

# Pension income options

## Purpose

At the end of this unit, candidates should be able to demonstrate an understanding of the:

- process of decumulating pension funds and the main issues for clients and advisers;
- main options facing members of pensions schemes during decumulation;
- features, risks and tax treatment of the main options.

### Summary of learning outcomes

1. Understand the rules that apply to pension benefits at the date that they are crystallised;
2. Understand in detail the features, tax treatment and risks of lifetime annuities and scheme pensions;
3. Understand the features, tax treatment and risks of drawdown pension options including the short-term annuity option and Uncrystallised Funds Pension Lump Sum;
4. Understand the features, tax treatment and risks of phased retirement;
5. Understand the compliance requirements of advising on taking pension benefits;
6. Understand the State retirement benefits available;
7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.

## Important notes

- This syllabus will be examined in the October 2015 and April 2016 sessions.
- Candidates will be examined on the basis of English Law and practice in the tax year 2015/2016 unless otherwise stated.
- The general rule is that exams are based on the English legislative position three months before the date of the exams.
- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:
  1. Visit [www.cii.co.uk/qualifications](http://www.cii.co.uk/qualifications)
  2. Select the appropriate qualification
  3. Select your unit on the right hand side of the page

## 1. Understand the rules that apply to pension benefits at the date that they are crystallised

- 1.1 Lifetime allowance, including transitional reliefs, valuation factors and charges and pensions on divorce;
- 1.2 The normal minimum pension age and concessions;
- 1.3 Pension commencement lump sum limits, including calculations;
- 1.4 Uncrystallised funds pension lump sum;
- 1.5 Benefit crystallisation events including valuations;
- 1.6 Commutation of benefits including triviality and serious ill health;
- 1.7 Requirements for drawing benefits on the grounds of ill health;
- 1.8 Differences between contracted out and excess benefits for defined benefit schemes;
- 1.9 Annual allowance including money purchase annual allowance, alternative annual allowance, carry forward of unused allowance, valuation factors and charges.

## 2. Understand the features, tax treatment and risks of lifetime annuities and scheme pensions

### Lifetime Annuity

- 2.1 Definition, HMRC requirements and main features;
- 2.2 Death benefits: lump sums, survivors' pensions and guarantees;
- 2.3 Annuity types: conventional, unit linked, with profits, third way, lifetime, enhanced and impaired life.

### Scheme Pension

- 2.4 Definition, HMRC requirements and main features including escalation for defined benefit schemes;
- 2.5 Death benefits: lump sums, survivors' pensions and guarantees.

### General

- 2.6 Impact of longevity, economic and other factors on annuity rates, including gender equality;
- 2.7 Security of members benefits, including Pension Protection Fund, Financial Assistance Scheme and Financial Services Compensation Scheme.

## 3. Understand the features, tax treatment and risks of drawdown pension options, including the short-term annuity option and Uncrystallised Funds Pension Lump Sum

- 3.1 Definition, HMRC requirements, main features and risks of capped and flexi-access drawdown pensions, including short-term annuities and Uncrystallised Funds Pension Lump Sum;
- 3.2 Calculation of the maximum annual income payable and the review procedure under capped drawdown pensions;
- 3.3 The benefits payable on death and their tax treatment;
- 3.4 Transitional rules and procedures applicable to drawdown pensions, including conversion to flexi-access;
- 3.5 Drawdown to drawdown transfers.

## 4. Understand the features, tax treatment and risks of phased retirement

- 4.1 Main structure and features of phased retirement;
- 4.2 How target income will be achieved by lump sum and income payments, including calculations;
- 4.3 Phased retirement by lifetime annuity purchase basis and/or capped drawdown pension basis;
- 4.4 Phased retirement using flexi-access drawdown and/or uncrystallised funds pension lump sum;
- 4.5 The benefits payable on death and their tax treatment.

## 5. Understand the compliance requirements of advising on taking pension benefits

- 5.1 FCA regulation – Conduct of Business, guidance, thematic reviews and market studies;
- 5.2 Guidance guarantee;
- 5.3 Pension increase exchange and the impact of regulatory guidance.

## 6. Understand the State retirement benefits available

- 6.1 Basic State Pension: eligibility through National Insurance contributions and credits, amounts payable and annual increases;
- 6.2 State Pension Age (SPA): equalisation of male and female ages, subsequent increases to SPA and deferral options;
- 6.3 Other State retirement benefits – Graduated Pension and State Earnings-Related Pension in outline, State Second Pension (S2P), and State Pension Credit;
- 6.4 Payment of State retirement benefits to pensioners living overseas;
- 6.5 State survivor benefits;
- 6.6 Forthcoming changes to the State Pension system.

## 7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients

### Pension Income Options

- 7.1 The choice between the different methods for drawing a pension income and/or lump sum;
- 7.2 Income Tax planning in drawing pension income or lump sum;
- 7.3 Identifying the annuity options which may be suitable for the client;
- 7.4 The factors to be taken into account during annual reviews;
- 7.5 Taking benefits from overseas pension schemes;
- 7.6 Inter-operational planning: nominations, Inheritance Tax planning, spousal bypass trusts.

### Retirement Financial Planning

- 7.7 Explain the importance of the following factors:
  - Personal and financial circumstances and objectives;
  - Cash flow modelling and stress testing;
  - Establishing attitude to risk and capacity for loss;
  - Investment strategies in retirement.

## Reading list

The following list provides details of various publications which may assist you with your studies.

**Note: The examination will test the syllabus alone.**

The reading list is provided for guidance only and is not in itself the subject of the examination.

The publications will help you keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/PFS members can borrow most of the additional study materials below from Knowledge Services. CII study texts can be consulted from within the library.

New materials are added frequently - for information about new releases and lending service, please go to [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) or email [knowledge@cii.co.uk](mailto:knowledge@cii.co.uk).

### CII study texts

Pension income options. London: CII. Study text J05.

### Books

Pension choices: a tax guide 2014-15. Robert Gaines. 2nd. edition. Chester: Claritax, 2014.

Pensions law handbook. 12th ed. Pensions Department of Nabarro Nathanson. Tottel, 2015.

Tax efficient retirement planning. 2nd ed. Alec Ure, Gavin Moffatt. Bloomsbury Professional, 2012.

### Factfiles

CII factfiles are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Covering general insurance, life and pensions and financial services sectors, the factfile collection includes key industry topics as well as less familiar or specialist areas with information drawn together in a way not readily available elsewhere. Available online via [www.cii.co.uk/ciifactfiles](http://www.cii.co.uk/ciifactfiles) (CII/PFS members only).

State retirement pensions. Roger Self, Claire Thomson.

Further articles and technical bulletins are available at [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) (CII/PFS members only).

### Journals and magazines

Financial adviser. London: FT Business. Weekly. Also available online at [www.ftadviser.com](http://www.ftadviser.com).

Financial solutions. London: CII. Six issues a year. Also available at [www.thepfs.org/knowledge](http://www.thepfs.org/knowledge) (CII/PFS members only).

Money management. London: FT Business. Monthly. Also available via [www.ftadviser.com](http://www.ftadviser.com).

Money marketing. London: Centaur Communications. Weekly. Also available online at [www.moneymarketing.co.uk](http://www.moneymarketing.co.uk).

Pensions age. London: Perspective. Monthly. Also available at [www.pensionsage.com](http://www.pensionsage.com).

Pensions week. London: FT Finance. Weekly.

Pensions insight. Newsquest Specialist Media. Monthly. Also available at [www.pensions-insight.co.uk](http://www.pensions-insight.co.uk).

Professional pensions. London: Incisive Media. Weekly.  
Also available at [www.professionalpensions.com](http://www.professionalpensions.com).

## Reference materials

Butterworths pensions legislation service. London: LexisNexis UK. Looseleaf, updated.

Lamont's glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009. Also available online via [www.cii.co.uk/lamont](http://www.cii.co.uk/lamont) (CII/PFS members only).

CCH Pensions Factbook. Kingston upon Thames: CCH. Looseleaf, updated.

Pensions: law and practice with precedents. London: Sweet & Maxwell. Looseleaf, updated.

Sweet & Maxwell's law of pension schemes. Nigel Inglis Jones. London: Sweet & Maxwell. Looseleaf, updated.

The professional adviser's factfile. Taxbriefs. London: Taxbriefs. Looseleaf, updated.

Tolley's guide to disclosure of tax avoidance schemes and pension schemes. Alex Ure. London, LexisNexis Tolley, 2010.

Tolley's guide to pensions taxation terminology. Alec Ure. 4th edition. London: LexisNexis Tolley, 2014.

Tolley's guide to pensions tax simplification. Alec Ure. London: LexisNexis Tolley, 2006.

Pensions pocket book. London: Economic and Financial Publishing Ltd in association with Aon Hewitt. Annual.

## Examination guides

Guides are produced for each sitting of written answer examinations. These include the exam questions, examiners' comments on candidates' performance and key points for inclusion in answers.

You are strongly advised to study guides from the last two sittings. Please visit [www.cii.co.uk](http://www.cii.co.uk) to buy online or contact CII Customer Service for further information on +44 (0)20 8989 8464.

Alternatively, if you have a current study text enrolment, the latest exam guides are available via [www.revisionmate.com](http://www.revisionmate.com).

Older guides are available (members only) via [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge).

## Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

The Insurance Institute of London holds a lecture on revision techniques for CII exams approximately three times a year. The slides from their most recent lectures can be found at [www.cii.co.uk/knowledge/iilrevision](http://www.cii.co.uk/knowledge/iilrevision) (CII/PFS members only).