Chartered Insurance Institute

# J05

# Diploma in Financial Planning

## Unit J05 – Pension income options

## May 2021 Examination Guide

**SPECIAL NOTICES**

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

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

# J05 – Pension income options

## Contents



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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.

# In the examination

## The following will help:

**Spend your time in accordance with the allocation of marks:**

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

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

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

**Tackling questions**

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

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

**Answer format**

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

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

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

**Calculators**

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

# EXAMINERS' COMMENTS

**Candidates' overall performance:**

Candidates generally performed well in this exam session and demonstrated a good breadth of knowledge across the key syllabus areas. The paper continued to test understanding of the current legislation, as well as testing understanding of the issues in giving advice to clients on taking pension benefits. Where questions contained an outline of a client scenario, it was important for candidates to relate and apply their answers to that scenario and where candidates did this they scored well.

**Question 1**

Overall part (a) was answered fairly well. However, some candidates were not stating the reason for the group life scheme being tested (i.e. that it is written under pension scheme rules) or for the GPP being tested (i.e. that it is uncrystallised).

Part (b) was generally well answered. Where some candidates failed to gain full marks, they were adding all three pots together assuming they will all be tested whereas the drawdown is not tested again (as it had been previously tested in 2018).

**Question 2**

In part (a) some candidates were not stating the percentage is based on the initial investment value. Otherwise this was well answered overall.

In part (b) most candidates had a sufficient grasp of the benefits and drawbacks to do well on this question.

**Question 3**

In part (a) some candidates did not understand that the spouse's pension starts after the end of the guaranteed period, instead stating it was a choice between the two or that the two run concurrently – both of which are incorrect. Although this is a well-tested area of the syllabus, some candidates are still confused by the tax treatment of the scheme pension, assuming incorrectly that taxation is linked to age.

Overall candidates did well in part (b). Although some candidates are still mixing up dependants with 'successors' and 'nominees', most understand the broader options and tax treatment.

**Question 4**

Part (a) was a mini-case study providing information about Manuel including his health and age relative to the scheme normal retirement age, however many candidates failed to state the additional information that would be required from the scheme in relation to whether any enhancement applied by the scheme for ill-health or any reduction applied by the scheme for early retirement.

Part (b) was generally well answered.

**Question 5**

In part (a) most candidates understood that further contributions/benefit accrual could not have occurred since April 2016, but many were incorrectly stating that a minimum fund value is required and therefore confusing Fixed Protection with Individual Protection.

Part (b) saw mixed responses. Often candidates were missing marks by not stating transfers to a registered defined contribution scheme (or providing an example of one) or that the benefits must be actuarially equivalent on transfer.

**Question 6**

In part (a) most candidates understood the benefits of transferring but were missing out on marks by not stating that she will be able to designate additional uncrystallised funds to her existing capped drawdown. Some candidates were referencing the ability to retain carry forward but this is not relevant to the scenario given her level of contributions.

Part (b) was generally well answered but some candidates were stating that financial advice is required which it is not.

**Question 7**

This was generally well answered with many candidates achieving high marks.

**Question 8**

Some candidates new these rules and achieved full marks. Others were instead stating general risk factors such as investment risk or market risk, which is not what the question was asking.

**Question 9**

Some candidates were well versed on the statutory priority order on wind up. Others were stating the rules for the pension protection fund (PPF) or for receiving financial advice which is not what the question was asking.

**Question 10**

In part (a) most candidates had a good grasp. Some candidates were missing the mark for ‘He was not working and not claiming any benefits’ by only stating ‘not working’ and not expanding this to include ‘and not claiming benefits’ – the latter is crucial as claiming benefits would typically result in National Insurance (NI) credits which would therefore not result in gaps in their NI record.

Additionally, some candidates were stating ‘periods of contracting out’, which again failed to gain a mark as contracting out resulted in reduced rates of NI contributions, not complete gaps in a record, as those who did this contracted out of the additional pension element of the State Pension, not the State Pension specifically.

In part (b) some candidates were well versed on the dates, while others made no mention of timescales and therefore did not gain these marks.

**Question 11**

In part (a) some candidates answered this well. Some candidates however lost marks by mixing up the criteria that applies to Helena and Suzie respectively – the claimant (Helena) and the deceased (Suzie) each have their own eligibility criteria which do not overlap, other than being civil partnered/married.

In part (b) most candidates recognised the eligibility for the higher values and stated these correctly. The aim of the question was to draw out that the higher rate applied – stating all options for higher and lower rates did not gain the marks required.

**Question 12**

Most candidates gained sufficient marks to score well on this question. Where some candidates did not, they failed to make the link between longer life expectancy and the decline in annuity rates (which risked missing out on 3 of the 6 available marks).

**Question 13**

This was generally well answered.

**Question 14**

This was generally well answered but some candidates were missing marks for not stating the impact of the money purchase annual allowance (MPAA) – i.e. that it will restrict the level of contributions; and also that this will have a broader impact on how much can be saved for retirement over the next 5 years.

**Question 15**

This question on the stress tests that should be undertaken as part of an annual review of a cashflow modelling exercise was generally well answered.

## Unit J05 – Pension income options

**Instructions to candidates**

**Read the instructions below before answering any questions.**

**All questions in this examination are based on English law and practice applicable in the tax year 2020/2021, unless stated otherwise in the question, and should be answered accordingly. It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.**

**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.
- Tax tables are provided at 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.**
- 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 ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX**

**1.** Nita, aged 63, was recently widowed. Her husband, Fred, died at the age of 61. At the time of his death, he was employed by Druar Ltd.

Fred had the following pension death benefits and no form of transitional protection.

| Scheme | Death benefit (£) | Notes |
|---|---|---|
| Druar Ltd death in service scheme | 700,000 | Written under registered pension scheme rules |
| Druar Ltd Group Personal Pension Plan (PPP) | 250,000 | Uncrystallised fund |
| Flexi-access drawdown (FAD) plan | 150,000 | Fully crystallised personal pension plan valued at £500,000 in May 2018 |

**(a)** Explain, giving your reasons, how Fred's pension death benefits will be treated for lifetime allowance purposes. **(6)**

**(b)** Calculate, **showing all your workings**, the lifetime allowance tax charge payable as a result of Fred's death. *You should assume that the remaining death benefits were paid in the tax year 2020/2021 and the excess over the lifetime allowance is taken as an income.* **(7)**

**2.** **(a)** Explain what is meant by the safe withdrawal rate (SWR). **(5)**

**(b)** State **two** benefits and **three** drawbacks of using this approach as part of an income drawdown strategy. **(5)**

**3.** Marvin died recently at the age of 69. At the time of his death, he was in receipt of a scheme pension of £13,500 per annum from a defined benefit scheme. This commenced when Marvin reached age 65 and included a ten-year guarantee and a 50% spouse's pension. The scheme pension does not include any pension protection lump sum death benefits or any defined benefit lump sum death benefits. He also held an uncrystallised personal pension plan (PPP).

Marvin had completed nomination forms showing that his widow, Olivia, should receive the death benefits from his pensions.

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

**(a)** scheme pension; **(5)**

**(b)** uncrystallised PPP. **(9)**

**4.** Manuel, aged 63, is about to retire due to some minor health issues. He is a member of his employer's defined benefit scheme and the scheme trustees have advised him that he is entitled to an immediate scheme pension of £24,000 per annum. Alternatively, the trustees have offered Manuel a cash equivalent transfer value (CETV) of £792,000. The normal pension age of the scheme is 65.

Before advising Manuel on whether he should take the scheme pension on offer, or if he should accept the CETV, outline the additional information you would require from:

**(a)** the scheme; **(5)**

**(b)** Manuel. **(7)**

**5.** Francesca, aged 64, is married and has been a deferred member of her former employer's defined benefit scheme since 2011.

Francesca is considering registering for Fixed Protection 2016 (FP16).

**(a)** Explain briefly the conditions that must be met in order for Francesca to be eligible for FP16. **(3)**

**(b)** State the circumstances in which Francesca could transfer her pension benefits without losing FP16. *You should assume that Francesca has registered for FP16.* **(4)**

**6.** Donna, aged 63, crystallised her personal pension plan (PPP) in 2014. After taking the maximum pension commencement lump sum, the balance was designated into a capped drawdown arrangement from which she has not taken any income. She also contributes £12,000 per annum into a PPP and plans to continue to do so.

You have advised transferring the capped drawdown arrangement to a new provider to benefit from lower charges and a wider range of fund options.

**(a)** Explain briefly the benefits of transferring into a new capped drawdown arrangement rather than converting it into a flexi-access drawdown (FAD) arrangement. **(3)**

**(b)** Explain briefly the criteria that must be met in order to transfer from an existing capped drawdown arrangement to a new capped drawdown arrangement. **(4)**

**7.** Lena is currently drawing an income from her flexi-access drawdown plan (FAD) using a performance driven withdrawal strategy.

Outline the factors that should be taken into account when carrying out an annual review of her FAD. **(10)**

**8.** Section 9.4 of the Financial Conduct Authority's Conduct of Business Sourcebook (COBS) outlines the suitability report requirements when a firm is making a personal recommendation to a client regarding income withdrawals.

Outline the relevant risk factors that must be included. **(5)**

**9.** A defined benefit scheme that has been in place for 40 years, is being wound up this year.

Outline the statutory priority order that applies to the scheme benefits. **(5)**

**10.** Philippe, aged 64, is currently employed and does not have enough qualifying years of National Insurance (NI) contributions to be entitled to his full State Pension at his State Pension age of 66.

**(a)** State the possible reasons why Philippe may have gaps in his NI record. **(3)**

**(b)** Outline how Philippe can fill these gaps and by what date(s) any action must be taken. **(4)**

**11.** Helena's civil partner, Suzie, died 6 weeks ago. Helena is 45 years old and has three children with Suzie, aged 12, 16 and 21. Helena has been advised she may be eligible to claim Bereavement Support Payment (BSP) and would like to understand how this works.

**(a)** Explain briefly the eligibility criteria for Helena to make a successful claim for BSP. **(5)**

**(b)** State how much BSP she could receive and for how long. **(3)**

**12.** Aleksandra, aged 61 and Peter, aged 60, are married and both are about to retire. Between them they have several personal pension plans valued at £670,000 in total. They are considering drawing a flexible income over the next 10 years with a view to each of them potentially purchasing a lifetime annuity in the future.

Outline **six** key considerations in relation to life expectancy that you should take into account when advising them on their immediate and longer-term retirement planning needs. **(6)**

**13.** Tommy, aged 60, is widowed with two non-dependent children, and he is about to retire. He has a personal pension plan valued at £725,000 and needs an income of £1,500 per month to live comfortably. Tommy is concerned about the impact of inflation as both his parents are in their 90s. He has a low attitude to risk.

Outline **five** benefits and **five** drawbacks of recommending that Tommy should purchase a lifetime annuity as opposed to using flexi-access drawdown (FAD) to provide his income. **(10)**

**14.** Ansur, aged 55, is self-employed and plans to retire in the next five years. He makes a gross pension contribution of £15,000 into his personal pension plan (PPP) each year.

Ansur would like to make a gift of £125,000 to his son. He is considering taking an uncrystallised funds pension lump sum (UFPLS) from his PPP, which is currently valued at £425,000, to provide the required funds.

Explain the factors that should be considered before proceeding with this course of action. *No calculations are required.* **(10)**

**15.** State **six** stress tests that should be undertaken as part of an annual review of a cashflow modelling exercise. **(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)**
- Death in service will be tested;
- as it is written under pension rules/lump sum death benefit/not an excepted GL scheme.
- Group Personal Pension scheme will be tested;
- as it is uncrystallised.
- Flexi access drawdown will not be tested;
- as it was tested/previously crystallised in May 2018.

**(b)** **2018/2019 Benefit crystallisation event (BCE)**
- £500,000/£1,030,000
- = 48.54% used/51.46% remaining.

**2020/2021 BCE**
- £1,073,100 x 51.46% = £552,217.26 lifetime allowance remaining.
- £700,000 + £250,000 = £950,000
- £950,000 - £552,217.26 = £397,782.74
- x 25%
- = £99,445.68

**Model answer for Question 2**

**(a)**
- The amount of money expressed as a percentage
- of the initial investment,
- which can be withdrawn each year;
- taking into account inflation
- that will not lead to the investment being depleted to zero/reduce the risk of running out of money.

**(b)** **Benefits:**
- Reduces the risk of running out of money.
- Simple to understand/does not need reviewing.

**Drawbacks:**
*Candidates would have gained three marks for any three of the following:*
- No guarantee money will not run out/based on assumptions which may prove incorrect
- Could result in less money being taken than is possible/too conservative withdrawals.
- Inflexible/does not alter to reflect any change in circumstances/should be reviewed each year.
- Does not take account of charges.

**Model answer for Question 3**

**(a) Scheme pension;**

- Guarantee payable as income/annuity/£13,500
- for remainder of period/6 years/balance of 10 years
- reducing to 50% thereafter
- taxable at Olivia's marginal rate.
- Not tested against Marvin's Lifetime Allowance (LTA).

**(b) Uncrystallised personal pension plan;**

- Lump sum.
- Dependant's;
- Flexi-access drawdown (FAD).
- Annuity.
- Paid tax free;
- if designated within 2 years of date of death.
- Taxable as earned income if paid to Olivia outside of 2 years.
- Subject to check against Marvin's LTA.
- Not liable to Inheritance Tax.

**Model answer for Question 4**

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

**(a) the scheme;**

- Any enhancement applied by the scheme for ill-health.
- Any reduction applied by the scheme for early retirement.
- Level of pension commencement lump sum (PCLS) available.
- Inflation proofing offered by the scheme.
- Any spouse/dependants/dependant's benefits offered by the scheme.
- Financial strength/funding status of the scheme/employer covenant/CETV enhanced or reduced.

**(b)** *Candidates would have gained full marks for any seven of the following:*

**Manuel:**

- Level of income required in retirement.
- Level of PCLS required/need for capital/commutation rate/debts.
- Other income/state pension/assets/capacity for loss/downsizing/ inheritances/registered for protection.
- Attitude to risk (ATR).
- Attitude to transfer risk/whether he wants flexible income/wants secure income.
- Whether he requires inflation proofing/thoughts on inflation.
- Dependents/spouse/desire/need for death benefits.
- Health/life expectancy/enhanced annuity rates available.
- Willingness to pay charges/ongoing advice.

**Model answer for Question 5**

**(a)**
- No further contributions/benefit accrual allowed since April 2016.
- No minimum fund value required.
- Cannot already hold Fixed Protection 2012/Fixed Protection 2014/Enhanced/primary protection.

**(b)**
- Transfer to a (registered) defined contribution scheme (for example, qualifying recognised overseas scheme (QROPS), group personal pension (GPP), workplace pension);
- providing value of rights are actuarially equivalent (not enhanced).
- Transfer for pension sharing order.
- Scheme wind up/employer takeover/block transfer.

**Model answer for Question 6**

**(a)**
- Retains ability to take an income from capped drawdown (within limits) and not trigger money purchase annual allowance (MPAA)/if she converts to flexi-access drawdown (FAD) and then takes any income from the plan she will trigger the MPAA.
- Which will not impact on her current pension contributions/will reduce her ability to fund her pension in the future as planned.
- She will be able to designate additional uncrystallised funds to her existing capped drawdown (assuming allowed by the arrangement).

**(b)**
- The transfer must be made to a new arrangement.
- On a like-for-like basis/must retain current maximum income limit/review cycle.
- All of the current plan assets must be transferred.
- The funds transferred must be kept separate from any other funds.

**Model answer for Question 7**

*Candidates would have gained full marks for any ten of the following:*
- Previous year's investment performance/need for rebalancing/value.
- Was performance sufficient to provide required income;
- if not, capital erosion will occur for amount taken in excess of growth.
- Income/capital required.
- Change in attitude to risk/capacity for loss.
- Changes in legislation/taxation/regulation.
- Economic/market conditions/new products/inflation.
- Whether annuity required/continued suitability of flexi-access drawdown (FAD).
- State Pension/other income/other assets/inheritances/downsizing/liabilities.
- Change in circumstances/health/death benefits.
- Charges.

**Model answer for Question 8**

- The capital value of the fund may be eroded.
- The investment returns may be less than those shown in the illustrations.
- Annuity or scheme pension rates may be at a worse level in the future.
- The levels of income provided may not be sustainable.
- There may be tax implications.

**Model answer for Question 9**

- Pensions in payment secured by annuities/externally;
- bought before 6 April 1997.

- Guaranteed Minimum Pension (GMP)/scheme pension up to the corresponding Pension Protection Fund (PPF) liability.
- Additional voluntary contributions (AVCs).
- All other benefits under the scheme.

**Model answer for Question 10**

**(a)** Reason for gaps:
- He was living abroad at some point.
- He was working but with low earnings/low profits.
- He was not working and not claiming any benefits.

**(b)** How to fill:
- He can pay voluntary class 3 National Insurance contributions;
- for the past 6 years.
- He has until 5 April 2023;
- to pay voluntary contributions to make up for gaps between April 2006 and April 2016.

**Model answer for Question 11**

**(a)** *Candidates would have gained full marks for any five of the following:*

Helena must:

- claim within 3 months of Suzie's death to get the full amount.
- claim within 21 months of Suzie's death but not receive the full amount.
- Be under State Pension age.
- Living in the UK/country that pays bereavement benefits.

- Suzie must:
- have paid sufficient National Insurance contributions/at least 25 weeks in one tax year.
- Or died because of an accident at work/disease caused by work.

- They must be married/civil partners.

**(b)**
- Lump sum of £3,500.
- Plus £350 per month.
- For up to 18 months.

**Model answer for Question 12**

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

- Life expectancy has increased over time.
- Life expectancy of both individuals should be taken into account.
- Increases in longevity have contributed to a steep decline in annuity rates
- and increased the risk of running out of money in retirement/inflation risk.
- Life expectancy should be regularly reviewed/changes in their health.
- Income need/long term care in the future/importance of Lasting Power of Attorneys.
- Other assets/income/downsizing.

**Model answer for Question 13**

**Benefits:**

- In line with attitude to risk/no investment risk/no sequencing risk.
- Provides the guaranteed income required/income for life.
- Indexation/escalation/inflation proofing can be built in.
- No longevity risk/mortality gain/cross subsidy.
- No ongoing charges/reviews/less complex.

**Drawbacks:**

- May have too much income (when State Pension commences).
- Cannot vary income/once set up cannot be changed.
- Less flexible death benefits.
- Annuity rates are low/poor value.
- Miss out on investment growth.

**Model answer for Question 14**

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

- Pension commencement lump sum (PCLS) is insufficient.
- He will need to draw an uncrystallised funds pension lump sum (UFPLS) larger than £125,000/UFPLS leaves less in fund.
- 25% of the UFPLS tax free/75% taxable.
- Tax status.
- Month 1 taxation/tax will need to be reclaimed.

- He will trigger the money purchase annual allowance (MPAA)/lose carry forward
- which will mean he has to reduce the amount he normally saves; and
- reduces fund for retirement/impact on retirement/loss of investment growth/limited scope for replenishing the fund before retirement.

- The gift would be classed as a potentially exempt transfer (PET)/will remain in Ansur's estate for Inheritance Tax for a period.
- Other retirement income/State Pension/inheritances/other assets/liabilities.
- Adviser fees/cost of setting up UFPLS.

**Model answer for Question 15**

- Loss of an asset/stock market crash.
- Future investment returns are lower than expected.
- Income needs increase more than expected/long term care needs in future.
- Living longer than expected.
- Future inflation is higher than assumed.
- A large unexpected/ad hoc capital withdrawal is needed.

| May 2021 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. |
| | 7. | Understand the issues in giving initial and ongoing advice on taking pension benefits to clients. |
| 3. | 1.<br>3. | Understand the HMRC rules that apply when pension benefits are crystallised.<br>Understand the features, tax treatment and risks of flexible benefit options. |
| 4. | 2.<br>4. | Understand in detail the features, tax treatment and risks of lifetime annuities and scheme pensions.<br>Understand the features, tax treatment and risks of phasing retirement benefits. |
| 5. | 3.<br>4.<br>7. | Understand the features, tax treatment and risks of flexible benefit options.<br>Understand the features, tax treatment and risks of phasing retirement benefits.<br>Understand the issues in giving initial and ongoing advice on taking pension benefits to clients. |
| 6. | 3.<br>4.<br>7. | Understand the features, tax treatment and risks of flexible benefit options.<br>Understand the features, tax treatment and risks of phasing retirement benefits.<br>Understand the issues in giving initial and ongoing advice on taking pension benefits to clients. |
| 7. | 7. | Understand the issues in giving initial and ongoing advice on taking pension benefits to clients. |
| 8. | 5. | Understand the regulatory requirements and legal framework designed to protect clients who are drawing pension benefits. |
| 9. | 6. | Understand the State retirement benefits available. |
| 10. | 6.<br>7. | Understand the State retirement benefits available.<br>Understand the issues in giving initial and ongoing advice on taking pension benefits to clients. |
| 11. | 6. | Understand the State retirement benefits available. |
| 12. | 2.<br>7. | Understand in detail the features, tax treatment and risks of lifetime annuities and scheme pensions.<br>Understand the issues in giving initial and ongoing advice on taking pension benefits to clients. |
| 13. | 7.<br>2. | Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.<br>Understand in detail the features, tax treatment and risks of lifetime annuities and scheme pensions. |
| 14. | 7.<br>3. | Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.<br>Understand the features, tax treatment and risks of flexible benefit options. |
| 15. | 7. | Understand the issues in giving initial and ongoing advice on taking pension benefits to clients. |

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

**The Tax Tables which follow are applicable to the February and May 2021 examination.**

# INCOME TAX

| RATES OF TAX | 2019/2020 | 2020/2021 |
|---|---|---|
| Starting rate for savings* | 0% | 0% |
| Basic rate | 20% | 20% |
| Higher rate | 40% | 40% |
| Additional rate | 45% | 45% |
| Starting-rate limit | £5,000* | £5,000* |
| Threshold of taxable income above which higher rate applies | £37,500 | £37,500 |
| Threshold of taxable income above which additional rate applies | £150,000 | £150,000 |
| Child benefit charge: | | |
| 1% of benefit for every £100 of income over | £50,000 | £50,000 |

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

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

| MAIN PERSONAL ALLOWANCES AND RELIEFS | | |
|---|---|---|
| Income limit for Personal Allowance *§* | £100,000 | £100,000 |
| Personal Allowance (basic) *§* | £12,500 | £12,500 |
| Married/civil partners (minimum) at 10% † | £3,450 | £3,510 |
| Married/civil partners at 10% † | £8,915 | £9,075 |
| Marriage Allowance | £1,250 | £1,250 |
| Income limit for Married Couple's Allowance† | £29,600 | £30,200 |
| Rent a Room scheme – tax free income allowance | £7,500 | £7,500 |
| Blind Person's Allowance | £2,450 | £2,500 |
| Enterprise Investment Scheme relief limit on £2,000,000 max** | 30% | 30% |
| Seed Enterprise Investment relief limit on £100,000 max | 50% | 50% |
| Venture Capital Trust relief limit on £200,000 max | 30% | 30% |

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

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

# NATIONAL INSURANCE CONTRIBUTIONS

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

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

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

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

*** Secondary earnings threshold.*

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

# PENSIONS

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

## LIFETIME ALLOWANCE CHARGE

55% of excess over lifetime allowance if taken as a lump sum.
25% of excess over lifetime allowance if taken in the form of income.

## ANNUAL ALLOWANCE

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

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

**tapered by £1 for every £2 of 'adjusted income' over £240,000 to a minimum of £4,000 if 'threshold income' is also over £200,000.*

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

## ANNUAL ALLOWANCE CHARGE

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

# CAPITAL GAINS TAX

| **EXEMPTIONS** | **2019/2020** | **2020/2021** |
|---|---|---|
| Individuals, estates etc | £12,000 | £12,300 |
| Trusts generally | £6,000 | £6,150 |
| Chattels proceeds (restricted to five thirds of proceeds exceeding limit) | £6,000 | £6,000 |

| **TAX RATES** | | |
|---|---|---|
| Individuals: | | |
| Up to basic rate limit | 10% | 10% |
| Above basic rate limit | 20% | 20% |
| Surcharge for residential property and carried interest | 8% | 8% |
| Trustees and Personal Representatives | 20% | 20% |
| | 10% | 10% |
| Business Asset Disposal Relief* – Gains taxed at: | | |
| Lifetime limit | £10,000,000 | £1,000,000 |

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

# INHERITANCE TAX

| RATES OF TAX ON TRANSFERS | 2019/2020 | 2020/2021 |
|---|---|---|
| Transfers made on death | | |
| - Up to £325,000 | Nil | Nil |
| - Excess over £325,000 | 40% | 40% |
| Transfers | | |
| - Lifetime transfers to and from certain trusts | 20% | 20% |

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

| MAIN EXEMPTIONS | | |
|---|---|---|
| Transfers to | | |
| - UK-domiciled spouse/civil partner | No limit | No limit |
| - non-UK-domiciled spouse/civil partner (from UK-domiciled spouse) | £325,000 | £325,000 |
| - main residence nil rate band* | £150,000 | £175,000 |
| - UK-registered charities | No limit | No limit |

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

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

100% relief: businesses, unlisted/AIM companies, certain farmland/building
50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:

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

Quick succession relief:

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

## PRIVATE VEHICLES USED FOR WORK

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

## MAIN CAPITAL AND OTHER ALLOWANCES

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

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

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

**If new*

# MAIN SOCIAL SECURITY BENEFITS

| | | 2019/2020 | 2020/2021 |
|---|---|---|---|
| | | £ | £ |
| Child Benefit | First child | 20.70 | 21.05 |
| | Subsequent children | 13.70 | 13.95 |
| | Guardian's allowance | 17.20 | 17.90 |
| Employment and Support Allowance | Assessment Phase | | |
| | Age 16 - 24 | Up to 57.90 | Up to £58.90 |
| | Aged 25 or over | Up to 73.10 | Up to £74.35 |
| | Main Phase | | |
| | Work Related Activity Group | Up to 102.15 | Up to 74.35 |
| | Support Group | Up to 111.65 | Up to 113.55 |
| Attendance Allowance | Lower rate | 58.70 | 59.70 |
| | Higher rate | 87.65 | 89.15 |
| Basic State Pension | Single | 129.20 | 134.25 |
| | Married | 201.45 | 268.50 |
| Single Tier State Pension | Single | 168.60 | 175.20 |
| Pension Credit | Single person standard minimum guarantee | 167.25 | 173.75 |
| | Married couple standard minimum guarantee | 255.25 | 265.20 |
| | Maximum savings ignored in calculating income | 10,000.00 | 10,000.00 |
| Bereavement Support Payment | Higher rate – First payment | 3,500.00 | 3,500.00 |
| | Higher rate – monthly payment | 350.00 | 350.00 |
| | Lower rate – First payment | 2,500.00 | 2,500.00 |
| | Lower rate – monthly payment | 100.00 | 100.00 |
| Jobseeker's Allowance | Age 18 - 24 | 57.90 | 58.90 |
| | Age 25 or over | 73.10 | 74.35 |
| Statutory Maternity, Paternity and Adoption Pay | | 148.68 | 151.20 |

# CORPORATION TAX

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

# VALUE ADDED TAX

| | 2019/2020 | 2020/2021 |
|---|---|---|
| Standard rate | 20% | 20% |
| Annual registration threshold | £85,000 | £85,000 |
| Deregistration threshold | £83,000 | £83,000 |

# STAMP DUTY LAND TAX

| | Residential |
|---|---|
| Value up to £125,000 | 0% |
| £125,001 - £250,000 | 2% |
| £250,001 and £925,000 | 5% |
| £925,001 and £1,500,000 | 10% |
| £1,500,001 and over | 12% |

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

*Stamp Duty Land Tax (SDLT) is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.*

*Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*

*SDLT may be charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.*

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

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