

Pension income options

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

- process of decumulating pension funds and the main issues for clients and advisers;
- main choices facing members of pensions schemes during decumulation;
- features, risks and tax treatment of the secured pension option;
- features, risks and tax treatment of the drawdown pension option;
- features, risks and tax treatment of phased retirement.

Summary of learning outcomes

1. Understand the rules that apply to retirement benefits at the date that they are crystallised;
2. Understand in detail the features, tax treatment and risks of the secured pension option;
3. Understand in detail the features, tax treatment and risks of drawdown pension including the short-term annuity option;
4. Understand in detail the features, tax treatment and risks of phased retirement;
5. Understand the use of the critical yield in advising on drawdown pension and its implications for investment;
6. Understand the State retirement benefits available;
7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.

Important notes

- This syllabus will be examined in the October 2013 and April 2014 sessions. Candidates will be examined on the basis of English law and practice in the tax year 2013/2014 unless otherwise stated.
- The general rule is that the exams are based on the English legislative position three months before the date of the exams.
- 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 on the right hand side of the page

1. Understand the rules that apply to retirement benefits when they are crystallised

- 1.1 Lifetime allowance, including transitional reliefs, valuation factors and charges;
- 1.2 The normal minimum pension age and concessions;
- 1.3 Pension commencement lump sum limits, including calculations;
- 1.4 Benefit crystallisation events including valuations;
- 1.5 Commutation of benefits including triviality and serious ill health;
- 1.6 Requirements for drawing benefits on the grounds of ill health;
- 1.7 Differences between contracted out and excess benefits for defined benefit schemes;
- 1.8 Annual allowance including carry forward of unused relief, valuation factors and charges.

2. Tax treatment and risks of secured pension options

Lifetime Annuity

- 2.1 Definition, HMRC requirements and main features;
- 2.2 Death benefits: lump sums, dependants' pensions and guarantees;
- 2.3 Annuity types: conventional, unit linked, with profits, third way, enhanced and impaired life.

Scheme Pension

- 2.4 Definition, HMRC requirements and main features including escalation for defined benefit schemes;
- 2.5 Death benefits: lump sums, dependants' pensions and guarantees.

General

- 2.6 Impact of longevity, economic and other factors on annuity rates, including gender equality;
- 2.7 Security of members benefits, including Pension Protection Fund, Financial Assistance Scheme and Financial Services Compensation Scheme.

3. Understand the features, tax treatment and risks of drawdown pension, including the short-term annuity option

- 3.1 Definition, HMRC requirements, main features and risks of capped and flexible drawdown pensions, including short-term annuities;
- 3.2 Calculation of the maximum annual income payable and the review procedure under capped drawdown pensions;
- 3.3 The benefits payable on death and their tax treatment;
- 3.4 Transitional rules and procedures applicable to drawdown pensions;
- 3.5 Drawdown to drawdown transfers.

4. Understand the features, tax treatment and risks of phased retirement

- 4.1 Main structure and features of phased retirement;
- 4.2 How target income will be achieved by lump sum and income payments, including calculations;
- 4.3 Phased retirement by lifetime annuity purchase basis and/or drawdown pension basis;
- 4.4 The benefits payable on death and their tax treatment.

5. Understand the use of the critical yield in advising on drawdown pension and its implications for investment

- 5.1 Critical yield A and B including the impact of an impaired life annuity on the critical yield;
- 5.2 Investment strategies and asset allocation to meet the required critical yield, planned withdrawals, and/or planned annuity purchase in future;
- 5.3 FCA rules and guidance.

6. Understand the State retirement benefits available

- 6.1 Basic State Pension: eligibility through National Insurance contributions and credits, amounts payable and annual increases;
- 6.2 State Pension Age (SPA): equalisation of male and female ages, subsequent increases to SPA and deferral options;
- 6.3 Other State retirement benefits – Graduated Pension and State Earnings Related Pension in outline, State Second Pension (S2P), and State Pension Credit;
- 6.4 Payment of State retirement benefits to pensioners living overseas;
- 6.5 State survivor benefits;
- 6.6 Proposed changes to the State Pension system.

7. Understand the issues in giving initial and ongoing advice on taking pension benefits to clients

- 7.1 The choice between the different methods and sources for drawing a retirement income;
- 7.2 Taking pension commencement lump sum rather than income;
- 7.3 Use of phased retirement and drawdown pension for tax planning;
- 7.4 Identifying which annuity options are suitable for the client;
- 7.5 The factors taken into account during annual reviews for clients using phased retirement and drawdown pension;
- 7.6 Pensions and divorce;
- 7.7 The impact of overseas transfers at benefit crystallisation;
- 7.8 Pension increase exchange and the impact of regulatory guidance.

Reading list

The following list provides details of various publications which may assist with your studies.

These will help candidates keep up-to-date with developments and will provide a wider coverage of syllabus topics.

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.

CII/Personal Finance Society members can borrow most of the additional study materials below from Knowledge Services.

CII study texts can be consulted from within the library. For further information on the lending service, please go to www.cii.co.uk/knowledge.

CII study texts

Pension income options. London: CII. Study text J05.

Additional reading

Additional reading materials are available through the library or on the Knowledge Services website.

New materials are added frequently – for information about new books and articles in your area of interest, please visit www.cii.co.uk/knowledge or email knowledge@cii.co.uk.

Books

Life assurance and pensions handbook. Chris Marshall. London: Taxbriefs. Annual.

Pensions and retirement planning. Edited by Rob Gaines. London: Taxbriefs. Annual.

Pensions law handbook. 10th ed. Pensions Department of Nabarro Nathanson. Haywards Heath, West Sussex: Tottel, 2011.

Pensions and corporate insolvency: a practitioner's guide. Rosalind Connor et al (Jordans: 2013).

Tolley's guide to the occupational pension schemes survey 2010. Roger Self (London: LexisNexis, 2012)

Tax efficient retirement planning. 2nd ed. Alec Ure, Gavin Moffatt (Bloomsbury Professional, 2012).

Factfiles

The tax treatment of pension schemes. Roger Self. London: CII Knowledge Services.

State retirement pensions. Roger Self. London: CII Knowledge Services.

Stakeholder pension schemes. Roger Self. London: CII Knowledge Services.

CII factfiles are updated as necessary. Available online via www.cii.co.uk/knowledge (CII/Personal Finance Society members only).

Further articles and technical bulletins are available at www.cii.co.uk/knowledge (CII and Personal Finance Society members only).

Journals and magazines

Financial Adviser. London: FT Finance. Weekly. Also available online at www.ftadviser.com.

Financial Solutions. London: Personal Finance Society. Six issues a year. Also available online via www.cii.co.uk/knowledge (CII/Personal Finance Society members only).

Money Management. London: FT Finance. Monthly.

Money Marketing. London: Centaur Communications. Weekly. Also available online at www.moneymarketing.co.uk.

Pensions Age. London: Perspective. Monthly.

Pensions Week. London: FT Finance. Weekly.

Pensions insight. Newsquest Specialist Media. Monthly.

Professional Pensions. London: Incisive Media. Weekly. Also available online at www.professionalpensions.com.

Reference materials

Lamont's glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009. Also available online at www.cii.co.uk/knowledge (CII/Personal Finance Society members only).

CCH Pensions Factbook. Kingston upon Thames: CCH. Looseleaf, updated.

Butterworths pensions legislation service. London: LexisNexis UK. Looseleaf, updated.

Pensions: law and practice with precedents. London: Sweet & Maxwell. Looseleaf, updated.

The professional adviser's factfile. Taxbriefs. London: Taxbriefs. Looseleaf.

Tolley's guide to pensions tax simplification. Alec Ure. London: LexisNexis Tolley, 2006.

Sweet & Maxwell's law of pension schemes. Nigel Inglis Jones. London: Sweet & Maxwell. Looseleaf, updated.

Tolley's guide to pensions taxation terminology. Alec Ure. London, LexisNexis Tolley, 2011.

Tolley's guide to qualifying recognised overseas pension schemes. 2nd ed. Alec Ure. London, LexisNexis Tolley, 2011.

Tolley's guide to disclosure of tax avoidance schemes and pension schemes. Alex Ure. London, LexisNexis Tolley, 2010.

Pensions pocket book. London: Economic and Financial Publishing Ltd in association with Hewitt Associates. Annual.

Examination guides

Guides are produced for each sitting of written answer examinations. These include the exam questions, examiners' comments on candidates' performance and key points for inclusion in answers.

You are strongly advised to study guides for the last two sittings. Please visit www.cii.co.uk to buy online or contact CII Customer Service for further information on +44 (0)20 8989 8464.

Alternatively, if you have a current study text enrolment, the latest exam guides are available via www.revisionmate.com.

Older examination guides are available (for members only) via www.cii.co.uk/knowledge.

Exam technique/study skills

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