Chartered Insurance Institute

J05

Diploma in Financial Planning

Unit J05 – Pension income options

March 2023 Examination Guide

SPECIAL NOTICES

Candidates entered for the September 2023 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

This PDF document is accessible through screen reader attachments to your web browser and has been designed to be read via the speechify extension available on Chrome. Speechify is an extension that is available from **https://speechify.com/**. If for accessibility reasons you require this document in an alternative format, please contact us at **online.exams@cii.co.uk** to discuss your needs.

Published April 2023

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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.

On-screen written exam familiarisation (Demo 1)

The familiarisation test allows you to experience using the assessment platform before your exam. Please note that while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality. This test is for the purpose of familiarisation with the assessment platform only. You can also access past exam papers here: https://www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/exam-papers-and-test-specifications/

You can access the familiarisation test at any time.

https://www.cii.co.uk/learning/qualifications/assessment-information/on-screen-written-exams-by-remote-invigilation/exam-familiarisation/

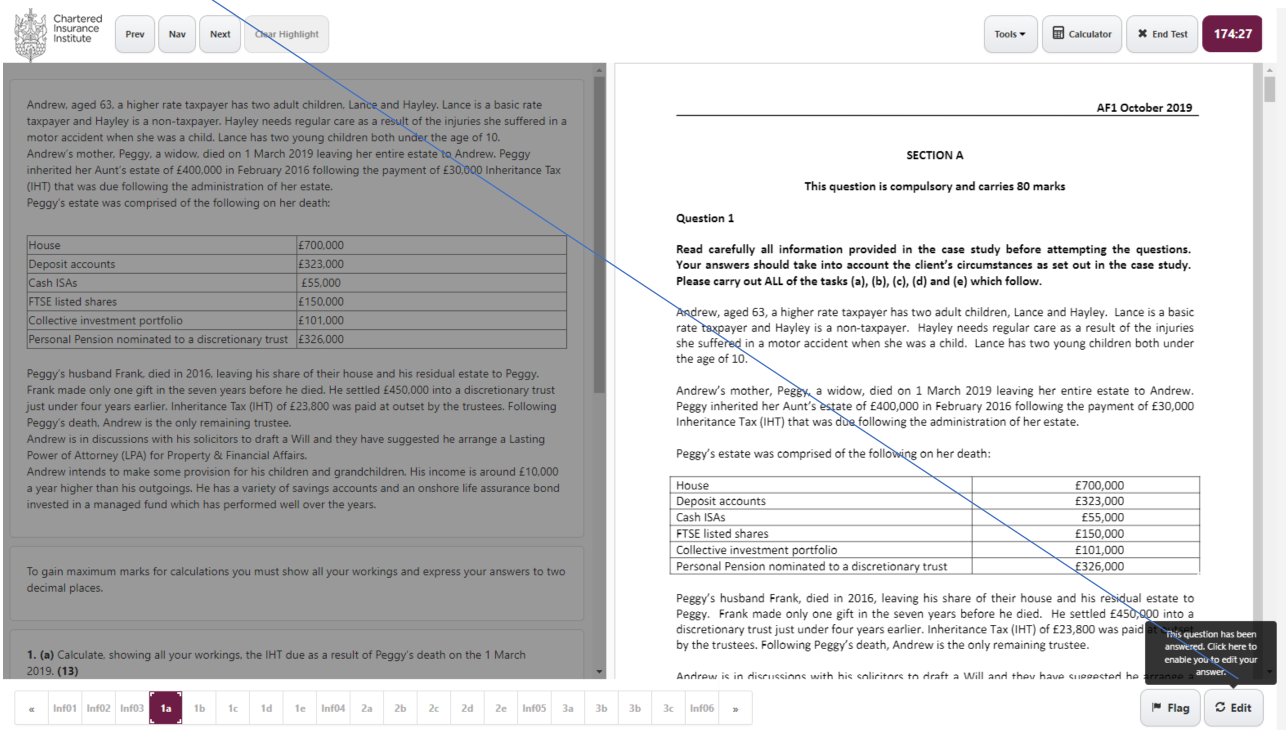
Although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

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

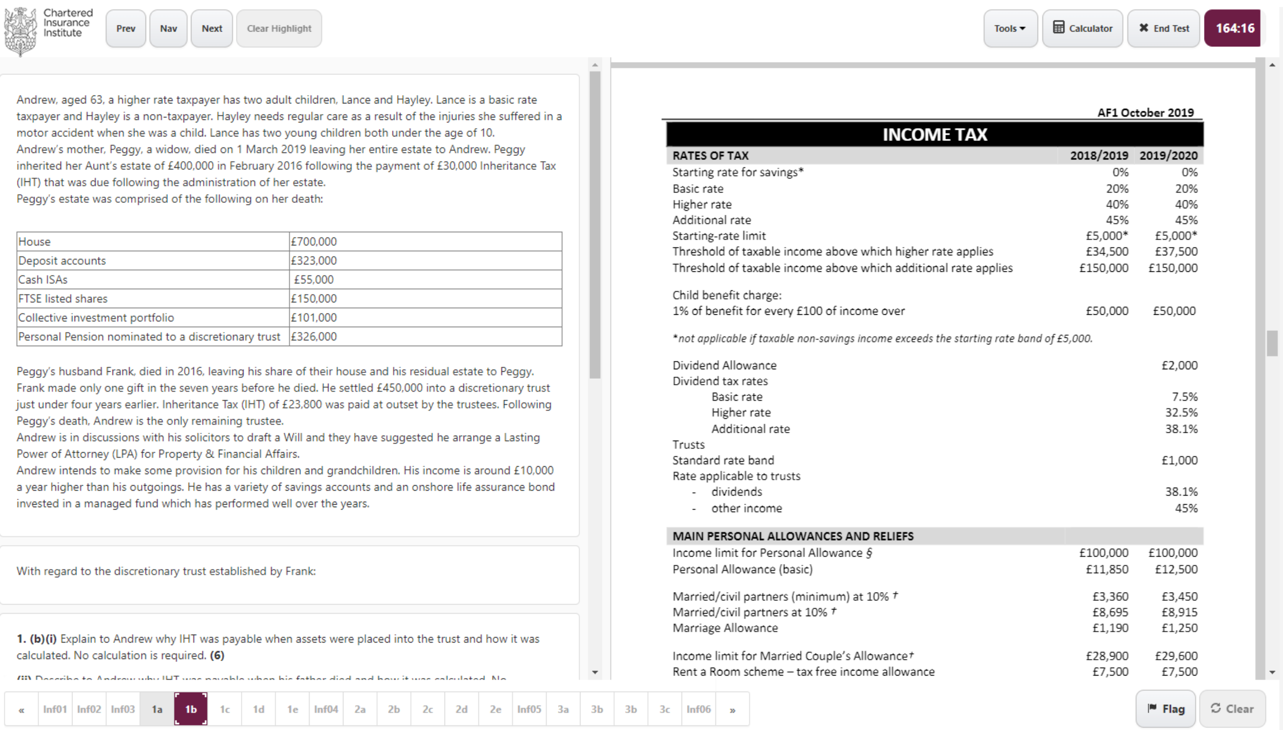
Please note you are strongly advised not to use a laptop provided by your employer.

Laptops and IT equipment provided by your employer typically include security protocols that conflict with any remote invigilation software. You should also avoid using a corporate Wi-Fi or any other internet connection that may include firewalls that you cannot personally control.

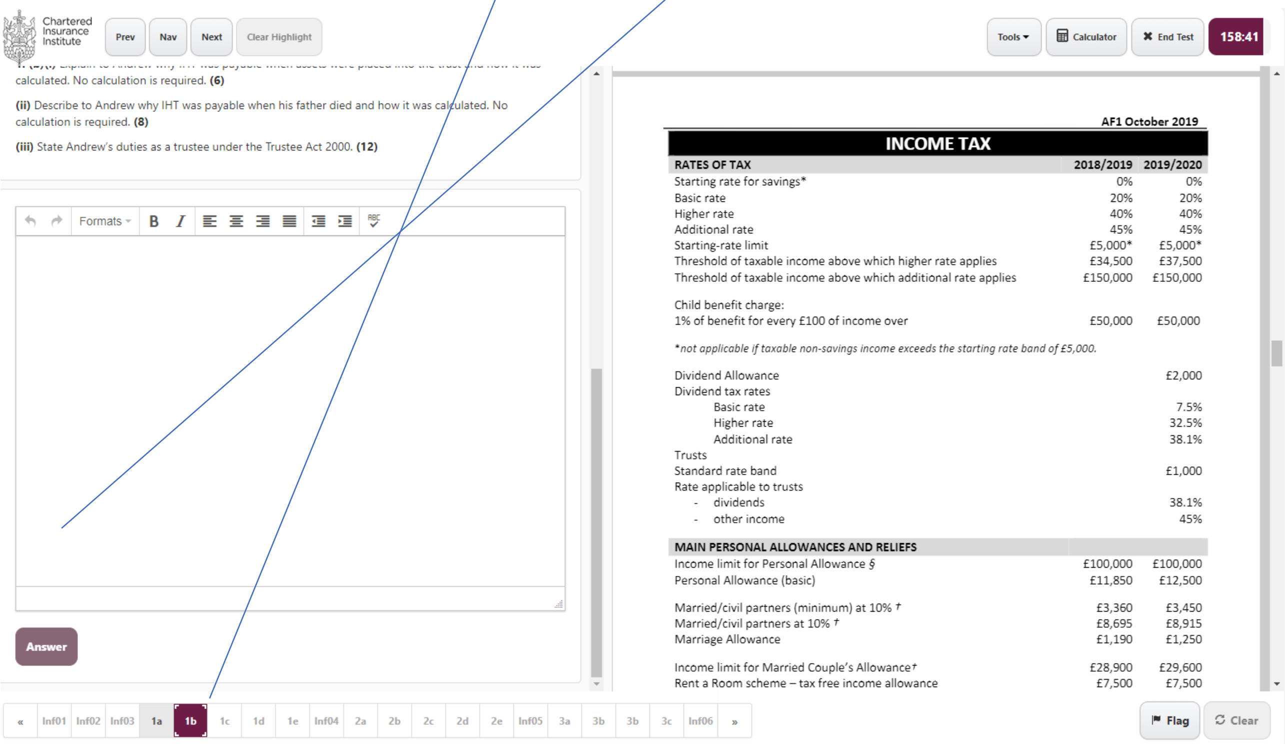
1. From the familiarisation test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them.



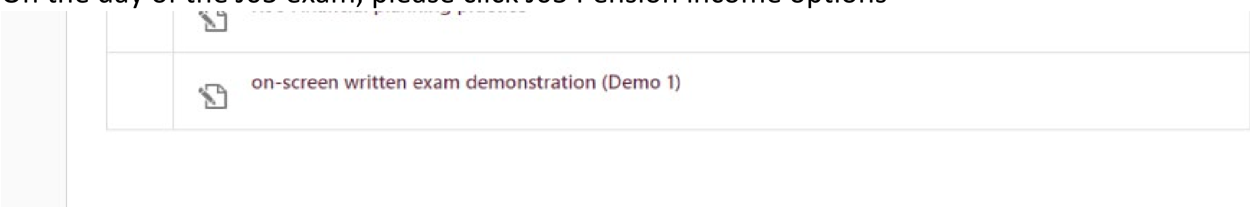
2. Tax tables are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam.



3. Once you have typed in your answer ensure you click the red 'Answer' box, this will save your answer and move you onto the next question. Unless you press 'Answer', you will not be permitted to move onto other questions. Furthermore, please do not type all of your answers for every question into the answer space for Q1a. You should familiarise yourself with all questions prior to starting the exam.



4. On the day of the J05 exam, please click J05 Pension income options



5. The above screenshot is also a space where you can jot down any notes on paper that may assist you during the exam. Please note, the exam timer will not start until you click the exam titled: J05 Pension income options.

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. You are permitted to use your own calculator.

Tips for laying out calculations in on-screen written exams
Where you are asked to perform a calculation, it is important to show **all the steps** in your answer. Most of the marks will be allocated for demonstrating the correct method of calculation.

While there are no marks for presentation, laying the calculation out well will make it easier for the examiner to identify all of the marks you have achieved. It does not matter how long the calculation is, if it is well set out. There is no preferred format but following the below guidelines is often helpful:

- Set out each stage of your calculation on a separate line.
- Label the values used i.e. in the Lifetime Allowance (LTA) calculation:
  - LTA 2021/22 - £1,073,100
  - Scheme Pension - £22,750
- Identify all allowances, pension values, tax rate bands, used in £ terms.
- Identify all tax rates in % terms.
- Use subtotals, where appropriate: i.e.:
  - Excess over LTA: £1,217,500 - £1,073,100
  - =£144,400
  - X 25%
  - =£36,100

- Show all your workings, for example:
  - Capitalising the value of a scheme pension by 20 or 25

- Double check all of your figures, specifically:
  - That you have calculated each section correctly.
  - That you have added up all of your figures correctly.
  - That you have expressed all your answers to two decimal places where relevant.

EXAMINERS' COMMENTS

Candidates' overall performance:

This session aimed to test candidates' knowledge across the breadth of the syllabus. We continue to test understanding of the current legislation, of the issues in giving advice to clients on taking pension benefits, as well as topical concepts, such as scams protection and fixed-term annuities, and known legislative changes, such as the impending change in normal minimum pension age. Candidates who studied across the syllabus did well, demonstrating a good level of knowledge overall.

Question 1

This question aimed to test candidates' knowledge of the lifetime allowance (LTA) rules and how they apply in various scenarios. Candidates did well on this question, with the majority understanding the different application methods of the LTA to each pension.

It is worth noting that while the Finance (No. 2) Bill published on 23rd March 2023 aims to make changes to the LTA for the 2023/2024 tax year, the LTA will remain in force and providers will still require all of the usual information for benefit crystallisation events even though the tax charge is intended to be 0%. Please also be aware that the Bill will not become law until it has received Royal Assent, so subsequently there may be amendments to the Bill as it passes through parliament. It is therefore important that candidates do not treat the LTA as being no longer relevant and that they ensure a good level of knowledge of existing rules as well as potential rule changes.

Question 2

This question tested understanding of the tax treatment of an uncrystallised funds pension lump sum (UFPLS), recognising that the scenario included insufficient LTA for the withdrawal to be treated in the normal way for an UFPLS. Candidates generally did well on this question.

Question 3

This is a tried and tested question on the information requirements when considering accepting a scheme pension versus the option of a CETV. This is an important syllabus point, hence why it is tested frequently. Candidates demonstrated a good understanding of the additional information that would be required in this scenario.

Question 4

Death benefits is a fundamentally important area for candidates to understand so as to apply to real life cases. Scheme pensions can sometimes prove challenging with candidates, with some not understanding that it will be taxed regardless of the age of the member on their death. While many candidates were able to outline the death benefits and tax treatment of the flexi-access drawdown (FAD) benefits, some struggled with this which is disappointing given how core death benefits are to the various pension income options. Additionally, candidates would do well to study the difference between successors, nominees, and dependants.

Question 5

Understanding the differences between withdrawals taken as PCLS versus UFPLS is another consideration candidates should be familiar with. In this sitting, the majority of candidates demonstrated a strong understanding of this concept, with many gaining maximum marks on this question. One point which some struggled with was stating that UFPLS crystallises more fund than PCLS, when this is not the case: UFPLS uses more fund to generate the same net amount (as PCLS), while PCLS uses less fund but crystallises more due to the nature of the withdrawal.

Question 6

This question asked candidates to explain the benefits of a pension sharing order over an earmarking order. Many candidates did well, but some focused instead on the drawbacks of the earmarking order, which is not what was being asked.

Question 7

Candidates were asked to state possible reasons for gaps in someone's national insurance (NI) record and how those gaps could be filled. This is particularly topical given the deadline for paying voluntary Class 3 NI contributions to fill any gaps in tax years back to 2006/2007 had been set at 5 April 2023 (albeit this has since been extended to 31 July 2023). Many candidates understood possible reasons for any gaps and were able to identify the payment of voluntary class 3 NI contributions would help fill those gaps. However, generally candidates were not able to articulate the dates or time periods by which such payments could or should be made.

Question 8

Cashflow modelling has become a key retirement planning tool, both pre- and post-retirement. Therefore it is fundamentally important that candidates understand why it used, the benefits and drawbacks and its application in real-life scenarios. This question tested candidates' knowledge in terms of purpose and application and some candidates seemed to really struggle with both aspects. Where candidates did well, they were able to articulate the purpose while also drawing out key elements of the mini-scenario and outline the key considerations in determining the most appropriate course of action to reduce the risk of the funds running out.

Question 9

As annuities have re-entered discussions around at retirement decisions due to the reinvigoration of annuity rates in recent times, it becomes necessary to ensure candidates have a good grasp of all annuity options available to them and their clients. Fixed term annuities are a useful tool within a phased retirement strategy and while candidates could demonstrate an understanding of their benefits, they struggled with the drawbacks. Candidates did better where they focused on the question being asked, which was to state the drawbacks and benefits of a fixed term annuity versus a lifetime annuity. Candidates missed out on marks where they instead focused on a comparison between annuities and drawdown, which is not what was being asked.

Question 10

Many candidates had a good grasp of the conditions that must be satisfied in order for benefits to be accessed on the grounds of ill-health. However, many did not understand the LTA treatment. While this may seem to no longer hold any relevance following the Spring Budget 2023, I refer back to my comments in question 1 about possible changes to the LTA.

Question 11

The changes in the normal minimum pension age are looming and with transitional protections now defined, it is important candidates understand what these are and how they may apply in real life. This question was testing understanding of the transitional protections and most candidates struggled to outline any of these. Several candidates attempted answers based on previous normal minimum pension age changes, or based on protections in place for certain professions, which was not the question being asked. Candidates should re-visit this area given our proximity to the implementation date.

Question 12

Death benefit nominations are important and therefore a good knowledge of their purpose and benefits is key. Many candidates were able to articulate the reasons why it is advisable a death benefit nomination be completed, but some struggled beyond stating a nomination would allow wishes for payment to be known.

Question 13

Scams protections and the reduction of fraud is a priority for the Financial Conduct Authority (FCA). Therefore, understanding how we are able to support clients and help them to protect themselves from scams is important and something we should all understand. Many candidates demonstrated a good understanding of the most common tactics used by pension scammers, while some were less able to state the Pension Regulator’s four key principle for consumers to follow.

Question 14

While capped drawdown is no longer available to new applicants, it still exists for pre-existing capped drawdown plan holders. Therefore an understanding of the rules in how it can be used or altered remains important. On the whole candidates were able to achieve sufficient marks on this question, but for some the detail was lacking.

Question 15

There are several key rules within the FCA’s Conduct of Business Sourcebook (COBS) which specifically address issues around at retirement actions, decisions, and advice. COBS 9.3 deals with recommendations regarding income withdrawals and is therefore important for candidates to understand. Candidates would be well advised to gain a greater understanding of these rules for this reason. In this sitting, candidates who were well-prepared did well, while many resorted to listing considerations that, while valid in terms of the overall retirement planning piece, were not relevant to the question being asked.

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 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.

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 CII multiple choice exams, tax tables are provided at the right-hand side of the interface after the question paper.
- 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 TYPE YOUR ANSWER FOR 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)**

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

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

Lifetime annuity:
- Will not be tested;
- as it was tested in December 2009.

Defined Benefit (DB) pension:
- Will be tested;
- as it is uncrystallised/not been taken or already tested.
- The scheme pension at age 75;
- will be multiplied by 20;
- and the lump sum added to it.

Flexi-access drawdown (FAD) plan:
- Will be tested;
- as there has been growth.
- The value of the fund at age 75/£713,400;
- less the amount crystallised in August 2015/£521,250/£192,150.

Model answer for Question 2

- Up to Lifetime allowance (LTA)/£42,924;
- will be 25% tax free/75% taxable.
- Excess/£7,076;
- subject to 55% if taken as lump sum;
- 25% if designated excess to drawdown.

Model answer for Question 3

- Level of income required.
- Any reduction applied by the scheme for early retirement.
- Capacity for loss (CFL)/other pension income/State Pension/other assets/downsizing /proximity to LTA.
- Level of pension commencement lump sum (PCLS) required/offered by the scheme/need for capital/commutation rate/debts/partial transferred permitted.
- Attitude to investment risk.
- Attitude to transfer risk/desire for flexible/secure income.
- Requirement for inflation proofing/scheme escalation.
- Health/life expectancy/longevity.
- Annuity rates/enhanced annuity rates available.
- Dependants/dependant's benefits offered by the scheme/desire for death benefits.
- Funding status of the scheme/cash equivalent transfer value (CETV) enhanced/reduced.
- Charges/complexity/ongoing reviews.

Model answer for Question 4

DB scheme:
- 100% of the income/scheme pension;
- paid until January 2027/balance of the guarantee period.
- Taxed as daughter's income via Pay As You Earn (PAYE)/marginal rate.

FAD:
- Lump sum.
- Successors;
- FAD;
- annuity.
- Tax free;
- if paid within 2-year window.
- Otherwise taxed as daughter's income via PAYE/marginal rate.

Model answer for Question 5

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

- Amount needed.
- Income/tax status.
- Pension commencement lump sum (PCLS) is tax free.
- Only 25% of uncrystallised funds pension lump sum (UFPLS) is tax free/75% of taxable.
- Taking UFPLS uses more fund/leaves less invested/PCLS would leave more invested.
- UFPLS results in Month 1 taxation/tax would need to be reclaimed.
- Taking UFPLS triggers money purchase annual allowance (MPAA)/loses carry forward/taking PCLS does not trigger MPAA/keep carry forward/has MPAA already been triggered.
- Contributions restricted to £4,000 with MPAA/contribution levels.
- Taking UFPLS will preserve more of PCLS for future/taking PCLS reduces future PCLS available.
- Pension value.
- Protected PCLS/eligibility for UFPLS/proximity to Lifetime Allowance (LTA).

Model answer for Question 6

- Clean break of assets/legal transfer of ownership.
- Flexibility regarding shape benefits are withdrawn/lump sum /income/death benefit.
- Can draw benefits in line with her retirement age/when required.
- Can invest in line with her attitude to risk/capacity for loss/control over investments/investment growth.
- Income Tax position can be controlled/withdrawals taxed on Abi.
- Not lost should she remarry/ex-spouse dies.

Model answer for Question 7

(a)
- She was living outside of the UK at some point.
- She was working but with low earnings/low profits.
- She was not working and not claiming any benefits.

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

- Pay voluntary National Insurance contributions (NICs);
- class 3
- for the past 6 years.
- She has until 5th April 2023;
- to pay voluntary contributions to make up for gaps between April 2006 and April 2016.

Model answer for Question 8

(a)
- Visualise future income/capital needs and expenditure;
- using income/capital from all sources.
- Shows how realistic goals are/identifies any shortfalls/risk of running out of money.
- Demonstrates effects of assumptions (growth/inflation).
- Allows stress testing/to assess how the model would change following certain events.

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

- He is in excellent health/likely to live a long time/beyond average life expectancy.
- The current level of withdrawals is high/9%;
- could the level of income being taken be reduced/reviewed?
- Need for capital lump sums.
- Other assets/inheritance/downsizing/capacity for loss/State Pension (SP) entitlement.
- Attitude to risk/level of risk being taken/asset allocation of investments/investment performance/change investment/withdrawal strategy/changed to safe withdrawal rate?
- Inflation expectations/market conditions.
- Need for flexibility/secure income/annuity rates/is an annuity appropriate?
- Tax.
- Need for death benefits/dependants.
- Impact of charges/ongoing reviews required.

Model answer for Question 9

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

Benefits:
- Guaranteed income for a specific period/not committing to income for life/defer decision on remaining pot value.
- Maturity value is guaranteed/certainty of how much will be left at end of fixed term/greater death benefits (due to maturity value).
- Flexibility to choose another fixed term/lifetime annuity/enter FAD/UFPLS.
- Annuity rates may be higher in future/may benefit from enhanced annuity in future.

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

Drawbacks:
- Must be reviewed/choice must be made at end of fixed term/advice costs/not for life.
- No mortality cross-subsidy/limited death benefits.
- Annuity rates may be lower due to the guaranteed maturity value/expensive.
- Annuity rates may be worse in future.

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

- Age/longevity/mortality rates.
- Fund size.
- Escalation.
- Survivors' benefits/guarantees/annuity protection.
- Lifestyle/health/medical condition.
- Postcode/geographical location.
- Gilt yields/competitiveness of annuity market.
- Adviser charges/costs of setting up annuity.
- Payment frequency/in advance/arrears/with/without overlap.
- Length of fixed term.

Model answer for Question 10

(a)
- Scheme administrator/scheme/provider;
- must obtain medical evidence/from a GP/doctor;
- confirming the member can no longer perform their occupation/work.
- Member must have ceased to perform their occupation/work.

(b)
- LTA test will apply/drawing benefits is a Benefit crystallisation event (BCE);
- however no adjustment made to the LTA to reflect early retirement.

Model answer for Question 11

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

- The increase does not apply to the Armed forces, police and firefighters.
- Does not apply in scheme where there were unqualified rights to take a pension at an earlier age/in the scheme rules to take before age 55;
- before 4 November 2021.
- Protection will apply to all benefits under the scheme.
- Protection is on an individual scheme basis.
- A protected pension age will be retained as part of a block transfer;
- or an individual transfer but only to the transferred benefits/benefits are ringfenced.

Model answer for Question 12

- 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 be 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 13

(a)
- Cold calling/emailing/text message/website pop up/unsolicited mail.
- Offers of free pension review.
- Offers of unrealistic/guaranteed returns.
- Pressure to act quickly.
- Single investment/asset class proposal/overseas transfers.
- Ability to access benefits before age 55/minimum pension age.

(b)
- Reject unexpected offers.
- Check who you are dealing with/the FCA register/the firm is authorised.
- Do not be rushed/pressured.
- Obtain impartial information/advice.

Model answer for Question 14

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

- Health/longevity.
- Age he plans to stop working.
- Additional income required/income required/expenditure.
- Maximum income available/Governments Actuary's Department (GAD) rate.
- Value of the uncrystallised/crystallised pension fund.
- Any need for capital lump sum.
- Other assets/pension funds/inheritances/plans to downsize/State Pension/capacity for loss (CFL).
- How much employer contributing/how long will employer contribute for.
- Will provider allow further funds to be designated to drawdown/will provider allow FAD conversion.

Model answer for Question 15

- Investment objectives.
- Need for PCLS.
- Health.
- Current and future income requirements.
- Existing pension assets;
- and the relative importance of the plan.
- Attitude to risk (ensuring that any discrepancy is clearly explained between attitude to an income withdrawal or purchase of a short-term annuity and other investments).

Glossary of terms

Some abbreviations candidates can use in financial planning online exams:

1. ATR – Attitude to risk
2. BRT – Basic rate taxpayer
3. BIK – Benefit in kind
4. BCE – Benefit crystallisation event
5. CLT – Chargeable lifetime transfer
6. CFL – Capacity for loss
7. CGT – Capital Gains Tax
8. CPI – Consumer Prices Index
9. DOV – Deed of variation
10. DIS – Death-in-Service
11. DFM – Discretionary Fund Manager
12. ESG – Environmental, Social and Governance
13. EPT – Excluded property trust
14. EPA – Enduring power of attorney
15. ERC – Early repayment charges
16. FAD – Flexi-access drawdown
17. FSCS-Financial Services Compensation Scheme
18. FOS – Financial Ombudsman Service
19. GAR – Guaranteed annuity rate
20. GAD – Governments Actuary's Department
21. HRT – Higher rate taxpayer
22. IHT – Inheritance Tax
23. IT – Income Tax
24. IVA – Individual Voluntary Arrangement
25. LPA – Lasting power of attorney
26. LTA – Lifetime allowance
27. MaPS - Money and Pension Service
28. MVR – Market value reduction
29. MPAA – Money purchase annual allowance
30. NICs – National Insurance contributions
31. NPA – Normal pension age
32. NRA – Normal retirement age
33. NRB – Nil rate band
34. OPG – Office of the Public Guardian
35. OEIC – Open ended investment company
36. PAYE – Pay As you Earn
37. PPF – Pension Protection Fund
38. PPP – Personal pension plan
39. PCLS – Pension commencement lump sum
40. PA – Personal allowance
41. PSA – Personal savings allowance
42. RAC – Retirement annuity contract
43. RNRB – Residence nil rate band
44. RPI – Retail Price Index
45. SIPP – Self-invested personal pension plan
46. SEIS – Seed Enterprise Investment Scheme
47. SPA – State Pension age
48. TPAS – The Pensions Advisory Service
49. UFPLS – Uncrystallised funds pension lump sum
50. VCT – Venture capital trust

March 2023 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.	4.	Understand the features, tax treatment and risks of phasing retirement benefits.
3.	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
4.	2. 3.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients. Understand the features, tax treatment and risks of flexible benefit options.
5.	4. 7.	Understand the features, tax treatment and risks of phasing retirement benefits. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
6.	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
7.	6.	Understand the State retirement benefits available.
8.	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
9.	2. 3.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients. Understand the features, tax treatment and risks of flexible benefit options.
10.	1.	Understand the HMRC rules that apply when pension benefits are crystallised.
11.	1.	Understand the HMRC rules that apply when pension benefits are crystallised.
12.	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
13.	5.	Understand the regulatory requirements and legal framework designed to protect clients who are drawing pension benefits.
14.	3.	Understand the features, tax treatment and risks of flexible benefit options.
15.	5.	Understand the regulatory requirements and legal framework designed to protect clients who are drawing pension benefits.

All questions in the September 2023 paper will be based on English law and practice applicable in the tax year 2023/2024, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the September 2022 and March 2023 examinations.

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%

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
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% first year	18% reducing balance	6% 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 mainresidence. 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. Therates 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%