annual allowance will restrict the amount of higher-rate tax relief that Julia is entitled to in 2009/2010. *No calculation required.* (4)

2.
 - (a) List **five** charges that need to be reported to HM Revenue & Customs (HMRC) via an Accounting for Tax return. (5)
 - (b) State the deadline for submitting the Accounting for Tax return to HMRC. (2)
 - (c) List **two** other scheme tax returns required by HMRC. (2)

3. CR Engineering Ltd made an annual contribution of £800,000 into its pension scheme in the accounting period ending 30 April 2009. They will make total pension contributions of £2,000,000 for the current accounting period due to significant increases to the retirement benefits of senior employees of the company.

Calculate, **showing all your workings**, the number of accounting periods over which the tax relief on the £2,000,000 contribution will be spread. (8)

4. The Pensions Act 2007 introduced changes to the way in which the State Second Pension (S2P) will accrue in future years.

Explain these changes and outline how they will change the way in which the S2P accrues in the future. (12)

5. Amendments made to the Pension Schemes Act 1993 now permit contracted-out defined benefit pension schemes to convert members' guaranteed minimum pensions (GMPs) into ordinary scheme benefits.

Outline **five** conditions that must be satisfied before the trustees will be granted a statutory discharge from their responsibility to provide GMPs. (5)

6. John, Andrew and Bethany were made redundant on 1 October 2009. They are all members of the company's money purchase occupational pension scheme, which offers a refund of member contributions for the maximum period permitted. Under the scheme rules a cash transfer value and preserved fund are only offered when required by the law and there are no exit penalties if a transfer value is taken.

The three members have the following contribution and fund details:

	John	Andrew	Bethany
Date joined scheme	23 August 2009	22 December 2007	5 April 2006
Total gross member contributions	£1,200	£11,000	£15,000
Total gross employer contributions	£2,400	£22,000	£30,000
Fund value	£3,300	£34,800	£53,500

- (a) State the options available to **each** member in respect of their pension funds. (5)
- (b) Calculate, **showing all your workings**, the value of **each** of the member's benefit entitlements under the scheme identified in (a) above. (10)
7. Outline an Actuary's responsibilities in respect of the regular and ongoing valuation of a defined benefit occupational pension scheme. (9)
8. Outline the advice that the trustees of an occupational pension scheme can give to members of the scheme without breaching the Financial Services and Markets Act 2000 (FSMA). (5)
9. Jason, who is married, recently joined his company's defined benefit occupational pension scheme. The scheme provides a lump-sum death in service benefit plus a spouse's pension based on Jason's prospective service to the scheme's normal retirement age. He has been asked to deposit an expression of wish letter with the trustees in respect of the death benefits.
- (a) Explain, in detail, the tax treatment of the death benefits that would be payable to his wife in the event of Jason's death prior to retirement. (7)
- (b) Outline the actions that the trustees must take in relation to the expression of wish letter in the event of Jason's death. (4)
10. Explain, in detail, the potential disadvantages of lifestyling for a member in a money purchase scheme. (10)

11. Outline how a public service defined benefit scheme typically differs from a private sector defined benefit scheme. (11)

12. James left his company's defined benefit scheme in 2006 and at that time he requested a cash equivalent transfer value (CETV). After considering his options, he decided to leave the benefits preserved in the scheme. In August 2009 James requested another CETV and was surprised to find that the transfer value was considerably lower than the transfer value he had been given in 2006.

Outline the reasons why James' CETV could have fallen. (6)

13. Financial advisers must gather a significant amount of information when advising on a possible transfer from a defined benefit occupational pension scheme.

List the minimum information, in addition to a transfer value illustration, that must be obtained in relation to the ceding scheme. (10)

14. Howard has a personal pension plan and a recent illustration of his benefits shows a projected pension of £20,000 per annum at his selected pension age. His adviser has explained that his actual pension at retirement may be more or less than £20,000.

Outline the factors that will impact on the amount of pension that Howard will receive at his selected pension age. (5)

15. Gareth, aged 38, runs his own small limited company. He currently draws a salary of £50,000 per annum and reinvests any additional profits into his business. Gareth has never felt it necessary to make any pension contributions because he plans to sell his business when he retires and use the proceeds to provide for his retirement.

Outline **four** benefits of:

(a) continuing to reinvest the profits into his business; (4)

(b) making employer contributions into a registered pension scheme. (4)

TAX TABLES

INCOME TAX RATES

2009/2010		2008/2009	
Rate	Band	Rate	Band
%	£	%	£
10	1 - 2,440*	10	1 - 2,320*
20	1 - 37,400	20	1 - 34,800
40	Over 37,400	40	Over 34,800

* A new 10% starting rate is applied for savings income only from 06.04.2008. Only applicable where non-savings income after allowances is under £2,440 for 2009/2010.

NATIONAL INSURANCE CONTRIBUTIONS

2009/2010 Rates

Class 1 Employee	Weekly	Monthly	Yearly
	£	£	£
Lower Earnings Limit (LEL)	95	412	4,940
Upper Earnings Limit (UEL)	844	3,656	43,875
Upper Accruals Point	770	3,337	40,040

Class 1 Employee contributions 2009/2010

Total earnings £ per week	Contracted-in rate		Contracted-out rate	
	%		%	
Up to 110.00*	Nil		Nil	
110.01 - 770.00	11		9.4	
770.01 - 844.00	11		11	
Above 844.00	1		1	

Class 1 Employer contributions 2009/2010

Total earnings £ per week	Contracted-in rate		Contracted-out rate	
	%		Final salary	Money purchase
	%		%	£
Below 110.00**	Nil		Nil	Nil
110.01 - 770.00	12.8		9.1	11.4
770.01 - 844.00	12.8		12.8	12.8
Excess over 844.00	12.8		12.8	12.8

* This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £95 per week. This £95 to £110 band is a zero rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. Basic State Pension.

** Secondary earnings threshold.

Class 2 (self-employed) Flat rate per week £2.40 where earnings exceed £5,075 per annum.

Class 3 (voluntary) Flat rate per week £12.05

Class 4 (self-employed) 8% on profits between £5,715 - £43,875 plus 1% on profits above £43,875

INCOME TAX RELIEFS

	2009/2010	2008/2009
	£	£
Personal (basic)	6,475	6,035
Personal (age 65-74)	9,490	9,030
Personal (aged 75 and over)	9,640	9,180
Married/civil partners (minimum) at 10% †	2,670	2,540
Married/civil partners (age under 75) at 10% †	N/A	6,535
Married/civil partners (age 75 and over) at 10%	6,965	6,625
Age-related relief reduced by 50% of income over	22,900	21,800
Child Tax Credit (CTC)		
family element	545	545
family element baby addition	545	545
CTC usually reduced by 6.67% of joint income over	50,000	50,000
Blind person's allowance	1,890	1,800
Enterprise Investment Scheme relief limit @ 20%	500,000	500,000
Venture Capital Trust relief limit @ 30%	200,000	200,000

† where at least one spouse/civil partner was born before 6 April 1935

PENSIONS

Lifetime Allowance		Annual Allowance	
2006/2007	£1.5 million	2006/2007	£215,000
2007/2008	£1.6 million	2007/2008	£225,000
2008/2009	£1.65 million	2008/2009	£235,000
2009/2010	£1.75 million	2009/2010	£245,000
2010/2011	£1.8 million	2010/2011	£255,000

Notional Earnings Cap

£123,600 – (For schemes that require post 1989 benefits to be still subject to a cap)

Annual allowance charge

40% member's tax charge on the amount of total pension input in excess of the annual allowance.

Lifetime allowance charge

55% of excess over lifetime allowance if taken as a lump sum.

25% of excess over lifetime allowance if taken in the form of income, which is subsequently taxed under PAYE.

CAR AND FUEL BENEFITS

The charge for company car benefits is based on the carbon dioxide (CO₂) emissions. There is no reduction for high business mileage users.

For 2009/2010:

The percentage charge is 15% of the car's list price for CO₂ emissions at or below the qualifying level of 135g/km.

The base percentage charge of 15% increases in 1% steps for every additional full 5g/km over the 135g/km threshold, up to a maximum of 35% of the car's list price.

A lower percentage charge of 10% of the car's list price applies for emissions at or below 120g/km.

If price of car exceeds £80,000 then its price for tax purposes will be fixed at £80,000.

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards or registered after 31 December 2005. However, the maximum charge remains 35% of the car's list price.

Car fuel The benefit is calculated as the CO₂ emissions % relevant to the car and that % applied to a set figure (£16,900 for 2009/2010) e.g. car emission 160g/km = 20% on car benefit scale. 20% of £16,900 = £3,380.

Notes:

1. **Accessories** are, in most cases, included in the list price on which the benefit is calculated.
2. **List price** is reduced for capital contributions made by the employee up to £5,000.
3. **Car benefit** is reduced by the amount of employee's contributions towards running costs.
4. **Fuel scale** is reduced only if the employee makes good **all** the fuel used for private journeys.
5. **All car and fuel benefits** are subject to employers National Insurance Contributions (Class 1A) of 12.8%.

PRIVATE VEHICLES USED FOR WORK

2009/2010 rates

Cars

On the first 10,000 business miles in tax year 40p per mile

Each business mile above 10,000 business miles 25p per mile

Motor Cycles 24p per mile

Bicycles 20p per mile

INHERITANCE TAX

	2009/2010	2008/2009
Nil-rate band*	£325,000	£312,000
Rate of tax on excess	40%	40%
Lifetime transfers to and from certain trusts	20%	20%
Overseas domiciled spouse/civil partner exemption	£55,000	£55,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building

50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death

	0-3	3-4	4-5	5-6	6-7
Years before death					
% of death charge	100	80	60	40	20
Annual exempt gifts	£3,000 per donor			£250 per donee	

* From 8 October 2007 up to 100% of the unused proportion of a deceased spouse's/civil partner's nil-rate band can be claimed on the surviving spouse's/civil partner's death.

MAIN SOCIAL SECURITY BENEFITS

		From 06.04.09	From 06.04.08
		£	£
Child Benefit	first child	20.00	20.00*
	subsequent children	13.20	13.20*
Incapacity Benefit	short-term lower rate**	67.75	63.75
	short-term higher rate**	80.15	75.40
	long-term rate	89.80	84.50
Attendance Allowance	lower rate	47.10	44.85
	higher rate	70.35	67.00
Retirement Pension	single	95.25	90.70
	married	152.30	145.05
Pension Credit	single person standard minimum guarantee	130.00	124.05
	married couple standard minimum guarantee	198.45	189.35
	maximum savings ignored in calculating income	6,000	
	increased from November 2009	10,000	
Bereavement Benefit (lump sum)		2,000.00	2,000.00
Widowed Parent's allowance		95.25	90.70
Jobseekers Allowance		64.30	60.50

* From 5 January 2009

** Under State Pension Age

VALUE ADDED TAX

Standard rate	15%*/17.5%**
Annual registration limit - from 1 May 2009	£68,000

* Effective from 1 December 2008

** Effective from 1 January 2010

CORPORATION TAX

Financial Year	2009 to 31/3/10	2008 to 31/3/09
Full rate	28%	28%
Small companies rate	21%	21%
Small companies limit	£300,000	£300,000
Effective marginal rate	29.75%	29.75%
Upper marginal limit	£1,500,000	£1,500,000

CAPITAL ALLOWANCES

Plant & machinery 100% annual investment allowance (first year)	£50,000
Plant & machinery in excess of annual investment allowance (first year)	40%
Plant & machinery, patent rights, know-how (reducing balance) per annum	20%
Certain long-life assets, integral features of buildings (reducing balance) per annum	10%
Industrial & agricultural buildings (straight line)	2%
Energy & water-efficient investments	100%
Qualifying flat conversions & business premises renovations	100%
Motor cars: with emissions in excess of 160g/km	10%
generally	20%*
with CO2 emissions of 110g/km or less	100%
Research & Development: Capital expenditure	100%
Revenue expenditure - small/medium-size firms	175%
- large firms	130%

* Maximum £3,000

CAPITAL GAINS TAX

	2009/2010	2008/2009
Exemptions		
Individuals, estates etc	£10,100	£9,600
Trusts generally	£5,050	£4,800
Chattels proceeds (5/3 excess gain is taxable)	£6,000	£6,000
Rates		
Individuals	18%	18%
Trusts and estates	18%	18%

ENTREPRENEURS' RELIEF

Entrepreneur's Relief 2009/2010

4/9^{ths} of gain tax free. Lifetime limit eligible for relief: £1,000,000

For trading businesses and companies (minimum 5% employee shareholding) held for 1yr+

