Chartered Insurance Institute

AF7

Advanced Diploma in Financial Planning

Unit AF7 – Pension transfers

September 2024 Examination Guide

SPECIAL NOTICES

Candidates entered for the March 2025 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 32 marks.
Section B consists of two case studies worth a total of 68 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

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/

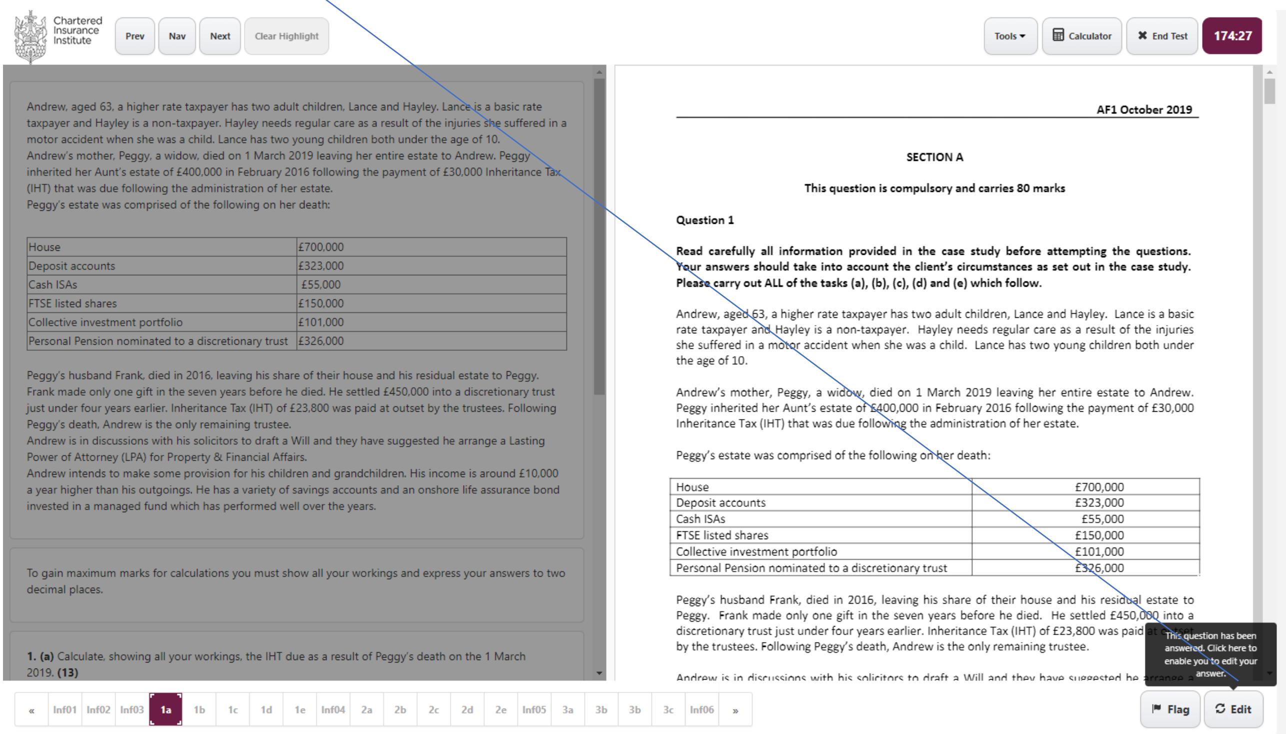
Although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

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.

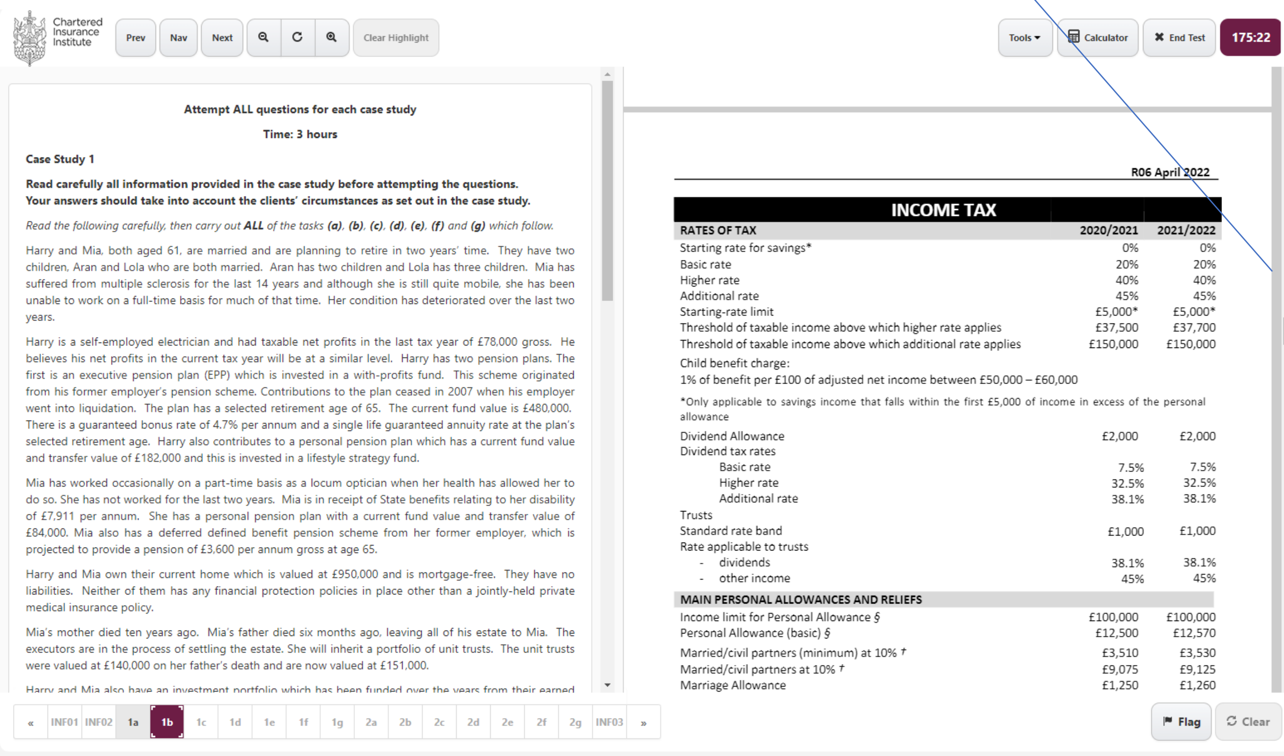
Please note you are strongly advised <u>not to</u> use a laptop provided by your employer.

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.

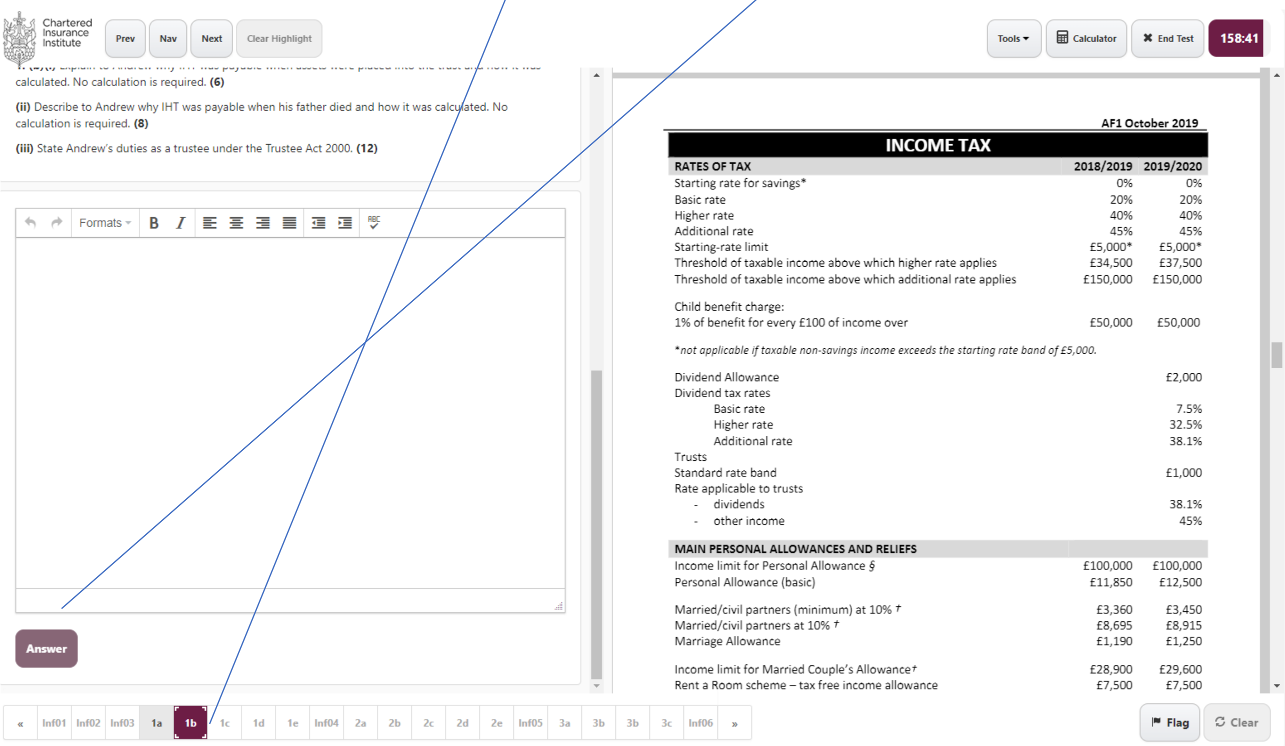
1. From the familiarisation test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press '**Answer**' for the question 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

Candidates' overall performance
Overall, candidate performance at this siting was in line with that of previous sittings.

Question 1
Most candidates did not perform well on this question and demonstrated little knowledge of the specific area being tested. That said, it was possible to gain a few marks by just stating typical things that would be considered as part of the advice process.

Question 2
The vast majority of candidates gained high marks in this question with a high proportion gaining maximum marks. In part (a), where marks were not gained, it tended to be as a result of only covering the 'obligation' or 'ability' to fund the scheme and not both aspects. In part (b), the final point about the trustees not being concerned about the security for remaining members was the most commonly missed mark.

Question 3
Whilst a small number of candidates gained high marks in this question, with a handful gaining maximum marks, many candidates did not perform well. Where candidates did not gain marks, it tended to be as a result of not answering the specific question asked, with candidates stating factors that would be relevant in the overall advice process as opposed to the specifics of Attitude to Transfer Risk.

Question 4
This question was generally well answered by most candidates, with a reasonable number gaining maximum or close to maximum marks. Where candidates did not gain marks, it tended to be as a result of not stating the correct timescales or getting the timescales mixed up.

Question 5
Overall, this question was reasonably well answered by most candidates with the majority gaining at least half of the available marks. There was no particular pattern to the marks that were missed although bullet points 2, 3 and 8 in the model answer were the least commonly stated.

Question 6
The majority of candidates performed reasonably well in this question, but quite a high proportion failed to recognise Lisa's ability to make taxable withdrawals up to her personal allowance and instead referenced using the full pension commencement lump sum (PCLS) to repay the mortgage and meet the income shortfall. This was often supported by a reference to the Money Purchase Annual Allowance but given her earnings of £10,500 and their income shortfall, it is highly unlikely any contributions would get near this limit.

Question 7
Many candidates made no reference to the Lump Sum Death Benefit Allowance and a high percentage only focussed on one of the schemes, either the Defined Benefit scheme or workplace pension.

Question 8

This question was not well answered by the majority of candidates. Most candidates covered bullet points 1, 5 and 6 on the model answer. Bullet points 2 and 4 were by far the least common answers.

Question 9

Whilst most candidates gained high marks on this question, with a small number gaining maximum marks, several candidates provided answers that were relevant to wider transfer advice as opposed to setting an investment strategy. For example, 'his views on giving up guaranteed benefits' was a common answer that didn't relate to the specific question asked. Bullet points 6, 7 and 3 on the model answer were the ones most commonly missed.

Question 10

Some candidates gained maximum marks, and some candidates gained very few of the marks available, with a broad range in between. There was no particular pattern in terms of the marks missed by candidates.

Question 11

Part (a) was reasonably well answered by most candidates, with several gaining full marks. Where candidates did not gain marks it tended to be as a result of not stating that withdrawals in the 'early years' have a greater impact. In part (b), some candidates provided multiple answers related to different investment strategies as opposed to providing four distinctly different strategies for reducing sequencing risk, of which adopting an appropriate investment strategy is just one.

Question 12

Many candidates referenced the grandchildren's options for drawing benefits upon David's death (which does not answer the specific question asked) and also the fact that the payment would be free of IHT - which it would be whether a nomination is completed or not, this had no relevance to the question that was asked.

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 2024/2025, 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: 32 marks
- Section B: 68 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 32 marks

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

1. Outline **six** factors the Financial Conduct Authority expects an adviser to take into account when providing abridged advice, as set out in COBS 19.1A. **(6)**

2. Frank, aged 52, has recently received a cash equivalent transfer value (CETV) in respect of his membership of a previous employer's defined benefit pension scheme. The scheme is underfunded but the CETV has not been reduced due to the strength of the sponsoring employer's covenant.

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

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

3. Outline the factors that should be considered when establishing a client's attitude to transfer risk. **(11)**

4. Gerald has been advised to transfer the CETV of £242,000 from his previous employer's defined benefit pension scheme into a self-invested personal pension plan. He has decided to go ahead with the transfer.

Explain the actions that must now be taken, including the timescales, so the transfer can be completed within the statutory deadlines. **(8)**

Total marks available for this question: 32

SECTION B

All questions in this section are compulsory and carry an overall total of 68 marks

Case study 1

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

Martin, aged 59, is married to Lisa, aged 57. They are both in good health and have two adult, non-dependent children and three grandchildren.

Martin is employed full-time on an annual gross salary of £45,000. Lisa has decided to reduce her working hours from next month at which point her annual gross salary will drop to £10,500 per annum.

Martin and Lisa have cash savings of £10,000 and an outstanding mortgage of £67,000, which is on a fixed rate that ends in November 2024. Martin is a member of his employer's workplace pension scheme, valued at £45,000. Lisa has a personal pension plan valued at £334,000 and an employer's workplace pension scheme valued at £14,200.

Martin has benefits accrued under a former employers' defined benefit pension scheme as follows:

Period of scheme membership	01 June 1989 to 30 September 2010
Normal retirement age (NRA)	65
Scheme pension at NRA	£33,300 per annum gross
Pre-retirement death benefits	Return of contributions valued at £26,400 Plus dependant's pension of 66%
Post-retirement death benefits	Dependant's pension of 66%
GMP revaluation	Fixed
Non-GMP revaluation	5% per annum
Increases to pension-in-payment	5% per annum
Partial transfers permitted	No
Cash equivalent transfer value (CETV)	£812,000

Due to Lisa's reduction in earnings, the couple will be left with a net monthly income shortfall of £450 excluding mortgage repayments. The couple's immediate primary objectives are:

- to repay their mortgage when the fixed rate expires;
- to cover their income shortfall;
- to ensure Lisa has sufficient income in the event that Martin pre-deceases her.

Longer term they estimate they will need a net income of £3,800 per month in retirement to cover essential, lifestyle and discretionary expenditure. This requirement will reduce to £3,000 per month in the event of first death.

Questions

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

5. State the additional information you would require regarding Martin and Lisa's personal and financial circumstances, before advising on the potential suitability of transferring Martin's defined benefit pension scheme into a personal pension plan, in order to access benefits flexibly. **(14)**

6. Explain, based on the information provided in the case study, how Martin and Lisa could meet their immediate income and capital objectives without Martin transferring his safeguarded benefits at this time. **(9)**

7. State the death benefit options and their tax treatment, that would be available to Lisa in respect of Martin's pensions, in the event that he dies before crystalising any benefits. *You should assume that Martin does not transfer his safeguarded benefits.* **(6)**

Total marks available for this question: 29

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.

David, aged 62, was recently widowed and is now in receipt of a spouse's pension that provides inflation proofed income of £4,000 per annum. He has decided he wishes to retire on 1 October 2024. David has a son who is financially independent and two grandchildren.

David has a self-invested personal pension plan (SIPP) valued at £153,000 and cash savings of £76,000. He also has a stocks and shares ISA valued at £144,000, unit trusts valued at £72,000 and his main residence valued at £600,000. He was assessed as having a moderate to high attitude to risk three years ago. David can expect a full State Pension when he reaches age 67.

David has deferred benefits accrued under his previous employer's defined benefit pension scheme and is considering his options in respect of these benefits, which are summarised as follows:

Date of joining the scheme	February 1983
Date of leaving the scheme	March 2004
Normal Pension Age (NPA)	65
Revaluation and escalation	Statutory minimum
Pension payable as of 1 October 2024	£12,300 per annum
Death benefits	50% spouses' pension
Partial transfer	Not available
Scheme funding	Fully funded
Cash equivalent transfer value (CETV)	£525,000

David, who is debt free, requires a net income of £20,000 per annum to meet his essential and lifestyle expenditure requirements. He would like at least some of this income to be guaranteed and increase with inflation. David also requires a further £9,000 per annum to cover his discretionary expenditure, but he expects this figure to be variable. He has no planned capital expenditure at this stage other than a desire to make ad hoc lump sum gifts to his grandchildren.

David is interested in transferring the CETV from his previous employer's defined benefit pension scheme to his SIPP that offers flexi-access drawdown. He would like any residual pension funds to go to his grandchildren in the event of his death.

Questions

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

8. You have identified David as a potentially vulnerable client.

Explain why you have reached this conclusion and how you would adapt the advice process to take this into account. **(5)**

9. Identify the additional information you would require from David in order to recommend an investment strategy for the potential transfer of his CETV from his previous employer's defined benefit pension scheme. **(8)**

10. You have recommended that David accepts the CETV offered by his previous employer's defined benefit pension scheme and transfers this to his SIPP.

Explain, based on the information in the case study, why you have made this recommendation. **(12)**

11. You have recommended that David commence flexi-access drawdown once the funds have been transferred.

(a) Explain briefly how sequencing risk could impact these funds once he commences income payments. **(4)**

(b) Outline **four** strategies you could recommend to mitigate the effects of sequencing risk. **(4)**

12. As David's son is financially comfortable, he would like his grandchildren to benefit from any remaining pension funds on his death.

Describe the benefits of nominating his grandchildren as his beneficiaries through an expression of wish under his SIPP, and the importance of keeping this up to date. **(6)**

Total marks available for this question: 39

NOTE ON MODEL ANSWERS
The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

Model answer for Question 1

- A pension transfer is unlikely to be suitable;
- client's intentions for accessing pension benefits (i.e. when/how);
- client's attitude to transfer risk/loss of guarantees;
- client's realistic retirement income needs/objectives;
- client's attitude to, and understanding of, investment risk; and
- alternative ways to achieve the client's objectives.

Model answer for Question 2

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

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

Model answer for Question 3

Candidates would have scored full marks for any eleven of the following:
- The risks and;
- benefits of;
- staying in the ceding arrangement, and;
- transferring into flexible benefits.
- The client's attitude to certainty of income/guarantees.
- Whether they are likely to access flexible benefits in an unplanned way, and;
- the likely impact of this on the sustainability of the funds over time.
- The client's attitude to paying for advice;
- and experience of (managing) investments.
- Any client vulnerabilities.
- The client's attitude to an access restriction in the ceding arrangement.
- Percentage of overall wealth.

Model answer for Question 4

- Gerald must submit an application confirming that he wishes to proceed with the transfer;
- within three months of the guarantee date.
- Gerald's adviser must provide written confirmation that appropriate independent advice was provided;
- which Gerald must provide to the scheme;
- within three months of the day on which the statement of entitlement was provided.
- The benefits must be transferred from the ceding scheme;
- within six months of the guarantee date;
- provided it passes the anti-scam checks.

Case Study 1

Model answer for Question 5

- Intended retirement ages.
- Split between essential, lifestyle and discretionary expenditure needs.
- Pattern of income needs after retirement.
- Need for inflation proofing.
- Capital sum required/ad-hoc expenses.
- State pension entitlements.
- Attitude to secure income/desire to access benefits flexibly.
- Any existing life assurance – e.g. for the mortgage or DIS for Martin.
- Level of contributions being paid into Martin's PPP/will Lisa have access to a pension in her part time job.
- Investment experience.
- ATR.
- Family longevity history.
- Expected inheritances/possibility of downsizing/any other assets.
- Survivors' income requirements after first death.

Model answer for Question 6

- Lisa could withdraw some PCLS from her PPP;
- sufficient to repay their debts of £67,000.
- The residual fund from Lisa's PPP;
- can meet the income shortfall of £450 per month via withdrawals;
- of income plus PCLS.
- This will be well within the safe withdrawal rate;
- and largely/entirely tax free;
- due to her remaining personal allowance and the remaining PCLS.
- Martin can also access PCLS via his workplace pension in order to mitigate any tax that would otherwise be payable.

Model answer for Question 7

DB pension:
- Return of contributions = lump sum paid tax free.
- Dependant scheme pension = taxed at Lisa's marginal rate.

Workplace pension:
- Lump sum = tax free;
- up to LSDBA.
- Income in the form of annuity = paid tax free.
- Income in the form of drawdown = paid tax free.

Model answer for Question 8

Candidates would have scored full marks for any five of the following:
- David has been recently widowed;
- and is about to retire;
- both of which are significant life events.
- Identify potential biases.
- Add in additional time to your process.
- Involve his son or another trusted individual.

Case Study 2

Model answer for Question 9

Candidates would have scored full marks for any eight of the following:
- Full assessment of his CFL is required.
- And a reassessment of his ATR/what is his current ATR.
- His ESG/ethical preferences for his investments.
- His investment knowledge/further details of his investment experience.
- Asset allocation of his stocks and shares ISA/unit trust investments.
- His views on paying charges on his investments and at what level.
- His views on the management of his investments/regular reviews.
- The likely investment term/anticipated longevity.
- Requirements for future lump sums.

Model answer for Question 10

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

- His Attitude to Risk (ATR) is likely to suit a transfer.
- He has some previous investment experience.
- He appears to have the capacity for loss (CFL) to support a transfer.
- He already has guaranteed income from his spouse's pension to cover part of his essential expenditure.
- This income is inflation proofed in line with his objectives.
- The majority of the DB pension (pre-97) will not increase in line with inflation.
- He can increase withdrawals from transferred funds in line with inflation/can purchase an inflation proofed temporary annuity.
- The early retirement DB pension, combined with his spouse's pension, will not meet his essential expenditure;
- so there will be a shortfall until his state pension commences in 5 years.
- He can access funds flexibly to cover his discretionary expenditure.
- It will allow him to make lump sum payments to his grandchildren as desired.
- It provides legacy benefits for his grandchildren on his death/DB does not offer this.
- Has no need for spouses' pension in DB scheme.
- Withdrawals should be sustainable/within safe withdrawal rate (SWR).

Model answer for Question 11

(a)
- Taking withdrawals from the fund in the early years;
- if returns are poor;
- compounds the losses;
- which could result in the pension funds not being sustainable/running out before death.

(b)
- The pension funds should be well diversified/in line with his risk profile/cash should be retained for short-term withdrawals.
- The withdrawal rate should be a safe withdrawal rate likely to be sustainable.
- David could take a lower amount of income from his pension/he could alternatively take income from his other pensions/investments.
- Some of the drawdown fund could be used to purchase a lifetime annuity/short-term annuity (to reduce the stress on the remaining invested funds in the event of a market down-turn).

Model answer for Question 12

- The scheme administrators will be aware of David's wishes;
- as although not legally binding/paid at trustee discretion;
- it increases the likelihood the benefits will be paid to his grandchildren.
- Otherwise, the benefits may be paid to his son or a future spouse, should he remarry in the future/any additional grandchildren.
- He should keep this up to date to cater for any changing wishes.
- It can also help speed up the payment of benefits to his grandchildren.

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 2025 paper will be based on English law and practice applicable in the tax year 2024/2025, unless stated otherwise and should be answered accordingly.

The Tax Tables and Supplementary Information which follow are applicable to the September 2024 and March 2025 examinations.

INCOME TAX

RATES OF TAX	2023/2024	2024/2025
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	£125,140	£125,140
High income child benefit charge: 1% of benefit per £200 of adjusted net income between £60,000 – £80,000		

**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	£1,000	£500
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	n/a
Income exemption up to**	n/a	£500
Rate applicable to trusts		
- dividends	39.35%	39.35%
- other income	45%	45%

*** Where net income exceeds £500, the full amount is subject to Income Tax.*

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% †	£4,010	£4,280
Married/civil partners at 10% †	£10,375	£11,080
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance†	£34,600	£37,000
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,870	£3,070
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. Married couple's/civil partners' allowance reduced by £1 for every £2 of adjusted net income over £37,000 (£34,600 for 23/24) until minimum reached.
**** Investment above £1,000,000 must be in knowledge-intensive companies.*

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	8%
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.*

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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

Class 2 contributions are credited automatically where profits equal or exceed £6,725 per annum.
Class 2 contributions can be made voluntarily where profits are below £6,725 per annum.

Class 3 (voluntary)	Flat rate per week £17.45.
Class 4 (self-employed)	6% on profits between £12,570 and up to £50,270. 2% on profits above £50,270.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
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 removed from 6 April 2024.*

	2023/2024	2024/2025
Lump sum and death benefit allowance (LSDBA)	n/a	£1,073,100
Lump sum allowance (LSA)	n/a	£268,275

LSA and LSDBA may be higher if transitional protections are available.
Where pension benefits were crystallised prior to 6 April 2024 the LSA and LSDBA may be reduced.

Money purchase annual allowance	£10,000	£10,000

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*
2023/2024	£60,000**
2024/2025	£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.

CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2023/2024	2024/2025
Individuals, estates etc	£6,000	£3,000
Trusts generally	£3,000	£1,500
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 - Basic Rate	8%	8%
Higher Rate	8%	4%
Surcharge for carried interest	8%	8%
Trustees and Personal Representatives:		
Residential property	28%	24%
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	2023/2024	2024/2025
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

Gifts from surplus income are immediately exempt, as long as they are made from income, are made regularly and do not impact donor's standard of living.

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 made in excess of the nil rate band 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

		2023/2024	2024/2025
		£	£
Child Benefit	First child	24.00	25.60
	Subsequent children	15.90	16.95
	Guardian's allowance	20.40	21.75
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 67.20	Up to 71.70
	Aged 25 or over	Up to 84.80	Up to 90.50
	Main Phase		
	Work-related Activity Group	Up to 84.80*	Up to 90.50**
	Support Group	Up to 129.50	Up to 138.20
Attendance Allowance	Lower rate	68.10	72.65
	Higher rate	101.75	108.55
Basic State Pension	Category A full rate	156.20	169.50
	Category B (lower) full rate	93.60	101.55
New State Pension	Full rate	203.85	221.20
Pension Credit	Standard minimumguarantee - single	201.05	218.15
	Standard minimum guarantee - couple	306.85	332.95
	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	67.20	71.70
	Age 25 or over	84.80	90.50
Statutory Maternity, Paternity and Adoption Pay		172.48	184.03

**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.*

***If a claim has begun before 3rd April 2017 the individual will also be awarded the Work-related Activity Component payment which in 2024/2025 is £35.95, so total awarded for these individuals may be up to £126.45.*

CORPORATION TAX

	2023/2024	2024/2025
Small profit rate - for taxable profits below £50,000	19%	19%
Main rate - for taxable profits above £250,000	25%	25%

Companies with profits between £50,000 and £250,000 will pay tax at the main rate, reduced by a marginal relief. This provides a gradual increase in the effective Corporation Tax rate.

VALUE ADDED TAX

	2023/2024	2024/2025
Standard rate	20%	20%
Annual registration threshold	£85,000	£90,000
Deregistration threshold	£83,000	£88,000

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 2024/2025

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%