

Pension income options

Purpose

At the end of this unit, candidates should be able to demonstrate an understanding of the:

- process and implications of decumulating pension funds and the issues facing clients and advisers;
- decumulation options available to members of pensions schemes;
- features, risks and tax treatment of the different options.

Summary of learning outcomes

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

Important notes

- This syllabus will be examined in the October 2021 and April 2022 sessions.
- Candidates will be examined on the basis of English Law and practice in the tax year 2021/2022 unless otherwise stated.
- The general rule is that exams are based on the English legislative position three months before the date of the exams.
- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:
 1. Visit www.cii.co.uk/qualifications
 2. Select the appropriate qualification
 3. Select your unit from the list provided
 4. Select qualification update on the right hand side of the page

1. Understand the HMRC rules that apply when pension benefits are crystallised

- 1.1 Lifetime allowance, including pensions on divorce, transitional reliefs, valuation factors and tax charges;
- 1.2 The minimum pension age, including contractual and protected retirement ages;
- 1.3 Pension commencement lump sum limits, including transitional protections;
- 1.4 Benefit crystallisation events including valuations and calculations;
- 1.5 Commutation of benefits including triviality, small pots and serious ill health;
- 1.6 Requirements for drawing benefits on the grounds of ill health;
- 1.7 Annual allowance including money purchase annual allowance, carry forward of unused allowance, valuation factors and tax charges.

2. Understand in detail the features, tax treatment and risks of lifetime annuities and scheme pensions

- 2.1 Definition, HMRC requirements and main features;
- 2.2 Death benefits: lump sums, survivors' pensions and guarantees - lifetime annuity;
- 2.3 Annuity types: conventional, flexible, investment linked, enhanced and impaired life;
- 2.4 Definition, HMRC requirements and main features including escalation for defined benefit schemes;
- 2.5 Commutation of pension and the option of pension increase exchange;
- 2.6 Death benefits: lump sums, survivors' pensions and guarantees;
- 2.7 Impact of longevity, economic and other factors on annuity rates.

3. Understand the features, tax treatment and risks of flexible benefit options

- 3.1 Definition, HMRC requirements, main features and risks of uncrystallised funds pension lump sum, capped and flexi-access drawdown pensions, including the use of short-term annuities;
- 3.2 The maximum annual income payable and the review procedure under capped drawdown pensions, including calculations;
- 3.3 The benefits payable on death and their tax treatment - general;
- 3.4 HMRC rules and procedures applicable to drawdown pensions, including conversion of capped to flexi-access drawdown;
- 3.5 Drawdown to drawdown transfers.

4. Understand the features, tax treatment and risks of phasing retirement benefits

- 4.1 Phasing retirement using flexi-access drawdown and/or uncrystallised funds pension lump sum;
- 4.2 Phasing retirement by lifetime annuity purchase basis and/or capped drawdown pension basis;
- 4.3 How target income will be achieved by lump sum and income payments including calculations;

- 4.4 The benefits payable on death and their tax treatment - phasing retirement benefits.

5. Understand the regulatory requirements and legal framework designed to protect clients who are drawing pension benefits

- 5.1 FCA – Conduct of Business Sourcebook;
- 5.2 Money and Pension Service guidance body including Pension Wise;
- 5.3 Security of members benefits, including Pension Protection Fund, Financial Assistance Scheme and Financial Services Compensation Scheme;
- 5.4 TPR transfer guidance, including pension scams.

6. Understand the State retirement benefits available

- 6.1 The new State Pension: calculating the starting amount, eligibility through National Insurance contributions and credits, amounts payable and annual increases;
- 6.2 Ability to increase the State Pension by paying Class 3 NICs;
- 6.3 State Pension age (SPA): equalisation of male and female ages and subsequent increases to SPA;
- 6.4 State retirement benefits for those who reached SPA before 6 April 2016;
- 6.5 Deferring the State Pension;
- 6.6 State Pension Credit;
- 6.7 Payment of State retirement benefits to pensioners living overseas;
- 6.8 Benefits payable by the State on death.

7. Understand the issues in giving initial and ongoing advice to clients on taking pension benefits

- 7.1 The choice between the different methods for drawing a pension income and/or lump sum;
- 7.2 The factors that should be considered when advising on the suitability or otherwise of a transfer out of a defined benefit scheme at the point of retirement including: Personal recommendation; Appropriate Pension Transfer Analysis (APTA) & Transfer Value Comparator (TVC); Attitude to transfer risk; Safeguarded and non safeguarded benefits, including money purchase AVCs;
- 7.3 The factors that should be considered when advising on the suitability or otherwise of a transfer between money purchase arrangements, including: Guaranteed annuity rates (GAR); Protected tax free cash; Flexibility options within the contracts; Investment choices, including discretionary fund managers;
- 7.4 Income Tax planning in drawing pension income or lump sum, both State and Private;
- 7.5 Identifying the annuity options which may be suitable for the client;
- 7.6 The factors to be taken into account during annual reviews;
- 7.7 Intergenerational planning: nominations, Inheritance Tax planning, spousal bypass trusts;

- 7.8 The importance of the following factors: Personal and financial circumstances and objectives; Attitude to investment risk; Capacity for loss; Longevity including life expectancy probability; Investment strategies in retirement; cash flow modelling, stress testing and safe withdrawals;
- 7.9 Non pension assets as an alternative means of providing income;
- 7.10 Impact of pension sharing and earmarking awards upon retirement and on death.

Reading list

The following list provides details of further reading which may assist you with your studies.

Note: The examination will test the syllabus alone.

The reading list is provided for guidance only and is not in itself the subject of the examination.

The resources listed here will help you keep up-to-date with developments and provide a wider coverage of syllabus topics.

CII study texts

Pensions and retirement planning. London: CII. Study text R04.

Journals and magazines

Financial adviser. London: FT Business. Weekly. Available online at www.ftadviser.com.

Personal finance professional (previously Financial solutions). London: CII. Six issues a year.

Money management. London: FT Business. Monthly. Available online www.ftadviser.com/brand/money-management.

Money marketing. London: Centaur Communications. Weekly. Available online at www.moneymarketing.co.uk.

Pensions age. London: Perspective. Monthly. Available at www.pensionsage.com.

Professional pensions. London: Incisive Media. Weekly. Available at www.professionalpensions.com.

Reference materials

PPI Pensions Primer and Pension Facts. Pensions Policy Institute (PPI). Available online at www.pensionspolicyinstitute.org.uk/pension-facts, updated.

Concise encyclopedia of insurance terms. Laurence S. Silver, et al. New York: Routledge, 2010. *

Harriman's financial dictionary: over 2,600 essential financial terms. Edited by Simon Briscoe and Jane Fuller. Petersfield: Harriman House, 2007. *

HMRC - Pensions Tax Manual (PTM). Available online at www.gov.uk/hmrc-internal-manuals/pensions-tax-manual.

* Also available as an ebook through eLibrary via www.cii.co.uk/elibrary (CII/PFS members only).

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

Examination guides

Guides are produced for each sitting of written answer examinations. These include the exam questions, examiners' comments on candidates' performance and key points for inclusion in answers.

You are strongly advised to study guides from the last two sittings. Please visit www.cii.co.uk to buy online or contact CII Customer Service for further information on +44 (0)20 8989 8464.

Alternatively, if you have a current study text enrolment, the latest exam guides are available via www.revisionmate.com.