Chartered Insurance Institute

AF7

Advanced Diploma in Financial Planning

Unit AF7 – Pension transfers

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.

AF7 – Pension Transfers

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 a free 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.

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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 candidates' knowledge and their ability to apply this to a case study scenario. You can then use this understanding to help you in your preparation for the examination.

Before the examination

Read the Qualifications Brochure
Details of administrative arrangements and the regulations which form the basis of your examination entry are to be found in the current CII Qualifications Brochure and important notes for candidates, which is *essential reading* for all candidates. It is available online at www.cii.co.uk.

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 Advanced Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Diploma 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 tax tables printed at the back of the Examination Guide. The tax tables are provided as part of the examination and 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 use your own tax tables in the examination.*

Know the structure of the examination

Assessment is by means of a two-hour online paper in two sections. All questions are compulsory:

Section A consists of 34 marks.
Section B consists of two case studies worth a total of 66 marks.

You will be expected to carry out a variety of tasks based upon the information provided.

Each question part will clearly show the maximum marks which can be earned.

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

Details of administrative arrangements and regulations which form the basis of your examination entry are available online at https://www.cii.co.uk/learning/qualifications/assessment-information/. 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/

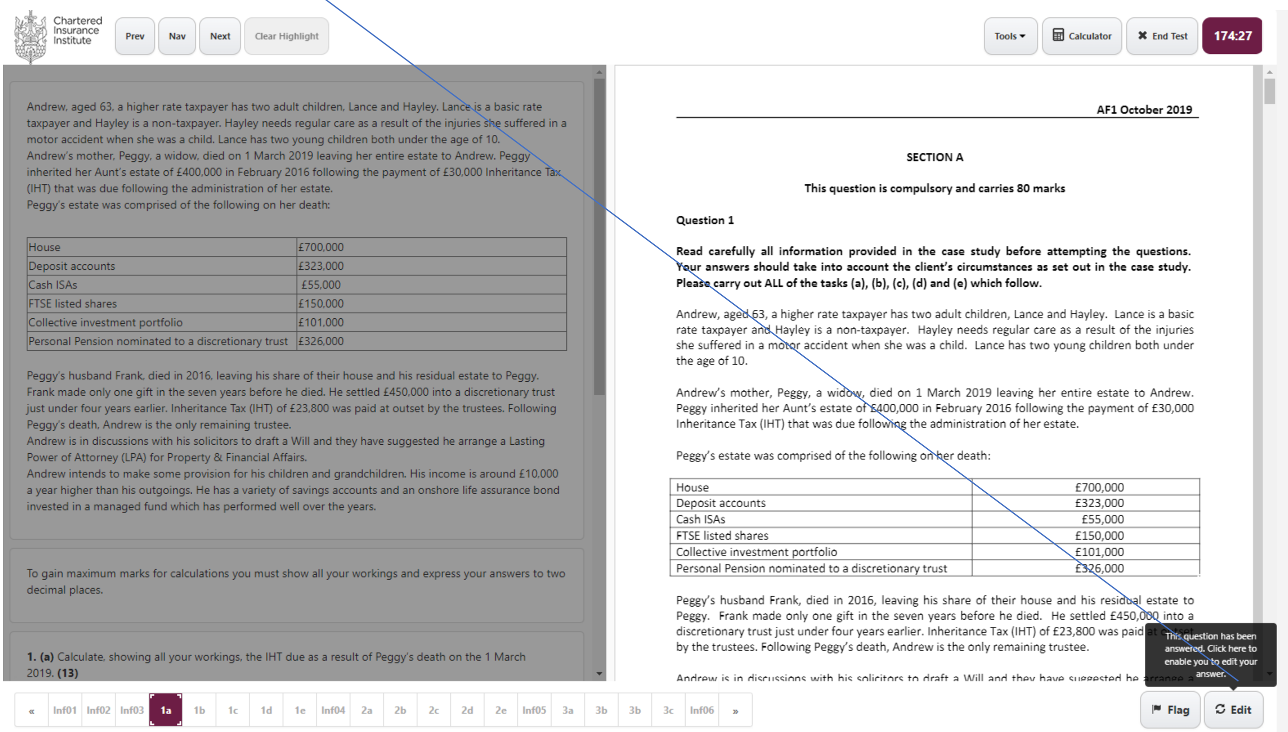
Although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

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.**

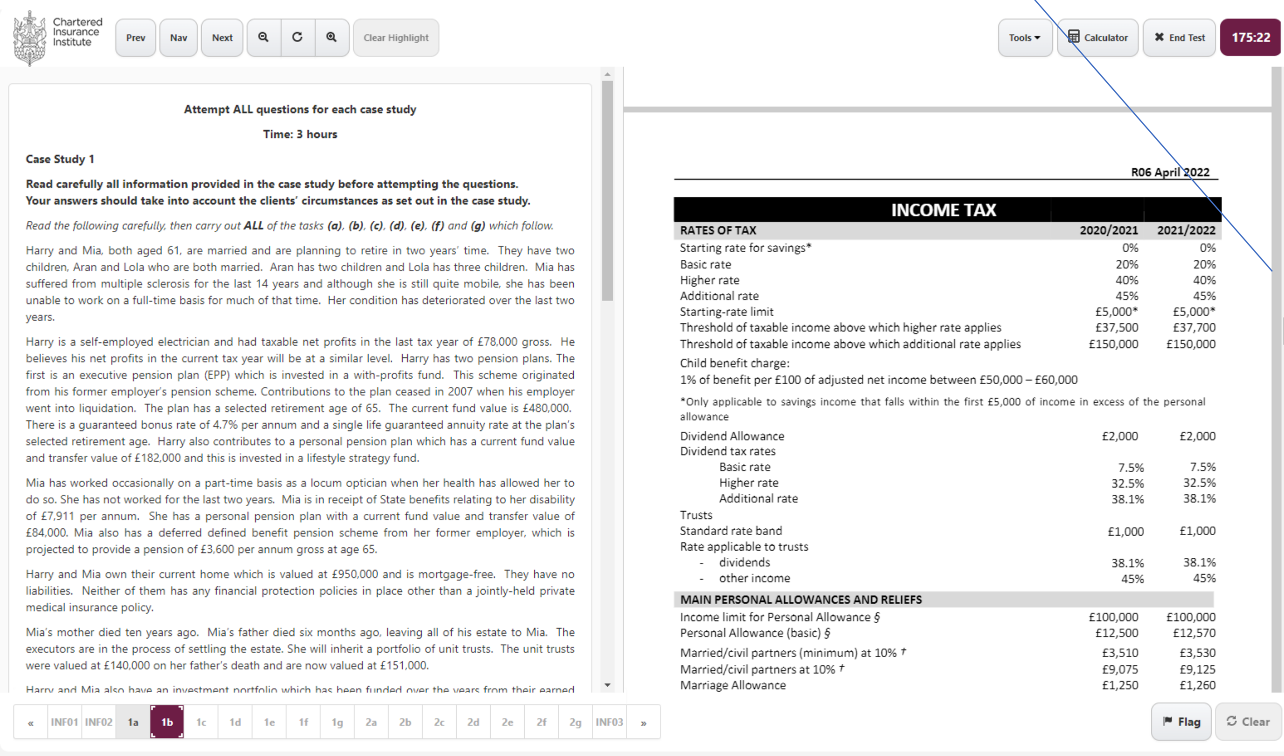
Please note you are strongly advised not to use a laptop provided by your employer.

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.

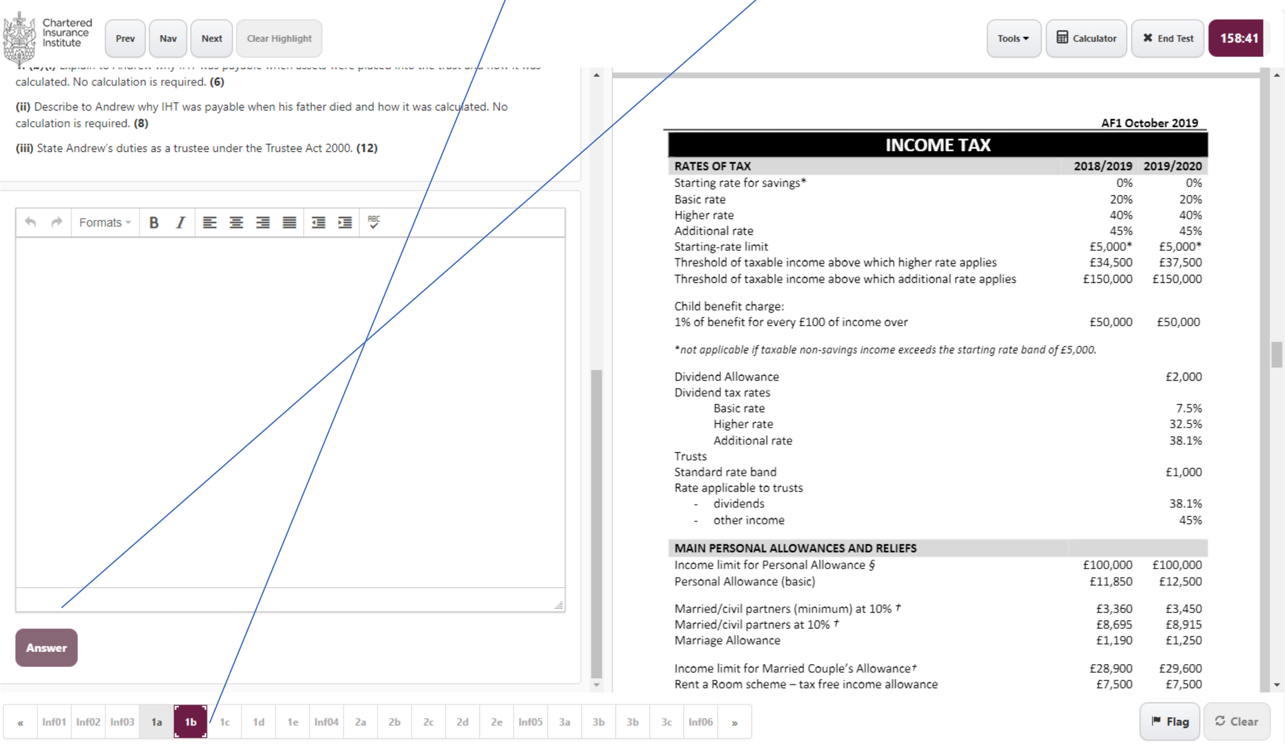
1. From the familiarisation test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press '**Answer**' for the question you are already in otherwise it will not let you select a previous question you have answered to edit.



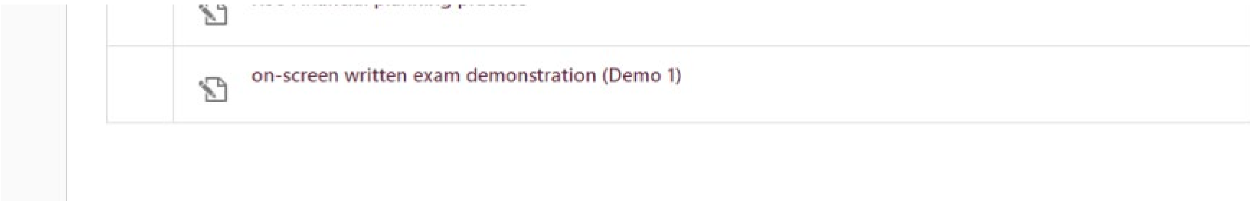
2. Tax tables and supplementary information are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam. Scroll up and down using the navigation bar.



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. 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 AF7 exam, please click **AF7 Pension transfers**



5. The above screenshot shows the point before the examination has started; you may wish to take a moment at this screen to 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: AF7 Pension transfers.**

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, leave some space, 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. You can use the flag button to indicate which questions are incomplete.

Take great care to answer the question that has been set.

- Many candidates finish the examination 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 answering.
- 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. 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.

Marks are not lost 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

General

Overall performance was below expectations with a reasonable number of candidates making basic errors or incorrect statements within their answers.

As a more general comment, we are still seeing a high proportion of candidates either not answering the specific question being asked; or not taking in to account the circumstances outlined in the case study when answering relevant questions in Section B.

Question 1

This question, relating to syllabus area 1.1 (compliance/regulatory), polarised candidate performance with them either performing to a high standard or not performing well. Unlike the more 'application based' questions, it is hard to make an educated guess on this type of question as the answers have to be very specific and typically need to reflect the wording in the regulations or FCA handbook in order to gain marks.

Candidates tended to struggle more with part (b) than part (a) and this may be as it is generally a less familiar aspect of the FCA exemptions on contingent charging so would likely need to be something a candidate had specifically studied from the textbook or FCA handbook.

Question 2

Part (a) tested an area that used to appear in this exam relatively frequently but has not been tested for several years. More recent exams have tended to focus on the reasons why a CETV may have increased or decreased or the statutory process and timescales for dealing with a CETV as opposed to the key stages involved in calculating a CETV.

This question part was generally well answered however many candidates did not gain marks for incorrectly stating that the FCA sets the various assumptions, which may have been cause by those candidates confusing a CETV with a TVC.

Part (b) was generally well answered with most candidates attaining pass standard. Some candidates incorrectly stated "less than two years of service" as an answer, but this is incorrect as a right to transfer exists when a member of a defined benefit scheme has completed at least three months service.

If service is between three months and two years, they are entitled to either a refund of contributions or a cash transfer value (calculated in the same way as a cash equivalent transfer value) so the right to a transfer exists after three months service. After a minimum of two years' service, a member is entitled to preserved benefits or a cash equivalent transfer value (unless the scheme is prevented from offering a CETV for some reason, e.g. unfunded statutory schemes).

Question 3

This question was generally well answered by candidates. Where marks were not gained, tended to be in part (a), as a distinction was often not made between the 'legal obligation to fund the scheme' and the 'financial ability to fund the scheme'; both of which are distinct aspects of employer covenant.

For example, a candidate who stated 'legal and financial obligation to fund the scheme' would only have been awarded one mark as this answer does not cover the ability to fund the scheme. The use of the word 'financial' in this example answer does not add anything as a 'legal obligation to fund a scheme' is by definition a financial obligation as you cannot fund something without a financial commitment.

Question 4

Part (a) has been tested on previous exams so it was pleasing to see the majority of candidates gaining all the available marks.

Part (b) was generally well answered but quite a few candidates simply gave four different 'investment strategies' that could be used as opposed to four different 'strategies', of which, using an appropriate investment strategy is just one option.

Question 5

Performance on this question was surprisingly poor with a reasonable number of candidates not answering the question that was being asked. Instead of 'explaining' why the couple's death benefit objectives would be met, many candidates simply 'stated' what the death benefits would be.

It is important for candidates to understand the expectations for questions that use different 'key words' – i.e. Explain, Outline or State.

Question 6

Whilst overall performance on this question was reasonable, quite a few candidates stated a reason for transferring Niki's pension as opposed to Hana's was because her commutation rate of 12:1 is better than Hanna's commutation rate of 20:1.

Some even went on to state that Niki would only give up £12 of pension in exchange for £1 of tax free cash as opposed to Hana who would have to give up £20 of income for every £1 of tax free cash. Even allowing for the pressure of exam conditions, it should be clear that you would not be expected to give up £12 of annual income for £1 of tax free cash, let alone £20 of annual income.

Question 7

This question was reasonably well answered by most candidates although performance on part (a) was noticeably better than in part (b).

In part (b), a number of candidates provided multiple answers that all related to the same point (i.e. that assumptions/inputs for a cashflow model might not live out in practice) – giving multiple examples of different assumptions that could each individually turn out to be incorrect was not awarded multiple marks as collectively they are all examples of the same limitation in respect of cashflow models so are effectively saying the same thing. The question was looking for candidates to demonstrate their understanding of the wider limitations of using a cashflow model.

Question 8

This question has been asked several times before and was generally well answered by the majority of candidates.

Question 9

Performance on this question was good with the majority of candidates achieving pass standard. In particular, it was encouraging to see a high proportion of candidates recognise that the case study did not provide a definition of inflation for revaluation and escalation (i.e. RPI or CPI etc).

Question 10

Performance on this question was extremely disappointing with most candidates gaining below the pass standard of marks. All previous exam guides have highlighted the need for candidates to ensure they use the information in the case study when answering certain questions but there was a high proportion who appeared to have not followed that instruction.

Where candidate answers mentioned relevant areas, those answers were often too vague to gain any marks as they were simply stating information from the case study as opposed to '<u>explaining</u> the factors' as required by the question. For example, stating 'the scheme has a children's pension' did not gain a mark as this simply repeats a known fact from the case study. To gain a mark, candidates needed to recognise that Surita's two children are aged 16 and 18 and therefore are unlikely to be young enough to benefit from a children's pension when Surita (who is only 56) dies, especially given the payment of a children's pension is at the discretion of the Trustees.

Question 11

Although spousal bypass trusts have not been tested recently, it was still disappointing to see that candidates did not perform well on this question.

It was surprising that a significant proportion of candidates stated 'the client can appoint herself as a trustee of the trust to ensure her children receive the benefits after she dies' (or similar). Even without any specific knowledge of spousal bypass trusts, it should be known that you cannot act as a trustee in respect of your own death benefits. Perhaps these candidates thought the transfer to the spousal bypass trust would occur immediately as opposed to being something that would only happen following the member's death.

Unit AF7 – Pension transfers

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 carries a total of 100 marks as follows:
- Section A: 34 marks
- Section B: 66 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.
- **Tax tables are provided at the right-hand side of the interface after the question paper, this is different to the multiple choice exams.**
- Supplementary information is also included at the end of the tax tables on the right-hand side of the interface.
- 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.

SECTION A

The following questions are compulsory and carry a total of 34 marks

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

1. Regarding the Financial Conduct Authority's (FCA) exception to the ban on contingent charging in respect of client's who are in serious financial difficulty:

(a) Explain how the FCA defines 'serious financial difficulty'. **(5)**

(b) Outline the **three** examples provided by the FCA that would be deemed unacceptable reasons for relying on the serious financial difficulty exception. **(3)**

2. (a) Outline the **key** stages in the calculation of a cash equivalent transfer value. **(6)**

(b) State **six** situations where a member of a defined benefit scheme does not have a statutory right to transfer. **(6)**

3. Olivia, aged 55, has recently received a cash equivalent transfer value (CETV) in respect of her deferred membership of a previous employer's defined benefit pension scheme. The scheme is underfunded but the CETV has not been reduced due to the strength of the sponsoring employer's covenant.

(a) Explain what is meant by employer covenant. **(4)**

(b) Explain the significance of the employer covenant in respect of the decision to not reduce the CETV. **(3)**

4. Sabrina, aged 66, is considering a transfer of her defined benefit pension scheme into a personal pension plan, to commence withdrawals via flexi-access drawdown.

(a) Explain to Sabrina what is meant by sequence of returns risk, commonly referred to as sequencing risk. **(3)**

(b) Outline **four** strategies that could be used to reduce its potential impact. **(4)**

Total marks available for this question: 34

SECTION B

All questions in this section are compulsory and carry an overall total of 66 marks

Case study 1

Read carefully all information provided in the case study before attempting the questions. Your answers should consider the client's circumstances as set out in the case study.

Hana, aged 60, is in a civil partnership with Niki, aged 62. The couple have no children and they both plan to retire on 1 May 2023.

Hana is in excellent health. Niki suffers from high cholesterol and has recently been diagnosed with heart disease. She has been told that if she does not change her lifestyle, her life expectancy may be reduced by up to 10 years.

Both Hana and Niki will receive full State Pensions. The couple's only other pension benefits are held in their respective previous employer's defined benefit pension schemes.

The details of these schemes are:

	Hana	**Niki**
Normal pension age (NPA)	62	65
Estimated pension at NPA	£38,750 p.a.	£14,500 p.a.
Early retirement factor	From age 60 at 5.2% p.a.	From age 60 at 4.6% p.a.
Commutation rate	12:1	20:1
Escalation rate	RPI capped at 5% p.a.	Statutory minimum
Cash equivalent transfer value	£1,278,750	£500,250
Dependant's pension	66.67%	50%

Neither Hana nor Niki have registered for any form of transitional protection.

Hana and Niki have recently completed a budgeting exercise and estimate their joint income requirements in retirement will be:

- £24,600 net per annum for essential expenditure.
- £10,000 net per annum for lifestyle expenditure.

On first death the income needs of the survivor will reduce by approximately 30%.

The couple's only other assets are a mortgage free main residence, valued at £400,000, emergency cash savings of £10,000, and a jointly held general investment portfolio valued at £52,000.

The couple's objectives are to:

- Ensure they have sufficient income throughout their retirement, with their essential expenditure being met from secure income.
- Explore the option of accepting one of the cash equivalent transfer values with the intention that the withdrawals would cover their discretionary expenditure, until their State Pensions come into payment.
- Ensure their income requirements can be met upon first death.

Hana has a medium attitude to risk (ATR), and Niki has a low ATR.

Questions

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

5. Explain why the couple's objectives in respect of death benefits will be met if the couple transfer Niki's defined benefit pension scheme. **(5)**

6. Outline the reasons why you would recommend they transfer Niki's scheme as opposed to Hana's. *You should ignore the couple's death benefit requirements when answering this question.* **(11)**

7. As part of the advice process, you have prepared a cashflow model for Hana and Niki.

(a) State **five** benefits of cashflow modelling. **(5)**

(b) State **five** limitations of cashflow modelling. **(5)**

8. State the additional information you would require to advise Niki on a suitable investment strategy assuming she transfers her defined benefit pension scheme into a personal pension plan (PPP) to utilise flexi-access drawdown. **(7)**

Total marks available for this question: 33

Case study 2

Read carefully all information provided in the case study before attempting the questions. Your answers should consider the client's circumstances as set out in the case study.

Surita, aged 56, is married to Juan, aged 64. The couple have been married for five years. Surita has two sons, aged 16 and 18 and Juan has two daughters, aged 32 and 34 all from previous marriages.

Surita was diagnosed with multiple sclerosis 15 years ago and although her illness is not terminal, her life expectancy has been reduced by five to ten years. She had to reduce her working hours three years' ago and Surita has recently been forced to stop work all together on ill-health grounds.

Juan is in good health and is in receipt of a gross scheme pension of £12,500 per annum that includes a 50% spouse's pension. He will be entitled to the full State Pension when he reaches his State Pension age of 66.

The couple live in Surita's house, which is valued at £380,000. There is an outstanding mortgage of £70,000 with a remaining term of nine years. The couple have used up all their savings to cover their household expenses since Surita had to reduce her working hours and are now struggling to pay their household bills. They also have an outstanding credit card liability of £17,500.

Surita can expect a full State Pension when she reaches her State Pension age of 67. She was a member of her employer's defined benefit pension scheme, and has been given permission to take her benefits early on the grounds of ill-health without any early retirement factor being applied. This is Surita's only private pension arrangement.

Surita has recently received a statement of entitlement, which has provided the following information:

Normal pension age (NPA)	65
Scheme pension at date of leaving	£13,200 per annum gross
Revaluation and escalation	Inflation to a maximum of 5% per annum
Spouse's pension (pre- and post-retirement)	50% of member's pension
Children's pensions (pre- and post-retirement)	Payable at trustees' discretion
Pension commencement lump sum (PCLS)	By commutation
Cash equivalent transfer value (CETV)	£369,600

At present the couple need an inflation proofed net income of £3,000 per month to cover their essentials, and a small amount of discretionary expenditure. This will reduce to £2,200 per month if the mortgage and credit card debts are repaid.

Surita would like advice about potentially transferring the benefits from her employer's defined benefit pension scheme to a defined contribution arrangement, to enable her to access her benefits flexibly and repay their debts. Surita is also keen for any residual fund to pass to her children in the event of her death, although she would like Juan to be provided with an income during his lifetime.

Questions

9. State the additional information you would require from the scheme administrator of Surita's employer's defined benefit pension scheme, before making a personal recommendation regarding the potential transfer of her benefits from the scheme. **(8)**

10. Explain the factors you would consider when advising on the suitability or otherwise, of Surita transferring her employer's defined benefit pension scheme to access the benefits flexibly. *Ensure your answer uses the information provided in the case study.* **(15)**

11. Surita would like her sons to receive any residual pension fund on second death. However, she would like to ensure that Juan has access to her pension fund if she were to predecease him.

(a) Explain why you would recommend that Surita's death benefits are nominated to a spousal bypass trust. **(5)**

(b) Outline the potential **drawbacks** of this course of action. **(5)**

Total marks available for this question: 33

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

(a)
- Heavy burden/struggling to pay/have missed payments for;
- (Domestic) bills, and/or;
- loan/mortgage/credit card payments;
- for at least 3;
- of the last six months.

(b)
- The financial difficulty results from non-essential expenditure.
- The client cannot show how they will access their fund post-transfer.
- The client could pay the advice costs from savings.

Model answer for Question 2

(a) *Candidates would have scored full marks for any six of the following:*
- Revalue preserved pension to scheme NRA;
- based on scheme rules.
- Calculate the capital cost of buying the benefits;
- using an appropriate/scheme specific annuity interest rate.
- Discount the capital cost back to the date of the calculation/today;
- using appropriate discount rate/investment return (for time to NRA).
- Adjust the final figure for underfunding/enhancement where relevant.

(b) *Candidates would have scored full marks for any six of the following:*
- They are less than 12 months away from their scheme NRA.
- Benefits are crystallised/already drawing benefits.
- Scheme has entered PPF (assessment period)/in wind-up.
- Still accruing benefits (i.e. active member).
- The scheme is an unfunded Government scheme.
- If they have <3m service.
- If scams test is failed (red flag present).
- Advice requirements (above £30k) are not met.

Model answer for Question 3

(a)
- The employer's (legal) responsibility/obligation;
- and financial ability;
- to fund/support the scheme/repay any deficit;
- on an ongoing basis/now and in the future/over the long term.

(b)
- It indicates the employer can/gives trustees confidence that;
- remove the deficit/deficit will be removed (over short period); therefore
- trustees are not concerned about security for remaining members.

Model answer for Question 4

(a)
- Market falls in the early years of drawdown;
- and ongoing withdrawals;
- could significantly reduce the longevity/sustainability of a portfolio/increases the possibility that the funds will run out too soon/amplifies early losses.

(b)
- Take less income/use other assets/seek employment
- Use an appropriate investment strategy (e.g. rising equity glidepath/cash for early years/natural income/volatility protection/well diversified strategy/capital protected).
- Use a Safe Withdrawal Rate.
- Buy an annuity/guaranteed income with part of the drawdown fund.

Case Study 1

Model answer for Question 5

- Niki has a reduced life expectancy/is likely to pre-decease Hana.
- Hana does not need the dependant's pension to cover essential expenditure;
- because she has sufficient (secure) income from her own pension.
-
- If Hana pre-deceases Niki the dependant's pension will be sufficient for Niki's (secure) income needs.
- Upon either death, they would have the transferred funds available for ad-hoc withdrawals/ withdrawals from transferred funds would likely be within safe withdrawal rate

Model answer for Question 6

Candidates would have scored full marks for any eleven of the following:

- Hana's pension meets their (secure) income need in retirement;
- and it has greater inflation protection.

- Hana is likely to incur an LTA tax charge if she transfers;
- whereas Niki will not incur an LTA tax charge.

- Although Hana's scheme on transfer would provide more PCLS;
- the couple have not expressed any need for PCLS.

- Hana's scheme has a higher early retirement reduction; however
- the % reduction of Hana's benefits would be lower if taken now.

- Hana is in good health/Niki is in poor health.
- Hana is likely to benefit from the secure income for longer than Niki.

- The income withdrawals would be well within the safe withdrawal rate/easily sustainable until SPA. (i.e. transferring the smaller of the two pensions will still be sufficient)
- Making it suitable for Niki's low ATR (as the transferred fund will not need to target high returns).

Model answer for Question 7

(a)
- Able to visualise future income and capital needs.
- Shows how realistic goals are/risk of running out of cash/identifies shortfalls or surpluses.
- Demonstrate effects of different growth rates/inflation rates/withdrawal amounts/ scenarios.
- Can model disaster scenarios/stress testing.
- Allows for ongoing reviews/can be adapted to changes.

(b)
- Tax and legislation may change.
- Gives a snapshot/indication view only.
- Assumptions/inputs can be incorrect.
- Client objectives could change.
- Needs regular reviews/ ongoing advice costs.

Model answer for Question 8

- Any planned large capital withdrawals.
- Capacity for loss.
- Investment experience.
- Details of where the GIA is invested.
- Any ethical/sustainability/ESG preferences.
- Her willingness to have frequent reviews.
- How Niki feels about investment charges.

Case Study 2

Model answer for Question 9

- Definition of inflation.
- Basis for calculation of PCLS. (i.e. pre or post A day)/commutation factor.
- Guarantee periods.
- Amount of children's pensions.
- To what age are children's pensions payable to.
- Funding status of the scheme/has the CETV been reduced or enhanced/employer covenant.
- Is the scheme eligible for the PPF.
- Are partial transfers allowed.

Model answer for Question 10

Candidates would have scored full marks for any fifteen of the following:

- Surita can take her benefits now without reduction.

- Surita has a reduced life expectancy.
- Juan is in good health, but;
- he is eight years older than her;
- they are unlikely to sufficiently benefit from DB scheme/reach breakeven point.

- Limited likelihood of any benefit from children's pension in DB/can meet death benefit requirements upon transfer.

- Typically, a higher PCLS upon transfer/lower PCLS under DB scheme.
- PCLS on transfer is sufficient to repay debts/PCLS in DB may not be enough to repay debts.

- Surita's scheme pension will leave them with a shortfall;
- until Juan's State pension age.
- If transferred, withdrawals from Surita's fund are unlikely to exhaust the fund prior to the payment of their state pensions.

- Each of their defined benefit schemes contain a 50% spouse's pension upon death.

- They have a low CFL.

- ATR not in line with transfer.

- No evidence of investment experience.

- Surita's scheme pension has some Inflation protection (to a cap of 5%)

Model answer for Question 11

(a) *Candidates would have scored full marks for any five of the following:*

- Juan can take an income from the trust in the form of a loan;
- which must be repaid to the trust by his estate on his death;
- increasing/preserving the death benefits for her sons.

- Ensures that Surita's sons can receive the residual fund on 2nd death.
- Surita's sons and Juan could be trustees/Surita can choose the trustees.
- The assets are outside the beneficiaries' estates/assets are protected in the event of the beneficiaries' bankruptcy/divorce/long term care assessment.

(b)

- If Surita dies after the age of 75 the fund will be subject to the special lump sum death benefits charge of 45% on transfer into the bypass trust.
- The trust may be subject to periodic/exit charges.
- Repayment of loan will reduce Juan's estate for his daughters/Juan may have insufficient assets to repay the loan.
- Spousal bypass trust is complex/must be registered with HMRC/increased admin burden.
- There will be ongoing charges involved/expensive.

Glossary of terms

Some abbreviations candidates can you use in financial planning online exams:

1. ATR – attitude to risk
2. BRT – Basic rate taxpayer
3. BIK – Benefit in kind
4. CLT – Chargeable Lifetime Transfer
5. CFL – capacity for loss
6. CGT – Capital Gains Tax
7. DOV – Deed of variation
8. DIS – Death-in-Service
9. DFM – Discretionary Fund Manager
10. ESG – Environmental, Social and Governance
11. EPT – Excluded Property Trust
12. EPA – Enduring Power of Attorney
13. ERC – Early repayment charges
14. FAD – flexi access drawdown
15. FSCS – Financial Services Compensation Scheme
16. FOS – Financial Ombudsman Service
17. GAR – guaranteed annuity rate
18. HRT – Higher rate taxpayer
19. IHT – Inheritance Tax
20. IT – Income Tax
21. IVA – Individual Voluntary Arrangement
22. LPA – Lasting Power of Attorney
23. LTA – lifetime allowance
24. MVR – market value reduction
25. MPAA – money purchase annual allowance
26. NICs – National Insurance contributions
27. NPA – Normal pension age
28. NRA – Normal retirement age
29. NRB – nil rate band
30. OPG – Office of the Public Guardian
31. OEIC – open ended investment company
32. PAYE – Pay As you Earn
33. PPP – personal pension plan
34. PCLS – pension commencement lump sum
35. PA – Personal Allowance
36. PSA – Personal Savings Allowance
37. RAC – retirement annuity contract
38. RNRB – residence nil rate band
39. SIPP – self-invested personal pension plan
40. SEIS – Seed Enterprise Investment Scheme
41. UFPLS – uncrystallised fund pension lump sum
42. VCT – Venture Capital Trust

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 and Supplementary Information 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	13.25%
Above 967.00	3.25%

**£190 per week/£9,880 per annum before 6 July 2022.*
***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	15.05%
Excess over 967.00	N/A

**** 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)	10.25% on profits between £11,908 – £50,270. 3.25% 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 £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%

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%

SUPPLEMENTARY INFORMATION PENSION PAPERS – AF7 2022/2023

REVALUATION

Guaranteed Minimum Pension – Fixed rate

Date of leaving service	Fixed rate of revaluation
Before 6 April 1988	8.5%
Between 6 April 1988 and 5 April 1993	7.5%
Between 6 April 1993 and 5 April 1997	7.0%
Between 6 April 1997 and 5 April 2002	6.25%
Between 6 April 2002 and 5 April 2007	4.5%
Between 6 April 2007 and 5 April 2012	4.0%
Between 6 April 2012 and 5 April 2017	4.75%
Between 6 April 2017 and 5 April 2022	3.5%
After 5 April 2022	3.25%

Non GMP benefits – statutory minimum rates

Date of leaving service	Statutory rate of revaluation
Before 1 January 1986	No requirement to revalue benefits
Between 1 January 1986 and 31 December 1990	CPI capped at 5% in respect of non GMP benefits accrued from 1 January 1985
Between 1 January 1991 and 5 April 2009	CPI capped at 5% in respect of all non GMP benefits
After 5 April 2009	CPI capped at 5% in respect of all non GMP benefits accrued before 6 April 2009 CPI capped at 2.5% in respect of all benefits accrued after 5 April 2009

NOTE: Statutory revaluation is based on RPI for revaluation prior to 2011

ESCALATION

Statutory rates of escalation: Member reached State Pension age before 6 April 2016

Accrual	Statutory rate of escalation
GMP: Accrual prior to 6 April 1988	**Scheme:** No requirement to provide any increases in payment **State:** Fully in line with CPI
GMP: Accrual between 6 April 1988 and 5 April 1997	**Scheme:** CPI capped at 3% **State:** Any increases in CPI in excess of 3%
Non GMP: Accrual prior to 6 April 1997	**Scheme:** No requirement to increase in payment
Non GMP: Accrual between 6 April 1997 and 5 April 2005	**Scheme:** CPI capped at 5% (LPI)
Non GMP: Accrual from 6 April 2005	**Scheme:** CPI capped at 2.5%

NOTE: Statutory escalation was based on RPI prior to 2011

Statutory rates of escalation: Member reaches State Pension age on or after 6 April 2016

Accrual	Statutory rate of escalation
GMP: Accrual prior to 6 April 1988	**Scheme:** No requirement to provide any increases in payment
GMP: Accrual between 6 April 1988 and 5 April 1997	**Scheme:** CPI capped at 3%
Non GMP: Accrual prior to 6 April 1997	**Scheme:** No requirement to increase in payment
Non GMP: Accrual between 6 April 1997 and 5 April 2005	**Scheme:** CPI capped at 5% (LPI)
Non GMP: Accrual from 6 April 2005	**Scheme:** CPI capped at 2.5%

NOTE: No increase to GMP is made by the State (via the State Pension) for individuals who reach State Pension age on or after 6 April 2016

PENSION PROTECTION FUND

Compensation cap no longer applies following a Court of Appeal ruling in July 2021 that it was unlawful on the grounds of age discrimination.

Revaluation of deferred benefits within PPF

Service	Rate of revaluation
All service before 6 April 2009	CPI capped at 5%
All service after 5 April 2009	CPI capped at 2.5%

Escalation of benefits in payment from PPF

Service	Rate of revaluation
All service before 6 April 1997	No increases
All service after 5 April 1997	CPI capped at 2.5%