

Pension income options

Purpose

At the end of this unit, candidates will 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

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| 1. | Understand the HMRC rules that apply when pension benefits are crystallised |
| 2. | Understand 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 from 1 September 2023 to 31 August 2024.
- Candidates will be examined on the basis of English Law and practice in the tax year 2023/2024 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

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

- 1.1 Lifetime allowance (LTA), including pensions on divorce, transitional reliefs, valuation factors and tax charges;
- 1.2 Pension age, including the minimum pension age, contractual and protected retirement ages;
- 1.3 Pension commencement lump sum (PCLS) limits, including transitional protections;
- 1.4 Benefit crystallisation events (BCEs), including valuations and calculations;
- 1.5 Commutation of benefits, including triviality and small pots;
- 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 the features, tax treatment and risks of lifetime annuities and scheme pensions

- 2.1 Definition, HMRC requirements and main features, including lifetime annuities, scheme pensions, commutation and pension increase exchange (PIE), and taxation of benefits in payment;
- 2.2 Annuities: annuity market and types of annuities, including conventional, flexible, investment linked, enhanced and impaired life;
- 2.3 Death benefits: lump sums, survivors' pensions and guarantees.

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

- 3.1 Definition, HMRC requirements, and main features, including capped drawdown, flexi-access drawdown (FAD), short-term annuities, and the risks of non-annuity pension options;
- 3.2 Drawdown to drawdown transfers;
- 3.3 The benefits payable on death and their tax treatment.

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

- 4.1 Phasing retirement using secure and flexible options, including flexi-access drawdown, capped drawdown, uncrystallised funds pension lump sum (UFPLS) and annuities;
- 4.2 How target income will be achieved by lump sum and income payments including calculations;
- 4.3 The benefits payable on death and their tax treatment.

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

- 5.1 FCA – Conduct of Business Sourcebook (COBS), including pensions guidance, retirement risk warnings, illustrations and investment pathways;
- 5.2 Money and Pension Service guidance body, including Pension Wise and the guidance guarantee;

- 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 foundation 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 importance of establishing a client's personal and financial circumstances and requirements including, attitude to investment risk, capacity for loss, longevity including life expectancy probability and investment strategies in retirement;
- 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 The choice between the different methods for drawing a pension income and/or lump sum and the Income Tax planning considerations (both State and private);
- 7.5 The importance of cashflow modelling, including stress testing, life expectancy, sequencing risk and the safe withdrawal rate;
- 7.6 Identifying the annuity options which may be suitable for the client;
- 7.7 Intergenerational planning: nominations, Inheritance Tax planning, spousal bypass trusts;
- 7.8 Non pension assets as an alternative means of providing income, including property, ISAs and other investments;

- 7.9 Impact of pension on divorce settlements (offsetting, pension sharing and earmarking) upon retirement and on death;
- 7.10 The factors to be taken into account during annual reviews.

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

Pension income options. London: CII. Study text J05.

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 marketing. London: EMAP Publishing Limited. 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.

Consumer Duty: Financial Conduct Authority. Available online at www.fca.org.uk/publication/policy/ps22-9.pdf

Conduct of Business Sourcebook (COBS): Financial Conduct Authority. Available online at www.handbook.fca.org.uk/handbook/COBS.pdf

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

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 exam guides from the last two sittings. Please visit www.cii.co.uk/learning/qualifications to access online or contact CII Customer Service for further information on +44 (0)20 8989 8464.

Exam technique/study skills

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