Chartered Insurance Institute

J05

Diploma in Financial Planning

Unit J05 – Pension income options

February 2024 Examination Guide

SPECIAL NOTICES

Candidates entered for the September 2024 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

Contents

This PDF document is accessible through screen reader attachments to your web browser and has been designed to be read via the speechify extension available on Chrome. Speechify is an extension that is available from **https://speechify.com/**. If for accessibility reasons you require this document in an alternative format, please contact us at **online.exams@cii.co.uk** to discuss your needs.

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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 On-screen written exam.
- All questions are compulsory.
- The On-screen written 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.

On-screen written exam familiarisation (Demo 1)

The familiarisation test allows you to experience using the assessment platform before your exam. Please note that while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality. This test is for the purpose of familiarisation with the assessment platform only. You can also access past exam papers here: https://www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/exam-papers-and-test-specifications/

You can access the familiarisation test at any time.

https://www.cii.co.uk/learning/qualifications/assessment-information/on-screen-written-exams-by-remote-invigilation/exam-familiarisation/

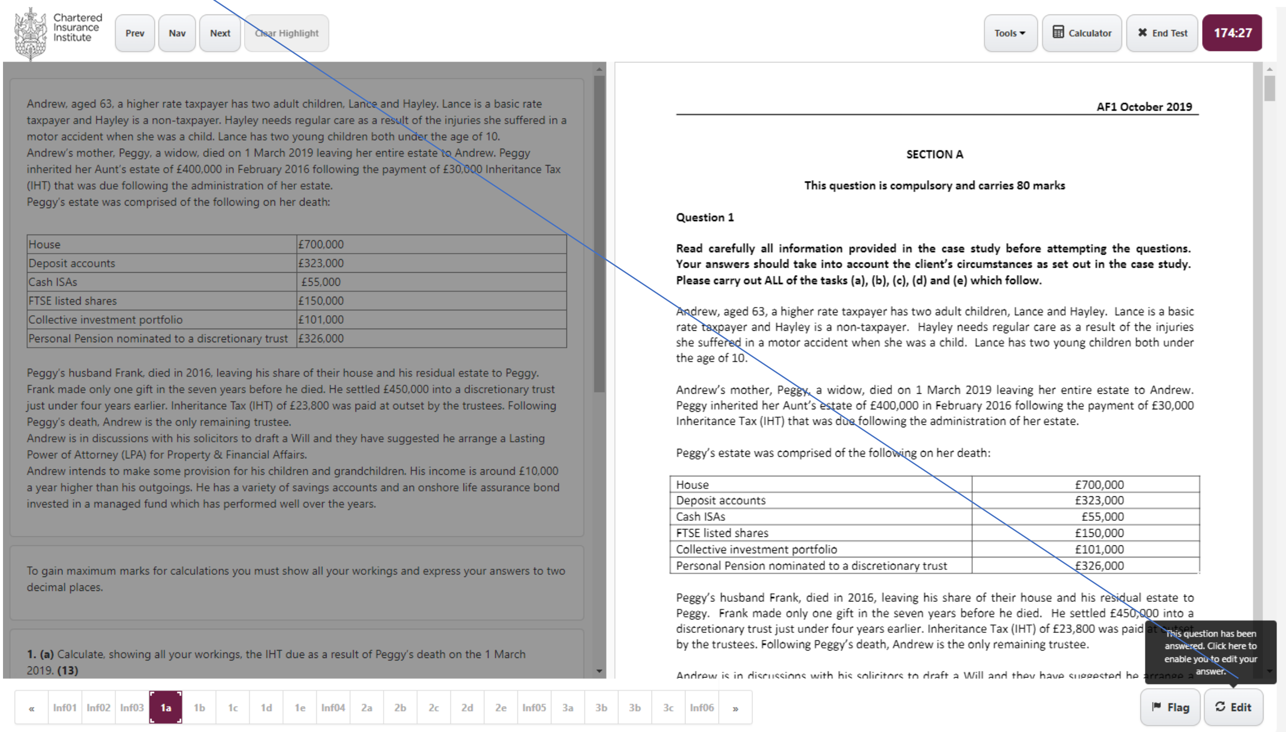
Although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

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

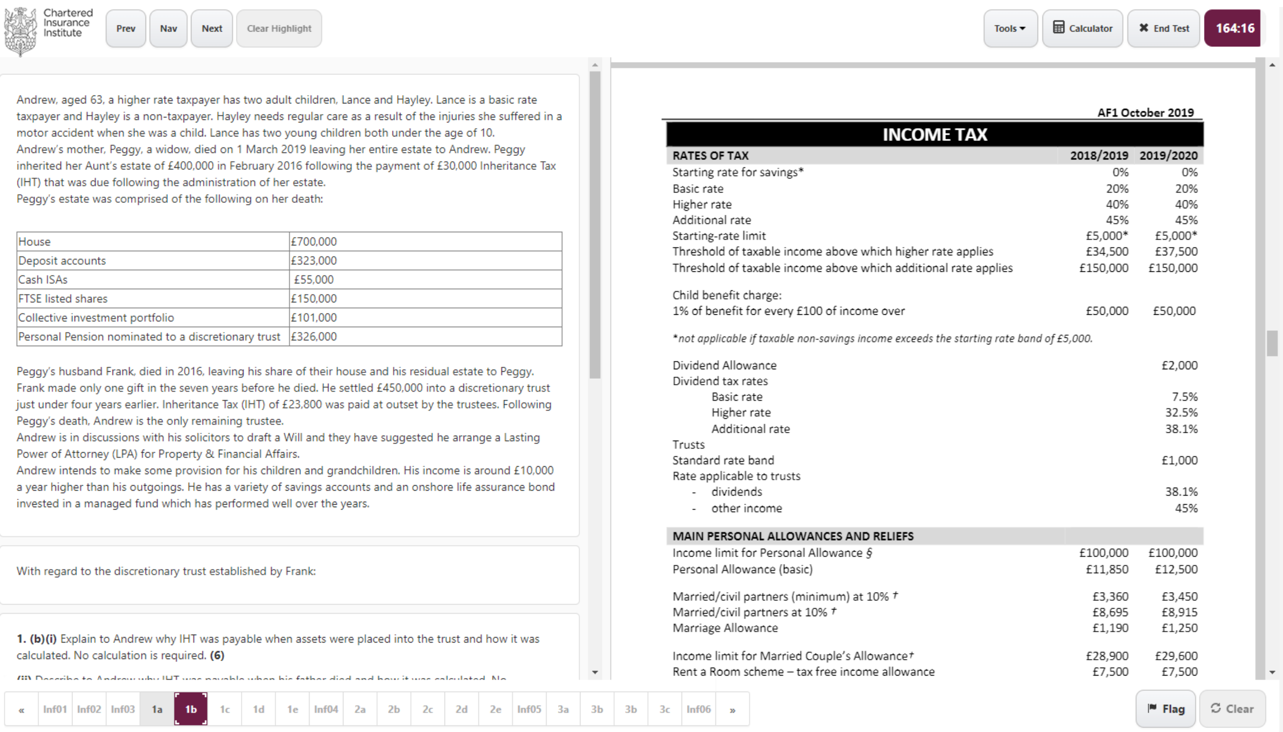
Please note you are strongly advised not to use a laptop provided by your employer.

Laptops and IT equipment provided by your employer typically include security protocols that conflict with any remote invigilation software. You should also avoid using a corporate Wi-Fi or any other internet connection that may include firewalls that you cannot personally control.

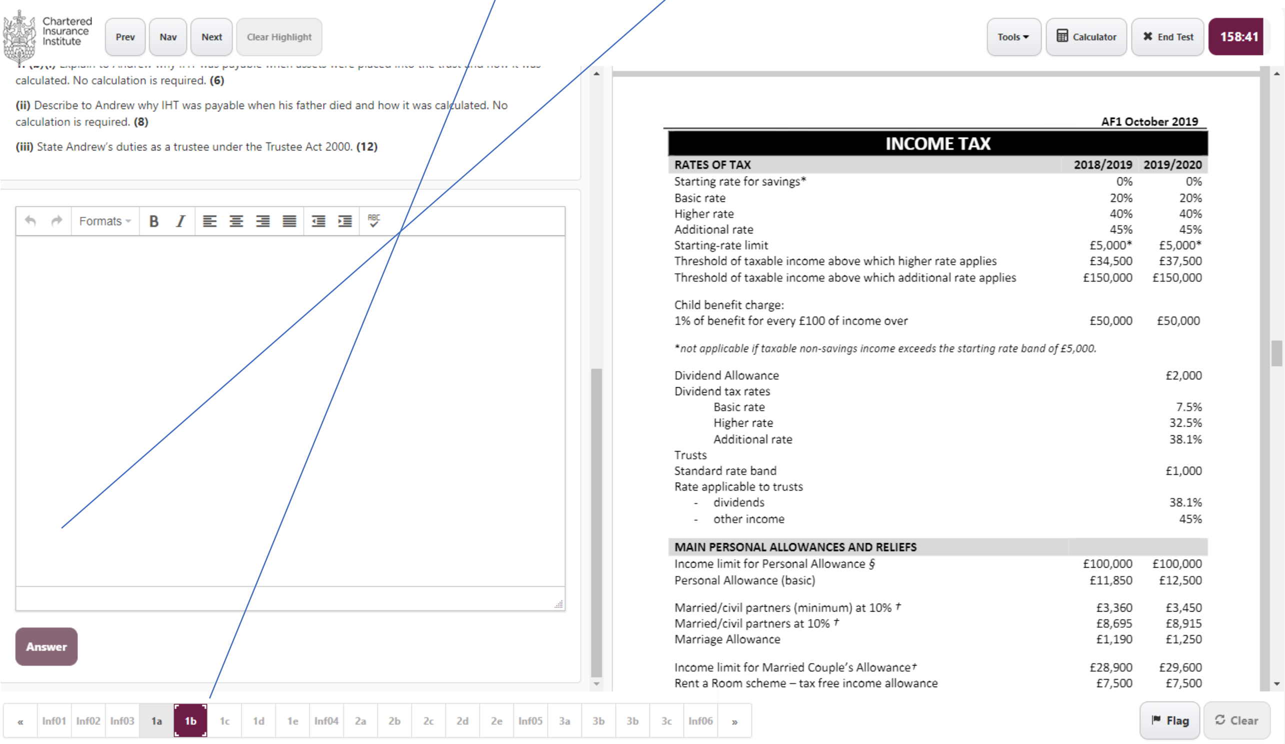
1. From the familiarisation test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them.



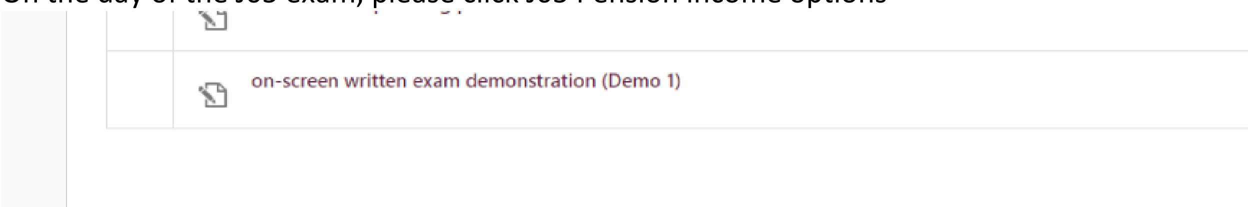
2. Tax tables are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam.



3. Once you have typed in your answer ensure you click the red 'Answer' box, this will save your answer and move you onto the next question. Unless you press 'Answer', you will not be permitted to move onto other questions. Furthermore, please do not type all of your answers for every question into the answer space for Q1a. You should familiarise yourself with all questions prior to starting the exam.



4. On the day of the J05 exam, please click J05 Pension income options



5. The above screenshot is also a space where you can jot down any notes on paper that may assist you during the exam. Please note, the exam timer will not start until you click the exam titled: J05 Pension income options.

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. You are permitted to use your own calculator.

Tips for laying out calculations in on-screen written exams
Where you are asked to perform a calculation, it is important to show **all the steps** in your answer. Most of the marks will be allocated for demonstrating the correct method of calculation.

While there are no marks for presentation, laying the calculation out well will make it easier for the examiner to identify all of the marks you have achieved. It does not matter how long the calculation is, if it is well set out. There is no preferred format but following the below guidelines is often helpful:

- Set out each stage of your calculation on a separate line.
- Label the values used i.e. in the Lifetime Allowance (LTA) calculation:
    - LTA 2021/22 - £1,073,100
    - Scheme Pension - £22,750
- Identify all allowances, pension values, tax rate bands, used in £ terms.
- Identify all tax rates in % terms.
- Use subtotals, where appropriate: i.e.:
    - Excess over LTA: £1,217,500 - £1,073,100
    - =£144,400
    - X 25%
    - =£36,100

- Show all your workings, for example:
    - Capitalising the value of a scheme pension by 20 or 25

- Double check all of your figures, specifically:
    - That you have calculated each section correctly.
    - That you have added up all of your figures correctly.
    - That you have expressed all your answers to two decimal places where relevant.

EXAMINERS' COMMENTS

Candidates' overall performance:

This session aimed to test candidates' knowledge across the breadth of the syllabus. We continue to test understanding of the current legislation, of the issues in giving advice to clients on taking pension benefits, as well as topical concepts, such as scams protection and confirmed legislative changes, such as the impending change in normal minimum pension age and the recent changes to the Lifetime Allowance.

Overall, most candidates did enough to gain good marks across the paper and those who prepared well will have passed this session.

Question 1
This question dealt with an element of the interim changes to the Lifetime Allowance prior to it being abolished. Due to these changes being so new candidates did struggle with this area. Candidates should be as up to date as possible with the post 6 April 2024 changes given how relevant they are to this topic.

Question 2
This question dealt with the change in minimum pension age. While the change does not take effect until April 2028, the fact it is changing impacts pension holders now and candidates should be aware of these rules and their impact. We have asked this question in recent sessions (in a number of different ways) due to it being so topical and while many candidates are still struggling to get to grips with it. Some candidates though were able to gain good marks demonstrating their knowledge in this area.

Question 3
Overall candidates did relatively well on this question. This was about the rules in relation to small pots and trivial commutation. While most had a good grasp of the rules in relation to the personal pension and defined benefit (DB) dependant's pension, some struggled with the group personal pension confusing this with the rules for DB schemes. Some candidates were explaining pension commencement lump sum (PCLS), and uncrystallised funds lump sum (UFPLS) options, which was not what the question was asking.

Question 4
This was an application-based question about factors to consider, based on the mini-case study, when choosing between a lifetime annuity and flexi-access drawdown (FAD). Fewer marks were awarded where candidates simply made statements such as 'attitude to risk', 'income required', 'capacity for loss', 'any dependants?' as this information was provided in the question. Better marks were gained where candidates had drawn their answers from the mini-case study thus demonstrating they could apply their knowledge to a real-life scenario.

Question 5

Part (a) was generally well answered which dealt with the benefits of taking withdrawals using phased FAD rather than purchasing a lifetime annuity. Part (b) dealt with where to take the withdrawals from, and some candidates struggled beyond stating the difference in tax rates between Sally and Franco. Candidates who did well identified the relevance of the Money Purchase Annual Allowance (MPAA) being triggered and the impact this would have on Sally.

Question 6

Candidates tend to struggle with these rules-based questions (this one in relation to relevant circumstances that should be considered when a firm is making a personal recommendation to a client regarding income withdrawals), although having asked this several times over the past few years this performed better in this session. Candidates would do well to familiarise themselves with the COBS rules given they underpin all aspects of financial advice.

Question 7

This question dealt with the common tactics used by scammers, and it had mixed responses – some candidates did very well while others struggled to list anything beyond 'guaranteed returns' – this is disappointing as this is a very topical area and relies as much on common sense as it does on learned knowledge.

Question 8

Some candidates really struggled with this question (in relation to how the State Pension is calculated), which is surprising given how long the new State Pension has been in place. Most recognised the need for national insurance contributions, but some candidates failed to gain marks beyond this. Those who did well recognised the need to calculate and compare the pre- and post-2016 pension entitlements, with the higher of the two being the State Pension awarded.

Question 9

A fairly standard question on UFPLS versus PCLS and as expected candidates did very well on the whole.

Question 10

This remains a relevant area of learning (spousal bypass trusts). Candidates struggled with this and perhaps do not understand the relevance these trusts can still have in modern-day retirement planning.

Question 11

This question dealt with where to take the balance of the income required from – ISA or FAD. Candidates did well where they recognised the impact of FAD withdrawals in respect of the personal allowance, and the knock-on effect on the savings allowance.

Question 12

Death benefits is a core part of the syllabus, with this question focussed on defined benefit pension schemes and personal pensions. Candidates demonstrating a good level of knowledge in this area.

Question 13

Part (a) – the purpose of a lifetime cashflow model - was generally well answered. Part (b) – the key risks of FAD - proved more challenging for candidates. Candidates who did well were able to name the key risks and describe their impact. This is an important area of the syllabus and candidates are advised to study this area in greater detail.

Question 14

This question dealt with the unsuitability of the lifestyling approach and the benefits of utilising an earmarked investment strategy in retirement. Most candidates were able to articulate the unsuitability of lifestyling. However, when it came to the earmarked strategy, candidates failed to gain marks for not stating the impact of Carlos' actions. For example, a mark could be obtained for stating that short-term funds could be invested in cash for income, but often no follow-on statement was made for stating this could help mitigate sequencing risk (i.e. the impact/benefit of retaining funds in cash).

Question 15

This question very specifically asked for the advantages of using a pension sharing order. Many candidates articulated these advantages very well. However, where candidates focused on the drawbacks of earmarking, they failed to gain marks as this is not what was being asked.

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 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.

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 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.
- Different to CII multiple choice exams, tax tables are provided at the right-hand side of the interface after the question paper.
- 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.

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)**

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)**

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)**

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)**

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

(a)

- As she applied for enhanced protection before 15 March 2023;
- and assuming she has a valid certificate/reference number;
- make pension contributions and retain her protection /she can have a protection cessation event.

(b)

- She will still be entitled to a higher PCLS (45%);
- based on the lower of the value of her pension fund;
- on 5 April 2023;
- and the date she takes her benefits.

Model answer for Question 2

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

- The increase does not apply to the Armed forces, police and firefighters.
- Does not apply in schemes where there were unqualified rights to take a pension at an earlier age/in the scheme rules/contractual right to take at age 55/before age 57;
- On or before 11 February 2021; (in scheme rules).
- For members that joined before 4 November 2021
- Protection will apply to all benefits under the scheme/ Protection is on an individual scheme basis.
- A protected pension age will be retained as part of a block transfer;
- or an individual transfer but only to the transferred benefits/benefits are ringfenced.

Model answer for Question 3

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

- As the value is over £10,000;
- and partial transfers are not permitted;
- she will not be able to commute this pension.

- After age 55/under age 55 if protected pension age/ill health conditions met;
- she will be able to commute 100% of the pension;
- as the value is under £10,000/assuming it remains under £10,000.
- Must have sufficient LTA remaining.

- As the capital value is less than £30,000;
- she can commute this pension in full.
- She can do this immediately/there is no minimum age.

- Must extinguish all rights under the scheme.
- Does not trigger MPAA.

Model answer for Question 4

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

- Her attitude to risk is cautious;
- which is less suited for drawdown/more suited to annuity.
- Capacity for loss is low/only other assets are in cash and property.
- Limited investment experience.
- Health and family longevity/annuity rates.
- Importance she places on guarantees/flexibility.
- Importance of death benefits/she has no dependants.
- PPP fund value would support either option/ could do partial annuity and drawdown/annuity likely to give too much income.
- Capital requirements/liabilities/Downsizing.
- Fixed interest funds not suitable for drawdown/sequencing risk/sustainability.
- State Pension becomes payable in 9 years/level of State Pension/escalation of dependant's pension.
- Charges/ongoing reviews/complexity of FAD/Annuity is simple to understand.

Model answer for Question 5

(a)
- Can just take PCLS/ more PCLS could be available in future on undrawn funds/control tax position.
- Flexible income to match their needs/ annuity is irrevocable.
- Defers purchase of annuity/annuity rates may be higher/may benefit from enhanced annuity in future.
- Defers decision on survivor benefits/flexible death benefits under flexi-access drawdown (FAD)/remaining fund available on death.
- Fund remains invested/potential for tax-free growth.

(b)
- Franco no longer working/Sally still working/active member/contributed.
- MPAA will be triggered.
- Will have no impact on Franco/ will restrict contributions for Sally/ Company contributions can continue into GPP.
- Franco has a larger pension fund/will not exhaust all Sally's pension fund.
- Franco is a basic-rate taxpayer/Sally will pay higher-rate tax.

Model answer for Question 6

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

- Investment objectives.
- Requirement for tax free cash/capital.
- State of health.
- Current/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.
- ATR.
- (Explanation of) any discrepancy between attitude towards an income withdrawal and other investments.

Model answer for Question 7

- Access to pensions before age 55/minimum pension age.
- Cold calls/offering free pension review.
- Transfer of funds to an overseas pension/transfer into specialist investments e.g. diamonds.
- Promise of unrealistic high returns/returns that sound too good to be true/increased pension benefits/offering PCLS in excess of 25%.
- Pressure to act immediately.

Model answer for Question 8

- It will be based on her National Insurance (NI) record;
- before 6 April 2016.
- Calculate the amount she would get under old State Pension rules.
- Reduced where contracted out/increased where accrued State Earnings Related Pension Scheme (SERPS)/State Second Pension (S2P).
- Calculate the amount she would get under new State Pension rules/ This provides the starting/foundation amount.
- If a new State Pension is the higher figure then that is what she will receive.
- If the old State Pension is higher then that is what she will receive/ this is her protected payment.

Model answer for Question 9

- Amount needed.
- Income/tax status.
- Pension commencement lump sum (PCLS) is tax free.
- Only 25% of uncrystallised funds pension lump sum (UFPLS) is tax free/75% of 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.
- Contributions restricted to £10,000 with MPAA/contribution levels.
- Taking UFPLS will preserve more of PCLS for future/taking PCLS reduces future PCLS available.
- Pension value.
- Protected PCLS/eligibility for UFPLS/proximity to Lifetime Allowance (LTA).

Model answer for Question 10

- Prevents Harvey accessing the full fund.
- Harvey can receive income/loans.
- Loans are repayable on death/will reduce Harvey's estate.
- Her daughter can be a trustee;
- which provides her with control/ensures that Siobhan's wishes are fulfilled.
- Any new spouse or children for Harvey will not be able to benefit from the trust fund/ensures her daughter is likely to receive the residual funds/her daughter is the ultimate beneficiary.
- Outside estates for bankruptcy/divorce/remarriage.

Model answer for Question 11

- Income taken from the ISA will be tax-free.
- Any income taken from flexi access drawdown (FAD) will be taxed;
- as Suzy's pension income/marginal rate;
- as Gwen died aged 79/over age 75.
- State pension and savings income currently within personal allowance.
- Taking FAD pushes savings income into taxable income;
- Her savings income exceeds her personal savings allowance;
- and therefore, excess will be taxable.
- A higher gross amount needs to be taken from the pension/she would need to draw less from the ISA.
- ISA is in her estate for inheritance tax (IHT)/pension is outside of her estate for IHT.

Model answer for Question 12

(a)

- 100% of the income.
- Paid for the balance of the guarantee period.
- Followed by a 50% spouse's pension.
- Taxed as Hannah's income via PAYE/marginal rate/not tested against the LTA.

(b)

- Lump sum.
- Dependant's.
- Flexi-access drawdown.
- Annuity.
- Tax free;
- if paid/designated within two years of date of death.
- Taxable as income if paid outside of two years.
- Not subject to Inheritance Tax/ uncrystallised funds tested against Angus' LTA

Model answer for Question 13

(a)

- Visualise future income/capital needs and expenditure;
- using income/capital from all sources.
- Shows how realistic goals are/identifies any shortfalls/risk of running out of money/ sustainability.
- Demonstrates effects of assumptions (growth/inflation).
- Allows stress to testing/assess how the model would change following certain events.

(b)

- Longevity risk;
- is the risk of living longer than anticipated/outliving pension pot.
- Investment/market risk;
- is the risk of poor performance/investment loss.
- Inflation/economic risk;
- is the risk of investment growth being less than inflation/loss of purchasing power.
- Sequencing risk;
- is the risk that comes from the order in which investment returns occur/risk of withdrawals in a declining market.

Model answer for Question 14

Why lifestyle is unsuitable:

- Funds will de-risk/investment is targeting annuity purchase;
- so, funds will be held in cash and fixed interest/low risk/doesn't meet his ATR;
- meaning growth is below inflation/less potential for growth/ increases the chance of fund running out/charges have larger impact on returns.

Why earmarked strategy is suitable:

- Can invest funds needed for first 3-5 years of income in low risk/cash;
- which means there is no risk of reverse pound cost averaging;
- and helps mitigate sequencing risk/avoids having to sell assets in a market downturn.
- Balance is invested to achieve above inflation/high growth/in line with his ATR.
- Earmarking reduces likelihood of funds being exhausted/ensures strategy is more sustainable.

Model answer for Question 15

- 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 retirement age.
- Can invest in line with attitude to risk/capacity for loss/control over investments.
- Income Tax position can be controlled/withdrawals taxed on Petra.
- Not lost should Petra remarry/ex-spouse die.

Glossary of terms

Some abbreviations candidates can use in financial planning online exams:

1. ATR – Attitude to risk
2. BRT – Basic rate taxpayer
3. BIK – Benefit in kind
4. BCE – Benefit crystallisation event
5. CLT – Chargeable lifetime transfer
6. CFL – Capacity for loss
7. CGT – Capital Gains Tax
8. CPI – Consumer Prices Index
9. DOV – Deed of variation
10. DIS – Death-in-Service
11. DFM – Discretionary Fund Manager
12. ESG – Environmental, Social and Governance
13. EPT – Excluded property trust
14. EPA – Enduring power of attorney
15. ERC – Early repayment charges
16. FAD – Flexi-access drawdown
17. FSCS-Financial Services Compensation Scheme
18. FOS – Financial Ombudsman Service
19. GAR – Guaranteed annuity rate
20. GAD – Governments Actuary's Department
21. HRT – Higher rate taxpayer
22. IHT – Inheritance Tax
23. IT – Income Tax
24. IVA – Individual Voluntary Arrangement
25. LPA – Lasting power of attorney
26. LTA – Lifetime allowance
27. MaPS - Money and Pension Service
28. MVR – Market value reduction
29. MPAA – Money purchase annual allowance
30. NICs – National Insurance contributions
31. NPA – Normal pension age
32. NRA – Normal retirement age
33. NRB – Nil rate band
34. OPG – Office of the Public Guardian
35. OEIC – Open ended investment company
36. PAYE – Pay As you Earn
37. PPF – Pension Protection Fund
38. PPP – Personal pension plan
39. PCLS – Pension commencement lump sum
40. PA – Personal allowance
41. PSA – Personal savings allowance
42. RAC – Retirement annuity contract
43. RNRB – Residence nil rate band
44. RPI – Retail Price Index
45. SIPP – Self-invested personal pension plan
46. SEIS – Seed Enterprise Investment Scheme
47. SPA – State Pension age
48. TPAS – The Pensions Advisory Service
49. UFPLS – Uncrystallised funds pension lump sum
50. VCT – Venture capital trust

February 2024 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.	1. Understand the HMRC rules that apply when pension benefits are crystallised.
3.	7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
4.	2 Understand the features, tax treatment and risks of lifetime annuities and scheme pensions. 3. Understand the features, tax treatment and risks of flexible benefit options. 7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
5.	4. Understand the features, tax treatment and risks of phasing retirement benefits.
6.	7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
7.	5. Understand the regulatory requirements and legal framework designed to protect clients who are drawing pension benefits.
8.	6. Understand the State retirement benefits available.
9.	7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
10.	7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
11.	7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
12.	2. Understand the features, tax treatment and risks of lifetime annuities and scheme pensions. 3. Understand the features, tax treatment and risks of flexible benefit options.
13.	7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
14.	7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
15.	7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.

All questions in the September 2024 paper will be based on English law and practice applicable in the tax year 2024/2025, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the September 2023 and February 2024 examinations.

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.*

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		
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.*

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%