Pension income options

Chartered Insurance Institute

Purpose

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

- process and implications of decumulating pension funds and the issues facing clients and advisers;
- deculmulation options available to members of pensions schemes;
- features, risks and tax treatment of the different options.

Summary of learning outcomes	
1.	**Understand the HMRC rules that apply when pension benefits 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 flexible benefit options;**
4.	**Understand the features, tax treatment and risks of phasing retirement benefits;**
5.	**Understand the regulatory requirements and legal framework designed to protect clients who are drawing 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 2018 and April 2019 sessions.**
- **Candidates will be examined on the basis of English Law and practice in the tax year 2018/2019 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**
  2. **Select the appropriate qualification**
  3. **Select your unit on the right hand side of the page**

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1. Understand the HMRC rules that apply when pension benefits are crystallised

1.1 Lifetime allowance, including pensions on divorce, transitional reliefs, valuation factors and tax charges;

1.2 The minimum pension age, including contractual and protected retirement ages;

1.3 Pension commencement lump sum limits, including transitional protections;

1.4 Benefit crystallisation events including valuations and calculations;

1.5 Commutation of benefits including triviality, small pots and serious ill health;

1.6 Requirements for drawing benefits on the grounds of ill health;

1.7 Annual allowance including money purchase annual allowance, carry forward of unused allowance, valuation factors and tax charges.

2. Understand in detail 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, flexible, unit linked, with-profits, third way, 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 requirements.

3. Understand the features, tax treatment and risks of flexible benefit options

3.1 Definition, HMRC requirements, main features and risks of uncrystallised funds pension lump sum, capped and flexi-access drawdown pensions, including the use of short-term annuities;

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 HMRC rules and procedures applicable to drawdown pensions, including conversion of capped to flexi-access drawdown;

3.5 Drawdown to drawdown transfers.

4. Understand the features, tax treatment and risks of phasing retirement benefits

4.1 Phasing retirement using flexi-access drawdown and/or uncrystallised funds pension lump sum;

4.2 Phasing retirement by lifetime annuity purchase basis and/or capped drawdown pension basis;

4.3 How target income will be achieved by lump sum and income payments including calculations;

4.4 The benefits payable on death and their tax treatment.

5. Understand the regulatory requirements and legal framework designed to protect clients who are drawing pension benefits

5.1 FCA regulation – Conduct of Business, guidance, thematic reviews and market studies;

5.2 Pension Wise;

5.3 Pension increase exchange and the impact of regulatory guidance;

5.4 Security of members benefits, including Pension Protection Fund, Financial Assistance Scheme and Financial Services Compensation Scheme;

5.5 TPR transfer guidance, including pension scams.

6. Understand the State retirement benefits available

6.1 The New State Pension: calculating the starting amount, eligibility through National Insurance contributions and credits, amounts payable and annual increases;

6.2 Ability to increase the State Pension by paying Class 3 NICs;

6.3 State Pension Age (SPA): equalisation of male and female ages and subsequent increases to SPA;

6.4 State retirement benefits for those who reached SPA before 6 April 2016;

6.5 Deferring the State Pension;

6.6 State Pension Credit;

6.7 Payment of State retirement benefits to pensioners living overseas;

6.8 Benefits payable by the State on death;

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

Pension Options

7.1 The choice between the different methods for drawing a pension income and/or lump sum;

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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 Intergenerational 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;**
- **Establishing attitude to risk and capacity for loss;**
- **Longevity and probability of outliving the average;**
- **Cash flow modelling, stress testing and safe withdrawal rate;**
- **Investment strategies in retirement;**

7.8 Non pension assets as an alternative means of providing income;

7.9 Impact of pension sharing and earmarking awards upon retirement and on death.

Reading list

The following list provides details of additional resources 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 resourcess listed here will help you keep up-to-date with developments and provide a wider coverage of syllabus topics.

CII/PFS members can access most of the additional study materials below via the Knowledge Services webpage at www.cii.co.uk/knowledge.

New resources are added frequently - for information about obtaining a copy of an article or book chapter, book loans, or help finding resources , please go to www.cii.co.uk/knowledge or email knowledge@cii.co.uk.

CII study texts

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

Books

Pensions law handbook. 13th ed. Haywards Heath, West Sussex: Bloomsbury Professional Ltd., 2017.

Pension magic: how to make the taxman pay for your retirement. 7th ed. Nick Braun. Kircaldy: Tax Cafe, 2017.

Pension tax guide: a tax guide 2017-2018. Robert Gaines. Chester: Claritax Books, 2017.

Fact files

CII fact files are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Written by subject experts and practitioners, the fact files cover key industry topics as well as less familiar or specialist areas of general insurance, life, and pensions and financial services, with information drawn together in a way not readily available elsewhere. Available online via www.cii.co.uk/ciifactfiles (CII/PFS members only).

The Insurance Institute of London (IIL) podcast lecture series features leading industry figures and subject experts speaking on current issues and trends impacting insurance and financial services. Available online at www.cii.co.uk/ciifactfiles (CII/PFS members only).

- The current State Pension scheme. Paul Clarke.
- State Pension age. Paul Clarke.
- Single-tier State Pension. Paul Clarke.
- State Pension credit. Paul Clarke.
- The overseas pensioner. Paul Clarke.

Annuities insurance in the UK, key trends and opportunities. ©Timetric Forecast Reports. Annual. Available for members at www.cii.co.uk/forecastreports.

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Life insurance in the UK, key trends and opportunities. ©Timetric Forecast Reports. Annual. Available for members at www.cii.co.uk/forecastreports.

Pensions in the UK, key trends and opportunities. Annual. ©Timetric. Available online at www.cii.co.uk/forecastreports.

Additional articles and technical bulletins are available under the Life and Pensions section of the website at www.cii.co.uk/knowledge/life-pensions.

Journals and magazines

Financial adviser. London: FT Business. Weekly. Available online at www.ftadviser.com.

Personal finance professional (previously Financial solutions). London: CII. Six issues a year. Available online at www.thepfs.org/financial-solutions-archive (CII/PFS members only).

Money management. London: FT Business. Monthly. Available online www.ftadviser.com/brand/money-management.

Money marketing. London: Centaur Communications. Weekly. Available online at www.moneymarketing.co.uk.

Pensions age. London: Perspective. Monthly. Available at www.pensionsage.com.

Pensions insight. Newsquest Specialist Media. Monthly. Available at www.pensions-insight.co.uk.

Professional pensions. London: Incisive Media. Weekly. Available at www.professionalpensions.com.

Reference materials

Butterworths pensions legislation service. London: LexisNexis UK. Looseleaf, last update November 2017.

PPI Pensions Primer and Pension Facts. Pensions Policy Institute (PPI). Available online at http://www.pensionspolicyinstitute.org.uk/pension-facts, updated.

Concise encyclopedia of insurance terms. Laurence S. Silver, et al. New York: Routledge, 2010.*

Harriman's financial dictionary: over 2,600 essential financial terms. Edited by Simon Briscoe and Jane Fuller. Petersfield: Harriman House, 2007.*

HMRC - Pensions Tax Manual (PTM). Available online at www.gov.uk/hmrc-internal-manuals/pensions-tax-manual.

Lamont's financial glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009.

Pensions: law and practice with precedents. London: Sweet & Maxwell. Looseleaf, last update September 2017.

Sweet & Maxwell's law of pension schemes. Nigel Inglis Jones. London: Sweet & Maxwell. Looseleaf, last update September 2017.

Tolley's guide to disclosure of tax avoidance schemes and pension schemes. Sally Ling. London: LexisNexis, 2014.

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

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 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.

Older guides are available via www.cii.co.uk/past-exam-guides (CII/PFS members only).

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/iilrevision (CII/PFS members only).

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