Chartered Insurance Institute

AF7

Advanced Diploma in Financial Planning

Unit AF7 – Pension transfers

September 2023 Examination Guide

SPECIAL NOTICES

Candidates entered for the March 2024 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 31 marks.
Section B consists of two case studies worth a total of 69 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/

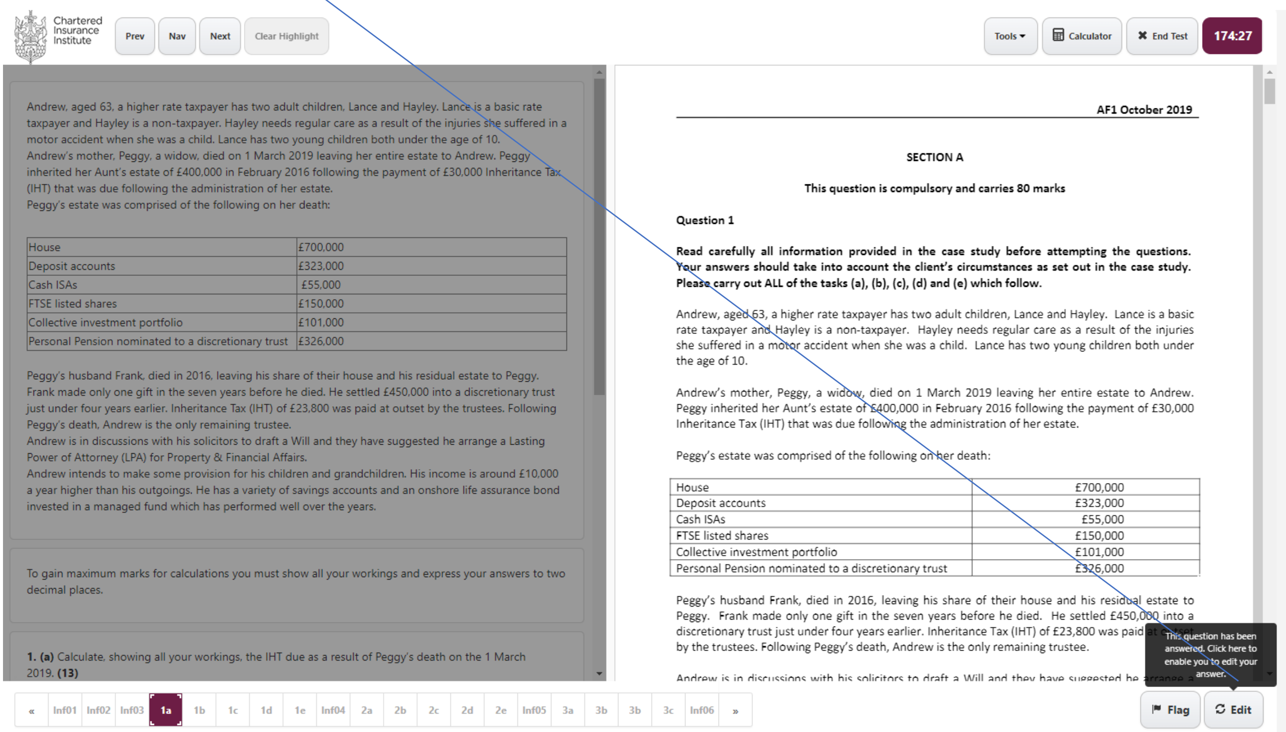
Although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

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.**

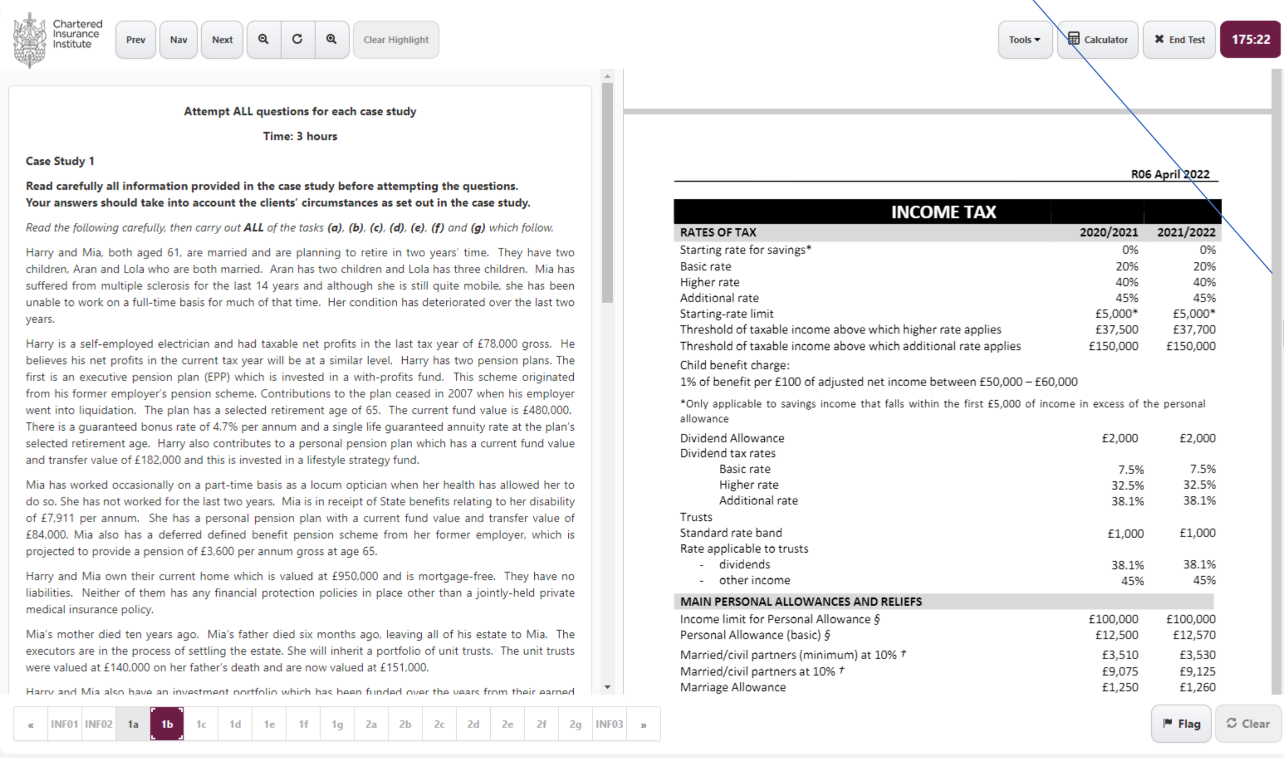
Please note you are strongly advised not to use a laptop provided by your employer.

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.

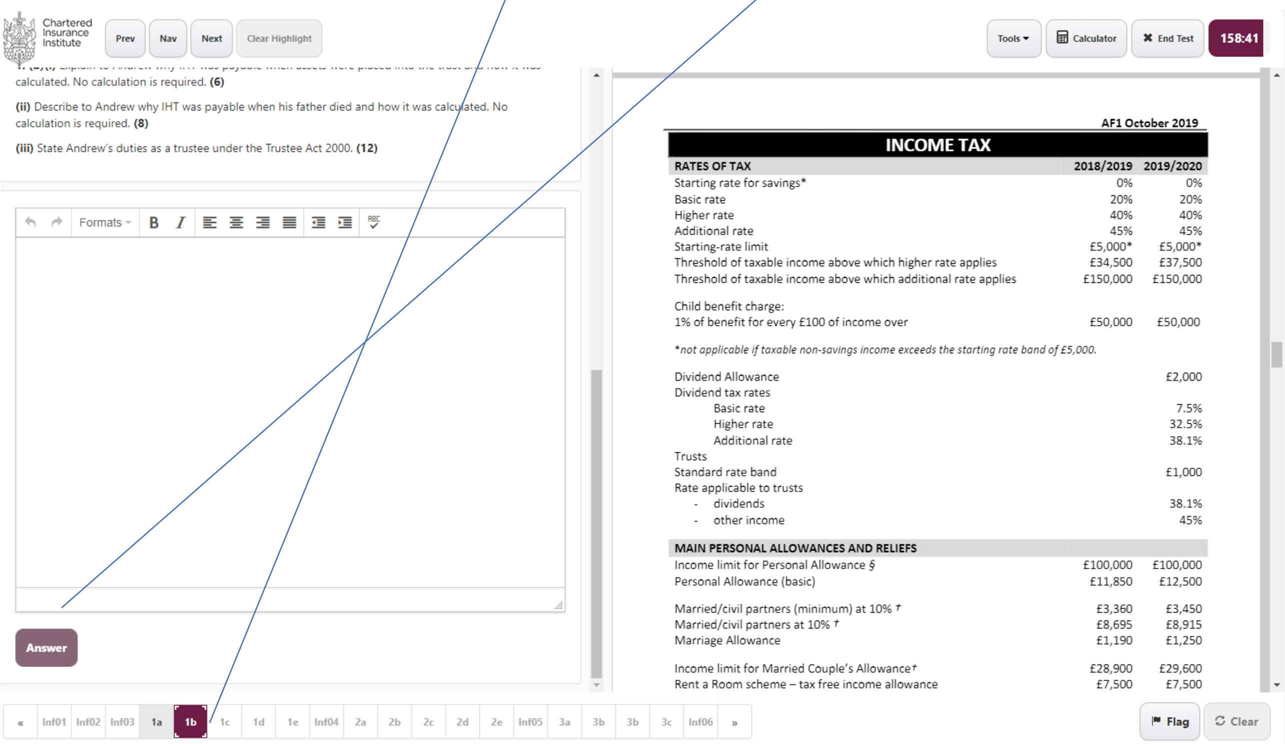
1. From the familiarisation test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press '**Answer**' for the question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



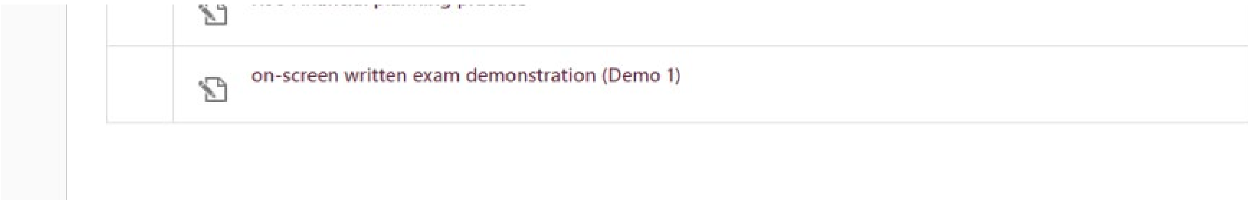
2. Tax tables and supplementary information are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam. Scroll up and down using the navigation bar.



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
The standard of candidate performance was broadly in line with recent sittings although a little higher than in March 2023.

Question 1
It was pleasing to see some candidates clearly knew this subject area well and gained the maximum marks available, with others knowing a reasonable proportion.

Where candidates had some knowledge but did not gain the maximum marks it tended to be as a result of not providing sufficient detail regarding the 'ongoing charges' information contained in a personalised charges communication.

Question 2
Many candidates performed well on this question, including some that achieved the maximum marks available.

Question 3
In general, candidates performed very well on this question with the maximum marks available achieved by a reasonably high proportion of candidates. However, a number of candidates focussed their answer on individual things that would be included in a statement of entitlement (e.g. period of membership, revaluation rates, commutation rates etc) as opposed to focussing their answer on the broader information that would be provided.

A few candidates also stated information that doesn't need to be provided such as the funding position of the scheme, the strength of the employer covenant and recovery plan details.

Question 4
Part (a) saw overall good performance with most candidates gaining the majority or maximum marks available. Where marks were missed it was generally for not stating escalation rates are likely to be higher when inflation is higher.

In part (b) candidates did not perform as well as they did in part (a). Rather than focussing on the specific question being asked, some candidates stated things that might be connected to higher gilt yields, such as equity returns might be higher or gilt yields might be rising because of higher interest rates with some going off on a tangent and answering the question based on something other than 'higher gilt yields'. The question did not ask for the wider implications or potential causes of higher gilt yields so marks could not be awarded for these statements.

Candidates that understood the specific question being asked generally performed well.

Question 5
Most candidates gained half of the available marks or above. Few candidates achieved the maximum marks available. The most common marks not gained by candidates were; 'How much they would spend on holidays in retirement', 'Need for inflation protection' and 'Does the £50k income requirement cover all expenditure'.

Question 6

The performance on this question was quite disappointing with most candidates only achieving around half of the maximum marks available. The most common marks not gained by candidates were; 'He doesn't need to make a decision now', 'They can achieve their retirement income objective without transferring' and 'It is their only source of secure income until State Pension Age'.

Question 7

In part (a), a lot of candidates stated numerous examples of different scenarios or numerous examples of stress tests without thinking about the broader purpose of a cash flow forecast.

Overall, answers from candidates were quite disappointing, especially given that there were nine possible answers for seven marks.

In part (b) candidate performance was generally good.

Question 8

Well prepared candidates were able to achieve a pass standard or higher in this question, with a small number of candidates gaining the maximum marks available.

Where candidates did not gain marks, it was typically as a result of not including additional detail in their answer. For example, a lot of candidates stated that they have 'a cautious attitude to risk', so gained a mark, but then they often did not go the extra steps to explain why this is relevant to the circumstances outlined in the question – i.e. 'therefore, transferring the smaller benefit and retaining a higher level of secured income is in line with this ATR'. Better prepared candidates covered these additional points and gained more marks as a result.

Question 9

Candidates appeared to find this question challenging which may be due to the question not specifying whether it was suitable or unsuitable. The question was worded in this way so as to allow candidates to state both the factors that would support the course of action outlined as well as the factors that would not support it.

The question was also deliberately vague in terms of whether or not any PCLS would be taken before the proposed annuity purpose as we wanted candidates to recognise that using the full fund would not leave any funds for debt repayment, so it was disappointing that few candidates mentioned this.

Question 10

This question has been tested several times before and so it was pleasing to see candidate performance reflect this with most candidates gaining at least half of the marks available.

Where marks were not gained, it tended to be for:

- Not stating that a two-year window only applies to lump sum death benefits or uncrystallised funds used for dependant income payments (this is a more technical piece of information that well-prepared candidates were able to provide);
- Stating nominee's instead of dependant's;
- Not referencing the two-year window at all;
- Incorrectly stating that the lump sum option is taxed at 45%.

Question 11

This area has been tested before and most candidates gained at least three of the seven available marks.

Where marks were lost it tended to be for:

- Not mentioning it increases the couple's CFL;
- Not linking their answer to the case study – i.e. candidates' mentioned the additional index-linked income but did not go on to explain that this is suitable as it was a client objective.

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 2023/2024, 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: 31 marks
- Section B: 69 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 31 marks

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

1. An authorised financial adviser is providing full pension transfer advice to a client that is subject to the ban on contingent charging. They are about to issue a personalised charges communication as set out by the Financial Conduct Authority in the Conduct of Business Sourcebook 6.1A.

Outline the required content of the personalised charges communication. **(8)**

2. Tina, aged 57, is single. She was a member of a former employer's defined benefit pension scheme between 1985 and 2001. Tina has received a statement of entitlement that shows part of the scheme benefits are made up of a guaranteed minimum pension (GMP).

Outline the information you would consider, **in respect of the GMP benefits**, when evaluating a potential transfer of the cash equivalent value to a personal pension plan. **(10)**

3. State the information scheme trustees must provide to a deferred scheme member who has requested a cash equivalent transfer value. **(5)**

4. Babatunde, aged 55, has recently received a cash equivalent transfer value (CETV) in respect of his previous employer's defined benefit pension scheme. This is the third CETV he has received in the past three years and Babatunde is keen to understand why the value keeps changing.

Explain, in detail, the impact on the CETV following an **increase** in the:

(a) inflation assumption; **(4)**

(b) gilt yield. **(4)**

Total marks available for this question: 31

SECTION B

All questions in this section are compulsory and carry an overall total of 69 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.

Petra, aged 55, is married to Lars, aged 57 and they are both in good health. Although they have no children of their own, the couple have fostered a number of children over the last ten years and are currently fostering two siblings aged 5 and 8 on what is expected to be a short-term placement of up to two years. They intend to take a break from fostering once this current placement ends so they can start to travel in the early years of their retirement.

Petra is a solicitor and earns £87,000 per annum. She is a member of her employer's Group Personal Pension plan (GPP) into which she contributes 10% of her salary, which her employer matches. Her GPP is currently worth £735,000.

Lars gave up his employment when they became foster parents. He currently receives a foster allowance of £350 per week. Lars has preserved benefits in his previous employer's contracted-in defined benefit pension scheme but has no other private pension provision. He has been provided with a cash equivalent transfer value (CETV) of £245,600.

Lars' benefits in the defined benefit pension scheme are summarised as follows:

Normal pension age (NPA)	60
Pension at NPA	£12,300 per annum
Death benefits pre-retirement	Return of contributions with interest only Currently valued at £23,000
Death benefits post-retirement	5-year guarantee period and 2/3rds spouse's pension
Escalation	Fixed 5%
Revaluation	Fixed 5%

Petra would like to phase her retirement and the couple will need to subsidise their income until Petra fully retires when Lars reaches age 60.

The couple's home is valued at £450,000 and has an outstanding mortgage of £32,800. They have an emergency fund of £40,000 held in joint names and an investment portfolio valued at £270,000. The investment portfolio is made up of identical stocks and shares ISAs, invested in cautious managed funds which are appropriate for their attitude to risk.

The couple's objectives are:

- To have fully repaid their mortgage.
- Maintain their current net income whilst Petra phases her retirement.
- To have a net joint income of £50,000 per annum in retirement, reducing to a minimum of £30,000 upon first death.
- To maximise the use of personal allowances in retirement.

Questions

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

5. State the additional information you would require in respect of Petra and Lars's personal and financial circumstances before advising on the suitability or otherwise of Lars transferring the value of his defined benefit pension scheme into an individual arrangement. **(10)**

6. Based on the information in the case study, outline the factors that support a recommendation that Lars does not transfer the value of his defined benefit pension scheme. **(10)**

7. As part of the transfer advice process, a cash flow forecast has been prepared for Petra and Lars.

(a) Explain the main purpose of a cash flow forecast, including its relative benefits, as part of the advice process. **(7)**

(b) State **five** stress tests that should be included as part of a cash flow forecast. **(5)**

Total marks available for this question: 32

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.

Angus, aged 63 is married to Kay, aged 59. Angus is in full time employment and Kay has spent the last 15 years in unpaid voluntary work for a local charity. The couple, who have no children, plan to retire when Kay reaches the age of 60 in January 2024.

Their main residence is valued at £380,000 and is mortgage free. Having been on several lavish holidays in recent years the couple have credit card debts of £28,000 which they are keen to pay off.

Angus and Kay are in good health and they both have a history of longevity in their families.

Both Angus and Kay have deferred benefits in previous employers' defined benefit pension schemes, summarised as follows:

	Angus	**Kay**
Date of joining scheme	January 1989	September 1990
Date of leaving scheme	August 2013	June 2005
Normal pension age (NPA)	65	60
Scheme pension at NPA	£19,750 per annum gross	£7,250 per annum gross
Early retirement	From age 55 with an actuarial reduction of 4% per annum	From age 55 with an actuarial reduction of 6% per annum
Spouses'/civil partner pension	67% in deferment and retirement	50% in deferment and retirement
Increases to pension in payment	Retail Prices Index capped at 5% per annum	Statutory minimum
Cash equivalent transfer value (CETV)	£511,000	£174,000

In addition to their defined benefit pension schemes, Angus has a workplace Group Personal Pension plan valued at £18,500 but Kay has no other private pension provisions.

The couple have received State Pension forecasts that show that Angus will receive a full State Pension when he reaches his State Pension age of 66 and Kay will receive a State Pension of £9,700 when she reaches her State Pension age of 67.

Angus and Kay estimate that they will require a joint net inflation proofed income of £2,000 per month to cover their essential and discretionary income needs in retirement; of which their essential income needs total £1,200 per month. In the event of the death of one of them their net essential and discretionary income needs will fall to £1,500 per month. They would also like to clear their debts and estimate that they will need an additional net capital sum of around £5,000 per annum to cover the cost of ad-hoc spending such as holidays.

Angus and Kay have requested advice on whether a transfer of the benefits held in one of their defined benefit pension schemes to a personal pension plan, would help to meet their objectives now and in retirement. They both have recently been assessed as having a cautious attitude to investment risk.

Questions

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

8. You have recommended that Kay transfers the benefits from her defined benefit pension scheme into a personal pension plan (PPP) and, that Angus takes the benefits from his defined benefit pension scheme when he reaches the scheme's normal pension age of 65.

Explain, based on the information provided in the case study, why you have recommended that Kay's pension is the one that should be transferred rather than Angus's. **(12)**

9. As part of your analysis, you are considering using some of the transferred PPP fund to purchase a lifetime annuity to cover any shortfall in the couple's essential expenditure. The best available joint life index linked annuity rate is 3.8%.

Explain, based on the information provided in the case study, the factors you would consider in deciding whether this course of action should be recommended. **(10)**

10. You have decided to recommend that Kay crystallises enough of her PPP fund to realise a pension commencement lump sum to repay the couple's debts. The balance of the fund will then be invested into a flexi-access drawdown (FAD) fund, which will be used to meet the couple's immediate income and capital requirements.

Outline the potential death benefits that would be payable to Angus in respect of the FAD in the event of Kay's death, including their Income Tax treatment. **(8)**

11. Kay is not entitled to the full State Pension, but she can, if she wishes, make Class 3 National Insurance Contributions (NICs) to top up her State Pension.

Explain why you have recommended that Kay should pay Class 3 NICs. **(7)**

Total marks available for this question: 37

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 scored full marks for any eight of the following:
- All charges should be provided in cash terms;
- based on the actual CETV.

- Initial advice charge.

- Ongoing charge;
- that would apply in the first year;
- if the fund remained invested;
- and the client opted for ongoing services;
- but ignoring any growth;
- and after reducing the CETV for initial charge.

- Statement that advice charges are payable in full whether the transfer proceeds or not.

Model answer for Question 2

Candidates would have scored full marks for any ten of the following:
- What method of revaluation applies?/does fixed revaluation/S148 apply?/fixed revaluation at 6.25%.
- The age from which GMP will be paid/paid from age 60.
- Whether a bridging pension is payable.
- Pre 88 GMP does not have to increase in payment;
- Post 88 GMP must increase by a minimum of CPI capped at 3%.
- Spouse's pension (of at least 50%) is included/not needed.
- Whether GMP benefits have been reconciled/equalised.
- How much of the deferred benefit/CETV is made up of GMP?/What is the value of the GMP.
- GMP cannot provide PCLS.
- Are partial transfers allowed/can she leave GMP and transfer the rest.
- GMP is lost on transfer.

Model answer for Question 3

Candidates would have scored full marks for any five of the following:
- Statement of entitlement.
- Whether CETV has been reduced/enhanced/inducements offered.
- Information about potential pension scams.
- Information about where members can obtain guidance/advice.
- Confirmation (whether or not appropriate independent) advice is required.
- Time limits applicable for transfer request/Guarantee date.

Model answer for Question 4

(a)
- (Higher inflation) results in higher revaluation;
- and a higher projected pension;
- with higher escalation;
- resulting in a higher CETV.

(b)
- (Higher gilt yields) result in a higher annuity/discount rate;
- leading to a lower lump sum needed (at retirement);
- to match benefits offered by scheme;
- resulting in a lower CETV.

Case Study 1

Model answer for Question 5

Candidates would have scored full marks for any ten of the following:
- Family longevity.
- How much would they spend on holidays in retirement.
- Any expected inheritances.
- Need for inflation protection / rising income in retirement.
- Do they have any financial dependants/ plans to provide a legacy.
- What earned income will Petra receive while phasing her retirement?
- State pension entitlements.
- Would they continue to foster children in the future.
- Does the £50k income requirement cover all expenditure/ spilt between essential and discretionary.
- Any other debts.
- Desire for flexible or guaranteed income/ Attitude to transfer risk.

Model answer for Question 6

Candidates would have scored full marks for any ten of the following:
- He does not need to make the decision now / Irrevocable decision.
- Can achieve their retirement income objective without transferring.
- PPF protection in current scheme.
- Escalation rate in payment is generous/5% fixed.
- Pre-retirement death benefits are poor/ ROC with interest only;
- however Petra has sufficient assets to provide her income needs.
- There is a 2/3rds spouse pension.
- The couple have other resources to repay their mortgage.
- Scheme is their only source of secured income until SPA.
- Income level at NPA will be close to utilising his full personal allowance.
- No investment risk/ ATR not suitable for a transfer.

Model answer for Question 7

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

- Provides visual representation/easily understood.

- Shows likely sustainability/when funds may run out;
- of transferred funds/overall assets over extended lifetime.

- Taking account of the likely amount/pattern of withdrawals;
- using client specific assumptions for investment returns.

- Can model different scenarios;
- and stress test them;

- Position after first death.
- Can help assess capacity for loss/level of investment risk required.

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

- Live longer than expected.
- Loss of income source (e.g. on first death).
- Market crash / loss of an asset.
- Income needs increase significantly.
- Large unplanned withdrawal.
- Inflation higher than expected.

Case Study 2

Model answer for Question 8

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

- They have a cautious attitude to investment risk;
- and low capacity for loss;
- therefore Kay's smaller scheme should be transferred;
- retaining the larger guaranteed income amount.

- The CETV will provide sufficient PCLS to repay their debts;
- and the residual fund will cover the income shortfall to Angus's SPA;
- at which time their expected expenditure will be covered.

- The remaining fund/Angus's WPP will be sufficient to cover their ad-hoc capital requirements until Kay reaches SPA;

- The couple require inflation proofing in retirement; and
- Angus' scheme has high inflation protection/Kay's scheme only statutory.

- Angus's scheme provides superior death benefits; and
- In the event of Angus's death, the spouse's pension plus Kay's State pension will cover all her expected expenditure needs.

- In the event of Kay's death, Angus' DB income plus his state pension will be sufficient for his expected income needs.

Model answer for Question 9

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

- Annuity would provide a secure income for life;
- which is more appropriate for their (cautious) ATR.
- Inflation proofing is in line with their objectives / their existing pensions already provide good inflation protection.

- The annuity would not provide sufficient income to cover the shortfall between now and Angus reaching age 65/ a temporary annuity to SPA would be more suitable;
- although they have a small WPP to top up income to SPA if required.

- Using full fund would not leave and PCLS for debt repayment / could repay debts with PCLS before buying annuity.

- Income requirement covered/annuity will be surplus from Angus SPA;
- therefore producing additional taxable income that is not required.

- A lifetime annuity cannot be changed once set up.

- Higher annuity rate gained if single life annuity were chosen instead;
- as Angus does not need death benefits.
-
- The couple have no children, so no need for residual fund death benefits.

- They are in good Health / enhanced rates would not be available.

Model answer for Question 10

- Lump sum.
- Dependant's;
- annuity; or
- drawdown

- Tax-free if Kay dies before the age of 75;
- and paid / designated within the two-year window.

- Two-year window only applies to lump sum death benefits (and to any uncrystallised funds used for income);
- otherwise taxable as Angus's pension income / PAYE / marginal rate.

Model answer for Question 11

- Class 3 NICs offer an excellent return / good value / investment recouped within three years.

- Kay is in good health / there is a history of longevity in her family;
- so she is likely to live long enough to benefit from this income.

- It will provide additional index-linked income;
- which meets their objective for an inflation-proofed income in retirement.

- Increases the couple's CFL.

- In line with their cautious ATR.

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 March 2024 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 2023 and March 2024 examinations.

INCOME TAX

RATES OF TAX	2022/2023	2023/2024
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	£125,140

High income 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.*

Personal savings allowance (for savings income):		
Basic rate taxpayers	£1,000	£1,000
Higher rate taxpayers	£500	£500
Additional rate taxpayers	Nil	Nil
Dividend Allowance	£2,000	£1,000
Dividend tax rates		
Basic rate	8.75%	8.75%
Higher rate	33.75%	33.75%
Additional rate	39.35%	39.35%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	39.35%	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% *†*	£3,640	£4,010
Married/civil partners at 10% *†*	£9,415	£10,375
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance*†*	£31,400	£34,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,600	£2,870
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £200,000 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)	£2,935	£3,235
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£17,005	£18,725

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
Over £175.00	13.8%

*** Secondary threshold.*

CLASS 2 (self-employed)	
Flat rate per week	£3.45
Small profits threshold per year	£6,725
Lower profits limit per year	£12,570

Class 3 (voluntary)	Flat rate per week £17.45.
Class 4 (self-employed)	9% on profits between £12,570 and up to £50,270. 2% on profits above £50,270.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 – 2023/2024*	£1,073,100

**Lifetime allowance charge removed after 5 April 2023. Any excess over the lifetime allowance that would have been subject to a lifetime allowance charge of 55% prior to 2023/2024 will be taxable as the member's pension income via PAYE.*

Maximum tax-free pension commencement lump sum in 2023/2024 is £268,275 unless a higher amount is protected.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*
2023/2024	£60,000**

**From 6 April 2016 the annual allowance is reduced for those with income above a certain level. Between 2020/21 and 2022/23 the annual allowance will be reduced 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.*
***Reducing by £1 for every £2 of 'adjusted income' over £260,000 to a minimum of £10,000 if 'threshold income' is also over £200,000.*

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.

MONEY PURCHASE ANNUAL ALLOWANCE	2022/2023	2023/2024
	£4,000	£10,000

CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2022/2023	2023/2024
Individuals, estates etc	£12,300	£6,000
Trusts generally	£6,150	£3,000
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:		
Residential property	28%	28%
Other chargeable assets	20%	20%
Business Asset Disposal Relief*	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	2022/2023	2023/2024
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Reduced rate (where appropriate charitable contributions are made)	36%	36%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

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
- Annual small gifts exemption per donor	£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%

MAIN SOCIAL SECURITY BENEFITS

		2022/2023	2023/2024
		£	£
Child Benefit	First child	21.80	24.00
	Subsequent children	14.45	15.90
	Guardian's allowance	18.55	20.40
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 61.05	Up to 67.20
	Aged 25 or over	Up to 77.00	Up to 84.80
	Main Phase		
	Work Related Activity Group	Up to 107.60	Up to 84.80*
	Support Group	Up to 117.60	Up to 129.50
Attendance Allowance	Lower rate	61.85	68.10
	Higher rate	92.40	101.75
Basic State Pension	Category A full rate	141.85	156.20
	Category B full rate	85.00	93.60
New State Pension	Full rate	185.15	203.85
Pension Credit	Standard minimumguarantee - single	182.60	201.05
	Standard minimum guarantee - couple	278.70	306.85
	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	61.05	67.20
	Age 25 or over	77.00	84.80
Statutory Maternity, Paternity and Adoption Pay		156.66	172.48

**If a claim has begun before 3rd April 2017 the individual will also be awarded the Work Related Activity Component payment which in 2023/2024 is £33.70, so total awarded for these individuals may be up to £118.50.*

CORPORATION TAX

	2022/2023	2023/2024
Small profit rate - for taxable profits below £50,000	N/A	19%
Marginal rate – for taxable profits between £50,001 - £250,000	N/A	26.5%
Standard rate - for taxable profits above £250,000	19%	25%

VALUE ADDED TAX

	2022/2023	2023/2024
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 follows:

- *First-time buyers benefit from SDLT relief on first £425,000 for properties up to £625,000 when purchasing their mainresidence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,001 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%

SUPPLEMENTARY INFORMATION PENSION PAPERS – AF7 2023/2024

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.

PPF Compensation:	
Members who have already reached the scheme's normal pension age when the employer suffers an insolvency event	100%
Members who have not reached the scheme's normal pension age when the employer suffers an insolvency event	90%

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%