Chartered Insurance Institute

J05

Diploma in Financial Planning

Unit J05 – Pension income options

October 2020 Examination Guide

SPECIAL NOTICES

Candidates entered for the February 2021 examination should study this examination guide carefully in order to prepare themselves for the examination.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

J05 – Pension income options

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you in your preparation for this examination.

Before the examination

Study the syllabus carefully
This is available online at www.cii.co.uk. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone,* so it is vital that you are familiar with it.

There are books specifically produced to support your studies that provide coverage of all the syllabus areas. However, you should be prepared to read around the subject. This is important particularly if you feel that further information is required to fully understand a topic, or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Note the assumed knowledge
For the Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Certificate in Financial Planning or the equivalent. This knowledge is set out on the relevant syllabus.

Read widely
If you do not have experience in advising clients whose financial needs are relatively sophisticated, *it is quite unrealistic to expect that the study of a single textbook will be sufficient to meet all your requirements.* While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic, or an alternative viewpoint is sought. It is vital that your knowledge is widened beyond the scope of one book. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide

This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks. *However, you should note that there are alternative answers to some question parts which would also gain high marks.* For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible, and then comparing your answers to the model ones, should be seen as an essential part of your exam preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

Know the layout of the tax tables

Familiarise yourself with the information contained within the tax tables printed at the back of each Examination Guide. These tax tables will be provided to candidates as part of the examination. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to take your own tax tables into the examination.*

Know the structure of the examination

- Assessment is by means of a two-hour online exam.
- All questions are compulsory.
- The online exam is made up of 15 short questions.
- Each question part will clearly show the maximum marks which can be earned.
- The paper will carry a total of 130 marks.

Appreciate the standard of the examination

Candidates must demonstrate that they are capable of advising clients *whose overall levels of income and capital require a more sophisticated scheme of investment* than is normally prepared by a level 4 qualified adviser. These clients require a critical appraisal of the various financial planning options available to them.

Read the Assessment information and Exam policies for candidates

The details of administrative arrangements and the regulations which form the basis of your examination entry are available online at www.cii.co.uk/qualifications/assessment-information/introduction/. This is *essential reading* for all candidates.

In the examination

The following will help:

Spend your time in accordance with the allocation of marks:

- The marks allocated to each question part are shown on the paper.
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking for, so a long answer is wasting valuable time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper is not completed, your chances of passing will be reduced considerably.
- Do not spend excessive time on any one question; if the time allocation for that question has been used up, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

Take great care to answer the question that has been set.

- Many candidates leave the examination room confident that they have written a 'good' paper, only to be surprised when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before putting pen to paper.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

Tackling questions

Tackle the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which you find challenging until you have attempted the questions you are confident about. Candidates should avoid mixing question parts, (for example, 1(a)(i) and (ii) followed by 2(b)(ii) followed by 1(e)(i)) as this often leads to candidates unintentionally failing to fully complete the examination paper. This can make the difference between achieving a pass or a narrow fail.

It is vital to label all parts of your answer correctly as many questions have multiple parts to them (for example, question 1(a) may have parts (i), (ii) and (iii)). Failure to fully distinguish between the separate question parts may mean that full credit cannot be awarded. It is also important to note that a full answer must be given to each question part and candidates should not include notes such as 'refer to answer given in 1(b)(i)'.

Answer format

Unless the question requires you to produce an answer in a particular format, such as a letter or a report, *you should use 'bullet points' or short paragraphs,* since this allows you to communicate your thoughts in the most effective way in the least time. The model answers indicate what is acceptable for the different types of question.

Where you are asked to perform a calculation, it is important to show **all** the steps in your answer. The majority of the marks will be allocated for demonstrating the correct method of calculation.

Candidates will **not** lose marks due to poor spelling or grammar.

Calculators

The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation, even if you have used a calculator.

EXAMINERS' COMMENTS

Candidates overall performance:

Candidates generally performed well in this exam session and demonstrated a good breadth of knowledge across the key syllabus areas. The paper continued to test understanding of the current legislation, as well as testing understanding of the issues in giving advice to clients on taking pension benefits. Whilst the majority of candidates demonstrated good knowledge in these areas there were still a number of candidates who did not include enough detail in their answers to gain sufficient marks.

Question 1

This was a Lifetime Allowance calculation at age 75 and was typically well answered. The common errors made by a minority of candidates involved failing to include the growth in the drawdown fund and applying both rates of 25% and 55% tax in the final stage of the calculation.

Question 2

This question asked candidates to explain the requirements for financial advice prior to transferring two separate Defined Benefit (DB) schemes – one with a cash equivalent transfer value (CETV) of less than £30,000 and one with a CETV of greater than £30,000. Most candidates demonstrated an understanding of the requirements above £30,000, but some candidates did not distinguish between the two schemes and some omitted the need for the adviser to be appropriately qualified and for evidence to be provided.

Question 3

A standard question on DB scheme statutory minimum increases which many candidates answered well. However, common mistakes were to get dates and caps muddled, incorrectly state retail price index (RPI) instead of consumer price index (CPI), and to not specify whether increases were in relation to guaranteed minimum pension (GMP), excess or all benefits.

Question 4

This was a question on pension sharing on divorce and most candidates achieved at least half the marks, many achieving full marks. A minority of candidates really struggled with this question, failing to state key benefits including control of timing of benefits, shape of benefits, and benefits not being lost on death/remarriage.

Question 5

This asked candidates to outline advice considerations between drawing a lump sum as either pension commencement lump sum (PCLS) or uncrystallised funds pension lump sums (UFLPS). Although answered relatively well, common omissions which were needed to achieve full marks were that taking UFPLS uses more of the fund and taking UFPLS preserves more of the PCLS for the future.

Question 6

This asked candidates to outline advice considerations between accepting a CETV and using flexi-access drawdown, versus taking a scheme pension and PCLS. Although answered relatively well, a common mistake was in not relating the considerations back to the case study. This led to omissions including stating that she had no immediate planned capital expenditure and therefore no need for the PCLS, and that her income needs would be met from the scheme and state pension combined. Most candidates stated the requirement to understand Kathryn's attitude to risk/capacity for loss, however most failed to state her attitude to transfer risk.

Question 7

Part (a) was on the death benefit options for a scheme pension. Most candidates scored well although some failed to state that as the value is less than £30,000 it could be commuted for a trivial lump sum. Candidates who did not score as well did not understand that the scheme pension is taxable regardless of age of death, and that it would be taxable at Christine's marginal rate of income tax.

Part (b) was on the death benefit options of an uncrystallised personal pension plan (PPP) and was equally well answered. Candidates who scored less well failed to state nominee, instead incorrectly stating dependent or/or successor.

Question 8

A standard question asking what factors will affect annuity rates. Many candidates correctly stated age/longevity, escalation and payment options, death benefit/protection options, and health conditions. However, many candidates omitted postcode, gilt yields, and adviser charges.

Question 9

This question was testing candidates' knowledge on National Insurance credits and it was not answered well by the majority. Candidates lacked an understanding beyond Zeinab having potentially been on maternity leave or having taken time off to raise her children.

Question 10

This was a relatively straightforward comparison between investing in a pension versus an ISA. Many candidates omitted some obvious points such as that ISAs are payable completely tax free, whereas pensions are payable with 25% tax free and 75% taxed as income. Some candidates became confused over the scope for carry forward, stating there was scope when in fact Mathieu's earnings meant there was not. Some candidates failed to accurately explain the maximum tax relievable contribution to a pension being limited to £16,000 in this instance.

Question 11

The majority of candidates answered this question very well, which asked what information is included on a State Pension benefit statement. In a few cases candidates simply stated 'pension forecast' which failed to grasp the point of the question.

Question 12

This question focussed on the drawbacks of utilising uncrystallised funds pension lump sum (UFPLS) to purchase a buy to let property. The majority of candidates scored well highlighting the common drawbacks of void periods, illiquidity, Inheritance Tax treatment, and lack of diversification. In the minority of cases, candidates failed to state the tax drawbacks of Capital Gains Tax on the property and month 1 tax on the UFPLS.

Question 13

This was a Conduct of Business Sourcebook (COBS) question in relation to advising on income withdrawals. Many candidates struggled with this question and demonstrated a lack of knowledge of the COBS rules as candidates focused on the considerations for an UFPLS (which is not relevant) rather than quoting the COBS rules themselves.

Question 14

A very straightforward calculation requiring candidates to calculate the amount of fund needed to be crystallised to provide £15,000 net as an UFPLS. This was well answered by the vast majority of candidates.

Question 15

Part (a) asked for the considerations when carrying out a cash flow analysis. This was relatively well answered but common omissions were timescales of the income/expenditure requirements, pension fund size, and investment assumptions.

Part (b) was the stress-testing of the cash flow and while most candidates made statements about future returns, change in income/capital requirements, inflation and longevity, candidates failed to achieve sufficient marks by not stating these points in context. For example, that future returns are lower than expected, or inflation greater than expected.

Unit J05 – Pension income options

Instructions to candidates

Read the instructions below before answering any questions

All questions in this examination are based on English law and practice applicable in the tax year 2020/2021, 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.

- **Please write down the following number +44 (0)80 8273 9244 this is the number to use if your system freezes or you get forced out of your exam. It is fine to phone it if you have these issues.**

- **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.

- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation, even if you have used a calculator.

- The tax tables are provided on the right-hand side of the interface.

- For each answer, please type in the full question number you are answering e.g. **1a in the correct corresponding answer box.**

- Ensure you answer each question in the relevant answer box.

- If required, have you shown your ID during the ID check? If not, show it to the camera now please.

- If required, did you show the edge of your screen with a mirror during the room scan? If not, use a mirror to show it now please.

- If you have blank paper for notes, if required did you show both sides to the camera? If not, show both sides to the camera now please.

- Please familiarise yourself with **all** questions before starting the exam.

  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.*

1. In June 2014, Kenny's personal pension plan (PPP) was valued at £600,000. At that time, he took a pension commencement lump sum (PCLS) of £150,000. The remaining fund, currently valued at £575,000, is in a flexi-access drawdown arrangement.

Kenny reached the age of 75 on 5 April 2020. His only other pension arrangement is an uncrystallised PPP, which was valued at £650,000 on 5 April 2020. He has not registered for any form of transitional protection.

Calculate, **showing all your workings**, the lifetime allowance tax charge payable in respect of Kenny's pension benefits when he reached the age of 75.
You should assume Kenny did not crystallise any further benefits prior to age 75. **(8)**

2. Anika, aged 56, plans to retire when she reaches age 60. Anika is a deferred member of two separate defined benefit pension schemes, and she wishes to transfer these benefits into a personal pension plan (PPP) in order to access them flexibly. The cash equivalent transfer value (CETV) of scheme A is £25,000 and the CETV of scheme B is £135,000.

Explain, giving your reasons, the steps that Anika must take before the schemes will agree to transfer the funds to a PPP. **(8)**

3. Shabana was a member of her previous employer's defined benefit pension scheme between 1985 and 2006. The scheme was contracted-out prior to April 2016.

Outline the statutory minimum increases that the scheme must apply to Shabana's pension once it is in payment. **(8)**

4. George, aged 64, is currently in the process of finalising his divorce. He is in good health and plans to retire when he reaches age 65. As part of the divorce settlement, George has been awarded a share of his wife's defined benefit pension scheme.

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

Explain the advantages of George using a pension sharing order rather than an earmarking order in relation to his share of the defined benefit pension scheme. **(5)**

5. 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 or as a pension commencement lump sum. **(10)**

6. Kathryn, aged 64, is divorced and has a son aged 28, who is financially independent. She is employed on a salary of £16,000 per annum. Kathryn intends to retire when she reaches her State Pension age of 66 when she will be entitled to an estimated State Pension of £6,700 per annum. Kathryn anticipates requiring a net income of £15,000 per annum throughout her retirement and does not have any immediate planned capital expenditure.

Kathryn has deferred benefits in a defined benefit pension scheme. She will be entitled to a scheme pension of £11,680 per annum, plus a pension commencement lump sum (PCLS) of £35,040 at the scheme's normal pension age of 65. Alternatively, she has been offered a cash equivalent transfer value (CETV) of £293,000.

Outline the factors you would take into account when advising on whether Kathryn should accept the CETV and utilise flexi-access drawdown rather than take the scheme pension and PCLS offered by the scheme. **(12)**

7. Paulo died recently at the age of 71. At the time of his death, he was in receipt of a scheme pension of £6,500 per annum from a defined benefit pension scheme, which commenced when Paulo reached age 65 and included a ten-year guarantee. The scheme pension does not include any pension protection lump sum death benefits and does not provide any defined benefit lump sum death benefits. He also held an uncrystallised personal pension plan (PPP).

Paulo, who was single with no dependants, had completed nomination forms showing that his sister, Christine, should receive the death benefits from his pensions.

Outline the death benefit options available to Christine, including the tax treatment, in respect of Paulo's:

(a) scheme pension; **(6)**

(b) uncrystallised personal pension plan. **(9)**

8. Rafa, aged 63, currently holds a personal pension plan (PPP) valued at £325,000. Rafa intends to use his full PPP to purchase a lifetime annuity at age 65.

State **eight** factors that will influence the annuity rate Rafa will receive.
You should consider both generic and client specific factors in your answer. **(8)**

9. Zeinab, who is married with three adult children, reached her State Pension age in March 2020. She has 35 qualifying years of National Insurance Contributions (NICs), but 15 of these years are as a result of NIC credits being awarded.

State the potential circumstances that could have resulted in Zeinab's NIC credits. **(5)**

10. Mathieu, aged 62, plans to retire in July 2020. He has relevant UK earnings of £4,000 gross per month and no pension contributions have been made for five years.

Mathieu has savings of £20,000 which he wishes to invest. He does not anticipate requiring access to this capital for at least ten years.

Outline the factors Mathieu should consider when deciding whether to invest his savings into a personal pension plan (PPP) or an ISA. **(12)**

11. Identify five pieces of information included on a State Pension benefit statement. **(5)**

12. Joanne, aged 60, is considering withdrawing her entire pension fund as an uncrystallised funds pension lump sum and purchasing a buy-to-let property to provide her retirement income.

Outline **seven** drawbacks of this course of action. **(7)**

13. 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. **(8)**

14. Sabine is aged 60. Her only income for 2019/2020 is her salary of £20,000. She has an uncrystallised personal pension fund of £130,000. Sabine wishes to take an uncrystallised funds pension lump sum (UFPLS) which will provide her with a net payment of £15,000 after all taxes have been settled.

Calculate, **showing all your workings**, the amount of fund which must be crystallised to provide the net amount of £15,000 as an UFPLS.
You should assume that the scheme administrator has Sabine's tax code and therefore Month 1 does not apply. **(5)**

15. Tim, aged 63, is about to retire and intends to draw an income from his personal pension plan (PPP) using flexi-access drawdown. Tim would like to assess his projected income and expenditure requirements before taking an income from his PPP.

(a) State **eight** factors that should be taken into account when carrying out a projected cash flow analysis for Tim. **(8)**

(b) Outline **six** scenarios that should be discussed with Tim when carrying out a stress test of his cash flow analysis. **(6)**

NOTE ON MODEL ANSWERS
The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

Model answer for Question 1

- Lifetime allowance utilised in 2014/2015 = £600,000/£1,250,000
- = 48%
- £575,000 - £450,000 = £125,000
- £125,000 + £650,000 = £775,000
- Lifetime allowance remaining = 52% x £1,073,100 = £558,012
- Subject to LTA = £775,000 - £558,012 = £216,988
- Lifetime allowance charge = 25%
- x £216,988 = £54,247

Model answer for Question 2

Candidates would have gained full marks for any eight of the following:
Scheme A:
- As the cash equivalent transfer value (CETV) is less than £30,000.
- Anika does not need to obtain financial advice.

Scheme B:
- Anika has safeguarded benefits
- and the CETV is more than £30,000
- and plans to access her pension benefits flexibly
- therefore, she must obtain financial advice
- from an appropriately qualified adviser/firm/pension transfer specialist (which is independent from the scheme).
- and provide evidence to the ceding scheme confirming this.
- The appropriate transfer paperwork must be completed to confirm she wishes to transfer/transfers must be requested.

Model answer for Question 3

- Pre-88 GMP – no statutory increases.
- Inflation measure of CPI.
- Post-88 GMP – CPI capped at 3%.
- Pre-97 excess (non-GMP) benefits – no statutory increases.
- All benefits accrued between 6 April 1997 and (5 April 2005).
- CPI capped at 5%.
- All benefits accrued from 6 April 2005.
- CPI capped at 2.5%.

Model answer for Question 4

Candidates would have gained full marks for any five of the following:

- Clean break of assets/legal transfer of ownership.
- Flexibility regarding shape benefits are withdrawn/lump sum/income/death benefit.
- Can draw benefits in line with his retirement age.
- Can invest in line with his attitude to risk/capacity for loss/control over investments.
- Income Tax position can be controlled/withdrawals taxed on George.
- Not lost should George remarry/ex-spouse die.

Model answer for Question 5

Candidates would have gained full marks for any ten of the following:

- Amount needed.
- Income/tax status.
- Pension commencement lump sum (PCLS) is tax free.
- Only 25% of UFPLS is tax free/75% of uncrystallised funds pension lump sum (UFPLS) is taxable.
- Taking UFPLS uses more fund/leaves less invested/PCLS would leave more invested.
- UFPLS results in Month 1 taxation/tax would need to be reclaimed.
- Taking UFPLS triggers money purchase annual allowance (MPAA)/loses carry forward/taking PCLS does not trigger MPAA/keep carry forward/has MPAA already been triggered.
- Taking UFPLS will preserve more of PCLS for future/taking PCLS significantly reduces future PCLS available.
- Pension value.
- Contribution levels/making regular contributions.
- Protected PCLS/eligible for UFPLS/proximity to Lifetime Allowance (LTA).

Model answer for Question 6

Candidates would have gained full marks for any twelve of the following:

- Health/longevity.
- She has no dependants to benefit from the scheme pension/her son can be a nominee in respect of the flexi-access drawdown (FAD) benefits if transferred/importance of death benefits.
- Other assets/future inheritances.
- She has no immediate planned capital expenditure/no apparent need for PCLS
- Her income needs of £15,000 will be met (after 65).
- With FAD she can vary her income to meet her requirement of £15,000 per annum net/feelings towards guaranteed income.
- attitude to risk/capacity for loss.
- Attitude to transfer risk.
- Charges/advice fees.
- Complexity of FAD/ongoing reviews required.
- Indexation of scheme pension.
- Solvency of scheme.
- Annuity rates.
- Investment experience.

Model answer for Question 7

(a)
- Guarantee payable as income/£6,500 per annum
- for remainder of period/4 years/balance of 10 years
- may choose to commute for a trivial commutation lump sum
- as valued at less than £30,000
- taxable at Christine's marginal rate.
- Not tested against Paulo's LTA.

(b)
- Lump sum.
- Nominee's.
- FAD.
- Annuity.
- Paid tax free;
- If designated within 2 years of date of death.
- Taxable as earned income if paid to Christine outside of 2 years.
- Subject to check against Paulo's LTA.
- Not liable to Inheritance Tax.

Model answer for Question 8

- Age/longevity/mortality rates.
- Fund size.
- Escalation.
- Survivors benefits/guarantees/annuity protection.
- Lifestyle/health/medical condition.
- Postcode/geographical location.
- Gilt yields.
- Adviser charges/costs of setting up annuity.
- Payment frequency/advance (arrears).

Model answer for Question 9

Candidates would have gained full marks for any five of the following:
- Claiming unemployment, maternity or sickness benefits/Working Tax Credit/Universal Credit/Job Seekers Allowance/unemployed but seeking work.
- Whilst on a full-time approved training course.
- Taking time off work to raise her family/claiming Child Benefit/credit from spouse;
- Working as a foster carer/caring for a child of a family member.
- Taking time off work to care for an elderly or sick relative.
- On jury service/married to a member of the armed forces.

Model answer for Question 10

- Pension contributions receive tax relief/ISA savings do not receive tax relief.
- ISA fund is payable completely tax-free.
- 25% of pension will be payable tax-free/75% taxed.
- Has MPAA been previously triggered?
- Proximity to lifetime allowance/will contribution invalidate any LTA protection.
- Has he made any ISA contributions this tax year?
- Pension funds are outside of estate/ISA funds are within estate.
- Max gross tax relievable pension contribution limited to relevant UK earnings (£16,000)
- and savings exceed this.
- No scope for carrying forward (as relevant earnings are not high enough for any tax relief to be available).
- Maximum ISA contribution is £20,000
- Expected retirement income/other accessible funds/tax status on retirement.

Model answer for Question 11

Candidates would have gained full marks for any five of the following:

- Current number of qualifying years/any gap in NI record/Level of NICs.
- Age/date on which State pension becomes payable/State Pension Age.
- Current State pension entitlement.
- State pension entitlement at state pension age (assuming NICs continue).
- Information on how benefits can be improved/deferred.
- Contracting out pension equivalent (COPE) estimate/COPE/the (level of) pension they would have received if they had not contracted out.

Model answer for Question 12

- Property is within her estate for Inheritance Tax purposes.
- Potential void periods.
- Property is subject to Capital Gains Tax if sold.
- Potential month 1/emergency tax on UFPLS/taxed on 75%.
- High costs of purchase/maintenance.
- Illiquid investment.
- No flexibility of income/lack of diversification.

Model answer for Question 13

Candidates would have gained full marks for any eight of the following:
- State of health.
- (Investment) objectives.
- Requirement for tax free cash/capital.
- Current income requirements.
- Future income requirements.
- Existing pension assets/fund values.
- Other assets/overall wealth/income from other sources/relative importance of the plan given the client's financial circumstances.
- Attitude to risk.
- (explanation of) any discrepancy between attitude towards an income withdrawal and other investments.

Model answer for Question 14

- £100 provides £25 PCLS
- Plus £75 less 20% tax - £60
- £100 provides £85 net income
- £15,000/0.85
- = £17,647.06 to be crystallised.

OR £15,000/(0.25 + 0.75 x [1-20/100]) = £17,647.06

Model answer for Question 15

(a) *Candidates would have gained full marks for any eight of the following:*
- Current and forecasted wealth/other assets/spouse or partners income.
- Regular expenditure.
- Capital requirements/ad-hoc lump sums required.
- Timescales of the requirements/change in income needs over time (e.g. long-term care/state pension coming into payment)/change in circumstances.
- Pension fund size/overall importance of pension in total assets.
- Tax position.
- Attitude to risk/capacity for loss.
- Assumptions inflation/investment growth/charges.
- Health/longevity/plan for longer than average life expectancy.

(b)
- Loss of source of income or capital assets/market crash.
- Future returns lower than expected.
- Income requirements greater than projected (for example, need long term care).
- Unplanned/ad-hoc capital withdrawal.
- Inflation greater than anticipated.
- Living longer than expected.

October 2020 Examination - J05 Pension income options		
Question No.	**Syllabus learning outcomes being examined**	
1.	1.	Understand the HMRC rules that apply when pension benefits are crystallised.
2.	5.	Understand the regulatory requirements and legal framework designed to protect clients who are drawing pension benefits.
3.	2. 3. 4. 7.	Understand the HMRC rules that apply when pension benefits are crystallised. Understand the features, tax treatment and risks of flexible benefit options. Understand the features, tax treatment and risks of phasing retirement benefits. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
5.	3. 4. 7.	Understand the features, tax treatment and risks of flexible benefit options Understand the features, tax treatment and risks of phasing retirement benefits. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
6.	2.	Understand the HMRC rules that apply when pension benefits are crystallised.
7.	2. 3.	Understand the HMRC rules that apply when pension benefits are crystallised. Understand the features, tax treatment and risks of flexible benefit options.
8.	2.	Understand the HMRC rules that apply when pension benefits are crystallised.
9.	6.	Understand the State retirement benefits available.
10.	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
11.	6.	Understand the State retirement benefits available.
12.	3. 7.	Understand the features, tax treatment and risks of flexible benefit options. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
13.	5.	Understand the regulatory requirements and legal framework designed to protect clients who are drawing pension benefits.
14.	4.	Understand the features, tax treatment and risks of phasing retirement benefits.
15.	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.

All questions in the February 2021 paper will be based on English law and practice applicable in the tax year 2020/2021, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the October 2020 and February 2021 examination.

INCOME TAX

RATES OF TAX	2019/2020	2020/2021
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	£37,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000

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

Dividend Allowance		£2,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
- other income		45%

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance *§*	£100,000	£100,000
Personal Allowance (basic) *§*	£12,500	£12,500
Married/civil partners (minimum) at 10% †	£3,450	£3,510
Married/civil partners at 10% †	£8,915	£9,075
Marriage Allowance	£1,250	£1,250
Income limit for Married Couple's Allowance†	£29,600	£30,200
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,450	£2,500
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £100,000 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.*

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,830
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,385

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	**Weekly**
Lower Earnings Limit (LEL)	£120
Primary threshold	£183
Upper Earnings Limit (UEL)	£962

Total earnings £ per week	**CLASS 1 EMPLOYEE CONTRIBUTIONS**
Up to 183.00*****	Nil
183.00 – 962.00	12%
Above 962.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £120 per week. This £120 to £183 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the new State Pension.*

Total earnings £ per week	**CLASS 1 EMPLOYER CONTRIBUTIONS**
Below 169.00**	Nil
169.00 – 962.00	13.8%
Excess over 962.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.05 where profits exceed £6,475 per annum.
Class 3 (voluntary)	Flat rate per week £15.30.
Class 4 (self-employed)	9% on profits between £9,500 - £50,000. 2% on profits above £50,000.

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	£1,500,000
2013/2014	£1,500,000
2014/2015	£1,250,000
2015/2016	£1,250,000
2016/2017	£1,000,000
2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021	£1,073,100

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.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*
2018/2019	£40,000*
2019/2020	£40,000*
2020/2021	£40,000*

~ increased to £80,000 for pension input between April - 8 July 2015. If not used, can be carried forward to pension input period of 9 July 2015 - 6 April 2016, subject to a maximum of £40,000.

**tapered 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.*

MONEY PURCHASE ANNUAL ALLOWANCE	2019/2020	2020/2021
	£4,000	£4,000

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.

CAPITAL GAINS TAX

EXEMPTIONS	2019/2020	2020/2021
Individuals, estates etc	£12,000	£12,300
Trusts generally	£6,000	£6,150
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	20%	20%
	10%	10%
Business Asset Disposal Relief* – Gains taxed at:		
Lifetime limit	£10,000,000	£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	2019/2020	2020/2021
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

A lower rate of 36% applies where at least 10% of deceased's net estate is left to a registered charity.

MAIN EXEMPTIONS

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*	£150,000	£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
- Small gifts exemption	£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%

PRIVATE VEHICLES USED FOR WORK

	2019/2020 Rates	2020/2021 Rates
Cars		
On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile
Motor Cycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2019/2020	2020/2021
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000
Plant & machinery (reducing balance) per annum	18%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	6%	6%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Electric charging points	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

Motor cars: Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)

CO_2 emissions of g/km:	50 or less*	51-110	111 or more
Capital allowance:	100% first year	18% reducing balance	6% reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2019/2020	2020/2021
		£	£
Child Benefit	First child	20.70	21.05
	Subsequent children	13.70	13.95
	Guardian's allowance	17.20	17.90
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 57.90	Up to £58.90
	Aged 25 or over	Up to 73.10	Up to £74.35
	Main Phase		
	Work Related Activity Group	Up to 102.15	Up to 74.35
	Support Group	Up to 111.65	Up to 113.55
Attendance Allowance	Lower rate	58.70	59.70
	Higher rate	87.65	89.15
Basic State Pension	Single	129.20	134.25
	Married	201.45	268.50
Single Tier State Pension	Single	168.60	175.20
Pension Credit	Single person standard minimum guarantee	167.25	173.75
	Married couple standard minimum guarantee	255.25	265.20
	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	57.90	58.90
	Age 25 or over	73.10	74.35
Statutory Maternity, Paternity and Adoption Pay		148.68	151.20

CORPORATION TAX

	2019/2020	2020/2021
Standard rate	19%	19%

VALUE ADDED TAX

	2019/2020	2020/2021
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 £125,000	0%
£125,001 - £250,000	2%
£250,001 and £925,000	5%
£925,001 and £1,500,000	10%
£1,500,001 and over	12%

Important note: For residential properties purchased between 8th July 2020 and 31st March 2021, Stamp Duty Land Tax does not apply up to £500,000. For purchases above £500,000, the band rates above apply as normal. Additional SDLT rules still apply as below.

Stamp Duty Land Tax (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. The rates for LTT and LBTT are different to the rates shown above.

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.

First-time buyers benefit from SDLT relief on purchases up to £500,000 when purchasing their main residence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,000 and £500,000, a flat rate of 5% is charged on the balance above £300,000.

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