Chartered Insurance Institute

J05

Diploma in Financial Planning

Unit J05 – Pension income options

February 2024 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2023/2024, unless stated otherwise in the question, and should be answered accordingly.

It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

Unit J05 – Pension income options

Instructions to candidates

Read the instructions below before answering any questions

- **Two hours** are allowed for this paper which consists of 15 short answer questions and carries a total of 130 marks.

- 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.

- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.

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

- Tax tables are provided towards the end of this paper.

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

*To gain maximum marks for calculations you **must** show **all** your workings and express your answers to **two** decimal places.*

PLEASE ENSURE YOU TYPE YOUR ANSWER TO EACH QUESTION IN THE CORRECT ANSWER BOX

1. Shabana, aged 66, plans to retire on 1 April 2024. She has significant pension savings and holds enhanced protection with lump sum protection of 45%, which she applied for on 15 August 2008. Shabana is considering topping up her pension before she retires.

(a) Explain why Shabana will be able to make pension contributions prior to April 2024 without losing enhanced protection. **(3)**

(b) Outline Shabana's entitlement to a Pension Commencement Lump Sum (PCLS), assuming she takes her PCLS on 1 April 2024. *No calculations are required.* **(4)**

2. The normal minimum pension age will increase to 57 from 6 April 2028. Transitional protections will be put in place for individuals who had an existing right to take benefits earlier than age 57.

Outline these transitional protections. **(6)**

3. Karen, aged 54, is in good health, and plans to semi-retire in 12 months' time. She will continue to work part-time until State Pension age, at which time her State Pension will be sufficient to cover her income needs in retirement.

Karen is in receipt of a dependant's pension from her late husband's defined benefit pension scheme, which has a capital value of £18,600. She is currently an active member of a group personal pension scheme (GPP) valued at £26,300 and has a paid-up personal pension plan (PPP) valued at £2,600. Both the GPP and PPP are uncrystallised and the GPP does not allow partial transfers. She has no other pensions.

Karen would like to use her pensions to repay her mortgage as soon as possible.

Explain to Karen how it may be possible for her to commute her pensions for lump sums. *You can ignore taxation in your answer.* **(11)**

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4. Astrid, aged 58, was widowed in 2022. She is now in receipt of a dependant's scheme pension of £13,500 per annum gross. Astrid has no children and no dependants.

Astrid has decided to retire and has calculated she will need a net income of £28,000 per annum, increasing each year by inflation, to cover her regular outgoings. In addition to her dependant's scheme pension, she has an uncrystallised personal pension plan (PPP) valued at £700,000, which is wholly invested in fixed interest funds. Her other assets are her home, which is mortgage free and valued at £550,000, and cash on deposit of £25,000. Astrid has a cautious attitude to risk and very little investment experience.

Outline the factors that you would take into account when deciding whether you would recommend that Astrid use her PPP to purchase a lifetime annuity, or if she should take her retirement income via flexi-access drawdown. **(10)**

5. Franco, aged 63, is married to Sally, aged 60. Franco has recently retired, and Sally has reduced her working hours with a view to retiring fully at age 67. As a result of the reduction in working hours, Sally's salary is now £54,000 per annum.

Franco is in receipt of a scheme pension, which is currently £16,000 per annum. He also has an uncrystallised personal pension plan (PPP) with a current value of £320,000. Sally is an active member of her employer's group personal pension scheme (GPP) which has a current value of £75,000. Franco and Sally would like to withdraw an additional £25,000 per annum from their pension assets to top up their income.

(a) Outline **five** benefits of taking the withdrawals using phased flexi-access drawdown rather than purchasing a lifetime annuity. **(5)**

(b) Explain why they should take the withdrawals from Franco's PPP rather than Sally's GPP. **(5)**

6. Section 9.3 of the Financial Conduct Authority's Conduct of Business Sourcebook (COBS) outlines the relevant circumstances that should be considered when a firm is making a personal recommendation to a client regarding income withdrawals.

Outline the relevant circumstances that must be considered. **(7)**

PLEASE ENSURE YOU TYPE YOUR ANSWER TO EACH QUESTION IN THE CORRECT ANSWER BOX

7. A financial advice firm has recently identified that a number of their clients have been approached by scammers, inviting them to transfer their self-invested personal pensions. The firm plans to write to all of its clients to highlight the risk of potential scams.

State **five** common tactics used by scammers that should be included within the firm's communication to its clients. **(5)**

8. Sabine is approaching her 66th birthday and would like to understand how much State Pension she will receive.

Explain to Sabine how her State Pension will be calculated. *No calculations are required.* **(7)**

9. Outline the factors that you would take into account when advising on whether to take a lump sum from a personal pension plan (PPP), via an uncrystallised funds pension lump sum (UFPLS) or as a pension commencement lump sum (PCLS). **(11)**

10. Siobhan and Harvey have recently married. Siobhan has a non-dependant adult daughter from a previous relationship. On her death Siobhan would like to ensure that her pension fund is available to provide for Harvey as he has little pension provision of his own. However, she would also like to ensure that, on Harvey's death, the residual fund will pass to her daughter.

Explain why nominating the death benefits to a spousal bypass trust would be suitable in these circumstances. **(7)**

11. Suzy is aged 76. Her wife, Gwen, died recently, aged 79. Suzy is receiving a State Pension of £6,864 per annum and savings income of £1,125 per annum from her bank account. In addition, she has a dependant's flexi-access drawdown (FAD) plan valued at £433,000 and ISAs valued at £397,000.

Suzy needs a net income of approximately £26,000 per annum in order to maintain her lifestyle. Her primary financial aims are for her income to be tax efficient and to maximise the inheritance for her two non-dependent children.

Explain, in detail, how Suzy can best achieve her objectives by taking the balance of the income required from her ISA rather than from her dependant's FAD plan. **(10)**

PLEASE ENSURE YOU TYPE YOUR ANSWER TO EACH QUESTION IN THE CORRECT ANSWER BOX

12. Angus, aged 64, is married to Hannah, aged 56. Angus plans to retire when he reaches age 65. He is a deferred member of a defined benefit pension scheme, which is offering him a scheme pension of £21,000 per annum, with a 10-year guarantee period and a 50% spouse's pension. He is considering transferring these benefits into a personal pension plan (PPP) in order to access them flexibly.

Outline the death benefit options available to Hannah, if Angus were to die before the age of 75, including the tax treatment, in respect of:

(a) the defined benefit scheme, assuming Angus has retired, and the transfer does not go ahead; **(4)**

(b) the PPP, assuming the transfer goes ahead. **(8)**

13. Alexis, aged 72, is in excellent health. She retired in December 2023 and has a portfolio of flexi-access drawdown pensions and investment ISAs, valued at £240,000. She is currently drawing £22,000 per annum from the portfolio to fund her retirement. Alexis is seeking advice on how long her portfolio will last.

(a) Explain the purpose of creating a lifetime cashflow model for Alexis. **(5)**

(b) Describe to Alexis the **four** key risks she is subject to in respect of her withdrawals. **(8)**

14. Carlos, aged 63, has a personal pension plan (PPP) valued at £340,000. The PPP is wholly invested in a lifestyle annuity fund with a selected retirement age of 65.

Carlos has a high attitude to risk and plans to draw an income via a series of uncrystallised funds pension lump sums when he retires at the age of 65.

Explain why Carlos' current investment approach is unsuitable and why he would benefit from an earmarked investment strategy in retirement. **(8)**

15. Petra, aged 64, is currently in the process of finalising her divorce. She is in good health and plans to retire at age 65. As part of the divorce settlement, Petra has been awarded a share of her husband's defined benefit pension scheme.

The trustees of the defined benefit scheme will not allow Petra to become a scheme member. She has been offered a cash equivalent transfer value (CETV), which she can transfer into a pension arrangement in her own name.

Explain the advantages of Petra using a pension sharing order rather than an earmarking order in relation to her share of the DB scheme. **(6)**

INCOME TAX

RATES OF TAX	2022/2023	2023/2024
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£125,140

High income child benefit charge: 1% of benefit per £100 of adjusted net income between £50,000 – £60,000

**Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance.*

	2022/2023	2023/2024
Personal savings allowance (for savings income):		
Basic rate taxpayers	£1,000	£1,000
Higher rate taxpayers	£500	£500
Additional rate taxpayers	Nil	Nil
Dividend Allowance	£2,000	£1,000
Dividend tax rates		
Basic rate	8.75%	8.75%
Higher rate	33.75%	33.75%
Additional rate	39.35%	39.35%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	39.35%	39.35%
- other income	45%	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS	2022/2023	2023/2024
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£3,640	£4,010
Married/civil partners at 10% †	£9,415	£10,375
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance†	£31,400	£34,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,600	£2,870
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £200,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).
† where at least one spouse/civil partner was born before 6 April 1935.
*** Investment above £1,000,000 must be in knowledge-intensive companies.*

	2022/2023	2023/2024
Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,935	£3,235
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£17,005	£18,725

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£123
Primary threshold	£242
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 242.00*	Nil
242.00 – 967.00	12% / 10%**
Above 967.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £123 per week. This £123 to £242 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*

***From 6 April 2023 to 5 January 2024 12% rate applies, from 6 January 2024 to 5 April 2024, 10% rate applies.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below 175.00***	Nil
Over £175.00	13.8%

****Secondary threshold.*

CLASS 2 (self-employed)	
Flat rate per week	£3.45
Small profits threshold per year	£6,725
Lower profits limit per year	£12,570

Class 3 (voluntary)	Flat rate per week £17.45.
Class 4 (self-employed)	9% on profits between £12,570 and up to £50,270. 2% on profits above £50,270.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 – 2023/2024*	£1,073,100

**Lifetime allowance charge removed after 5 April 2023. Any excess over the lifetime allowance that would have been subject to a lifetime allowance charge of 55% prior to 2023/2024 will be taxable as the member's pension income via PAYE.*

Maximum tax-free pension commencement lump sum in 2023/2024 is £268,275 unless a higher amount is protected.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*
2023/2024	£60,000**

**From 6 April 2016 the annual allowance is reduced for those with income above a certain level. Between 2020/21 and 2022/23 the annual allowance will be reduced by £1 for every £2 of 'adjusted income' over £240,000 to a minimum of £4,000 if 'threshold income'is also over £200,000.*
***Reducing by £1 for every £2 of 'adjusted income' over £260,000 to a minimum of £10,000 if 'threshold income'is also over £200,000.*

ANNUAL ALLOWANCE CHARGE

20% – 45% determined by the member's taxable income and the amount of total pension input in excess of the annual allowance or money purchase annual allowance.

MONEY PURCHASE ANNUAL ALLOWANCE	2022/2023	2023/2024
	£4,000	£10,000

CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2022/2023	2023/2024
Individuals, estates etc	£12,300	£6,000
Trusts generally	£6,150	£3,000
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000
TAX RATES		
Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives:		
Residential property	28%	28%
Other chargeable assets	20%	20%
Business Asset Disposal Relief*	10%	10%
Lifetime limit	£1,000,000	£1,000,000

**For trading businesses and companies (minimum 5% employee or director shareholding) if held for at least two years.*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2022/2023	2023/2024
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Reduced rate (where appropriate charitable contributions are made)	36%	36%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

MAIN EXEMPTION		
Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£175,000	£175,000
- UK-registered charities	No limit	No limit

*****_Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished._

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- Annual small gifts exemption per donor	£250	£250
Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

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:

- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

Quick succession relief:

- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	100%	80%	60%	40%	20%

MAIN SOCIAL SECURITY BENEFITS

		2022/2023	2023/2024
		£	£
Child Benefit	First child	21.80	24.00
	Subsequent children	14.45	15.90
	Guardian's allowance	18.55	20.40
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 61.05	Up to 67.20
	Aged 25 or over	Up to 77.00	Up to 84.80
	Main Phase		
	Work Related Activity Group	Up to 107.60	Up to 84.80*
	Support Group	Up to 117.60	Up to 129.50
Attendance Allowance	Lower rate	61.85	68.10
	Higher rate	92.40	101.75
Basic State Pension	Category A full rate	141.85	156.20
	Category B full rate	85.00	93.60
New State Pension	Full rate	185.15	203.85
Pension Credit	Standard minimumguarantee - single	182.60	201.05
	Standard minimum guarantee - couple	278.70	306.85
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	61.05	67.20
	Age 25 or over	77.00	84.80
Statutory Maternity, Paternity and Adoption Pay		156.66	172.48

**If a claim has begun before 3rd April 2017 the individual will also be awarded the Work Related Activity Component payment which in 2023/2024 is £33.70, so total awarded for these individuals may be up to £118.50.*

CORPORATION TAX

	2022/2023	2023/2024
Small profit rate - for taxable profits below £50,000	N/A	19%
Marginal rate – for taxable profits between £50,001 - £250,000	N/A	26.5%
Standard rate - for taxable profits above £250,000	19%	25%

VALUE ADDED TAX

	2022/2023	2023/2024
Standard rate	20%	20%
Annual registration threshold	£85,000	£85,000
Deregistration threshold	£83,000	£83,000

STAMP DUTY LAND TAX

	Residential
Value up to £250,000	0%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

Additional Stamp Duty Land Tax (SDLT) rules apply as follows:

- *First-time buyers benefit from SDLT relief on first £425,000 for properties up to £625,000 when purchasing their mainresidence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,001 and £625,000, a flat rate of 5% is charged on the balance above £425,000.*
- *Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *SDLT may be charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.*
- *SDLT is payable in England and Northern Ireland only. Land Transaction Tax(LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. Therates for LTT and LBTT are different to the rates shown above.*

	Non residential
Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%