Chartered
Insurance
Institute

AF7

Advanced Diploma in Financial Planning

Unit AF7 – Pension transfers

September 2021 Examination Guide

SPECIAL NOTICES

Candidates entered for the February 2022 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.

AF7 – Pension Transfers

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MPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess candidates' knowledge and their ability to apply this to a case study scenario. You can then use this understanding to help you in your preparation for the examination.

Before the examination

Read the Qualifications Brochure
Details of administrative arrangements and the regulations which form the basis of your examination entry are to be found in the current CII Qualifications Brochure and important notes for candidates, which is *essential reading* for all candidates. It is available online at www.cii.co.uk.

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 Advanced Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Diploma 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 tax tables printed at the back of the Examination Guide. 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 use your own tax tables in the examination.*

Know the structure of the examination
Assessment is by means of a two-hour online paper in two sections. All questions are compulsory:

Section A consists of 28 marks.
Section B consists of two case studies worth a total of 72 marks.

You will be expected to carry out a variety of tasks based upon the information provided.

Each question part will clearly show the maximum marks which can be earned.

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
Details of administrative arrangements and regulations which form the basis of your examination entry are available online at https://www.cii.co.uk/learning/qualifications/assessment-information/. 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, leave some space, 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 finish the examination 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 answering.
- 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. 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.

Marks are not lost due to poor spelling or grammar.

You are able to flag questions and then go back to them.

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.

On-screen written exam demonstration (Demo 1)

The familiarisation test allows you to experience using the assessment platform before your exam. You can try the familiarisation test at any time here: On-Screen written exam Demo 1

Please note, although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

The demonstration test is designed to allow you before the day to go through the end-to-end process from logging in to answering test questions. **We advise you try the demonstration test once you have received your login details and well in advance of the exam to help pre-empt any potential exam day technical issues.**

EXAMINERS' COMMENTS

General

Overall performance was quite good, and candidates appear to be understanding how to answer 'factors' questions with only a small minority incorrectly approaching these as 'fact finding' questions.

Questions that state 'based on the information in the case study' are still proving challenging for some candidates who fail to take account of the information provided. It remains vitally important that candidates read each question carefully so that they fully understand what the question requires them to do.

Question 1

This question was testing an area of the syllabus that had not previously been tested and related to relatively recent (2019) FCA guidance. Most candidates gained some marks for stating examples of potential vulnerability but very few were able to correctly state the four defined terms.

That said, candidates who had not studied this area were still able to gain a couple of the marks available by making an educated guess as to the circumstances that could lead to potential vulnerability.

Common answers that gained no marks were answers that stated 'old age' as being a driver to actual or potential vulnerability, which is not one of the four FCA factors. Whilst old age might lead to an increased change of one of the factors being present (i.e., poor health), in itself 'old age' is not a vulnerability factor.

Question 2

Generally, well answered although most candidates performed far better on part (a) than part (b).

In part (a), most candidates correctly identified the impact of lower inflation on the revaluation of benefits and therefore a reduction in the cash equivalent transfer value, but a surprising number of candidates did not pick up on the impact it would also have on the level of escalation in payment.

It was disappointing to see candidates demonstrating very little knowledge in their answers for part (b).

Question 3

This proved to be an easy question for the majority of candidates with a high proportion gaining the maximum marks available.

Question 4

Most candidates performed well on this question and gained a good proportion of the marks available. The final two points within the model answer proved the most challenging with only a few candidates gaining these marks.

Question 5

Most candidates performed well on this question which was pleasing as questions that require candidates to draw out relevant factors from within the case study have historically proved challenging. Where candidates did not gain marks, it was generally because they did not provide sufficient detail. For example, most candidates covered the fact that James is in excellent health with a family history of longevity but a significant proportion didn't then go on to cover the consequences of this in terms of the longevity risk it creates upon transfer.

Question 6

Overall, this question was answered well by most candidates, but a surprising number of candidates assumed that the full pension commencement lump sum (PCLS) would be taken as opposed to a partial crystallisation of £160,000 which would be sufficient to provide the £40,000 net income required. In taking this approach, those candidates could not gain all of the available marks as they would have assumed the level of withdrawal from the pension was higher under the PCLS route as opposed to lower.

It is vitally important that candidates read the questions carefully.

Candidates' performance in part (a) was generally much better than part (b). This is perhaps not unsurprising as the potential disadvantages of taking a withdrawal via a PCLS are not often considered. As a result, only a minority of candidates picked up on the fact that a PCLS withdrawal would lead to a reduction in future tax planning opportunities (due to less PCLS remaining), which could be beneficial if the client's income gets closer to the higher rate bracket once his State Pension comes into payment.

Question 7

Candidates' performance on this question was mixed with some candidates struggling whilst others were able to attain full marks. The last two model answers were the least common answers given. Questions on State Pension benefits have historically proved challenging, but they remain a vitally important factor in a client's overall retirement planning. As a result, they will continue to be tested from time to time in this exam.

Question 8

Most candidates performed quite well on this question. Where marks were not gained it tended to be due to insufficient detail within answers. For example, most candidates stated 'income needs/expenditure in retirement' as an answer but only a minority then went on to break this down into 'essential and discretionary' requirements and even fewer asked for details on the 'pattern' of the expenditure in retirement (i.e., more in the early years for holidays etc.)

Question 9

This question was generally well answered by most candidates, but it was disappointing that only a few candidates mentioned the fact that Priya would not qualify for the spouse's pension benefits under the defined benefit scheme given that they are not married. In fact, quite a few candidates stated that the different level of spouse's pension within the two schemes was a relevant factor that would influence their advice.

Again, this is another example where candidates would benefit from reading the information given to them in the case study thoroughly.

Question 10

This question was not answered well by the majority of candidates, with some answers demonstrating little knowledge of the purpose/benefits of a cash flow forecast. This subject area has been tested previously and will undoubtedly be tested again at some point in future exams.

A significant number of candidates focussed their answer on providing multiple examples of 'stress testing'. Whilst 'stress testing' was a relevant answer, the question was much broader, so these candidates were unable to achieve a significant number of the available marks.

Again, this is another example where some candidates would have benefited from reading the question thoroughly to ensure they understood the specific requirements of the question.

Question 11

Most candidates were able to state the three options and also provide some general information around the tax treatment of the benefits if death occurred before or after age 75. Very few candidates demonstrated the in-depth knowledge of the benefits that would be subject to the two-year window which was required to gain some of the available marks.

Unit AF7 – Pension transfers

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 2021/2022, 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.

If you are sitting via remote invigilation 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.**
- Show your ID to the camera now, if you did not do so during the ID checks.
- Show the edge of your screen with a mirror, if you did not do this during the room scan.
- Show any blank sheets of paper for notes, if you did not show both sides to the camera during the room scan.

If you are sitting in a test centre and encounter a problem, please alert the invigilator.

For candidates sitting via remote invigilation or at a test centre

- **Two hours** are allowed for this paper which carries a total of 100 marks as follows:
- Section A: 28 marks
- Section B: 72 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.
- **Different to Objective Testing exams, tax tables are provided at the right-hand side of the interface after the question paper**.
- Supplementary information is also included at the end of the tax tables on the right-hand side of the interface.
- For each answer, please type in the full question number you are answering e.g., 1
- **Please note each answer must be typed in the correct corresponding answer box**
- **If you are wearing headset, earphones, smart watch please take them off. No watches are allowed.**
- 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.

SECTION A

The following questions are compulsory and carry a total of 28 marks

1. The Financial Conduct Authority (FCA) have identified four drivers to actual or potential vulnerability.

State the **four** drivers and give an example of each. **(8)**

2. Manish, aged 42, has recently received a cash equivalent transfer value (CETV) in respect of his previous employer's defined benefit pension scheme. This is the third CETV he has received in the past three years and Manish is keen to understand why the value keeps changing.

Explain, in detail, why the value of the CETV would be impacted by an **increase** in the:

(a) inflation assumption; **(4)**

(b) gilt yield. **(4)**

3. State the information scheme trustees must provide to a deferred scheme member who has requested a cash equivalent transfer value. **(5)**

4. Frederika is a deferred member of a defined benefit pension scheme and has received a cash equivalent transfer value (CETV). The CETV has been reduced due to the scheme being underfunded and she has some concerns about the security of her benefits.

State the factors that may affect the security of Frederika's scheme benefits. **(7)**

Total marks available for this question: 28

SECTION B

All questions in this section are compulsory and carry an overall total of 72 marks

Case study 1

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the client's circumstances as set out in the case study.

James, aged 62, is unmarried and has no financial dependants. He is in excellent health and there is a history of longevity in his family.

James retired two years ago and is in receipt of a scheme pension of £30,000 per annum gross from his employer's defined benefit pension scheme which escalates at a fixed rate of 3% per annum. James' net essential expenditure is £2,200 per month and his net discretionary expenditure is £500 per month. James' scheme pension covers most of these expenditure requirements and he is using his savings to cover the balance.

In addition to the expenditure shown above, James takes a holiday each year. In 2022 he plans to buy a new car and make a lump sum gift to his nephew.

James also has a deferred pension held in another defined benefit pension scheme. He has recently received a statement of entitlement, which has provided the following information:

Scheme service	May 1981 – April 1994
Normal pension age (NPA)	65
Scheme pension at date of calculation (September 2021)	£12,660 per annum gross
Revaluation	GMP: fixed Excess: in line with statutory requirements
Escalation	In line with statutory requirements
Pension commencement lump sum (PCLS)	By commutation
Cash Equivalent Transfer Value (CETV)	£375,000

James' State Pension forecast shows that he can expect a State Pension of £164 per week (in today's terms) at his State Pension age of 66. The forecast shows that James has a three-year gap in his National Insurance Contribution record.

James' home is valued at £550,000 and is mortgage free. He has £80,000 invested in equity ISAs and his attitude to risk was recently assessed as medium to high.

James would like advice about potentially transferring the benefits from his deferred defined benefit pension scheme, so that he can take withdrawals to top up his scheme pension until his State Pension comes into payment and to cover any ad-hoc capital requirements. On his death, James plans to leave his entire estate to his nephew.

Questions

5. You have recommended that James transfers the benefits from his deferred defined benefit pension scheme into a personal pension plan (PPP).

Based on the information provided in the case study, outline the factors you would consider when recommending an investment strategy for James' PPP. **(12)**

6. James requires a net ad-hoc withdrawal of £40,000 in the 2021/2022 tax year to cover the purchase of a new car and a lump sum gift to his nephew. You explain to James that he can take this withdrawal as a pension commencement lump sum (PCLS) or as an uncrystallised funds pension lump sum (UFPLS).

Your answer should be based on James' circumstances as outlined in the case study and should consider the tax treatment of the withdrawal as well as any lifetime allowance issues.

(a) Explain the potential **benefits** of taking this withdrawal entirely as PCLS as opposed to an UFPLS. **(7)**

(b) Explain the potential **drawbacks** of taking this withdrawal entirely as PCLS as opposed to an UFPLS. **(5)**

7. James' State Pension is based on 32 full years of National Insurance Contributions (NICs). He can, if he wishes, pay three years' worth of Class 3 NICs to top up his State Pension to the maximum permitted.

Explain why you have recommended that James should pay the Class 3 NICs. **(8)**

Total marks available for this question: 32

Case study 2

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the client's circumstances as set out in the case study.

Mitesh, aged 57, lives with his partner Priya, aged 55. They are both in full time employment, are unmarried and have no children. Mitesh and Priya are in good health, and both have a family history of longevity.

In addition to £21,000 in joint cash savings, Mitesh has a personal pension plan (PPP) valued at £87,000 and Priya has a PPP valued at £66,000. Their pensions are invested in line with their medium to high attitudes to risk. Mitesh also has the following benefits accrued under his former employers' defined benefit pension schemes:

	Harris Ltd	**Cole Ltd**
Date of joining scheme	January 1981	September 1990
Date of leaving scheme	July 1990	June 2005
Normal retirement age (NRA)	60	65
Scheme pension at NRA	£9,250 per annum gross	£26,640 per annum gross
Early retirement	From age 55 with an actuarial reduction of 4% per annum	From age 55 with an actuarial reduction of 6% per annum
Spouses'/civil partner pension	67% in deferment and retirement	50% in deferment and retirement
Partial transfer	No	Yes
Increases to pension in payment	Retail Prices Index capped at 5% per annum	Statutory minimum
Transfer value enhanced	No	Yes
Cash equivalent transfer value (CETV)	£344,000	£741,000
Scheme funding position	85% funded	105% funded

The couple would prefer their essential expenditure to be covered by secured and inflation proofed income from the commencement of Mitesh's retirement at age 60.

Mitesh is keen to maximise the benefits Priya would receive in the event of his earlier death. As a result, he would like to consider transferring the value of one of his defined benefit pension schemes to a PPP.

The couple require a lump sum now to purchase a camper van and undertake home renovations.

Mitesh has requested advice on whether the transfer of some of his benefits held in his former employers' defined benefit pension schemes to a PPP would help to meet their objectives now and in retirement.

Questions

8. State the additional information you would require regarding Mitesh and Priya's personal and financial circumstances and objectives, before advising on the potential suitability of transferring any of Mitesh's defined benefit entitlements into a personal pension plan. **(12)**

9. Based on the information provided in the case study, outline the factors you would consider when advising Mitesh whether a transfer should be made from **either** the Harris Ltd scheme **or** the Cole Ltd scheme. **(10)**

10. Outline why you would include cash flow forecasts as part of your suitability assessment when advising Mitesh on a potential transfer. **(8)**

11. You have recommended that Mitesh transfers the value of one of his defined benefit pension schemes into a personal pension plan utilising flexi-access drawdown (FAD) to meet their immediate capital requirements.

Outline the death benefit options and tax position for Priya were she to receive the FAD upon Mitesh's death. **(10)**

Total marks available for this question: 40

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

- Health/ill health;
- physical disability/hearing or visual impairment/mental health/mental capacity/cognitive disabilities.
- Life events;
- Unemployment/caring responsibilities/bereavement/income shock/relationship breakdown/non-standard requirements.
- Resilience;
- low income/over indebtedness/low savings/low emotional resilience/lack of support structure/financial difficulty.
- Capability;
- low knowledge or confidence in managing financial matters/poor literacy or numeracy skills/poor or non-existent digital skills/learning impairments.

Model answer for Question 2

(a)
- Higher inflation results in higher revaluation;
- and therefore, a higher projected pension;
- with higher escalation in payment;
- resulting in a higher cash equivalent transfer value (CETV).

(b)
- Higher gilt yields result in a higher annuity rate.
- Meaning a lower lump sum is needed at retirement;
- to match the benefits offered by the scheme;
- resulting in a lower CETV.

Model answer for Question 3

Candidate would have scored full marks for any five of the following:
- Statement of entitlement.
- Explanation to show if the transfer value has been reduced/enhanced or if inducements are being offered.
- Information about potential pension scams.
- Information about where members can obtain guidance/advice.
- Confirmation as to whether appropriate independent advice is required.
- Details of time limits applicable for the member to request a transfer.

Model answer for Question 4

- Current funding position/extent of the underfunding.
- Strength of the sponsoring employer covenant.
- Financial position of the sponsor.
- Recovery plan/timescales for being fully funded again/additional employer payments.
- Does scheme qualify for Pension Protection Fund if necessary?
- Level of her benefits in the scheme v. Pension Protection Fund compensation limits.
- Her proximity to the scheme's normal pension age.

Case Study 1

Model answer for Question 5

Candidate would have scored full marks for any twelve of the following:
- James is in excellent health/there is a history of longevity in his family;
- Therefore, there could be a long investment term/longevity risk.
- He has no spouse/financial dependants.
- He has a medium to high attitude to risk.
- He has investment experience.
- He can therefore hold a proportion of the portfolio in equities/higher risk funds.
- He has capacity for loss/his scheme pension covers all his essential expenditure needs.
- Consideration of potential to breach lifetime allowance.
- Once he reaches State Pension age/in four years;
- he will not require withdrawals from the pension fund.
- He has specific capital needs 2022/car purchase/gift to nephew;
- therefore, hold some funds in cash/ensure liquid funds available.
- He may require ad-hoc withdrawals/funds to cover the cost of holidays.

Model answer for Question 6

(a)
- The pension commencement lump sum (PCLS) will be wholly tax-free.
- The uncrystallised funds pension lump sum (UPFLS) will be 25% tax free/75% taxed as James' pension income;
- part of the payment will be subject to higher rate income tax.
- The UFPLS may be subject to Month 1/emergency tax code.
- UFPLS will trigger the money purchase annual allowance (MPAA)/PCLS will not trigger the MPAA.
- PCLS would lead to a lower withdrawal/UFPLS higher withdrawal;
- PCLS leaves more of the funds invested/UFPLS less funds invested.

(b)
- PCLS crystalises more (against the LTA initially)/UFPLS crystallises less.
- PCLS increases potential for LTA charge (at 75)/UFPLS less.
- Taking the PCLS leaves less PCLS available in future/UFPLS leaves more.
- Taking PCLS reduces the opportunity for future tax planning/UFPLS increases opportunity.
- This could be important when his available basic rate tax band would have reduced/closer to being a higher rate taxpayer.

Model answer for Question 7

Candidate would have scored full marks for any eight of the following:
- Offers an excellent return/good value/purchase cost back in three years.
- James can afford to make the contributions.

- James is in excellent health/there is a history of longevity in his family;
- so he is likely to live long enough to benefit fully from the income.

- It will provide him with additional index-linked/secure/lifelong income;
- Increases capacity for loss/reduces reliance on drawdown funds/other assets.
- Increases legacy to nephew.

- Doesn't count towards his lifetime allowance.
- It won't push him into higher rate tax.

Case Study 2

Model answer for Question 8

Candidate would have scored full marks for any twelve of the following:
- Amount of secured/essential expenditure income required in retirement.
- Expected total income requirement / expenditure in retirement.
- Pattern of income needs during retirement.
- Capital sum required/other ad-hoc expenses.

- Desire to access benefits flexibly/do existing personal pension plans offer flexible access.
- Level of existing pension contributions.
- State Pension/BR19.
- Investment experience.

- Age Priya wishes to retire.
- Level of death benefits required by Priya/on first death.

- Expected inheritances.
- Plans to get married/form civil partnership.
- Debts/mortgage.

Model answer for Question 9

Candidate would have scored full marks for any ten of the following:

- Harris Ltd is underfunded/Cole ltd is overfunded.
- Cole Ltd cash equivalent transfer value has been enhanced.

- An actuarial reduction will apply to Cole Ltd if drawn before age 65.
- The Harris Ltd scheme is available from age 60 without penalty.

- The client wants retirement income to be inflation proofed;
- Harris Ltd provides higher escalation.
- But the Cole Ltd scheme provides a higher level of guaranteed income.

- Priya would not qualify for a spouses/civil partner pension;
- therefore transferring Cole Ltd scheme will provide higher death benefits.

- The Cole Ltd Scheme permits a partial transfer.
- Transferring Cole Ltd increase's chance of lifetime allowance charge.

Model answer for Question 10

Candidate would have scored full marks for any eight of the following:

- Provides visual representation/easily understood means of demonstrating;
- likely sustainability/when funds may exhaust/possible shortfalls;
- of transferred funds over extended lifetime.
- Taking account of the likely amount/pattern of withdrawals;
- using client specific assumptions for investment returns;
- Modelling different scenarios;
- Stress testing/poor performance/market crash/overspending/sequencing risk.
- Position on first death.
- Can help determine capacity for loss/level of investment risk they need to take.

Model answer for Question 11

- Flexi-access drawdown.
- Annuity purchase.
- Lump-sum death benefit.

- Income Tax Free if death pre-75.
- and uncrystallised funds distributed as income within two years;
- and lump sums distributed within two years.
- Otherwise taxed at PAYE/marginal rate of recipient.
- Likely to be free of Inheritance Tax.
- Crystallised funds have no lifetime allowance (LTA) test/LTA test on uncrystallised funds if death before age 75.
- If death after 75, no LTA test.

All questions in the February 2022 paper will be based on English law and practice applicable in the tax year 2021/2022, unless stated otherwise and should be answered accordingly.

The Tax Tables and Supplementary Information which follow are applicable to the September 2021, February 2022 and May 2022 examinations.

INCOME TAX

RATES OF TAX	2020/2021	2021/2022
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	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£150,000
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

	2020/2021	2021/2022
Dividend Allowance	£2,000	£2,000
Dividend tax rates		
Basic rate	7.5%	7.5%
Higher rate	32.5%	32.5%
Additional rate	38.1%	38.1%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	38.1%	38.1%
- other income	45%	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS	2020/2021	2021/2022
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,500	£12,570
Married/civil partners (minimum) at 10% †	£3,510	£3,530
Married/civil partners at 10% †	£9,075	£9,125
Marriage Allowance	£1,250	£1,260
Income limit for Married Couple's Allowance†	£30,200	£30,400
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,500	£2,520
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.*

	2020/2021	2021/2022
Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,830	£2,845
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,385	£16,480

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£120
Primary threshold	£184
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 184.00*	Nil
184.00 – 967.00	12%
Above 967.00	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 £184 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 170.00**	Nil
170.00 – 967.00	13.8%
Excess over 967.00	N/A

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.05 where profits exceed £6,515 per annum.
Class 3 (voluntary)	Flat rate per week £15.40.
Class 4 (self-employed)	9% on profits between £9,568 - £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 & 2021/2022	£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 – 2021/2022	£40,000*

~ increased to £80,000 for pension input between 6 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.

**reducing 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	2020/2021	2021/2022
	£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	2020/2021	2021/2022
Individuals, estates etc	£12,300	£12,300
Trusts generally	£6,150	£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%
Business Asset Disposal Relief* – Gains taxed at:	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	2020/2021	2021/2022
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

	2020/2021	2021/2022
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.*

	2020/2021	2021/2022
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

	2020/2021 Rates	2021/2022 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
Motorcycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2020/2021	2021/2022
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 1 April 2016 (Corporation Tax) or 6 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

		2020/2021	2021/2022
		£	£
Child Benefit	First child	21.05	21.15
	Subsequent children	13.95	14.00
	Guardian's allowance	17.90	18.00
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 58.90	Up to £59.20
	Aged 25 or over	Up to 74.35	Up to £74.70
	Main Phase		
	Work Related Activity Group	Up to 74.35	Up to 104.40
	Support Group	Up to 113.55	Up to 114.10
Attendance Allowance	Lower rate	59.70	60.00
	Higher rate	89.15	89.60
Basic State Pension	Single	134.25	137.60
	Married	268.50	275.20
New State Pension	Single	175.20	179.60
Pension Credit	Single person standard minimum guarantee	173.75	177.10
	Married couple standard minimum guarantee	265.20	270.30
	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	58.90	59.20
	Age 25 or over	74.35	74.70
Statutory Maternity, Paternity and Adoption Pay		151.20	151.97

CORPORATION TAX

	2020/2021	2021/2022
Standard rate	19%	19%

VALUE ADDED TAX

	2020/2021	2021/2022
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 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

Important note regarding Stamp Duty Land Tax (SDLT) and residential property purchases:

- **For purchases between 1 July 2021 and 30 September 2021, SDLT does not apply up to £250,000.**
- **For purchases above £250,000, the band rates above apply as normal.**
- **For purchases from 1 October 2021, 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%

Supplementary Information Pension Papers – AF7 2021/2022

Revaluation

Guaranteed Minimum Pension – Fixed rate

Date of leaving service	Fixed rate of revaluation
Before 6 April 1988	8.5%
Between 6 April 1988 and 5 April 1993	7.5%
Between 6 April 1993 and 5 April 1997	7.0%
Between 6 April 1997 and 5 April 2002	6.25%
Between 6 April 2002 and 5 April 2007	4.5%
Between 6 April 2007 and 5 April 2012	4.0%
Between 6 April 2012 and 5 April 2017	4.75%
After 5 April 2017	3.5%

Non GMP benefits – statutory minimum rates

Date of leaving service	Statutory rate of revaluation
Before 1 January 1986	No requirement to revalue benefits
Between 1 January 1986 and 31 December 1990	CPI capped at 5% in respect of non GMP benefits accrued from 1 January 1985
Between 1 January 1991 and 5 April 2009	CPI capped at 5% in respect of all non GMP benefits
After 5 April 2009	CPI capped at 5% in respect of all non GMP benefits accrued before 6 April 2009 CPI capped at 2.5% in respect of all benefits accrued after 5 April 2009

NOTE: Statutory revaluation is based on RPI for revaluation prior to 2011

Escalation

Statutory rates of escalation: Member reached State Pension age before 6 April 2016

Accrual	Statutory rate of escalation
GMP: Accrual prior to 6 April 1988	**Scheme:** No requirement to provide any increases in payment **State:** Fully in line with CPI
GMP: Accrual between 6 April 1988 and 5 April 1997	**Scheme:** CPI capped at 3% **State:** Any increases in CPI in excess of 3%
Non GMP: Accrual prior to 6 April 1997	**Scheme:** No requirement to increase in payment
Non GMP: Accrual between 6 April 1997 and 5 April 2005	**Scheme:** CPI capped at 5% (LPI)
Non GMP: Accrual from 6 April 2005	**Scheme:** CPI capped at 2.5%

NOTE: Statutory escalation was based on RPI prior to 2011

Statutory rates of escalation: Member reaches State Pension age on or after 6 April 2016

Accrual	Statutory rate of escalation
GMP: Accrual prior to 6 April 1988	**Scheme:** No requirement to provide any increases in payment
GMP: Accrual between 6 April 1988 and 5 April 1997	**Scheme:** CPI capped at 3%
Non GMP: Accrual prior to 6 April 1997	**Scheme:** No requirement to increase in payment
Non GMP: Accrual between 6 April 1997 and 5 April 2005	**Scheme:** CPI capped at 5% (LPI)
Non GMP: Accrual from 6 April 2005	**Scheme:** CPI capped at 2.5%

NOTE: No increase to GMP is made by the State (via the State Pension) for individuals who reach State Pension age on or after 6 April 2016

Pension Protection Fund

Compensation cap at age 65 (2021/2022): £41,461.07

Revaluation of deferred benefits within PPF

Service	Rate of revaluation
All service before 6 April 2009	CPI capped at 5%
All service after 5 April 2009	CPI capped at 2.5%

Escalation of benefits in payment from PPF

Service	Rate of revaluation
All service before 6 April 1997	No increases
All service after 5 April 1997	CPI capped at 2.5%