



Chartered
Insurance
Institute

J05

Diploma in Financial Planning

Unit J05 – Pension income options

September 2023 examination

SPECIAL NOTICES

All questions in this paper 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.

Unit J05 – Pension income options

Instructions to candidates

Read the instructions below before answering any questions

- **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.
- 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.

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

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)

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*	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%
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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	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 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%