Chartered Insurance Institute

AF7

Advanced Diploma in Financial Planning

Unit AF7 – Pension transfers

March 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.

AF7 – Pension Transfers

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 a free 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.

Published May 2024

Telephone: 020 8989 8464
Email: customer.serv@cii.co.uk

IMPORTANT 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 are provided as part of the examination and 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 31 marks.
Section B consists of two case studies worth a total of 69 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.

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/

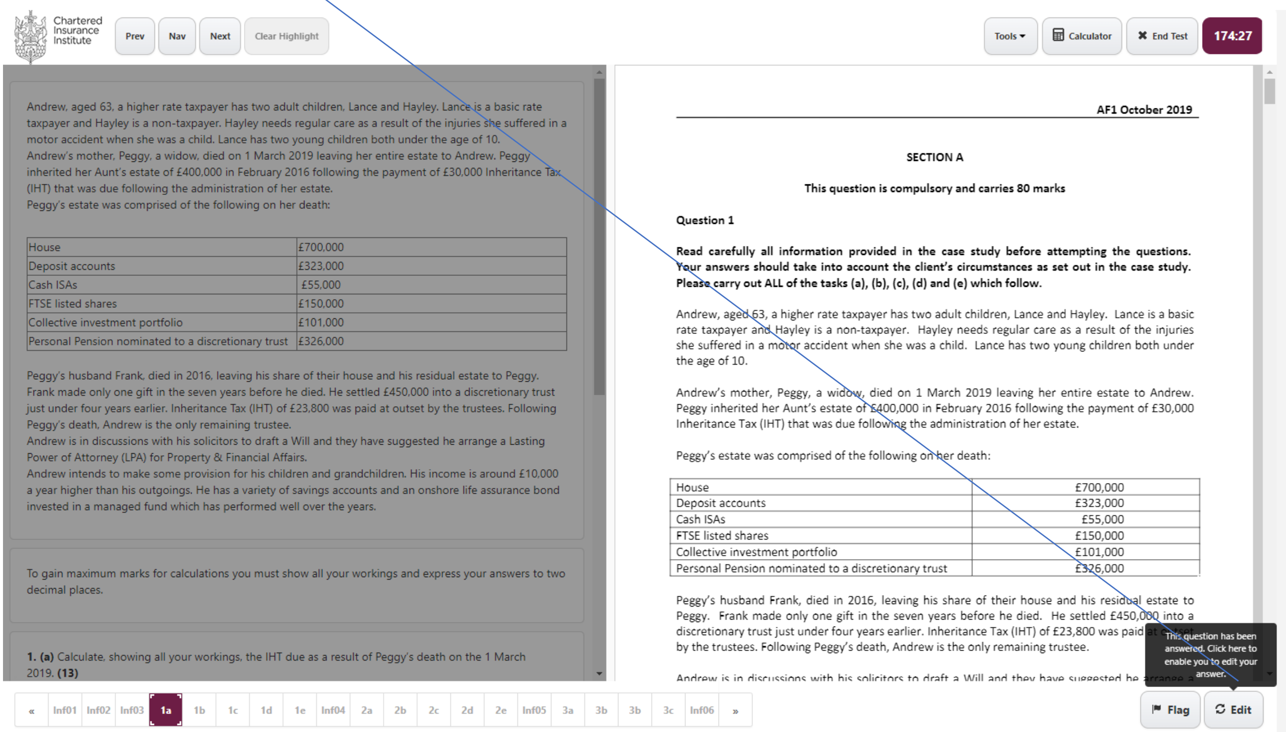
Although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

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.**

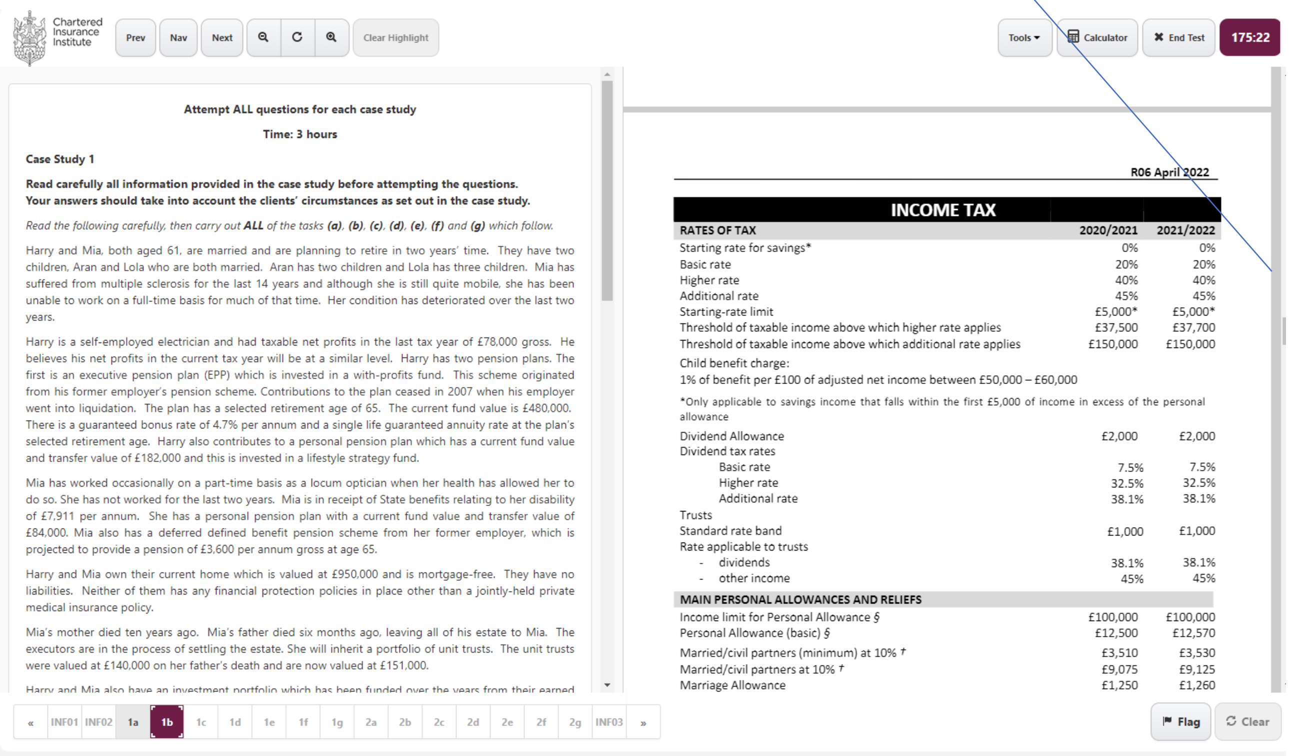
Please note you are strongly advised not to use a laptop provided by your employer.

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.

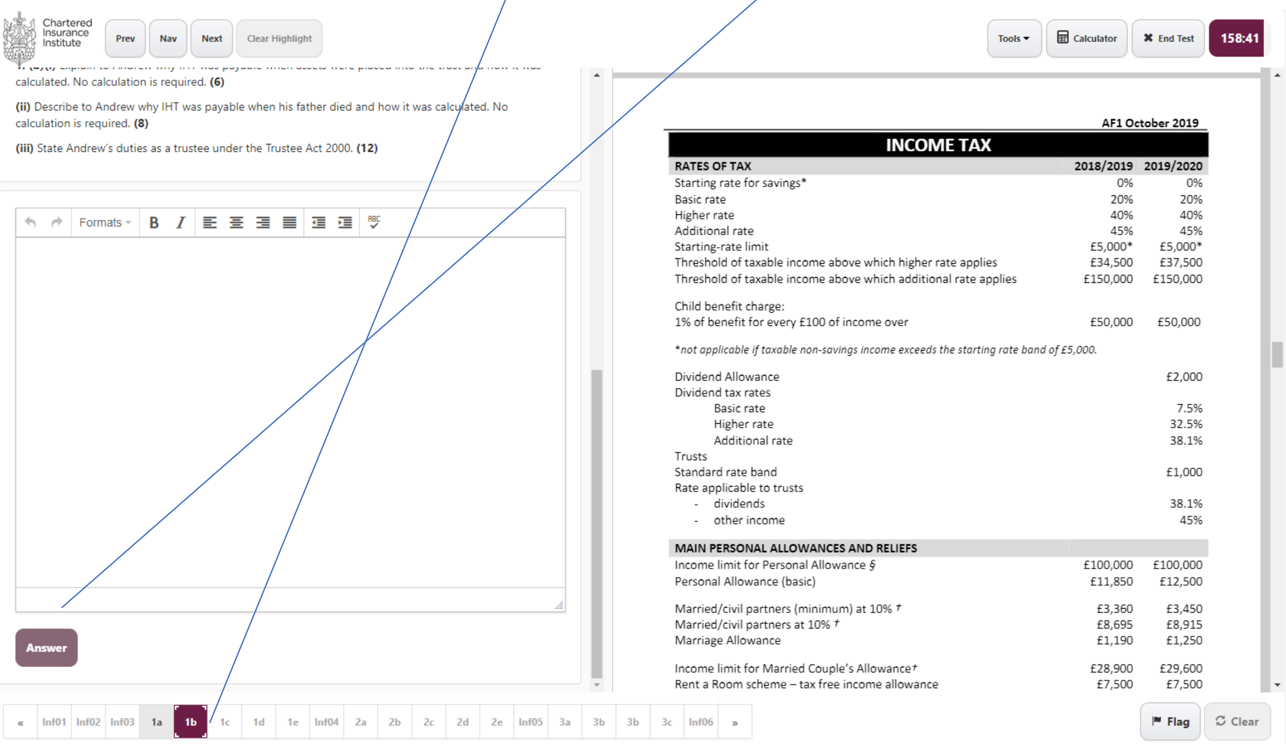
1. From the familiarisation test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press '**Answer**' for the question you are already in otherwise it will not let you select a previous question you have answered to edit.



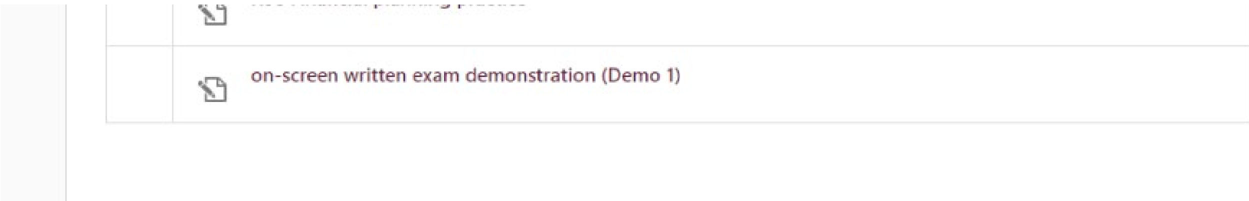
2. Tax tables and supplementary information are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam. Scroll up and down using the navigation bar.



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. 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 AF7 exam, please click **AF7 Pension transfers**



5. The above screenshot shows the point before the examination has started; you may wish to take a moment at this screen to 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: AF7 Pension transfers.**

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. You can use the flag button to indicate which questions are incomplete.

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.

Calculators

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

EXAMINERS' COMMENTS

General

Overall, the standard of candidate performance was in line with recent sittings.

Question 1

Answered well by most candidates with a high proportion gaining maximum marks. Where marks were not gained, it tended to be as a result of candidates not stating that a triage process helps the client decide if they want to proceed with advice on a potential transfer; or for incorrectly stating that it helps the client decide whether or not to transfer their benefits.

A small number of candidates did not perform well as a result of confusing 'triage' with 'abridged advice'.

Question 2

Although very few candidates gained the maximum marks available, most achieved high marks. Surprisingly, quite a few candidates didn't cover the mark relating to 'the client's intended retirement age/term to when they intend to draw benefits'.

Question 3

Whilst a high proportion of candidates gained the maximum marks available, some candidates did not recognise that Rami's benefits would be reduced to 90% as he has not reached the scheme's normal retirement age at the point where the scheme is entering the PPF, and he did not retire early on ill-health grounds. Some candidates also stated pre and post 2009 benefits when referencing escalation - clearly getting confused with revaluation.

The supplementary information at the back of the tax tables within the exam paper is an extremely useful reference point for questions such as this as it contains quite a lot of information regarding the PPF compensation limits.

Question 4

Well answered by most candidates with a high proportion gaining the maximum marks available.

Question 5

Well answered by most candidates with a small proportion gaining the maximum marks available.

Question 6

Most candidates did not perform well on this question, as they tended to answer it based on the wider aspects of an Appropriate Pension Transfer Analysis (APTA) as opposed to focussing their answer on the specific death benefit aspects of an APTA as tested by the question. As a result, the general performance on this question was below what was expected at this level.

Question 7

Whilst only a small number of candidates gained the maximum marks available, most candidates performed very well on this question.

Question 8

Most candidates did not perform well on this question with only a small proportion of candidates achieving high marks.

Question 9

Whilst it was quite challenging for candidates to gain maximum mark on this question given that there were 15 marks available, it was pleasing to see the vast majority of candidates performing well.

Question 10

This question was asking candidates to compare annual withdrawals via flexi-access drawdown with the purchase of a short-term annuity, however most candidates answered the question on the basis of it being a lifetime annuity versus drawdown scenario. As a result, a number of the points stated by these candidates were not relevant to the specific question being asked so could not be awarded marks.

Question 11

It was pleasing to see some candidates demonstrated excellent knowledge in respect of spousal bypass trusts, however candidate performance on this question was very mixed, with some candidates not appearing to know anything about them.

Question 12

This question was answered well, with most candidates gaining high 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 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 carries a total of 100 marks as follows:
- Section A: 31 marks
- Section B: 69 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.
- **Tax tables are provided at the right-hand side of the interface after the question paper, this is different to the multiple choice exams.**
- 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 31 marks

1. Outline the main purpose of a triage process in relation to the potential transfer of benefits held in a defined benefit pension scheme. **(5)**

2. Identify the **key factors** you would consider when assessing a client's capacity for loss when advising on the potential transfer of safeguarded pension benefits. **(10)**

3. Rami, who is in good health, retired and took benefits from his employer's defined benefit pension scheme in January 2021, five years before his Normal Retirement Age of 65. He joined the scheme in January 1998. He did not transfer any benefits into the scheme.

Rami currently receives an annual pension of £17,500 that increases by 5% per annum and includes a 66% spouse's pension. The scheme is about to enter the Pension Protection Fund.

Explain how Rami's pension benefits will be impacted as a result. **(6)**

4. Sabine, aged 63, is married to Ross, aged 61. Sabine has a Retirement Annuity Contract valued at £160,000 that contains a Guaranteed Annuity Rate (GAR) of 10.5%. The plan's conditions are that a guaranteed rate is only available at age 65 and that it must be set up on the following basis:

- Single life;
- no escalation;
- payable monthly in arrears.

State the additional information you would require from Sabine, to advise her whether to accept the GAR or transfer to an alternative arrangement. **(10)**

Total marks available for this question: 31

SECTION B

All questions in this section are compulsory and carry an overall total of 69 marks

Case study 1

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

Lily, aged 52, is married to Patrick, aged 55. They have two daughters, aged 12 and 14. Lily and Patrick have both recently semi-retired. They need to supplement their earned income until they fully retire when Patrick reaches age 60. They are both in good health with a family history of longevity.

Lily has the following deferred defined benefit pension scheme from a previous employment and has recently received a statement of entitlement, containing the following information:

Normal pension age	66
Scheme pension at date of leaving	£16,633 per annum gross
Revaluation and escalation	Inflation to a maximum of 5% per annum
Spouse's pension (pre and post-retirement)	50% of pre-commutation pension
Children's pension (pre and post-retirement)	25% pre-commutation pension per child to age 23
Cash equivalent transfer value (CETV)	£570,500

Patrick has a personal pension plan (PPP) valued at £344,000 and is a member of his current employer's workplace pension scheme, valued at £88,240. Lily is also a member of her current employer's workplace pension scheme, valued at £153,000.

Patrick has a stocks and shares ISA valued at £55,000 and they have joint cash savings of £155,000, along with their mortgage-free home, valued at £830,000. Patrick has a medium to high attitude to risk and good investment experience, whereas Lily has a cautious attitude to risk, and limited investment experience.

Lily's part-time earnings will provide £15,000 net income per annum and Patrick's will provide £4,000 net income per annum. They have calculated that they will need an additional £15,000 net income per annum to fully cover their current outgoings. They are unclear at this stage what their net income requirements will be when they fully retire but have no anticipated capital requirements. They do not know what level of State Pension they will receive.

Patrick and Lily want to generate their additional income in a tax efficient way and make full use of their personal allowances. They also want to ensure their daughters' financial security should they both die before their daughters are financially independent. Lily wishes to explore the possibility of transferring her defined benefit pension scheme to her workplace pension scheme to increase the funds available upon her death.

Questions

5. Identify the additional information you would require from the scheme administrator of the defined benefit pension scheme before making a personal recommendation to Lily regarding a potential transfer of her pension benefits. **(9)**

6. Describe the factors that an Appropriate Pension Transfer Analysis would take into account when considering how best Lily could meet her death benefit objective. **(6)**

7. Based on the information provided in the case study, explain to Lily why you have recommended that she does **not** transfer her benefits out of the defined benefit pension scheme at this time. **(13)**

8. Based on the information in the case study, explain the factors you would take into account when advising Patrick and Lily on the best way to meet their income shortfall in line with their stated objectives. **(8)**

Total marks available for this question: 36

Case study 2

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

Jack, aged 61, is married to Eleanor, aged 59. They are both in good health with a family history of longevity. Jack has two sons, aged 30 and 32 from a previous marriage and several grandchildren. Eleanor has no children. They plan to retire when Eleanor reaches her 60th birthday next month.

The couple's home is valued at £650,000 with an outstanding mortgage of £93,000 and a remaining term of nine years. They have cash savings of £107,000, and individual ISAs valued in total at £174,000. Jack has a personal pension plan (PPP) valued at £83,000. Eleanor has a NEST pension valued at £33,000.

They both have preserved benefits accrued under defined benefit pension schemes, as follows:

Owner	**Jack**	**Eleanor**
Normal pension age (NPA)	65	60
Early retirement factor	From age 60 at 6.3% per annum	From age 55 at 5.2% per annum
Scheme pension at NPA	£15,353 per annum gross	£18,623 per annum gross
Escalation in payment	Statutory	Inflation capped at 4.5% per annum
Spouse's pension	50% of member's pre-commutation pension	66.67% of member's pre-commutation pension
Cash equivalent transfer value (CETV)	£474,960	£651,805
Scheme funding position	80% funded	100% funded

Jack and Eleanor need a net income of £23,000 per annum to cover their essential expenditure once their mortgage is fully repaid and would prefer this income to be guaranteed and increase in line with inflation. They will need a further net income of £16,000 per annum to cover their discretionary expenditure but expect this to vary over time. On first death they anticipate the surviving spouse's essential and discretionary income needs would reduce by 30%.

Jack and Eleanor want to explore the option of taking a scheme pension from one of their defined benefit pension schemes and transferring the benefits from the other to a PPP. They would like to fully repay their mortgage and take withdrawals from the residual fund value to cover discretionary expenditure until their State Pensions come into payment.

Jack's children are financially independent but he is keen to ensure his grandchildren inherit some pension assets where possible on second death, whilst providing Eleanor with income during her remaining lifetime if he should die first. They both have a medium attitude to investment risk.

Eleanor will receive a full State Pension at age 67. Jack has a gap in his National Insurance contribution (NIC) record and is aware that he can pay two years of Class 3 NICs to top up his State Pension to the maximum permitted.

Questions

9. Based on the information in the case study, outline why you have recommended that Eleanor draws the scheme pension from her defined benefit pension scheme and that Jack transfers his benefits within his defined benefit pension scheme to his PPP to access these flexibly. **(15)**

10. You have recommended to Jack that the transferred funds are used to meet their income shortfall prior to State Pension Age.

Outline **four** potential benefits and **two** potential drawbacks of meeting this shortfall by making annual withdrawals via flexi-access drawdown as opposed to buying a short-term annuity. **(6)**

11. Outline the factors you would take into consideration when determining whether to recommend that Jack should nominate the benefits in his PPP into a spousal bypass trust. **(6)**

12. Explain to Jack the **advantages** of him paying Class 3 NICs to maximise the State Pension he will receive. **(6)**

Total marks available for this question: 33

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

- Provide sufficient information/benefits & drawbacks;
- about safeguarded/Defined Benefits;
- and flexible benefits/defined contribution;
- to enable the client to make a decision;
- about whether to take advice on transferring.

Model answer for Question 2

Candidates would have scored full marks for any ten of the following:
- Intended retirement age/term to retirement/term to drawing benefits.
- Likely longevity/ health/investment term for withdrawals.
- Any financial dependants;
- their need to leave a legacy death benefits requirement.
- Income needs in retirement/expected expenditure in retirement;
- split between essential and discretionary spending in retirement;
- and likely pattern of expenditure/anticipated changes/need for inflation proofing.
- Capital needs/ad-hoc needs.
- Other investments/defined contribution pension funds/rental income or other income sources.
- Other secure income sources/State pension forecast.
- Debt outstanding.

Model answer for Question 3

- As Rami had not reached normal pension age before the scheme entered the PPF/as he did not retire early on ill-health grounds;
- his annual pension will reduce to 90% £15,750.
- Escalation will no longer be fixed/benefits are all post-1997;
- so increases will be in line with Consumer Prices Index (CPI);
- capped at 2.5%.
- Spouse’s pension will reduce to 50%.

Model answer for Question 4

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

- Age she wants to retire/age she wants to take the income from the plan.
- Income requirements in retirement.
- Other pension provision/other assets/Capacity for Loss.
- Spouse's pension provision/spouse's income.
- Attitude to Risk.
- Need for secure income/need for flexible income/ATTR.
- Health/family longevity.
- Need for inflation protection.
- Legacy requirements/need for death benefits.
- Tax position.
- Need for a lump sum capital requirements.

Case Study 1

Model answer for Question 5

Candidates would have scored full marks for any nine of the following:

- What age can Lily take benefits from the scheme.
- Any early retirement factors applicable/early retirement pension available.
- The projected scheme pension at NRA.
- How the PCLS is calculated under the scheme/the commutation factor used.
- How inflation is defined (CPI/RPI) by the scheme for revaluation/escalation purposes/has there been a history of applying discretionary increases.
- Any death benefit guarantee period.
- Funding status of the scheme/employer covenant/scheme eligibility for the PPF.
- Has the CETV been reduced or enhanced.
- Are partial transfers allowed from the scheme/conditions for a partial transfer/flexible options e.g. PIE/ bridging pensions.
- Any GMP benefits/have GMP benefits been equalised.

Model answer for Question 6

- Is there a need for these additional death benefits/what other life cover they already have in place.
- The priority given to the death benefits compared to their other objectives.
- How the trade-offs between death benefits and other outcomes have been considered given their other objectives.
- How the death benefits from Lily's scheme compare to the death benefits from the proposed scheme.
- How her beneficiaries may prefer to receive the death benefits (i.e. lump sum or income).
- What alternative ways have been considered to meet her death benefit objectives.

Model answer for Question 7

Candidates would have scored full marks for any thirteen of the following:

- Patrick's pensions and ISA/their cash savings;
- are sufficient to cover their expected shortfall (of £15k x 5 = £75k) for the next 5 years/until Patrick reaches age 60.

- She cannot access her pension for at least three years.
- It will be better to wait until their retirement income needs are known/currently retirement income needs are unclear.
- The decision regarding a transfer can be made later as she has a statutory right to transfer until 1 year from NRA.

- Transferring the pension is unlikely to be suitable for her cautious risk profile.
- She lacks investment experience.

- The scheme offers good protection against inflation in retirement/offers generous inflation increases in deferment.
- It is their only source of secured income other than the State Pension.

- She is in good health with a family history of longevity so the scheme may pay out for a long period.
- A good spouse's pension is available under the scheme for Patrick.
- There is a children's pension available from the scheme whilst they still qualify.

- She could take out term assurance for a very low cost as in good health and so ensure the value is not lost on early death.
- Their other pension schemes can provide lump sum death benefits for the children.

Model answer for Question 8

- Patrick has unused personal allowance.
- Lily's taxable income exceeds her personal allowance;
- but as she is not a higher rate taxpayer;
- Patrick can transfer 10% of his allowance to Lily/he could use the Marriage Allowance.
- Patrick could make withdrawals from his PPP/Lily under age 55 so cannot make withdrawals;
- to utilise any remaining personal allowance.
- They could use cash savings and ISAs to meet any income requirements;
- whilst still leaving a sufficient emergency fund.

Case Study 2

Model answer for Question 9

- Jack will have a 6.3% per annum early retirement factor if he takes benefits now.
- Eleanor will be at the NRA when taking benefits so will have no early retirement reduction.
- They would prefer their essential expenditure to be covered by guaranteed income.
- The income from Eleanor's scheme will cover more of their essential expenditure than the income from Jack's scheme.
- The transfer of Jack's scheme will provide flexible benefits to cover the rest of their essential expenditure and their discretionary expenditure.
- Eleanor's scheme has a higher level of protection against inflation.
- Eleanor's scheme will provide a higher spouse's pension for Jack.
- The spouse's pension/Eleanor's pension combined with the State Pension is likely to be adequate for the surviving spouse.
- Eleanor has no requirement to leave legacy benefits (upon second death).
- The transfer of Jack's scheme will provide potential lump sum/legacy benefits for Jack's grandchildren.
- Eleanor's scheme is fully funded/Jack's scheme is underfunded, so his scheme may be more likely to enter the PPF, potentially reducing the benefits.
- The tax-free cash available from the transfer of Jack's scheme will be adequate to pay off the mortgage.
- There is the potential for investment growth for the transferred funds.
- A transfer is in line with Jack's medium risk profile.
- They have the Capacity for Loss to support a transfer of Jack's scheme.

Model answer for Question 10

Benefits

- Using annual withdrawals would leave more money invested for potential growth.
- The income amount can be varied each year should their requirements change/change ratio of taxable or non-taxable withdrawals.
- The income payments can be stopped at any time, unlike a short-term annuity which has a fixed term at outset.
- Lump sum death benefits from the residual drawdown fund are potentially higher using annual withdrawals as opposed to buying a short-term annuity.

Drawbacks

- With annual withdrawals, the plan may need to be revisited each year to determine which assets to encash.
- Annual withdrawals are subject to 'sequence of withdrawals risk'.

Model answer for Question 11

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

- Income can be taken by Eleanor in the form of a loan.
- This must be repaid to the trust in the event of her death.
- Jack can decide who the trustees are.
- Trust assets will be protected in the case of bankruptcy/divorce/long term care assessment/ are outside of the beneficiaries estate.
- Jack can leave letter of wishes to direct trustees/can leave funds to grandchildren.
- Costly/potential 45% tax charge on death post 75.
- Complex.
- Is it needed/what are Eleanor's intentions?

Model answer for Question 12

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

- The level of State Pension received is excellent value compared to the National Insurance cost.
- He has the cash assets available to make these additional contributions.
- It will provide additional guaranteed income in retirement.
- The income will be protected against inflation (in line with the triple lock).
- He is in excellent health, with a good family history of longevity;
- therefore it is likely he will live long enough to benefit from the additional income.
- This will increase their capacity for loss (via higher secured income) reducing reliance on their other assets.

Glossary of terms

Some abbreviations candidates can you use in financial planning online exams:

1. ATR – attitude to risk
2. BRT – Basic rate taxpayer
3. BIK – Benefit in kind
4. CLT – Chargeable Lifetime Transfer
5. CFL – capacity for loss
6. CGT – Capital Gains Tax
7. DOV – Deed of variation
8. DIS – Death-in-Service
9. DFM – Discretionary Fund Manager
10. ESG – Environmental, Social and Governance
11. EPT – Excluded Property Trust
12. EPA – Enduring Power of Attorney
13. ERC – Early repayment charges
14. FAD – flexi access drawdown
15. FSCS – Financial Services Compensation Scheme
16. FOS – Financial Ombudsman Service
17. GAR – guaranteed annuity rate
18. HRT – Higher rate taxpayer
19. IHT – Inheritance Tax
20. IT – Income Tax
21. IVA – Individual Voluntary Arrangement
22. LPA – Lasting Power of Attorney
23. LTA – lifetime allowance
24. MVR – market value reduction
25. MPAA – money purchase annual allowance
26. NICs – National Insurance contributions
27. NPA – Normal pension age
28. NRA – Normal retirement age
29. NRB – nil rate band
30. OPG – Office of the Public Guardian
31. OEIC – open ended investment company
32. PAYE – Pay As you Earn
33. PPP – personal pension plan
34. PCLS – pension commencement lump sum
35. PA – Personal Allowance
36. PSA – Personal Savings Allowance
37. RAC – retirement annuity contract
38. RNRB – residence nil rate band
39. SIPP – self-invested personal pension plan
40. SEIS – Seed Enterprise Investment Scheme
41. UFPLS – uncrystallised fund pension lump sum
42. VCT – Venture Capital Trust

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 and Supplementary Information which follow are applicable to the September 2023 and March 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.*

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

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

§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).

† where at least one spouse/civil partner was born before 6 April 1935.

*** Investment above £1,000,000 must be in knowledge-intensive companies.*

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

NATIONAL INSURANCE CONTRIBUTIONS

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

Total earnings £ per week	**CLASS 1 EMPLOYEE CONTRIBUTIONS**
Up to 242.00*****	Nil
242.00 – 967.00	12%
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.*

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%

SUPPLEMENTARY INFORMATION PENSION PAPERS – AF7 2023/2024

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%
Between 6 April 2017 and 5 April 2022	3.5%
After 5 April 2022	3.25%

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 no longer applies following a Court of Appeal ruling in July 2021 that it was unlawful on the grounds of age discrimination.

PPF Compensation:	
Members who have already reached the scheme's normal pension age when the employer suffers an insolvency event	100%
Members who have not reached the scheme's normal pension age when the employer suffers an insolvency event	90%

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%