Chartered Insurance Institute

R04

Diploma in Regulated Financial Planning

Unit 4 – Pensions and retirement planning

Based on the 2023/2024 syllabus
examined from 1 September 2023 until 31 August 2024

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Contents

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Unit 4 – Pensions and retirement planning

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Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute (CII) to assist students in their preparation for the R04 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their studies before attempting the specimen examination. Students should allow themselves one hour to complete the examination. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time.

Although the specimen examination in this guide is typical of an R04 examination, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular examination. To prepare properly for the examination, candidates should make full use of the tuition options available and read as widely as possible to ensure that the whole syllabus has been covered. They should also endeavour to keep as up-to-date as possible with developments in the industry by reading the periodicals listed in the R04 reading list, which is located on the syllabus in this examination guide and on the CII website at **www.cii.co.uk.**

Background Information

CII examination questions undergo a rigorous writing and editing process before reaching an examination. The questions are written to strict guidelines by practitioners with relevant technical knowledge and experience. Questions are very carefully worded to ensure that all the information required to answer the question is provided in a clear and concise manner. They are then edited by an independent panel of experienced practitioners who have been specifically trained to ensure that questions are technically correct, clear and unambiguous. As a final check, each examination is scrutinised by the Senior Examiner and a CII assessment expert.

Occasionally a question will require amendment after the examination guide is first published. In such an event, the revised question will be published on the CII website:

1) Visit **www.cii.co.uk/learning/qualifications/unit-pensions-and-retirement-planning-r04/**
2) Select 'exam guide update' on the right-hand side of the page

Candidates should also refer here for the latest information on changes to law and practice and when they will be examined.

Syllabus

The R04 syllabus is published on the CII website at **www.cii.co.uk. Candidates should note that the examination is based on the syllabus, rather than on any particular tuition material.** Of course, the CII tuition material will provide the vast majority of the information required to perform well in the examination, but the CII recommends that students consult other reference materials to supplement their studies.

Supporting information for the syllabus which contains a detailed overview of the areas covered can be found on the unit page. Select Supporting information for the 2023/2024 syllabus on the right-hand side of the page.

Skill Specification

The examination syllabus categorises R04 learning outcomes into attainment levels. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested.

The syllabus requires that candidates have the ability to understand, analyse, explain and evaluate the subject matter. Each learning outcome begins with one of these cognitive skills:

Understanding - Candidates must be able to link pieces of information together in cause and effect relationships. Typically questions may ask 'Why'. Questions set on an *understand* learning outcome can test either knowledge or understanding or both.

Analysis - To answer questions requiring analysis, the candidate must be able to break information down into parts, identify how each piece relates to the whole, associate relevant aspects and determine courses of action. Typically questions will relate to a given set of circumstances or provide data which requires *analysis* so a conclusion can be drawn.

Evaluation - To answer questions requiring evaluation or critical evaluation, the candidate must be able to assess and judge information presented and reach a conclusion. Typically questions will relate to a given set of circumstances and behaviours and require the selection of the correct or best evaluation.

Explain - Candidates must typically be able to demonstrate an understanding of the relationships between different aspects or concepts. They may be asked how one part may impact upon or be linked to another. They may also be asked to perform a calculation to evidence an explanation of how certain elements interact with one another.

Examination Information

The method of assessment for the R04 examination is 50 multiple choice questions (MCQs): 39 standard format and 11 multiple response format. 1 hour is allowed for this examination.

The R04 syllabus provided in this examination guide will be examined from 1 September 2023 until 31 August 2024.

Candidates will be examined on the basis of English law and practice in the tax year 2023/2024 unless otherwise stated. It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

For areas of the syllabus that are focused on taxation, the general rule is that the new tax year and changes arising from the Finance Act will be examined from 1 September each year. Other changes, not related to the Finance Act, will not be examined earlier than 3 months after they come into effect.

R04 examinations test the Financial Conduct Authority and Prudential Regulation Authority rules and regulations.

When preparing for the examination, candidates should ensure that they are aware of what typically constitutes each type of product listed in the syllabus and ascertain whether the products with which they come into contact during the normal course of their work deviate from the norm, since questions in the examination test generic product knowledge.

Extracts from tax tables will be provided at each examination, an example of which can be found in this examination guide. Candidates may find it beneficial to familiarise themselves with this information in advance of the examination. Candidates may **not** take their own tax tables into the examination.

A standard format multiple choice question consists of a problem followed by four options, labelled A, B, C and D, from which the candidate is asked to choose the correct response. Each question will contain only one correct or best response to the problem posed. One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate either chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

A multiple response format question consists of a problem, followed by between four to six options. For each question more than one option is correct. Candidates must select **all** the correct options to gain the mark.

If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.

Candidates are permitted to make rough notes. Candidates are not permitted, in any circumstances, to remove any papers relating to the examination from the examination room.

Examination Technique: Multiple Choice Questions

The best approach to multiple choice examinations is to work methodically through the questions.

The questions are worded very carefully to ensure that all the information required is presented in a concise and clear manner. It cannot be emphasised too strongly that understanding the precise meaning of the question is vital. If candidates miss a crucial point when reading the question it could result in choosing the wrong option. Candidates should read carefully through the question and all the options before attempting to answer.

Candidates should pay particular attention to any words in the question which are emphasised in bold type, for example, **maximum**, **minimum**, **main**, **most**, **normally** and **usually**. Negative wording is further emphasised by the use of capital letters, for example **NOT**, **CANNOT**.

Candidates should not spend too much time on any one question. If they cannot make up their mind, they should leave the question and come back to it later.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one incorrect response to a correct response could make the difference between passing and failing.

Before the Examination

Before sitting the examination, please visit the preparation page on the CII website to familiarise yourself with the different requirements for sittings via remote invigilation and at an exam centre
www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/

After the Examination

Rigorous checks are made to ensure the correctness of the results issued. A pre-defined quota of passes to be awarded does not exist. If all candidates achieve a score of at least the pass mark, then all candidates will be awarded a pass grade. Individual feedback on the candidate's examination performance is automatically provided and will indicate the result achieved and, for each syllabus learning outcome, the percentage of questions in the examination that were answered correctly.

Pensions and retirement planning

Purpose

At the end of this unit, candidates should be able to demonstrate an understanding of and ability to analyse:

- main tax and legal frameworks that govern retirement benefits under registered pension schemes;
- features of defined contribution and defined benefit pensions.

Summary of learning outcomes		Number of questions in the examination*
1.	**Understand the political, economic and social environment factors which provide the context for pensions planning**	**5 standard format**
2.	**Understand how the HM Revenue & Customs (HMRC) tax regime applies to pensions planning**	**10 standard format**
3.	**Understand the relevant aspects of pensions law and regulation to pensions planning**	**4 standard format**
4.	**Understand the structure, characteristics and application of Defined Benefit (DB) schemes to an individual's pension planning**	**7 standard format**
5.	**Analyse the range of Defined Contribution (DC) scheme options as they apply to an individual's pension planning**	**4 standard format/ 2 multiple response**
6.	**Analyse the options and factors to consider for drawing pension benefits**	**5 standard format/ 4 multiple response**
7.	**Explain the structure, relevance and application of State Schemes to an individual's pension planning**	**4 standard format**
8.	**Evaluate the aims and objectives of retirement planning, including the relevant investment issues**	**5 multiple response**

* The test specification has an in-built element of flexibility. It is designed to be used as a guide for study and is not a statement of actual number of questions that will appear in every exam. However, the number of questions testing each learning outcome will generally be within the range plus or minus 2 of the number indicated.

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Important notes

- Method of assessment: 50 questions: 39 standard format and 11 multiple response questions. 1 hour is allowed for this examination.
- This syllabus will be examined from 1 September 2023 to 31 August 2024.
- Candidates will be examined on the basis of English law and practice in the tax year 2023/2024 unless otherwise stated.
- It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.
- 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 an extension that is available from ***https://speechify.com/***. If for accessibility reasons you require this document in an alternative format, please contact us on online.exams@cii.co.uk to discuss your needs.
- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:
  1. Visit *www.cii.co.uk/qualifications*
  2. Select the appropriate qualification
  3. Select your unit from the list provided
  4. Select qualification update on the right hand side of the page

1. Understand the political, economic and social environment factors which provide the context for pensions planning

1.1 Describe the role of Government, policy direction, challenges and reforms.

1.2 Describe corporate responsibilities, their challenges and impact on pension planning.

1.3 Describe demographic trends, longevity and the ageing population.

1.4 Describe incentives, disincentives and attitudes to saving.

1.5 Explain the main pension scheme types and methods of pension provision.

2. Understand how the HM Revenue & Customs (HMRC) tax regime applies to pensions planning

2.1 Explain how the HMRC tax regime applies to pensions planning – Contributions and tax relief; Pension scheme investment funds; Death benefits; Retirement benefits; Transitional reliefs.

2.2 Explain how the following are applied – Annual allowances; Tapering of the annual allowance; Associated charges.

2.3 Outline the tax treatment of other types of schemes.

3. Understand the relevant aspects of pensions law and regulation to pensions planning

3.1 Explain the relevant aspects of pensions law and regulation.

3.2 Describe the role and duties of trustees and administrators of pension schemes.

4. Understand the structure, characteristics and application of Defined Benefit (DB) schemes to an individual's pension planning

4.1 Describe the main types, attributes and benefits of DB pension provision, including the rules and operation of DB schemes.

4.2 Outline the funding methods and related issues.

4.3 Explain the role of trustees and other parties, including scheme reporting.

4.4 Describe the factors to consider and the benefits on leaving, early and normal retirement, including the main transfer issues in broad terms.

4.5 Explain the benefits available on ill health and death.

4.6 Explain eligibility and top-up options.

4.7 Describe the structure, main attributes and benefits of public sector schemes.

5. Analyse the range of Defined Contribution (DC) scheme options as they apply to an individual's pension planning

5.1 Analyse the types of DC schemes, their main attributes and benefits.

5.2 Explain the legal bases of DC schemes and their impact on an individual's pension planning.

5.3 Outline the benefits on leaving, and death before and after age 75.

5.4 Outline transfer issues and considerations.

6. Analyse the options and factors to consider for drawing pension benefits

6.1 Analyse the options to consider in drawing State Retirement Benefits.

6.2 Analyse the options available from DB schemes for drawing pension benefits.

6.3 Analyse the options available from DC schemes for drawing pension benefits.

6.4 Analyse the suitability of phased retirement.

6.5 Explain the small pots and trivial commutation rules.

7. Explain the structure, relevance and application of State Schemes to an individual's pension planning

7.1 Explain the structure, relevance and application of State Retirement Benefits, State Death Benefits and the Pension Credit framework as part of an individual's pension planning.

8. Evaluate the aims and objectives of retirement planning, including the relevant investment issues

8.1 Evaluate the aims and objectives of retirement planning in relation to – An individual's aims, objectives and circumstances; Investments available to meet these objectives; Alternative sources of retirement income; Regular reviews and the factors affecting them; Asset allocation factors; The main characteristics of self-investment.

Reading list

The following list provides details of further reading which may assist you with your studies.

Note: The examination will test the syllabus alone.

The reading list is provided for guidance only and is not in itself the subject of the examination.

The resources listed here will help you keep up-to-date with developments and provide a wider coverage of syllabus topics.

CII study texts
Pensions and retirement planning. London: CII. Study text R04.

Books
A modern approach to lifetime tax planning for private clients (with precedents). Christopher Whitehouse, Lesley King. Bristol: Jordans, 2016.

eBooks
The following eBooks are available via *www.cii.co.uk/elibrary*(CII/PFS members only):

Recreating sustainable retirement: resilience, solvency and tail risk. P. Brett Hammond, et al. Oxford: Oxford University Press, 2014.

Journals and magazines
Financial adviser. London: FT Business. Weekly. Available online at *www.ftadviser.com*.

Personal finance professional (previously Financial solutions). London: CII. Six issues a year.

Money management. London: FT Business. Monthly. Available online *www.ftadviser.com/brand/money-management*.

Money marketing. London: EMAP Publishing Limited. Weekly. Available online at *www.moneymarketing.co.uk*.

Pensions age. London: Perspective. Monthly. Available at *www.pensionsage.com*.

Pensions Expert. London: FT Finance. Weekly. Available at *www.pensions-expert.com*.

Pensions insight. Newsquest Specialist Media. Monthly. Available at *www.pensions-insight.co.uk*.

Professional pensions. London: Incisive Media. Weekly. Available at *www.professionalpensions.com*.

Examination guide

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate (*ciigroup.org/login*). Details of how to access Revisionmate are on the first page of your study text. It is recommended that you only study from the most recent version of the examination guide.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

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1. From a pension provider's perspective, a major impact of ongoing changes in longevity will be
A. a likely decrease in assets under management as its customers retire later.
B. a likely reduction in the annuity rates it offers as a result of its actuarial projections.
C. the withdrawal of the Open Market Option from new contracts.
D. the requirement to invest more in equities in order to meet increased solvency ratios.

2. Nathan will attain State Pension age in 2023. He had been contracted-in most of his working life and is concerned about the additional pension entitlement that he has built up. He should be aware that
A. any entitlement to additional State Pension will cease.
B. part of his entitlement to additional State Pension may be paid in addition to the new State Pension.
C. his full entitlement to additional State Pension will be paid in addition to the new State Pension.
D. the rate of the new State Pension includes all additional State Pension.

3. Employers are required to automatically enrol which employees into a pension scheme?
A. Employees aged 18 to 65 earning a minimum of £6,396 per annum.
B. Employees aged 18 to 65 earning a minimum of £10,000 per annum.
C. Employees aged 22 to State Pension age earning a minimum of £6,396 per annum.
D. Employees aged 22 to State Pension age earning a minimum of £10,000 per annum.

4. The **main** incentive for an employee to join their employer's auto-enrolment defined contribution scheme is
A. enhanced state additional pension.
B. a mandatory employer contribution.
C. a minimum investment return no less than the increase in the Consumer Price Index.
D. National Insurance contribution rebate.

5. The Government's auto-enrolment requirements apply only to employers
A. with a turnover of at least £70,000 per annum.
B. with no existing pension provision.
C. who have a contract with a worker.
D. who have five or more employees.

6. Siobhan, an employed Solicitor for 30 years, is due to reach her State Pension age on 6 January 2024. She is told by her financial adviser, that her State Pension will be calculated

A. as the higher of her entitlement under the pre-2016 State Pension rules and her entitlement under the new State Pension.

B. as the lower of her entitlement under the pre-2016 State Pension rules and her entitlement under the new State Pension.

C. automatically as the maximum allowable under the new State Pension only.

D. automatically as the maximum allowable under the pre-2016 State Pension only.

7. A 16:1 valuation factor needs to be used when assessing Helen's pension against the annual allowance. This is because she is

A. in a defined benefit scheme.

B. in a defined contribution scheme.

C. in receipt of a Uncrystallised Fund Pension Lump Sum.

D. subject to a pension sharing order.

8. Paula, a higher-rate taxpayer, has a self-invested personal pension scheme (SIPP) which is invested in a large commercial property fund. How much tax, if any, will the SIPP pay on the rental income?

A. None.

B. 20% only.

C. 32.5% only.

D. 40% only.

9. Ramona died at age 76 while in flexi-access drawdown. She left her drawdown fund of £40,000 to a trust for her son, Jamie, who is a basic-rate taxpayer. If the £40,000 is paid out as a lump sum, what rate of tax, if any, will be applied to the payment?

A. It will not be subject to tax.

B. 20%

C. 40%

D. 45%

10. Nick and Tim both make pension contributions but only Tim pays under the net pay system. This is because Nick

A. has a personal pension and Tim is an occupational pension scheme member.

B. is a higher-rate taxpayer and Tim is a basic-rate taxpayer.

C. is employed and Tim is self-employed.

D. is making a single contribution and Tim is making regular contributions.

11. Nigel, a higher-rate taxpayer, paid an additional single contribution into his personal pension plan, which exceeded the annual allowance by £20,000. What tax is payable on this amount?
A. £4,000
B. £5,000
C. £8,000
D. £11,000

12. Neil commenced receiving income benefits from a short-term annuity purchased via a drawdown pension on his 63rd birthday. At what **maximum** age **must** this cease, if at all?
A. There is no maximum age.
B. 68 years old.
C. 73 years old.
D. 75 years old.

13. Charlotte lives abroad and is in receipt of an annuity income from a pension purchased in the UK. There is no double taxation agreement in place. In respect of the taxation of her UK pension income, she should be aware that the income will
A. always be paid net of basic-rate tax in the UK, and may be taxable in her country of residence.
B. be taxable under PAYE in the UK and may be taxable in her country of residence.
C. normally be paid gross.
D. only be taxable in her country of residence.

14. Ricky is a higher-rate taxpayer. His mother has just passed away aged 80 and as a result Ricky is the beneficiary of a flexi-access drawdown fund valued at £750,000. If he takes the entire fund as a lump sum, how is it treated for tax?
A. It is not subject to tax.
B. It is subject to Inheritance Tax.
C. It is subject to a 55% tax charge.
D. It is subject to tax at Ricky's marginal rate.

15. Alexandra, aged 73 and a basic-rate taxpayer, was in receipt of an income via a scheme pension from her defined benefit scheme when she died in June 2017. The scheme provides for an income to continue to her civil partner, Georgina. At the time of Alexandra's death, Georgina was aged 60 and she is currently a higher-rate taxpayer. What rate of Income Tax, if any, will she pay on the dependant's pension?
A. None.
B. 20%
C. 40%
D. 45%

16. Which document would **normally** determine the powers applicable to the trustees of an occupational pension scheme?

A. The employer's articles of association.

B. The scheme actuaries report.

C. The statement of financial principles.

D. The trust deed and scheme rules.

17. Naomi received a regular income under an earmarking order. What event caused this income to cease?

A. Her ex-spouse remarried.

B. Her ex-spouse was declared bankrupt.

C. She emigrated to Australia.

D. She remarried.

18. What is the **main** purpose of the Codes of Practice issued by The Pensions Regulator?

A. To give practical guidance to those running workplace pensions on how to comply with legal requirements.

B. To provide information to individuals on prospective membership and the related benefits of occupational pensions.

C. To set out how the memorandum of understanding between the regulator and The Pension Protection Fund works in practice.

D. To set out the tariff of fines and penalties that the regulator may apply through its enforcement strategy.

19. Benny, aged 45, is a member of a scheme that has entered The Pension Protection Fund and has accrued benefits of £15,000 per annum. What can Benny expect to receive when he takes his benefits at the scheme retirement age of 60?

A. 90% of accrued benefits with revaluation to retirement age of all benefits.

B. 90% of accrued benefits with revaluation to retirement age of post-97 benefits only.

C. 100% of accrued benefits with revaluation to retirement age of all benefits.

D. 100% of accrued benefits with revaluation to retirement age of post-97 benefits only.

20. Three years before retirement Tom received a one-off bonus of £12,000 from his employer. This payment is unlikely to impact upon his defined benefit pension scheme entitlements because
A. HM Revenue & Customs rules do not permit any bonuses to be included in the definition of pensionable salary.
B. most scheme rules do not include bonuses in the definition of pensionable salary.
C. only bonuses paid up to a maximum of 12 months prior to crystallisation can be included in the definition of pensionable salary.
D. only non-discretionary contractual bonuses can be included in the definition of pensionable salary.

21. An adviser is preparing the Transfer Value Comparator for a client who is considering transferring from his defined benefit pension scheme to a Self Invested Personal Pension (SIPP). He should be aware that the **main** assumptions prescribed by the Financial Conduct Authority are that
A. all adviser charges are deducted from the SIPP.
B. the annuity purchased at NRD will be on a single life, level basis.
C. the product charge is 0.4% per annum.
D. the maximum tax free cash is taken at the Normal Retirement Date (NRD).

22. What would be the **most likely** reason for a defined benefit pension scheme changing from a final salary to a career average salary basis?
A. To comply with the Employment Equality (Age) Regulations.
B. To help reduce a pension scheme deficit.
C. To improve the level of benefits for long serving employees.
D. To enable the pension scheme to meet auto enrolment requirements.

23. Who has the responsibility for drawing up a statement of investment principles for an occupational pension scheme?
A. The employer.
B. The scheme actuary.
C. The scheme fund manager.
D. The trustees.

24. An added years additional voluntary contribution scheme would be more beneficial to an employee who
A. expects their salary to decrease in the future.
B. expects their salary to increase in the future.
C. is on a fixed-term contract.
D. is on a part time contract.

25. Which aspect of public sector schemes may be found in private sector schemes but **NOT** generally in public service schemes?

A. They are funded.

B. They are unfunded.

C. There are transfer club facilities.

D. Pensions in payment provide full retail prices escalation.

26. Sheena, aged 51, is a member of her employer's defined benefit pension scheme. She has just been declared unfit to work because of ill health. In respect of her pension benefits, she should be aware that they

A. may be paid in all circumstances subject to HM Revenue & Customs rules only.

B. may be paid subject to the agreement of the scheme trustees acting in accordance with the scheme rules.

C. cannot be paid until she reaches age 55.

D. cannot be paid unless she has a life expectancy of less than 12 months.

27. Isaac has the following pension fund values at retirement

Source	**Amount**
Free-Standing Additional Voluntary Contribution Scheme (FSAVC)	£25,000
Defined contribution trust-based occupational pension scheme	£10,000
Personal pension	£15,000

Assuming no transitional protection, the **maximum** amount of pension commencement lump sum he could take is

A. £3,750

B. £6,250

C. £8,750

D. £12,500

28. Liam's income in the tax year 2023/2024 is as follows

Salary	£52,000
Bonus	£8,000
Bank savings	£500

He has a preserved pension from an occupational scheme he left in 2002 but no other pension plans. He started a personal pension in May 2022 and contributes £1,000 per month. What is the **maximum** further gross contribution he may make in the tax year 2023/2024 and obtain tax relief on the full amount?

A. £28,000

B. £40,000

C. £48,000

D. £48,500

29. Ivan has recently died aged 76. At the time of his death he was an additional-rate taxpayer and had earned income of £55,000. The fund has passed to his wife Lynn who is aged 73 and has earned income of £55,000 per annum. If Lynn requests a lump sum of £50,000 from the pension fund administrators, how much would she receive net of any tax?

A. £27,500

B. £30,000

C. £33,125

D. £35,000

30. Steven, a higher-rate taxpayer, has a pension fund of £500,000 and is moving into phased retirement. He has no transitional protection and an annual net income requirement of £20,000. Assuming a gross annuity rate of 7% per annum, how much of his fund will need to be crystallised to provide his first year's income requirement?

A. £66,116

B. £68,493

C. £71,048

D. £72,398

31. Malcolm, aged 65, is suffering from cancer. He is married to Emma, aged 60, who is in good health. He has the following schemes

	Transfer value	Pension amount increasing in line with Retail Prices Index
Personal pension	£200,000	£16,500 per annum Spouse's pension 50%
Defined benefit pension	£600,00	£25,000 per annum Spouse's pension 50%

Due to Malcolm's health his financial adviser has investigated the possibility of an impaired life annuity and has discovered that a rate of 6.5% per annum is available to provide a pension for Malcolm increasing in line with the Retail Prices Index and providing a 50% spouse's pension. In order to provide the **maximum** ongoing income Malcolm should consider

A. taking the pensions as illustrated from his existing schemes.

B. transferring the defined benefit scheme and keeping the personal pension scheme.

C. transferring the personal pension and defined benefit scheme.

D. transferring the personal pension and keeping the defined benefit scheme.

32. John has a with profit retirement annuity contract valued at £20,000. Sally has a deferred defined contribution occupational pension fund also valued at £20,000. They are both aged 65, in poor health, and have no other pension funds. They are considering their retirement options and should be aware that under HM Revenue & Customs rules

A. neither John nor Sally have the option of small pots commutation.

B. neither John nor Sally can exercise the open market option.

C. only John can use his fund to purchase a lifetime annuity on enhanced terms.

D. only Sally's fund can remain invested and be paid out tax-free on death prior to age 75.

33. Jane, aged 58, will retire in January 2024. She has the following pension arrangements

Arrangement	**Value**
Retirement annuity contract	£60,000
Personal pension	£90,000
Defined contribution master trust	£20,000

If she wants to purchase annuities on these plans, she should be aware that

A. £20,000 of the pension capital must be used to purchase an index-linked annuity.

B. she may use the open market option on all the schemes.

C. a maximum of £60,000 will benefit from a guaranteed annuity rate.

D. £110,000 of the capital must purchase an annuity that increases in payment.

34. Raymond, aged 68, is in flexi-access drawdown and is considering his options for annuitisation. He should be aware that

A. the effect of mortality drag on income withdrawal increases significantly as a client passes the age of 70.

B. if annuitisation is being considered, a move of investments towards income-generating equities should become a priority.

C. annuitisation must be implemented by age 75.

D. if he chooses to annuitise, he will be able to switch from his annuity back to a drawdown pension at a later date.

35. Humphrey, aged 70, a higher-rate taxpayer, has used the £120,000 fund from his personal pension plan to purchase a gross annuity of £750 per month with annuity protection. What is the amount of the annuity protection lump sum death benefit that will be paid out to his wife Sara, a basic-rate taxpayer, if Humphrey should die after 48 monthly instalments have been paid?

A. £46,200

B. £50,400

C. £67,200

D. £84,000

36. Penelope retired in June 2023 and now receives the full State Pension. She has asked her financial adviser to explain how her pension payment will increase each year. Her financial adviser should explain that the State Pension will increase each year by the

A. higher of inflation or 2.5% only.

B. lower of inflation or 2.5% only.

C. higher of earnings growth, inflation or 2.5%.

D. lower of earnings growth, inflation or 2.5%.

37. Kevin and Barbara are in receipt of their State Pension, but only Kevin can expect his pension to increase during payment. This is because

A. Kevin has a complete National Insurance contribution record and Barbara has a 90% National Insurance contribution record.

B. Kevin is resident in the UK and Barbara is resident in Thailand.

C. Kevin has elected for enhanced protection and Barbara has elected for primary protection.

D. Kevin is a widower and Barbara is married.

38. Heather's State retirement pension benefits include an amount of graduated pension. This indicates that she

A. has paid Class 3 National Insurance contributions.

B. is receiving pension benefits based on her husband's National Insurance contributions record.

C. paid employee National Insurance contributions prior to 1976.

D. previously paid reduced rate National Insurance contributions.

39. When applying for Pension Credit, how is an individual's existing Personal Independence Payment treated when calculating their total weekly income?

A. One half is taken into account.

B. It is taken into account in full.

C. It is disregarded immediately.

D. It is disregarded after 26 weeks.

For Questions 40-50 more than 1 option is correct. You must select all the correct options to gain the mark.

40. William has preserved benefits under his previous employer's defined contribution occupational scheme. He is considering transferring these benefits to another UK pension arrangement and should be aware that

A. he can only transfer to an individual pension arrangement.

B. he cannot transfer within two years of leaving service.

C. the scheme trustees are likely to require him to complete a benefit discharge form.

D. the scheme trustees must be satisfied that the new arrangement is registered with HM Revenue & Customs.

41. The directors of a limited company are considering whether to establish a defined contribution occupational pension scheme as their qualifying workplace pension scheme, either as a trust or contract-based arrangement. They should be aware that

A. with a trust-based scheme the trustees will have full responsibility for the selection of investment funds.

B. under a trust-based arrangement member contributions are always deducted from pay after deduction of Income Tax and National Insurance contributions.

C. the contribution system for contract-based schemes will ensure that all employees benefit from tax relief on their contributions.

D. trust-based schemes must conform with regulations in respect of maximum charging levels.

42. Bethany and Miranda are both additional-rate taxpayers and members of their employer's pension schemes. Bethany makes contributions on a net pay basis and Miranda makes contributions on a relief at source basis. In respect of the tax relief on their respective contributions, they should be aware that

A. Bethany will receive only basic-rate tax relief immediately.

B. Miranda will receive only basic-rate tax relief immediately.

C. Bethany will receive immediate tax relief in full.

D. Miranda will receive immediate tax relief in full.

43. An active member of a defined benefit pension scheme dies before retirement. In respect of the income benefits that the spouse will receive it

A. cannot be more than 50% of the deceased member's pension entitlement.

B. will be based upon the deceased member's pensionable salary.

C. will be reduced if the spouse is two years older than the deceased member.

D. may cease if the spouse remarries.

44. Judy, aged 59, has a number of relatively small pension arrangements and is considering her options for commuting them to a lump sum. She should be aware that under the small pots rules

A. any commutation will be a benefit crystallisation event.

B. all the benefits from the chosen pension arrangement must be commuted.

C. all commutations must take place within 12 months of the date of the first commutation payment.

D. she could have full commutation if the maximum value of any one plan is £10,000.

45. A financial adviser who is considering a type A critical yield calculation in connection with a capped drawdown pension review should be aware that the

A. critical yield takes into account the additional costs of a capped drawdown pension.

B. calculation assumes that, throughout the period of a capped drawdown pension, the annuity mortality basis will fluctuate.

C. critical yield will typically be below the underlying annuity interest rate.

D. critical yield is the return required on a capped drawdown pension fund to match the income that could be provided by a traditional annuity.

46. Frank, aged 55, has a personal pension and is invested in the lifestyle fund. He should be aware that

A. the asset mix of the fund will be adjusted automatically on pre-determined dates.

B. his ongoing exposure to equities will reduce with lifestyling.

C. after 10 years, a maximum of 25% of the investments will be in bonds.

D. lifestyling is likely to be appropriate if he intends to purchase a conventional annuity with his fund.

47. Florence has a self-invested personal pension scheme (SIPP). The original asset allocation was 50% equities and 50% bonds. The following year, as a result of market conditions the asset allocation was 70% equities and 30% bonds. In respect of rebalancing, her adviser should be aware that

A. the equity content would normally need to be readjusted to 50%.

B. rebalancing should only be undertaken where there has been a change in Florence’s attitude to risk.

C. there is no requirement to rebalance until there is a change from the accumulation phase to the decumulation phase.

D. rebalancing is not restricted to the plan’s anniversary.

48. A wealthy client wishes to start contributing towards a pension scheme. A self-invested personal pension scheme (SIPP) may be more suitable than a National Employment Savings Trust (NEST) pension because

A. it has higher contribution limits.

B. a drawdown pension option is usually available within the plan.

C. it has lower costs.

D. it can accept in specie transfers of investments.

49. John, aged 30, earns £190,000 per annum and is planning to start saving for retirement. He is considering the advantages of a stocks and shares ISA compared to a pension plan. He should be aware that

A. he will receive up to 40% tax relief on his pension contributions.

B. capital gains within both investments are tax free.

C. income payments from the ISA will be tax free, whereas income payments from his pension will be taxed at his highest marginal rate.

D. the minimum holding period to retain the tax advantages of an ISA is 5 years.

50. Ben, a higher-rate taxpayer, made the following investments to fund his retirement nearly 6 years ago and has made no withdrawals to date

	Original value	**Current value**
ISA	£85,000	£100,000
Venture Capital Trust (VCT)	£170,000	£170,000
Investment bond	£80,000	£90,000

When considering taking benefits, from a tax perspective he should be aware that

A. income from all his investments will be subject to tax at the basic rate.

B. any future gains from the VCT will be subject to Capital Gains Tax only.

C. on full encashment gains from his investment bond will incur a further tax liability.

D. a maximum of £294,000 can be withdrawn with no immediate tax liability.

INCOME TAX

RATES OF TAX	2023/2024
Starting rate of 0% on savings income up to*	£5,000
Personal Savings Allowance	
Basic rate	£1,000
Higher rate	£500
Additional rate	Nil
Basic rate of 20%	£0 to £37,700
Higher rate of 40%	£37,701 to £125,140
Additional rate of 45%	£125,141 and over

**For other income less than £17,570 only. The starting rate for savings is a maximum of £5,000.*

Dividend Allowance	£1,000
Dividend tax rates	
Basic rate	8.75%
Higher rate	33.75%
Additional rate	39.35%
Trusts	
Standard rate band	£1,000
Rate applicable to trusts	
- Dividends	39.35%
- other income	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000
Personal Allowance (basic) §	£12,570
Marriage Allowance	£1,260
Rent-a-room scheme - tax-free income allowance	£7,500

§ *Reduced allowance of £1 for every £2 of adjusted net income over and above £100,000*

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	per week
Lower Earnings Limit (LEL)	£123
Primary threshold	£242
Upper Earnings Limit (UEL)	£967

Class 1	Employee	Employer
NICs rate	12%/10% *	13.8%
No NICs on the first (per week)**	£242	£175***
NICs rate charged up to (per week)	£967	No limit
NICs rate on earnings over UEL	2%	n/a

* From 6 April 2023 to 5 January 2024 12% rate applies, from 6 January 2024 to 5 April 2024 10% rate applies
*** 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.*
**** 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 £50,270. 2% on profits above £50,270.

CAPITAL GAINS TAX

TAX RATES	2023/2024
Individuals:	
Up to basic rate limit	10%
Above basic rate limit	20%
Surcharge for residential property and carried interest	8%
Trustees and Personal Representatives	
Residential property	28%
Other chargeable assets	20%
Business Asset Disposal Relief*	10%
Lifetime limit	£1,000,000

**For trading businesses and companies (minimum 5% employee or director shareholding) held for at least two years.*

ANNUAL EXEMPTIONS	
Individuals, estates etc	£6,000
Trusts generally	£3,000
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000

PENSIONS

	2023/2024
Annual Allowance*	£60,000
Money Purchase Annual Allowance	£10,000

** Tapered 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.*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2023/2024
Transfers made on death	
- Up to £325,000	Nil
- Excess over £325,000	40%
- Reduced rate (where appropriate charitable contributions are made)	36%
Chargeable lifetime transfers to trusts	20%

MAIN EXEMPTIONS

Transfers to	
- UK-domiciled spouse/civil partner	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000
- main residence nil-rate band*	£175,000
- UK-registered charities	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
- Annual small gifts exemption per donor	£250
Wedding/civil partnership gifts by	
- Parent	£5,000
- Grandparent/bride or groom	£2,500
- other person	£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%

CORPORATION TAX

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

VALUE ADDED TAX

	2023/2024
Standard rate	20%
Annual registration threshold	£85,000
Deregistration threshold	£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 still apply as below.

- *SDLT is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.*
- *Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *SDLT may be charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons in some circumstances.*
- *First-time buyers benefit from SDLT relief on purchases 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 rates of LBTT and LTT apply in Scotland and Wales respectively for the purchase of additional residential properties. First-time buyers benefit from LBTT relief in Scotland. There is no LTT relief for first-time buyers in Wales.*

MAIN SOCIAL SECURITY BENEFITS

		2023/2024
Child Benefit	First child	£24.00
	Subsequent children	£15.90
	Guardian’s allowance	£20.40
Basic State Pension	Category A & B full rate	£156.20
	Category B (lower) full rate	£93.60
New State Pension	Full rate	£203.85
Pension Credit	Standard minimum guarantee - single	£201.05
	Standard minimum guarantee - couple	£306.85
Bereavement Support Payment	Higher rate - lump sum	£3,500
	Higher rate - monthly payment	£350
	Standard rate – lump sum	£2,500
	Standard rate – monthly payment	£100

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Standard Format Questions						**Multiple Response Questions**		
Learning Outcome 1			**Learning Outcome 4**			**Learning Outcome 5, 6 & 8**		
1	B	1.3	20	B	4.1	40	C, D	5.4
2	B	1.5	21	C	4.4	41	A, C, D	5.2
3	D	1.2	22	B	4.2	42	B, C	5.1
4	B	1.4	23	D	4.3	43	B, D	6.2
5	C	1.1	24	B	4.6	44	B, D	6.5
6	A	1.5	25	A	4.7	45	A, D	6.3
6 Questions			26	B	4.5	46	A, B, D	8.1
			7 Questions			47	A, D	8.1
Learning Outcome 2						48	B, D	8.1
7	A	2.2	**Learning Outcome 5**			49	B, C	8.1
8	A	2.1	27	D	5.1	50	C, D	8.1
9	D	2.1	28	C	5.1	**11 Questions**		
10	A	2.1	29	B	5.3			
11	C	2.2	**3 Questions**					
12	B	2.1						
13	B	2.3	**Learning Outcome 6**					
14	D	2.1	30	C	6.4			
15	C	2.1	31	B	6.3			
9 Questions			32	A	6.5			
			33	B	6.3			
Learning Outcome 3			34	A	6.1			
16	D	3.2	35	D	6.3			
17	D	3.1	**6 Questions**					
18	A	3.1						
19	A	3.1	**Learning Outcome 7**					
4 Questions								
			36	C	7.1			
			37	B	7.1			
			38	C	7.1			
			39	C	7.1			
			4 Questions					