



Chartered
Insurance
Institute

J05

Diploma in Financial Planning

Unit J05 – Pension income options

March 2023 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2022/2023, 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.

Unit J05 – Pension income options

Instructions to candidates

Read the instructions below before answering any questions

- **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.
- 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.

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

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. Mia, an employed architect, will reach age 75 in December 2024. She is in good health and plans to continue working up until her 75th birthday.

Mia has the following pension benefits:

Scheme	Pension benefit	Notes
Lifetime annuity	£15,268 per annum	Lifetime annuity in payment - commenced December 2009 when the annuity was £9,800 per annum, from a personal pension plan worth £327,000
Defined Benefit pension	£13,786 per annum. Plus a separate lump sum of 107,147	Not in payment - benefits deferred from age 65, when the pension was £10,100 per annum and the lump sum was £78,500
Flexi-access drawdown (FAD) plan	£713,400	Crystallised in August 2015 to take pension commencement lump sum (PCLS) of £173,750 and remaining £521,250 designated to FAD

Explain, **giving your reasons**, how Mia's pension benefits will be treated for lifetime allowance purposes when she reaches age 75. *Your answer should include any valuation factors and no calculations are required.*

(10)

2. Rafi, aged 62, has just retired. He has an uncrystallised personal pension plan of £400,000. Rafi plans to take an uncrystallised funds pension lump sum (UFPLS) of £50,000 to spend on a world cruise. Rafi had previously crystallised a self-invested personal pension (SIPP) plan and has only 4% of his lifetime allowance remaining.

He has no form of transitional protection in place.

Outline the tax treatment should Rafi make this withdrawal. *No calculations are required.*

(5)

3. Angus, aged 59, is about to retire due to some minor health issues. He is a member of his employer's defined benefit pension scheme and the scheme trustees have advised him that he is entitled to an immediate scheme pension of £23,000 per annum.

Alternatively, the trustees have offered Angus a cash equivalent transfer value (CETV) of £690,000. The normal pension age of the scheme is age 65.

Outline the additional information you would require before advising Angus on whether he should take the scheme pension on offer, or if he should accept the CETV. (12)

4. Hana died in September 2022 aged 72. At the time of her death her private pension plans consisted of:

- A scheme pension of £43,500 per annum. The pension came into payment in January 2017 and includes a 10-year guarantee period and a 67% dependant's pension.
- A dependant's flexi access drawdown (FAD) plan that Hana inherited in November 2011 following the death of her husband. Hana first drew an income from this plan in April 2017.

Hana nominated the death benefits under both plans to her financially independent daughter, aged 43.

Outline the death benefits available under both plans and their Income Tax treatment. *You should assume that the death benefits are paid to Hana's daughter.* (10)

5. Outline the factors that you would take into account when advising on whether to take a lump sum from a personal pension plan, via an uncrystallised funds pension lump sum (UFPLS) or as a pension commencement lump sum (PCLS). (10)

6. Abi, aged 61, is currently in the process of finalising her divorce. She is in good health and plans to retire when she reaches age 64. Her husband is a member of his company's defined benefit (DB) pension scheme and this will be taken into account as part of the divorce settlement.

Abi has the choice of a pension sharing order or an attachment order (earmarking) in respect of these benefits. If a pension sharing order is awarded Abi will be offered a cash equivalent transfer value (CETV), which she can transfer into a pension arrangement in her own name.

Explain the benefits of Abi using a pension sharing order rather than an attachment order in relation to her husband's DB pension scheme. (6)

7. Cindy, aged 64, is currently employed and does not have enough qualifying years of National Insurance (NI) contributions to be entitled to her full State Pension at her State Pension age of 66.
 - (a) State the possible reasons why Cindy may have gaps in her NI record. (3)
 - (b) Outline how Cindy can fill these gaps and by what date(s) any action must be taken. (4)

8. Arnie, aged 72, is in excellent health. He retired in December 2022 and has a portfolio of flexi access drawdown pensions and investment ISAs, valued at £240,000, from which he is funding his retirement income. He is currently drawing £22,000 per annum from the portfolio. Arnie is seeking advice on how long his portfolio will last in retirement.
 - (a) Explain the purpose of creating a lifetime cashflow model for Arnie. (5)
 - (b) Having created the cashflow model, it is showing that Arnie's portfolio could be depleted to zero by age 87.

Outline the factors that you would consider in determining the most appropriate course of action to reduce the risk of the funds running out. (10)

9. Melania, aged 61, has a personal pension plan (PPP) valued at £435,000. Melania is considering using her PPP to purchase an annuity when she retires in six months' time.
 - (a) State **three** benefits and **three** drawbacks of using a fixed term annuity with maturity value as part of a phased retirement strategy instead of a lifetime annuity. (6)
 - (b) State **eight** factors that will influence the annuity rate Melania will receive. (8)

10. Brian, aged 42, is in poor health. He is a member of his employer's Group Personal Pension (GPP) and his fund is valued at £215,000. Although his condition is not life threatening, Brian feels he can no longer continue to work.
 - (a) Outline the conditions, set by HM Revenue & Customs, that must be satisfied in order that Brian can now access the benefits in his GPP on the grounds of ill-health. (4)
 - (b) State how benefits drawn on the grounds of ill-health will be treated for Lifetime Allowance (LTA) purposes. (2)

11. The normal minimum pension age will increase to 57 from 6 April 2028. Transitional protections will be put in place for individuals who had an existing right to take benefits earlier than age 57.

Outline these transitional protections.

(5)

12. Petra, aged 68, has a flexi-access drawdown (FAD) pension. She is separated from her husband and has one adult child who is financially independent.

Explain the reasons why it is advisable for Petra to complete a death benefit nomination for her pension.

(5)

13. You are planning an email campaign to your clients to raise awareness of the risk of scams, particularly in relation to their retirement savings.

(a) Outline the most common tactics used by pension scammers to trick members out of their pension savings.

(6)

(b) State The Pension Regulator's **four** key principles for consumers to follow to protect themselves from pension scams.

(4)

14. Aarav, aged 61, works part-time. In 2014 he crystallised part of his personal pension plan into a capped drawdown plan. Aarav is currently drawing £14,500 per annum to supplement his earned income. His employer is continuing to make pension contributions on his behalf.

Outline the additional information you will require when advising Aarav on whether or not he should convert his capped drawdown plan to a flexi-access drawdown plan.

(8)

15. Section 9.3 of the Financial Conduct Authority's Conduct of Business Sourcebook (COBS) outlines the relevant circumstances that should be considered when a firm is making a personal recommendation to a client regarding income withdrawals.

Outline the relevant circumstances that must be considered.

(7)

INCOME TAX

RATES OF TAX	2021/2022	2022/2023
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£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%	8.75%
Higher rate	32.5%	33.75%
Additional rate	38.1%	39.35%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	38.1%	39.35%
- other income	45%	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£3,530	£3,640
Married/civil partners at 10% †	£9,125	£9,415
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance †	£30,400	£31,400
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,520	£2,600
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)	£2,845	£2,935
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,480	£17,005

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee

Weekly

Lower Earnings Limit (LEL)	£123
Primary threshold	£242
Upper Earnings Limit (UEL)	£967

Total earnings £ per week

CLASS 1 EMPLOYEE CONTRIBUTIONS

Up to 242.00*	Nil
242.00* – 967.00	12%
Above 967.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £123 per week. This £123 to £242* band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*

Total earnings £ per week

CLASS 1 EMPLOYER CONTRIBUTIONS

Below 175.00**	Nil
175.00 – 967.00	13.8%
Excess over 967.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)

Flat rate per week £3.15 where profits exceed £6,725 per annum.

Class 3 (voluntary)

Flat rate per week £15.85.

Class 4 (self-employed)

9.73% on profits between £11,908 and up to £50,270.

2.73% 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 – 2022/2023	£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
2014/2015 – 2022/2023	£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	2021/2022	2022/2023
	£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	2021/2022	2022/2023
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

2021/2022 2022/2023

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

MAIN EXEMPTION

Transfers to

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

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

Lifetime transfers

- Annual exemption per donor	£3,000	£3,000
- 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

2021/2022 Rates 2022/2023 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

2021/2022 2022/2023

Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000
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Plant & machinery* first year allowance for companies to 31/3/2023: Super-deduction	130%
Special rate	50%

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:	0*	1-50	Over 50
Capital allowance:	100%	18%	6%
	first year	reducing balance	reducing balance

**If new and unused*

MAIN SOCIAL SECURITY BENEFITS

		2021/2022	2022/2023
		£	£
Child Benefit	First child	21.15	21.80
	Subsequent children	14.00	14.45
	Guardian's allowance	18.00	18.55
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 59.20	Up to £61.05
	Aged 25 or over	Up to 74.70	Up to £77.00
	Main Phase		
	Work Related Activity Group	Up to 104.40	Up to 107.60
	Support Group	Up to 114.10	Up to 117.60
Attendance Allowance	Lower rate	60.00	61.85
	Higher rate	89.60	92.40
Basic State Pension	Single	137.60	141.85
	Married	275.20	283.70
New State Pension	Single	179.60	185.15
Pension Credit	Single person standard minimum guarantee	177.10	182.60
	Married couple standard minimum guarantee	270.30	278.70
	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	59.20	61.05
	Age 25 or over	74.70	77.00
Statutory Maternity, Paternity and Adoption Pay		151.97	156.66

CORPORATION TAX

	2021/2022	2022/2023
Standard rate	19%	19%

VALUE ADDED TAX

	2021/2022	2022/2023
Standard rate	20%	20%
Annual registration threshold	£85,000	£85,000
Deregistration threshold	£83,000	£83,000

STAMP DUTY LAND TAX

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

Additional Stamp Duty Land Tax (SDLT) rules apply as below:

- *First-time buyers benefit from SDLT relief on purchases up to £625,000 when purchasing their main residence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,000 and £625,000, a flat rate of 5% is charged on the balance above £425,000.*
- *Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *SDLT may be charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.*
- *SDLT is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.*

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