Chartered
Insurance
Institute

J05

Diploma in Financial Planning

Unit J05 – Pension income options

October 2021 Examination Guide

SPECIAL NOTICES

Candidates entered for the February 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

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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.

On-screen written exam demonstration (Demo 1)

The familiarisation test allows you to experience using the assessment platform before your exam. You can try the familiarisation test at any time here https://uat-cii.psionline.com/phoenix/instant/launch?auth=EH6jtrqPu3J6znVp&username=ILDemo1&test=05a75b4f-1c90-4a74-a22d-ec4aa8d4ca48&autoopen=1&samewindow=1&theme=custom/alternative/CII

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

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

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 performed well in this exam session, on the whole. 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. This session also included a few questions which had not been tested in recent sittings, however, candidates who had spent time studying across the full syllabus performed well, demonstrating a good breadth of knowledge overall.

Question 1

Although this lifetime allowance (LTA) question was well answered by many candidates, there were several consistent errors preventing some from achieving full marks: use of the incorrect LTA in 2013/14, £1.25m instead of £1.5m; missing the calculation of growth in the drawdown fund from when it was crystallised in 2014 to now; and doing a calculation for a 55% tax charge at the end when the only option at age 75 is the 25% tax charge.

Finally, we asked candidates to round answers to two decimal places. This instruction is clear at the start of the question paper. However, a fairly high number of candidates were not rounding correctly with some missing all decimal places. So instead of 43.33% we were seeing 43%. Understandably this has a knock-on impact to the rest of the calculation, resulting in the incorrect final answer (albeit marks are awarded throughout the answer for correct steps taken). Candidates are reminded to carefully read all instructions provided and round accurately in questions involving calculations.

Question 2

Candidates appeared unfamiliar with the contractual right to take benefits at age 50. Many responded assuming it was in relation to special retirement ages, for example, for sports people, which is not the case. A few candidates knew these rules and were able to achieve maximum marks.

Question 3

In this question on death benefits, some candidates assumed it was a defined benefit (DB) pension in payment rather than the fact that Andrea is an active member of her employer's defined benefit scheme as stated. This led those candidates to incorrectly answer that a scheme pension would be payable rather than a DB lump sum. Others simply assumed there would be no death benefits from the DB scheme which is also incorrect. However, most candidates gained sufficient marks on the flexi-access drawdown (FAD) part of the question to achieve a good level of marks overall for this question.

Question 4

This question on escalation of a scheme pension in payment appears fairly frequently in these sessions and candidates who prepared did well, gaining maximum marks in a lot of cases. Others struggled by not understanding the dates or that inflationary increases are measured by the consumer price index (CPI) not the retail price index (RPI).

Question 5

This question had mixed responses – most candidates understood the definition of a dependant in this context (spouse/civil partner, under age 23, etc.), however, many candidates lost marks by not understanding other conditions, namely that it must cease on the dependant's death, not include any form of guarantee period or annuity protection and that it cannot be surrendered.

Question 6

This question was testing the requirements on trustees when faced with a transfer request out of a defined benefit scheme. A lot of candidates answered this from the member's perspective, however the question asks for the requirements on the trustees. So many candidates missed key marks, for example for the trustee/scheme needing to carry our due diligence to ensure the scheme is legitimate and the need for them to highlight the risk of scams.

Question 7

Overall this was well answered by most candidates, who had a good grasp pf the factors when assessing suitability of flex-access drawdown (FAD) versus a lifetime annuity for a client.

Question 8

This was well answered, with candidates demonstrating a strong understanding of the main factors when considering an uncrystallised funds pension lump sum (UFPLS) versus a pension commencement lump sum (PCLS) payment.

Question 9

This question was asking for information on Nico's pensions in respect of a consolidation exercise. Candidates who had prepared well gained the majority of the marks available. However, some candidates provided answers based on information about Nico, such as his attitude to risk, planned retirement age and income needs. These answers failed to gain sufficient marks.

Question 10

Well-prepared candidates gained high marks on this question about the drawbacks of an earmarking/attachment order. Where some struggled to gain marks, it was down to not fully outlining the extent of the drawback, such as stating that Priti would have no control over the timing of benefits; but failing to state the implication of this (a key element of the drawback), which in this example would be that Priti may never receive the benefits.

Question 11

Some candidates had prepared well and were able to gain maximum marks. Others could not adequately explain how Sabine's State Pension would be calculated beyond stating it is based on her National Insurance contribution (NI) record and increases are in line with the triple lock. Some candidates concentrated on state pension deferral options, which was not relevant to the question. Candidates would do well to familiarise themselves with the calculation method covered here given its relevance to clients at retirement.

Question 12

This question asked candidates to outline the factors that should be considered when determining a sustainable level of income from a flexi-access drawdown (FAD) plan. It was well answered by the majority of candidates.

Question 13

Most candidates understood that a nomination form is not binding on the trustees, but allows the member to outline their wishes, which in this case would unlikely be her soon-to-be ex-husband. However, some candidates struggled to understand the value of the nomination form resulting in the death benefits avoiding probate and thereby speeding up payment to beneficiaries; resulting in them not gaining maximum marks for this question.

Question 14

Most candidates were able to provide an accurate definition for capacity for loss in part (a). In part (b), while many candidates provided a full list of factors to consider in a capacity for loss assessment, some struggled beyond stating the need-to-know Ricardo's income requirements and value of other assets, thus not gaining sufficient marks. Capacity for loss is a critical part of a client's at retirement assessment and so it is vital candidates have a good grasp of this process.

Question 15

A high number of candidates struggled with part (a) and being able to outline who the Pension Wise guidance applies to. While many candidates know it is for pension holders over age 50, many incorrectly stated it covered defined benefit (DB) pensions, rather than it only being available in relation to defined contribution (DC) pensions. And very few were able to accurately state it also included survivors/beneficiaries of pension holders, thus limiting the number of marks gained in this part. In part (b), candidates gained a higher number of the marks and were able to accurately state many of the considerations outlined in the Money Advice Service retirement income options tool.

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.
- **Different to Objective Testing exams, tax tables are provided at the right-hand side of the interface after the QP.**
- For each answer, please type in the full question number you are answering e.g. 1
- **Please note each answer must be typed in the correct corresponding answer box**
- **If you are wearing headset, earphones, smart watch please take them off. No watches are allowed.**
- Please familiarise yourself with **all** questions before starting the exam.

Subject to providing sufficient detail you are advised to be as brief and concise as possible, using note format and short sentences.

Attempt ALL questions

Time: 2 hours

*To gain maximum marks for calculations you **must** show **all** your workings and express your answers to **two** decimal places.*

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

1. In January 2014, Romain's personal pension plan (PPP) was valued at £650,000. At that time, he took a pension commencement lump sum (PCLS) of £162,500. The remaining fund, currently valued at £735,000, is in a flexi-access drawdown (FAD) arrangement.

Romain is about to reach age 75. His only other pension arrangement is an uncrystallised PPP valued at £825,000. Romain has not registered for any form of transitional protection.

Calculate, **showing all your workings**, the lifetime allowance tax charge payable in respect of Romain's pension benefits when he reaches age 75.
You should assume Romain does not crystallise any further benefits prior to age 75. **(8)**

2. Frances, aged 49, is considering retiring within the next 12 months. She has the contractual right to take benefits from her company pension scheme at age 50.

Explain, in detail, the eligibility conditions that must be satisfied for Frances to take advantage of this contractual right. **(7)**

3. Andrea, aged 58, is a widow and plans to retire at age 60. She has one adult daughter who is not financially dependent upon her.

Andrea is an active member of her employer's defined benefit scheme. The scheme retirement age is 65. She also has a dependant's flexi-access drawdown (FAD) pension that she inherited from her husband when he died at age 59. The death benefits from both plans have been nominated to her daughter.

Explain to Andrea the potential death benefits, and their tax treatment, should Andrea die before she retires. **(12)**

4. George has been a member of his employer's defined benefit pension scheme since 1979. The scheme was contracted out prior to April 2016. He is about to retire and take his benefits from the scheme which provides statutory increases to pensions in payment.

State the statutory increases that will apply to George's scheme pension once it is in payment. **(8)**

5. Norah, a member of a defined contribution pension scheme, has died prior to crystallising any of her scheme benefits. She has one financial dependant.

Outline the conditions that must be fulfilled for an annuity to be treated as a dependants' annuity when it is purchased after the member's death. **(5)**

6. Signe, aged 59, is a member of her employer's defined benefit scheme and has been provided with details of a cash equivalent transfer value (CETV) of £160,000. She plans to retire in the next six months and would like to transfer the CETV to a personal pension plan (PPP) to start taking an income immediately.

Signe is not married and has no children. She has savings of £5,000 and no other pensions. Her State Pension age is 67.

(a) Outline the requirements the trustees of the scheme must fulfil prior to authorising the transfer of Signe's benefits to a PPP. **(4)**

(b) State **four** benefits and **four** drawbacks of Signe transferring the CETV to a PPP. **(8)**

7. Jitesh is approaching 70. He is drawing an income from his flexi-access drawdown (FAD) plan. As part of his annual review, he wants to consider his options with regards to how he draws this income.

Outline the factors you would consider when deciding whether to recommend that Jitesh continues with his FAD or uses the fund to purchase a lifetime annuity. **(10)**

8. Malik, aged 62, has an uncrystallised personal pension plan (PPP) valued at £450,000. He is still contributing to his pension and would like to raise a lump sum from his PPP to repay his mortgage of £50,000.

Outline the factors you would consider when deciding whether to recommend that the lump sum be taken as a pension commencement lump sum (PCLS) or uncrystallised funds pension lump sum (UFPLS). **(6)**

9. Nico, aged 58, is an IT consultant and is about to retire. He has a number of different individual pension plans that he has built up during his working life. Nico would like advice about consolidating them into a single plan.

State the information that would be required about Nico's pensions when advising him in this respect. **(10)**

10. Priti, aged 64, is divorced and a basic rate taxpayer. She is about to retire, and her only pension provision is from an earmarking/attachment order on her ex-husband's group personal pension which was awarded six years ago.

Outline the potential drawbacks of an earmarking/attachment order for Priti. **(10)**

11. Sabine, aged 63, is about to retire and would like to understand how much State Pension she will receive.

Explain to Sabine how her State Pension will be calculated and how it will increase each year, once in payment. *No calculations are required.* **(9)**

12. Lachlan is approaching retirement and would like to draw an income from his flexi-access drawdown (FAD) plan.

Outline the factors that should be considered when determining a sustainable level of income. **(9)**

13. Chandra, aged 66, has a flexi-access drawdown (FAD) pension. She is separated from her husband and has three adult children who are financially independent.

Explain the reasons why it is advisable for Chandra to complete a death benefit nomination for her pension. **(5)**

14. Ricardo, aged 69, retired three years ago. You are reviewing his flexi-access drawdown (FAD) arrangement and assessing his capacity for loss.

(a) Define capacity for loss. **(2)**

(b) Outline the factors you should take into account when assessing Ricardo's capacity for loss. **(6)**

15. The Money and Pensions Service is made up, in part, of Pension Wise and the Money Advice Service.

(a) Outline who the Pension Wise guidance guarantee applies to. **(4)**

(b) State **seven** considerations outlined in the Money Advice Service retirement income options tool. **(7)**

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

- Benefit crystallisation event (BCE) value in 2014 = £650,000
- Lifetime allowance (LTA) utilised in 2014 = £650,000/£1,500,000 = 43.33%

BCE 5A at age 75 – drawdown funds
- £735,000 - £487,500 (£650,000 - £162,500) = £247,500

BCE 5B at age 75 - uncrystallised funds
- + £825,000 = £1,072,500

- Lifetime allowance remaining = 56.67% x £1,073,100 = £608,125.77
- Subject to LTA = £1,072,500 - £608,125.77 = £464,374.23
- Lifetime allowance charge = 25%
- x £464,374.23 = £116,093.55

Model answer for Question 2

Candidates would have gained full marks for any seven of the following:
- Must have reached contractual age/age 50;
- the contractual right must have been in the scheme rules;
- on 10 December 2003.
- The right must have been given to the member if they joined the scheme before this date/if the member joined after this date the right will be given if they would have been entitled to early retirement before this date.
- Right normally lost on transfer;
- unless a block transfer/scheme wind-up.
- When benefits are taken the member must crystallise all scheme benefits;
- and must not be employed by/connected to the scheme employer/sponsor.

Model answer for Question 3

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

Defined Benefit Scheme

- Defined benefit lump sum payment.
- Tax-free
- if designated within 2 years.
- Otherwise taxable as PAYE.
- Subject to lifetime allowance.

Dependants Flexi-Assess Drawdown

- Lump sum.
- Successors
- Flexi-access drawdown.
- Annuity.
- Payable tax-free.
- Lump sum subject to two-year window;
- otherwise taxable as PAYE.
- No lifetime allowance test.
- No Inheritance Tax (IHT) (both).

Model answer for Question 4

- Pre-88 Guaranteed Minimum Pension (GMP) no increases.

- Post-88 GMP in line with CPI
- capped at 3% per annum.
- Pre-97 excess no increases.

- Post-97 in line with CPI
- capped at 5%.
- Post-05 in line with CPI
- capped at 2.5%.

Model answer for Question 5

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

- Must be payable to a dependant;
- until the dependant marries/enters a civil partnership/until the dependant’s death.
- If the dependant is a child, the annuity must stop when that child ceases to be a dependant/age 23;
- or longer if physical or mentally impaired.
- Must not be subject to any guarantee period/annuity protection.
- It cannot be surrendered/assigned/it is non-commutable (other than on grounds of triviality)/no tax-free lump sum/it can be transferred.

Model answer for Question 6

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

- Check that she has received advice from a suitably qualified financial adviser.
- Carry out due diligence/checks on the receiving scheme;
- to ensure that it is a legitimate arrangement/qualifying recognised overseas scheme (QROPS)/regulated scheme.
- and the receiving scheme is willing to accept the transfer.
- Send a scam smart leaflet/highlight the risk of scams.

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

Benefits

- Flexibility/retire early/change income/reduce when state pension starts.
- Can manage her tax situation.
- Does not need a spouse's/dependent's pension/more flexible death benefits.
- May be entitled to a higher pension commencement lump sum (PCLS)/has low savings.
- Can benefit from investment growth.

Candidates would have gained four marks for any four of the following:

Drawbacks

- Will be losing guaranteed income.
- Will be subject to market risk/funds could run out.
- Will give up an inflation proofed income/she may have less income in future.
- Has a low capacity for loss so it is unlikely to be suitable for her to transfer.
- Charges/more complex/requires regular reviews.

Model answer for Question 7

- Attitude to risk and capacity for loss.
- Investment performance/experience.
- His health/family history of longevity/enhanced annuity rates available.
- Income needs/expenditure.
- His attitude towards guaranteed income/requirement for flexibility.
- Views on inflation/economic outlook/growth expectations/annuity rates.
- Any requirements for ad hoc lump sums.
- Requirements for death benefits/dependants/spouse.
- Drawdown more complex/requires reviews/charges.
- Other sources of income and assets.

Model answer for Question 8

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

- Uncrystallised funds pension lump sum (UFPLS) 75% taxable/pension commencement lump sum (PCLS) tax free.
- UFPLS results in Month 1 taxation/tax would need to be reclaimed/tax position.
- Taking UFPLS uses more fund/leaves less invested.
- UFPLS triggers money purchase annual allowance (MPAA)/PCLS does not.
- Restrict contributions (£4,000)/UFPLS loses carry forward.
- Taking UFPLS will preserve more of PCLS for future/taking PCLS reduces future PCLS available.
- Lifetime Allowance (LTA) proximity.

Model answer for Question 9

- Fund/transfer values.
- Any transfer penalties/Market Value reductions (MVRs).
- Investment performance/current funds/asset allocation.
- Charges.
- Any guarantees/guaranteed minimum pension (GMP)/guaranteed annuity rate (GAR)/protected pension age/protected pension commencement lump sum (PCLS).
- Flexibility/pension freedom options.
- Death benefits.
- Do any schemes allow transfers in/partial transfers out?
- LTA protection in place.

Model answer for Question 10

Candidates would have gained full marks for any ten of the following:
- It automatically lapses if Priti re-marries.
- On death of the ex-husband, the order/pension will normally cease/no death benefits for Priti to designate.
- Priti has no control over shape of benefits/ex-husband could choose flexi-access drawdown (FAD) and low/no income/only take a lump sum;
- which could reduce the amount Priti receives.
- Priti has no control of timing/her ex-husband has control over the timing of taking benefits;
- which could result in delaying taking benefits/never receiving benefits.
- Priti has no control of investment/her ex-husband has control over the investments;
- which could result in inappropriate funds/not in line with her attitude to risk (ATR).
- The pension is taxed as the ex-husband's income;
- potentially resulting in more tax being deducted.
- Does not allow a clean break/no financial independence.

Model answer for Question 11

Candidates would have gained full marks for any nine of the following:
- It will be based on her National Insurance (NI) record
- before 6 April 2016.
- Calculate the amount she would get under old State Pension rules.
- Reduced where contracted out/increased where accrued State Earnings Related Pension Scheme (SERPS)/State Second Pension (S2P).
- Calculate the amount she would get under new State Pension rules (assuming they had been in place at the start of her working life).
- This provides your starting/foundation amount.
- If the old State Pension is higher then this is her protected payment;
- which is paid on top of the full new State Pension
- and increases in line with CPI.
- If her new State Pension is the higher figure then that is what she will receive.
- The new State Pension increases each year by the highest of earnings, CPI and 2.5%/triple-lock.

Model answer for Question 12

Candidates would have gained full marks for any nine of the following:
- Income required/expenditure.
- Whether income needs will change/pattern of income required/indexation.
- Fund value/income available from other sources/other assets.
- Any capital requirements/liabilities.
- Feelings towards inflation/growth assumptions.
- Attitude to risk and capacity for loss.
- Charges.
- Tax position.
- Health/longevity.
- Requirement to leave death benefits/legacy/are they married/dependants.

Model answer for Question 13

- The scheme administrator still has discretion who to pay benefits to;
- but it will mean she can outline her wishes for payment.
- Her husband is likely to seen as next of kin/less likely her husband will benefit/ensures ex-husband does not receive benefits.
- It does not require probate;
- and speeds up payment to beneficiaries.

Model answer for Question 14

(a)
- Ability to absorb falls in the value of investments;
- before it materially affects standard of living.

(b) *Candidates would have gained full marks for any six of the following:*
- It is separate/in addition to ATR.
- Both income and capital should be assessed.
- Income requirements/expenditure.
- Other assets/income/State Pension/inheritances.
- Debts/capital requirements.
- Age/health/longevity.
- Spouse/dependents.

Model answer for Question 15

(a)
- Individuals over age 50.
- With defined contribution (DC) benefits.
- Who are considering accessing their pension/take benefits.
- And survivors/beneficiaries of pension holders.

(b) *Candidates would have gained full marks for any seven of the following:*
- Security/flexibility/understand options.
- Income/assets/inheritance
- How much you need.
- Tax.
- Health/longevity/how long money will last.
- Inflation/attitude to risk/investment risk.
- Value of pensions.
- Shopping around/getting advice/avoiding scams.

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

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

The Tax Tables which follow are applicable to the October 2021 and February 2022 examinations.

INCOME TAX

RATES OF TAX	2020/2021	2021/2022
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,500	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£150,000

Child benefit charge:

1% of benefit per £100 of adjusted net income between £50,000 – £60,000

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

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

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,500	£12,570
Married/civil partners (minimum) at 10% †	£3,510	£3,530
Married/civil partners at 10% †	£9,075	£9,125
Marriage Allowance	£1,250	£1,260
Income limit for Married Couple's Allowance†	£30,200	£30,400
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,500	£2,520
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £100,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

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

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

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

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

NATIONAL INSURANCE CONTRIBUTIONS

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

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 184.00*	Nil
184.00 – 967.00	12%
Above 967.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £120 per week. This £120 to £184 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below 170.00**	Nil
170.00 – 967.00	13.8%
Excess over 967.00	N/A

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.05 where profits exceed £6,515 per annum.
Class 3 (voluntary)	Flat rate per week £15.40.
Class 4 (self-employed)	9% on profits between £9,568 - £50,270. 2% on profits above £50,270.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 & 2021/2022	£1,073,100

LIFETIME ALLOWANCE CHARGE

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

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2015/2016	£40,000~
2016/2017 – 2021/2022	£40,000*

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

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

MONEY PURCHASE ANNUAL ALLOWANCE	2020/2021	2021/2022
	£4,000	£4,000

ANNUAL ALLOWANCE CHARGE

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

CAPITAL GAINS TAX

EXEMPTIONS	2020/2021	2021/2022
Individuals, estates etc	£12,300	£12,300
Trusts generally	£6,150	£6,150
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

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

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2020/2021	2021/2022
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

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

MAIN EXEMPTIONS		
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
- Small gifts exemption	£250	£250
Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

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

Reduced tax charge on gifts within 7 years of death:

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

Quick succession relief:

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

PRIVATE VEHICLES USED FOR WORK

	2020/2021 Rates	2021/2022 Rates
Cars		
On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile
Motorcycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2020/2021	2021/2022
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000
Plant & machinery (reducing balance) per annum	18%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	6%	6%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Electric charging points	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

Motor cars: Expenditure on or after 1 April 2016 (Corporation Tax) or 6 April 2016 (Income Tax)

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

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2020/2021	2021/2022
		£	£
Child Benefit	First child	21.05	21.15
	Subsequent children	13.95	14.00
	Guardian's allowance	17.90	18.00
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 58.90	Up to £59.20
	Aged 25 or over	Up to 74.35	Up to £74.70
	Main Phase		
	Work Related Activity Group	Up to 74.35	Up to 104.40
	Support Group	Up to 113.55	Up to 114.10
Attendance Allowance	Lower rate	59.70	60.00
	Higher rate	89.15	89.60
Basic State Pension	Single	134.25	137.60
	Married	268.50	275.20
New State Pension	Single	175.20	179.60
Pension Credit	Single person standard minimum guarantee	173.75	177.10
	Married couple standard minimum guarantee	265.20	270.30
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	58.90	59.20
	Age 25 or over	74.35	74.70
Statutory Maternity, Paternity and Adoption Pay		151.20	151.97

CORPORATION TAX

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

VALUE ADDED TAX

	2020/2021	2021/2022
Standard rate	20%	20%
Annual registration threshold	£85,000	£85,000
Deregistration threshold	£83,000	£83,000

STAMP DUTY LAND TAX

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

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

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

Additional SDLT rules still apply as below.

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

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

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

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

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