



Chartered
Insurance
Institute

J05

Diploma in Financial Planning

Unit J05 – Pension income options

September 2023 Examination Guide

SPECIAL NOTICES

Candidates entered for the February 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.

J05 – Pension income options

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you in your preparation for this examination.

Before the examination

Study the syllabus carefully

This is available online at www.cii.co.uk. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone*, so it is vital that you are familiar with it.

There are books specifically produced to support your studies that provide coverage of all the syllabus areas. However, you should be prepared to read around the subject. This is important particularly if you feel that further information is required to fully understand a topic, or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Note the assumed knowledge

For the Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Certificate in Financial Planning or the equivalent. This knowledge is set out on the relevant syllabus.

Read widely

If you do not have experience in advising clients whose financial needs are relatively sophisticated, *it is quite unrealistic to expect that the study of a single textbook will be sufficient to meet all your requirements*. While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic, or an alternative viewpoint is sought. It is vital that your knowledge is widened beyond the scope of one book. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide

This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks. *However, you should note that there are alternative answers to some question parts which would also gain high marks*. For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible, and then comparing your answers to the model ones, should be seen as an essential part of your exam preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

Know the layout of the tax tables

Familiarise yourself with the information contained within the tax tables printed at the back of each Examination Guide. These tax tables will be provided to candidates as part of the examination. The

tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to take your own tax tables into the examination.*

Know the structure of the examination

- Assessment is by means of a two-hour On-screen written exam.
- All questions are compulsory.
- The On-screen written exam is made up of 15 short questions.
- Each question part will clearly show the maximum marks which can be earned.
- The paper will carry a total of 130 marks.

Appreciate the standard of the examination

Candidates must demonstrate that they are capable of advising clients *whose overall levels of income and capital require a more sophisticated scheme of investment* than is normally prepared by a level 4 qualified adviser. These clients require a critical appraisal of the various financial planning options available to them.

Read the Assessment information and Exam policies for candidates

The details of administrative arrangements and the regulations which form the basis of your examination entry are available online at www.cii.co.uk/qualifications/assessment-information/introduction/. This is *essential reading* for all candidates.

On-screen written exam familiarisation (Demo 1)

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

<https://www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/exam-papers-and-test-specifications/>

You can access the familiarisation test at any time.

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

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

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

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

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

- 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.

Chartered Institute of Taxation interface showing a case study question. The question asks to calculate Inheritance Tax (IHT) due on the 1 March 2019 following the death of Peggy. The assets listed are:

House	£700,000
Deposit accounts	£323,000
Cash ISAs	£55,000
FTSE listed shares	£150,000
Collective investment portfolio	£101,000
Personal Pension nominated to a discretionary trust	£326,000

The interface includes navigation buttons (Prev, Nav, Next, Clear Highlight), a calculator, and an 'End Test' button. A notification states: 'This question has been answered. Click here to enable you to edit your answer.'

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

Chartered Institute of Taxation interface showing tax tables for Income Tax. The tables are:

INCOME TAX		
RATES OF TAX	2018/2019	2019/2020
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	£34,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000
*not applicable if taxable non-savings income exceeds the starting rate band of £5,000.		
Dividend Allowance		£2,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
- other income		45%
MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic)	£11,850	£12,500
Married/civil partners (minimum) at 10% †	£3,360	£3,450
Married/civil partners at 10% †	£8,695	£8,915
Marriage Allowance	£1,190	£1,250
Income limit for Married Couple's Allowance †	£28,900	£29,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500

The interface includes navigation buttons, a calculator, and an 'End Test' button. A 'Flag' button is visible at the bottom right.

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

The screenshot shows the exam interface with a question on the left and a table on the right. The question asks to describe why IHT was payable when Andrew's father died and how it was calculated, and to state Andrew's duties as a trustee under the Trustee Act 2000. The table on the right is titled 'AF1 October 2019 INCOME TAX' and contains the following data:

RATES OF TAX	2018/2019	2019/2020
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	£34,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000
*not applicable if taxable non-savings income exceeds the starting rate band of £5,000.		
Dividend Allowance		£2,000
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Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
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Marriage Allowance	£1,190	£1,250
Income limit for Married Couple's Allowance ‡	£28,900	£29,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500

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

The screenshot shows a button labeled "on-screen written exam demonstration (Demo 1)" with a document icon to its left.

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

In the examination

The following will help:

Spending your time in accordance with the allocation of marks:

- The marks allocated to each question part are shown on the paper.
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking for, so a long answer is wasting valuable time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper is not completed, your chances of passing will be reduced considerably.
- Do not spend excessive time on any one question; if the time allocation for that question has been used up, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

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

- Many candidates leave the examination room confident that they have written a 'good' paper, only to be surprised when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before putting pen to paper.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

Tackling questions

Tackle the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which you find challenging until you have attempted the questions you are confident about. Candidates should avoid mixing question parts, (for example, 1(a)(i) and (ii) followed by 2(b)(ii) followed by 1(e)(i)) as this often leads to candidates unintentionally failing to fully complete the examination paper. This can make the difference between achieving a pass or a narrow fail.

It is vital to label all parts of your answer correctly as many questions have multiple parts to them (for example, question 1(a) may have parts (i), (ii) and (iii)). Failure to fully distinguish between the separate question parts may mean that full credit cannot be awarded. It is also important to note that a full answer must be given to each question part and candidates should not include notes such as 'refer to answer given in 1(b)(i)'.

Answer format

Unless the question requires you to produce an answer in a particular format, such as a letter or a report, *you should use 'bullet points' or short paragraphs*, since this allows you to communicate your thoughts in the most effective way in the least time. The model answers indicate what is acceptable for the different types of question.

Where you are asked to perform a calculation, it is important to show **all** the steps in your answer. The majority of the marks will be allocated for demonstrating the correct method of calculation.

Candidates will **not** lose marks due to poor spelling or grammar.

Calculators

The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation, even if you have used a calculator. You are permitted to use your own calculator.

Tips for laying out calculations in on-screen written exams

Where you are asked to perform a calculation, it is important to show **all the steps** in your answer. Most of the marks will be allocated for demonstrating the correct method of calculation.

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

- Set out each stage of your calculation on a separate line.
- Label the values used i.e. in the Lifetime Allowance (LTA) calculation:
 - LTA 2021/22 - £1,073,100
 - Scheme Pension - £22,750
- Identify all allowances, pension values, tax rate bands, used in £ terms.
- Identify all tax rates in % terms.
- Use subtotals, where appropriate: i.e.:
 - Excess over LTA: £1,217,500 - £1,073,100
 - =£144,400
 - X 25%
 - =£36,100
- Show all your workings, for example:
 - Capitalising the value of a scheme pension by 20 or 25
- Double check all of your figures, specifically:
 - That you have calculated each section correctly.
 - That you have added up all of your figures correctly.
 - That you have expressed all your answers to two decimal places where relevant.

EXAMINERS' COMMENTS

Candidates' overall performance:

Candidates performed well in this exam session, on the whole. The paper continued to test understanding of the current legislation, including a question on the Lifetime Allowance - the first since the changes that took effect from 6 April 2023. The paper also tested understanding of the issues in giving advice to clients on taking pension benefits. There were several questions within this session where candidates seemed to struggle (in particular on minimum pension age and pension credits), however, most candidates had a good grasp of the core concepts and those who had spent time studying across the full syllabus performed well, demonstrating a good breadth of knowledge overall.

Question 1

Candidates will see that there are two model answers for this question. The first model answer is correct as the previous defined benefit (DB) crystallisation reduces the remaining lifetime allowance (LTA) and Kofi is only entitled to pension commencement lump sum (PCLS) of the lower of 25% of his remaining LTA and 25% of his personal pension plan (PPP). This is based on rules which came into effect on 6 April 2023.

However, we acknowledge that the changes being applied to the LTA since 6 April 2023 and due to take effect from 6 April 2024 are yet to be fully embedded and the exact details confirmed (with regards the latter), therefore we accept an alternative approach may have been to calculate the maximum PCLS as per the alternative model answer.

It is important for candidates to be aware, that a full answer would have been a combination of the two model answers, as from 6 April 2024, the draft legislation means that the maximum PCLS will be the lowest of:

- 25% of the remaining fund.
- The remainder of the individual's pension commencement lump sum limit of £268,275 (known as the 'lump sum allowance').
- The remainder of the individual's £1,073,100 limit (known as the 'lump sum and death benefit allowance');
- unless there is some existing protection which will allow for a higher amount).

Question 2

Candidates found this question challenging and struggled to articulate the transitional protections that would apply to Parvati's pensions. It is important that candidates familiarise themselves with these rules due to the changes which will take effect within the next five years, and which should already be a part of adviser' retirement planning and at retirement conversations.

Question 3

Part (a) dealt with the benefits of a lifetime annuity over a scheme pension. Most candidates were able to state the points relating to the ability to choose the shape of the annuity (capital protection, guaranteed periods, escalation, etcetera), but there was less evidence of an understanding of the specific advantage of the death benefits being not restricted to dependants and that death benefits are tax free before age 75 (versus a scheme pension which is taxable regardless of age).

Part (b) dealt with factors that should be considered when deciding whether to accept an offer of pension increase exchange (PIE). Candidates were far more familiar with this concept.

Question 4

Candidates demonstrated a good grasp of cash flow modelling, which was positive given its importance to retirement conversations, and did well overall on this question.

Question 5

Some candidates struggled with this question (both part (a) and (b)), with some failing to have a grasp of the basic concept of sequencing risk. This is a key risk for clients in drawdown so advisers should have a handle on exactly what this is and the strategies that can be used to mitigate the impact.

Question 6

This was a typical question on withdrawal via uncrystallised funds pension lump sum (UFPLS). Candidates did quite well overall but given this concept is a key part of the J05 syllabus, we would expect candidates to have achieved more of the marks available.

Question 7

This question dealt with the definition of the different classes of beneficiaries on death. Some candidates had an excellent grasp of these definitions and were able to gain most of the marks available for this question. However, a number of candidates did not seem to be able to adequately distinguish between dependants, nominees and successors.

Question 8

As we would expect, candidates did well on part (a), dealing with the taxation of death benefits payable from an uncrystallised personal pension. However, there was a distinct lack of knowledge demonstrated in part (b). While this is a fairly niche area of the taxation of pension death benefits, it is important for advisers to understand these rules, so they are able to accurately identify these cases in real life.

Question 9

Candidates did well overall, but we would have expected them to have performed better in part (a), which dealt with the benefits available from the Pension Protection Fund (PPF), in this case to a member's benefits which commenced prior to reaching the scheme's normal retirement age. This is a rule which has been around for many years and candidates should be more familiar with it. For example, many incorrectly stated that 100% of the scheme pension would be payable, when in fact it would only be 90% (due to normal retirement age not having been reached).

Question 10

Part (a) was well answered in respect of information which is included on a State Pension benefit statement. Part (b) however was particularly challenging for candidates, with not many being able to articulate the conditions for receipt of the Guarantee Credit element of the State Pension Credit. Some candidates made statements suggesting this was no longer available which is incorrect and candidates would do well to become better acquainted with the benefits available to those over State Pension age.

Question 11

Candidates did very well as would be expected from a question which deals with pension consolidation.

Question 12

Candidates demonstrated a good understanding of the appropriateness of the strategy outlined in this question.

Question 13

A typical question on reviewing flexi access drawdown (FAD) – candidates did quite well overall. However, we would have expected a larger proportion of the marks to have been obtained, given this topic is a core element of the J05 syllabus.

Question 14

Most candidates did well as would be expected from this question, however some struggled (particularly with part (b)) given how attitude to risk (ATR) is key for every piece of retirement advice.

Question 15

Candidates did well on this question, demonstrating a reasonable grasp of the concept of utilising a private business as an alternative funding method for retirement

Unit J05 – Pension income options

Instructions to candidates

Read the instructions below before answering any questions.

All questions in this examination are based on English law and practice applicable in the tax year 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 consists of 15 short answer questions and carries a total of 130 marks.
- You are strongly advised to attempt **all** questions to gain maximum possible marks.
- The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation, even if you have used a calculator.
- Different to CII multiple choice exams, tax tables are provided at the right-hand side of the interface after the question paper.
- For each answer, please type in the full question number you are answering e.g. 1
- **Please note each answer must be typed in the correct corresponding answer box**
- **If you are wearing headset, earphones, smart watch please take them off.** No watches are allowed.
- Please familiarise yourself with **all** questions before starting the exam.

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

Attempt ALL questions

Time: 2 hours

To gain maximum marks for calculations you **must** show **all** your workings and express your answers to **two** decimal places.

PLEASE ENSURE YOU TYPE YOUR ANSWER TO EACH QUESTION IN THE CORRECT ANSWER BOX

1. Kofi, aged 64, is due to retire next month. At that time he will receive a scheme pension of £34,000 per annum plus a separate pension commencement lump sum (PCLS) of £102,000 from his company's defined benefit pension scheme. He also has a personal pension plan (PPP) valued at £650,000. Kofi has not registered for any form of transitional protection.

Calculate, **showing all your workings**, the maximum amount of PCLS that Kofi would be entitled to from his PPP.

(7)

2. Parvati, aged 48, is employed as a security officer for a privately owned company. She is a member of her workplace group personal pension plan (GPP) which started on 1 December 1997. Additionally, she has a personal pension plan (PPP) which started on 1 February 2001, and a self-invested personal pension plan (SIPP) which started on 1 August 2022. Parvati is in the process of transferring her PPP and SIPP to her GPP to simplify her pension holdings as part of a retirement planning exercise, with the hope of retiring at age 55.

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

Explain in detail, what transitional protections may apply to Parvati in this respect.

(6)

3. Helena, aged 62, is approaching retirement and has been offered an immediate scheme pension of £16,000 per annum from her employer's defined benefit pension scheme.

Alternatively, the scheme trustees have offered her a cash equivalent transfer value (CETV) of £480,000, with which she is considering purchasing a lifetime annuity.

The scheme pension also includes the option of pension increase exchange (PIE).

- (a) Outline the benefits of a lifetime annuity over a scheme pension before advising Helena on whether she should take the scheme pension on offer, or if she should accept the CETV. (4)

- (b) Identify the key factors that should be considered when deciding whether to accept the offer of PIE. (8)

4. You have prepared a cashflow model for a client in respect of the withdrawals required to cover their planned expenditure in retirement.

State **five** benefits and **five** drawbacks of a cashflow model. (10)

5. Frances, aged 55, retired in July and would like to start drawing an income from her pensions by using flexi-access drawdown.

- (a) Explain briefly what is meant by sequencing risk. (3)

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

6. Rajesh, aged 63, is employed. He would like to lend his daughter £60,000 for her to use as a house deposit. Rajesh is considering taking an uncrystallised funds pension lump sum (UFPLS) from a personal pension plan valued at £130,000 to make this loan.

Outline the factors that you would consider when advising Rajesh on whether he should take this course of action. (12)

7. Describe in detail, the eligibility requirements for a potential beneficiary of a flexi-access drawdown plan to be treated as either a dependant, nominee, or successor. (8)

8. When advising on a retirement income strategy, it is important to consider tax.
- (a) Outline the Income Tax treatment of death benefits payable from an uncrystallised personal pension. **(5)**
 - (b) Outline **three** scenarios where Inheritance Tax may apply to pension death benefits. **(3)**
9. Hamish retired and took benefits from his employer’s defined benefit (DB) pension scheme three years ago, when he was aged 58. The scheme’s normal pension age was 65 and he had been a member of the scheme for 19 years. He currently receives an annual pension of £21,500. All of Hamish’s pension increases by 3% per annum and includes a 66% spouse’s pension. He is married and has no children. The DB pension scheme has now entered the Pension Protection Fund (PPF).
- Hamish also has a lifetime annuity which increases by the Retail Prices Index (RPI) each year. It has a 15-year guarantee period and includes a 100% spouse’s pension. He also has a self-invested personal pension (SIPP) which currently holds £125,000 in an open-ended investment company.
- Hamish is concerned about how the PPF will impact his DB pension and what protection is in place for his annuity and SIPP should the providers fail.
- (a) Explain, giving your reasons, how Hamish’s pension benefits will be impacted as a result of the DB scheme entering the PPF. **(7)**
 - (b) Describe briefly the protection available in respect of Hamish’s annuity and SIPP, in the event of the providers failing. **(4)**
10. Jemima and Sourav, permanent UK residents, live together as a couple but are not married. Jemima is due to reach State Pension age in January and Sourav will reach his one year later. They are seeking advice regarding their State Pensions. Jemima is particularly concerned she may not be eligible for a full State Pension and is considering applying for the Guarantee Credit element of the State Pension Credit.
- (a) Identify **five** key pieces of information which are included on a State Pension benefit statement. **(5)**
 - (b) State the conditions that must be met in order for Jemima to receive the Guarantee Credit element of the State Pension Credit. **(5)**

11. Franco, aged 63, is planning to fully retire next month. His pension arrangements consist of a retirement annuity contract and two personal pension plans. Franco would like to consider consolidating all his pension plans and accessing his pension benefits through a flexi-access drawdown plan.

State the additional information you would require from each pension scheme administrator before advising Franco on the suitability of consolidating his pensions. (8)

12. Agatha, aged 60, has just retired. Her current annual income consists solely of a scheme pension of £8,800, increasing each year by the Consumer Prices Index (CPI). She has a personal pension plan valued at £675,000 and will also be entitled to a full State Pension in six years' time.

Agatha requires an inflation linked net income of £18,000 per annum in retirement.

You have recommended that Agatha uses a combination of pension commencement lump sum (PCLS) and taxable withdrawals to meet her objectives.

Explain, giving your reasons, why this is the most appropriate strategy for Agatha rather than taking PCLS only or taking an uncrystallised funds pension lump sum (UFPLS). (7)

13. Katrina is currently drawing an income from her flexi-access drawdown plan (FAD) using a performance driven withdrawal strategy.

Outline the factors that should be taken into account when carrying out an annual review of her FAD. (11)

14. When considering a retirement income strategy, it is important to consider risk.

(a) State the definitions of attitude to risk and capacity for loss. (4)

(b) State **four** key factors that influence a person's attitude to risk in relation to their pension. (4)

15. Jenna, aged 54, owns her own plant hire business. She has no pension provision of her own, having always considered the future sale of her business to be her main source of retirement funding.

Explain to Jenna **five** drawbacks of this approach. (5)

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

$£34,000 \times 20$
 $= £680,000$
 Plus $£102,000$
 $£1,073,100 - £782,000$
 $= £291,100$
 $\times 25\%$
 $£72,775$

Alternative

$£1,073,100$
 $\times 25\%$
 $= £268,275$
 minus $£102,000$
 $= £166,275$
 $£650,000 \times 25\% = £162,500$

Model answer for Question 2

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

- The increase to age 57 will not apply where on or before 4 November 2021
- Parvati had an unqualified right to take benefits at an earlier age/before age 57.
- The increase to age 57 will therefore not apply to her group personal pension (GPP)
- or her personal pension plan (PPP)
- but a minimum pension age of 57 will apply to her self-invested personal pension plan (SIPP as it started in 2002)/protection does not apply to her SIPP
- If she transfers her PPP into her GPP she will be able to take the transferred benefits at the age of 55.
- The amount transferred from the SIPP will only be able to be taken from the age of 57.

Model answer for Question 3

- (a)
- Can select own options (e.g. escalation rate/payment frequency/guaranteed period/capital protection/enhanced annuity rates).
 - More control over pension commencement lump sum (PCLS)/potentially higher PCLS.
 - Death benefits not restricted to dependants/greater death benefits.
 - Death benefits tax free before age 75.
- (b)
- The level of escalation being given up/the amount of increase being offered.
 - Immediate income needs/retirement income needs.
 - Other income/other assets.
 - The break-even point/inflation.
 - Health/family longevity.
 - Marital status/dependant's/spouse's pension/death benefits.
 - Amount of PCLS available.
 - Whether PIE would lead to a lifetime allowance tax charge/additional income tax liability/tax status.

Model answer for Question 4

Benefits:

- Able to visualise future income and capital needs.
- Can demonstrate effects of different growth rates/inflation rates/withdrawal amounts/scenarios.
- Shows how realistic goals are/risk of running out of cash/identifies shortfalls/sustainability of withdrawals.
- Can model disaster scenarios/stress testing.
- Allows for ongoing reviews/adapt to changes.

Drawbacks:

- Tax and legislation may change.
- Gives a snapshot only/estimate.
- Inputs can be incorrect.
- Assumptions are not likely to be borne out in practice.
- Personal/unforeseen circumstances/objectives could change/needs regular reviews/ongoing advice costs.

Model answer for Question 5

- (a)
- Market falls in the early years of drawdown;
 - Alongside 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/spend growth/hold early years' income in cash/use other (non-pension) assets.
 - Use safe withdrawal rate.
 - Volatility/capital protection/well diversified strategy/managed portfolio.
 - Buy an annuity with part of the drawdown fund.

Model answer for Question 6

- 25% of the uncrystallised funds pension lump sum (UFPLS) is tax free/75% is taxable at marginal rate.
- Impact on retirement plans/income/other retirement income sources/state pension/expected inheritances/Rajesh's capacity for loss.
- Alternative non-pension methods of raising capital (loan/equity release/daughter's assets).
- State of health.
- Planned retirement date/term of loan.
- Income/tax status.
- UFPLS subject to month 1 taxation/tax will need to be reclaimed.
- Triggers Money purchase annual allowance (MPAA)/loses carry forward/current or future pension contributions.
- Interest rate on loan/loss of growth.
- Daughter's affordability/ability to repay the loan.
- Pension outside of estate/loan will form part of estate.
- Adviser fees/cost of setting up UFPLS/availability of UFPLS.

Model answer for Question 7

Dependant

- Spouse/civil partner;
- child under age 23;
- or someone dependent due to physical or mental impairment
- financially dependent
- interdependent with the member.

Nominee

- An individual nominated by the member.

Successor

- An individual nominated by the beneficiary/dependant/nominee/previous successor;
- or nominated by the scheme administrator where there is no nomination by the member/beneficiary.

Model answer for Question 8

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

- Tax free;
- before age 75;
- if paid within two-year window.
- Otherwise taxable;
- as beneficiary's income through Pay As You Earn (PAYE)/at marginal rate.
- Taxable if death after 75.

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

- Pension scheme trustees/administrators have no discretion over the payment of death benefits (e.g. Bare trust/absolute).
- Member in poor health reduces income from flexi-access drawdown (FAD) (to improve death benefits).
- Member in poor health transfers to improve death benefits (death occurs within two years of transfer).
- Benefits paid to a beneficiaries estate and subsequently liable to IHT.

Model answer for Question 9

- (a)**
- As Hamish had not reached normal pension age, before the scheme entered the Pension Protection Fund (PPF);
 - annual pension will reduce to 90%/to £19,350.
 - Escalation will reduce;
 - from fixed 3%;
 - in line with Consumer Prices Index (CPI);
 - capped at 2.5%;
 - Spouse's pension will reduce to 50%.
- (b)**
- Both protected by the Financial Services Compensation Scheme (FSCS).
 - Annuity – 100% (at point of insolvency);
 - and all features/options maintained.
 - SIPP - £85,000 maximum.

Model answer for Question 10

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

- State Pension age (SPA).
- National insurance (NI) record/qualifying years/gaps.
- State Pension estimate (based on current NI levels).
- State Pension estimate at SPA based on National Insurance Contributions (NICs) continuing/full NIC record.
- What can be done to improve the forecast.
- Estimate of benefits if the State pension is deferred.

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

- They must have both reached SPA
- or Jemima has reached SPA and is claiming housing benefit.
- Income is calculated jointly;
- and weekly income must be less than £306.85 (jointly);
- unless one of them has a disability/cares for someone.
- £10,000 or less will not affect a claim.

Model answer for Question 11

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

- Guaranteed annuity rates/safeguarded benefits/guarantees/Waiver of Premium (WOP).
- Existing asset allocation/investment performance/bonuses.
- Level of PCLS.
- Death benefits/life cover/nominated beneficiaries.
- Fund value/transfer value/transfer penalties/Market Value Adjustment (MVA).
- Charges/adviser charges/fund charges.
- Investment options.
- Pension flexibility options/retirement options/any benefits crystallised.
- Normal pension age (NPA)/start date.

Model answer for Question 12

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

- She has (£3,770) Personal Allowance (PA) remaining.
- She can take out sufficient taxable income to utilise her PA.
- Take the balance as PCLS
- so all of her income will be tax free.
- UFPLS would not allow correct proportion of tax free and taxable income
- Triggering MPAA is not a problem because she has retired.
- Maximise flexibility to allow for future increases.
- Leaves more PCLS for future years.

Model answer for Question 13

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

- Previous year's investment performance/need for rebalancing/value.
- Was performance sufficient to provide required income;
- if not, capital erosion will occur for amount taken in excess of growth.
- Income/capital required/withdrawal rate.
- Change in attitude to risk/capacity for loss.
- Changes in legislation/taxation/regulation.
- Economic/market conditions/new products/inflation.
- Whether annuity required/continued suitability of FAD.
- State Pension/other income/other assets/inheritances/downsizing/liabilities.
- Change in circumstances/tax position/health/death benefits.
- Charges.
- Change in investment beliefs.

Model answer for Question 14

- (a)
- Attitude to risk (ATR) is a person's willingness to take risk;
 - in return for the opportunity of generating a higher return.
 - Capacity for loss (CFL) is a person's ability to absorb loss;
 - without it affecting their financial security.
- (b)
- Attitude to the pension/psychology/attitude towards investing.
 - Timescale.
 - Wealth/size of pension fund/other assets.
 - Past investment experience.

Model answer for Question 15

- Overly optimistic about business valuation/sale price may be less than hoped for/poor market conditions/company could go bust.
- Not diversified/single asset.
- Illiquid/timing of sale may not coincide with retirement/business may not sell.
- Insufficient for retirement needs.
- May not be eligible for business asset disposal relief at point of sale/liable to CGT on sale/missing out on tax relief/IHT benefits of a pension.

Glossary of terms

Some abbreviations candidates can use in financial planning online exams:

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

September 2023 Examination - J05 Pension income options	
Question No.	Syllabus learning outcomes being examined
1.	1. Understand the HMRC rules that apply when pension benefits are crystallised.
2.	1. Understand the HMRC rules that apply when pension benefits are crystallised.
3.	2. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients
4.	7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
5.	3. Understand the features, tax treatment and risks of flexible benefit options.
6.	4. Understand the features, tax treatment and risks of phasing retirement benefits.
7.	3. Understand the features, tax treatment and risks of flexible benefit options.
8.	3. Understand the features, tax treatment and risks of flexible benefit options. 4. Understand the features, tax treatment and risks of phasing retirement benefits.
9.	5. Understand the regulatory requirements and legal framework designed to protect clients who are drawing pension benefits.
10.	6. Understand the State retirement benefits available.
11.	7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
12.	7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
13.	7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
14.	7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
15.	7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.

All questions in the February 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 which follow are applicable to the September 2023 and February 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	
<i>*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance.</i>		
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%
<i>§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).</i>		
<i>† where at least one spouse/civil partner was born before 6 April 1935.</i>		
<i>** Investment above £1,000,000 must be in knowledge-intensive companies.</i>		
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*		
Lifetime limit	10%	10%
	£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%
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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 Support Group	Up to 107.60 Up to 117.60	Up to 84.80* 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 minimum guarantee - 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 main residence. 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. The rates for LTT and LBTT are different to the rates shown above.*

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