

**THE CHARTERED INSURANCE INSTITUTE**



**LP2**

**Certificate in Financial Services**

**Financial services products and solutions**

**Based on the 2017/2018 syllabus  
examined until 31 August 2018**

## LP2 – Financial services products and solutions

Based on the 2017/2018 syllabus examined until 31 August 2018

### Contents

Introduction to Examination Guide	3
LP2 Syllabus	7
Specimen Examination	10
Specimen Tax Tables	23
Specimen Examination Answers and Learning Outcomes Covered	28

---

#### Published in June 2017 by:

The Examinations Department, The Chartered Insurance Institute,  
42-48 High Road, South Woodford, London E18 2JP.

Telephone: 020 8989 8464

Fax: 020 8530 3052

Email: [customer.serv@cii.co.uk](mailto:customer.serv@cii.co.uk)

Copyright ©2017 The Chartered Insurance Institute. All rights reserved.

## LP2 – Financial services products and solutions

Based on the 2017/2018 syllabus examined until 31 August 2018

### Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute to assist students in their preparation for the LP2 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 two hours 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 a LP2 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 LP2 reading list, which is located on the syllabus in this examination guide and on the CII website at [www.cii.co.uk](http://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/qualifications](http://www.cii.co.uk/qualifications)
- 2) Select the appropriate qualification
- 3) Select your unit 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 LP2 syllabus is published on the CII website at [www.cii.co.uk](http://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.

## Skill Specification

The examination syllabus categorises LP2 learning outcomes into cognitive skill levels. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested.

The LP2 syllabus requires that candidates have the ability to explain and state understanding of the subject matter. Each learning outcome begins with a cognitive skill that encompasses one of the following:

- 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.
- State* - Candidates must typically be able to demonstrate a grasp of factual knowledge. They may be asked to recall some information or identify some term or concept.
- Understand* - To answer questions based on understanding, the candidate 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.

## Examination Information

The method of assessment for the LP2 examination is 75 multiple choice questions (MCQs). 2 hours are allowed for this examination.

The LP2 syllabus provided in this examination guide will be examined from 1 September 2017 until 31 August 2018.

Candidates will be examined on the basis of English law and practice in the tax year 2017/2018 unless otherwise stated. It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

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.

LP2 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 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.

While no questions involve complex calculations, candidates are permitted to use calculators during the examination. 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, under 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.

## 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.

# Financial services products and solutions

At the end of this unit, candidates should be able to demonstrate a knowledge and understanding of:

- key customer needs and the factors that affect these;
- how customers and financial services professionals identify needs and solutions;
- the main protection, mortgage repayment and savings and investment products;
- the main tax wrappers.

Summary of learning outcomes	Number of questions in the examination*
1. Understand protection, investment and pensions needs and the factors that affect them	5
2. Understand the process of identifying appropriate financial solutions	6
3. Explain the main features of protection products	17
4. State the main features of mortgage repayment vehicles and mortgage protection products	5
5. Explain the range of savings and investment products available to customers	22
6. Explain the main tax wrappers available to customers	20

\*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.

## Important notes

- **Method of assessment: 75 multiple choice questions (MCQs). 2 hours are allowed for this examination.**
- **This syllabus will be examined from 1 September 2017 to 31 August 2018.**
- **Candidates will be examined on the basis of English law and practice in the tax year 2017/2018 unless otherwise stated.**
- **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](http://www.cii.co.uk/qualifications)
  2. Select the appropriate qualification
  3. Select your unit on the right hand side of the page

- 1. Understand protection, investment and pensions needs and the factors that affect them**
  - 1.1 Explain how the personal financial lifecycle, individual circumstances and external factors affect financial needs
  - 1.2 Describe the purpose and the main categories of taxation and their relevance to the life and pensions sector
- 2. Understand the process of identifying appropriate financial solutions**
  - 2.1 Describe sources of information, advice and guidance
  - 2.2 Explain how customer needs and solutions are identified
- 3. Explain the main features of protection products**
  - 3.1 Explain the main types and features of life assurance
  - 3.2 Explain the main types and features of health protection products
- 4. State the main features of mortgage repayment vehicles and mortgage protection products**
  - 4.1 State the use of protection products and repayment vehicles in the context of mortgages
- 5. Explain the range of savings and investment products available to customers**
  - 5.1 Explain the main features of investing in cash, bonds, property and equities
  - 5.2 Explain the main features of collective investments
- 6. Explain the main tax wrappers available to customers**
  - 6.1 Explain the main features of defined contribution and defined benefit pension schemes
  - 6.2 Explain the main retirement options available
  - 6.3 Explain the main features of Individual Savings Accounts
  - 6.4 Describe other tax planning vehicles available

## Reading list

The following list provides details of various publications 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 publications will help you keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/PFS members can borrow most of the additional study materials below from Knowledge Services. CII study texts can be consulted from within the library.

New materials are added frequently - for information about new releases and lending service, please go to [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) or email [knowledge@cii.co.uk](mailto:knowledge@cii.co.uk).

### CII study texts

Financial services products and solutions. London: CII. Study text LP2.

### Books (and eBooks)

A modern approach to lifetime tax planning for private clients (with precedents). Christopher Whitehouse, Lesley King. Bristol: Jordans, 2014.

CCH Tax planning: individuals 2016-17. Paul Robbins. Kingston: Wolters Kluwer, 2016.

Guide to taxpayers' rights and HMRC powers. 4th. ed. Robert W Maas. Tottel Publishing, 2016.

Financial planning with trusts. 5th ed. John Wooley. Chester: Claritax Books, 2016.

Financial services marketing: an international guide to principles and practice. 2nd ed. Christine Ennew and Nigel Waite. Oxford: Routledge, 2013.\*

Investments: principles and concepts. Charles P Jones. Wiley, 2014.

Investments. 10th global edition. Zvi Bodie, Alex Kane, Alan J. Marcus. Berkshire: McGraw-Hill, 2014.

The Financial Times guide to investing. 3rd edition. Glen Arnold. FT Prentice Hall, 2014.

Pension magic: how to make the taxman pay for your retirement. 6th ed. Nick Braun PhD. Kircaldy: Tax Cafe, 2016.

Pension tax guide: a tax guide 2016-2017. 3rd ed. Robert Gaines. Chester: Claritax Books, 2016.

### eBooks

The following ebooks are available through Discovery via [www.cii.co.uk/discovery](http://www.cii.co.uk/discovery) (CII/PFS members only):

Behavioural finance and investor type: managing behaviour to make better investment decisions. Michael M Pompian. Hoboken: Wiley, 2012.

Investor behaviour: the psychology of financial planning and investing. H. Kent Baker. Hoboken, New Jersey: Wiley, 2014.



## Factfiles and other online resources

CII factfiles are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Covering general insurance, life and pensions and financial services sectors, the factfile collection includes key industry topics as well as less familiar or specialist areas with information drawn together in a way not readily available elsewhere. Available online via [www.cii.co.uk/ciifactfiles](http://www.cii.co.uk/ciifactfiles) (CII/PFS members only).

- Behavioural finance. Nick Edwards.
- Critical illness insurance. Andy Couchman.
- Equity release. Brad Baker.
- Long-term care insurance. Andy Couchman.
- Recent developments in investment product design. Nick Edwards.
- Recent developments in mortgage product design. Brad Baker.
- Recent developments in life product design. Robert Surridge

Consumer vulnerability. FCA Occasional Paper No. 8. February 2015. Available online via [www.fca.org.uk](http://www.fca.org.uk).

Forecast reports on life assurance, critical illness insurance, income protection insurance, personal accident and health insurance. Timetric. Available via [www.cii.co.uk/forecastreports](http://www.cii.co.uk/forecastreports) (CII/PFS members only).

Guaranteed Guidance for retirement. What consumers want. CII Policy and Public Affairs, Nick Hurman. 2014. Available online at [www.cii.co.uk/32081](http://www.cii.co.uk/32081).

The Government's retirement freedoms, Pension Wise, and views on preparedness. CII Policy and Public Affairs. Available online at [www.cii.co.uk/32998](http://www.cii.co.uk/32998).

Additional articles and technical bulletins are available under the Life and Pensions section of the website at [www.cii.co.uk/knowledge/life-pensions](http://www.cii.co.uk/knowledge/life-pensions).

## Journals and magazines

Financial adviser. London: FT Business. Weekly. Also available online at [www.ftadviser.com](http://www.ftadviser.com).

Personal finance professional (previously Financial solutions). London: CII. Six issues a year. Also available at [www.thepfs.org/knowledge](http://www.thepfs.org/knowledge) (CII/PFS members only).

Life insurance international. London: Timetric. Monthly.

Money management. London: FT Business. Monthly. Also available via [www.ftadviser.com](http://www.ftadviser.com).

Money marketing. London: Centaur Communications. Weekly. Also available online at [www.moneymarketing.co.uk](http://www.moneymarketing.co.uk).

Pensions age. London: Perspective. Monthly. Also available at [www.pensionsage.com](http://www.pensionsage.com).

Pensions insight. Newsquest Specialist Media. Monthly. Also available at [www.pensions-insight.co.uk](http://www.pensions-insight.co.uk).

Retirement strategy. Supplement to Money marketing. London: Centaur Communications. Monthly. Also available at [www.moneymarketing.co.uk](http://www.moneymarketing.co.uk).

## Reference materials

Concise encyclopedia of insurance terms. Laurence S. Silver, et al. New York: Routledge, 2010.\*

Harriman's financial dictionary: over 2,600 essential financial terms. Edited by Simon Briscoe and Jane Fuller. Petersfield: Harriman House, 2007.\*

Financial Conduct Authority (FCA) Handbook. Available at [www.handbook.fca.org.uk/handbook](http://www.handbook.fca.org.uk/handbook).

Lamont's glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009. Also available online via [www.cii.co.uk/lamont](http://www.cii.co.uk/lamont) (CII/PFS members only).

"Life, pensions & protection". Chapter: The insurance manual. Stourbridge, West Midlands: Insurance Publishing & Printing Co. Looseleaf, updated.

Prudential Regulation Authority (PRA) Rulebook Online. Available at [www.prarulebook.co.uk](http://www.prarulebook.co.uk)

St James's Place tax guide. Walter Sinclair. Basingstoke, Hampshire: Palgrave Macmillan. Annual.\*

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

\*Also available as an ebook through Discovery via [www.cii.co.uk/discovery](http://www.cii.co.uk/discovery) (CII/PFS members only).

## Examination guides

An examination guide, which includes a specimen paper, is available to purchase via [www.cii.co.uk](http://www.cii.co.uk).

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate ([www.revisionmate.com](http://www.revisionmate.com)). 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 versions of the examination guides.

## Exam technique/study skills

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

The Insurance Institute of London holds a lecture on revision techniques for CII exams approximately three times a year. The slides from their most recent lectures can be found at [www.cii.co.uk/iilrevision](http://www.cii.co.uk/iilrevision) (CII/PFS members only).

1. In what circumstances is an adviser restricted rather than independent?
  - A. If he cannot always offer a product that is available from all insurance providers.
  - B. If he has been advising for less than one year.
  - C. If life policies represent over 75% of his available products.
  - D. If mortgage products represent less than 25% of his business volume.
  
2. What type of risk to a saver **normally** arises from holding a cash deposit?
  - A. Capital risk.
  - B. Inflation risk.
  - C. Institutional risk.
  - D. Liquidity risk.
  
3. Cecil is a basic-rate taxpayer and earns less than £15,000 per annum. In the tax year 2017/2018, what is his personal savings allowance?
  - A. £500
  - B. £1,000
  - C. £3,600
  - D. £5,000
  
4. Paul and Marie, who are both higher-rate taxpayers, have sold their main residence and made a gain of £50,000. What rate of Capital Gains Tax, if any, applies to the gain?
  - A. The gain is exempt.
  - B. 10%
  - C. 18%
  - D. 20%
  
5. Who is liable to pay Corporation Tax?
  - A. Charities.
  - B. Limited companies.
  - C. Partnerships.
  - D. Self-employed individuals.
  
6. Jenny has selected a life assurance provider using an online comparison website. The website is **most likely** to be a
  - A. custodian.
  - B. distributor.
  - C. restricted adviser.
  - D. whole of market adviser.

7. Where a platform uses the services of a custodian, the custodian's role is to
- A. assess each client's risk profile.
  - B. hold client assets in a nominee account.
  - C. manage the client database.
  - D. operate the adviser's back office systems.
8. With regard to marketing, the Financial Conduct Authority's Principles for Businesses specifically requires that an authorised firm **must** communicate in a way that is
- A. appropriately skilled and with due diligence.
  - B. clear, fair and honest.
  - C. clear, fair and not misleading.
  - D. open and honest.
9. When a restricted adviser is providing investment advice to a client, the adviser's suitability report **must**
- A. confirm that restricted advice has been provided.
  - B. include recommendations for all of the client's identified needs.
  - C. provide details of the Financial Services Compensation Scheme.
  - D. show how any recommended solutions match the client's risk profile.
10. During a fact-find meeting, a financial adviser has asked a client to sign a letter of authority. This is **most likely** to enable the adviser to
- A. approach HM Revenue & Customs to confirm the client's tax status.
  - B. obtain confidential information from the client's product providers.
  - C. place investments up to a specified limit.
  - D. request salary confirmation from the client's employer.
11. An authorised firm will **normally** measure the quality of its customer service through the level of client retention and the
- A. amount of company turnover.
  - B. number of product sales.
  - C. number of referrals.
  - D. range of product sales.
12. When a policyholder exercises the option to convert his term assurance policy to a whole of life policy, what conditions regarding the provisions of medical evidence or underwriting **normally** apply?
- A. No medical evidence or underwriting is required regardless of the policyholder's state of health.
  - B. The policyholder must complete a declaration of health but further underwriting is only required if a severe deterioration has occurred.
  - C. Medical evidence and underwriting will always be required for sums assured above a specified threshold.
  - D. Medical evidence and underwriting will only be required where conversion is within five years of the end of the policy term.

13. A policyholder has put his life assurance policy into a discretionary trust and left a letter of wishes. What implication does this have for the trustees?
- A. They are obliged to distribute benefits as stated in the letter.
  - B. They are obliged to distribute some benefits to those named in the letter but may select additional beneficiaries.
  - C. Those named in the letter must receive benefits if still alive, otherwise the trustees have complete discretion.
  - D. The letter is purely for guidance and does not constitute a legal obligation for the trustees.
14. Where a reversionary bonus has been added under a traditional with-profits policy, it
- A. cannot be removed.
  - B. can be removed at maturity in adverse market conditions.
  - C. must then be added at the same rate in each subsequent year until maturity.
  - D. must be for a minimum of 75% of the previous highest reversionary bonus rate.
15. When compared to the holders of non-mutual assurance savings plans, holders of friendly society savings plans can **usually** expect to receive
- A. a greater proportion of available profits.
  - B. a greater choice of investment options.
  - C. lower levels of tax relief.
  - D. higher sums assured for the premium paid.
16. Which of hobbies, occupation and smoker status **normally** affect the premiums charged under an income protection policy?
- A. Hobbies and occupation status only.
  - B. Hobbies and smoker status only.
  - C. Occupation and smoker status only.
  - D. Hobbies, occupation and smoker status.
17. Where an individual receives benefits payable under an income protection policy directly from the insurer and without any deduction of tax, this confirms that
- A. benefits are a fixed amount rather than related to salary.
  - B. benefits will be payable for a maximum of one year.
  - C. the policyholder is a non-taxpayer.
  - D. the policyholder has effected an individual policy.
18. Which type of protection product can provide an individual with rehabilitation benefits?
- A. Critical illness insurance.
  - B. Family income benefit.
  - C. Income protection insurance.
  - D. Private medical insurance.

19. What difference, if any, applies to the tax treatment of a group critical illness policy benefit paid to an employed person when compared to a similar benefit paid to a self-employed person on an individual basis?
- A. There is no difference.
  - B. Only the self-employed person receives benefits free of any tax deductions.
  - C. Only the employed person receives benefits after deduction of 10% tax.
  - D. Only the employed person receives benefits after deduction of 20% tax.
20. A stand alone critical illness insurance policyholder has just received a second payment under the policy. This indicates that
- A. the benefits are payable under a trust.
  - B. his death is now expected within 12 months.
  - C. his insured condition has progressed in severity.
  - D. payment is being made as an accelerated death benefit.
21. Providers of critical illness insurance policies **typically** set their required survival periods at
- A. 7 to 10 days.
  - B. 14 to 30 days.
  - C. 31 to 60 days.
  - D. 61 to 90 days.
22. How, if at all, will an employee who is a member of his employer's group personal accident and sickness policy be taxed on the benefits and premiums?
- A. Only on the benefits at the basic rate.
  - B. Only on the benefits at his marginal rate.
  - C. Only on the premiums as a benefit-in-kind.
  - D. He will not be taxed.
23. The benefit payable in respect of accidental bodily injury under a personal accident and sickness policy is **normally** an amount
- A. calculated as a proportion of the sum insured depending how many injuries are suffered.
  - B. equal to the sum insured regardless of the nature of the injury.
  - C. related to the nature and level of injury plus the anticipated recovery period.
  - D. specified according to the nature and level of injury.
24. Which type of benefit is **only normally** available under a comprehensive private medical insurance policy?
- A. Accommodation fees.
  - B. Consultant fees.
  - C. Dental treatment.
  - D. Diagnostic treatment.

25. Where a private medical insurance policy is set up with moratorium underwriting, this indicates that
- A. cover has been transferred from a previous insurer.
  - B. only specified conditions are included until the insured agrees to be medically examined.
  - C. the policy is part of a package for which a single proposal form has been completed.
  - D. pre-existing conditions are excluded for a number of years.
26. An accident, sickness and unemployment insurance policy will **typically** provide a lump-sum benefit
- A. in no circumstances.
  - B. for any accident or illness which causes the insured to become unemployed.
  - C. for a specified event such as loss of sight.
  - D. where a long-term hospital stay is required.
27. The insured benefit under an individual accident, sickness and unemployment insurance policy is **typically** expressed as a
- A. percentage of earnings only if the insured is employed.
  - B. set amount regardless of employment status only.
  - C. set amount only if the insured is self-employed.
  - D. either a percentage of earnings or a set amount regardless of employment status.
28. For the purpose of long-term care, at what age would pre-funded care plans be available to an individual?
- A. At any age.
  - B. 55 years old.
  - C. 60 years old.
  - D. 65 years old.
29. A mortgage which has a variable rate linked directly to movements in another interest rate is known as a
- A. discounted mortgage.
  - B. flexible mortgage.
  - C. standard variable rate mortgage.
  - D. tracker mortgage.
30. A policyholder has protected his mortgage capital with a level term assurance policy. If he survives the term and repays the capital, what is the status of the policy?
- A. It is allowed to continue for the benefit of the policyholder.
  - B. It ceases with the possibility of a capital surplus.
  - C. It ceases with no capital value.
  - D. It can be converted to another policy type at the option of the policyholder.

31. Where a borrower has a significant share portfolio which is to be put towards the repayment of capital under an interest-only mortgage, the Financial Conduct Authority now requires the lender to
- A. carry out a full annual review to monitor gains or losses.
  - B. ensure the proceeds of any sale of shares during the term are used to reduce the capital.
  - C. ensure there is a strategy in place to repay the mortgage.
  - D. recommend conversion into a vehicle which carries a lower risk.
32. Which of mortgage payments, buildings and contents insurance premiums, endowment premiums and mortgage payment protection insurance (MPPI) premiums are **normally** covered under an MPPI policy?
- A. Mortgage payments only.
  - B. Mortgage payments and buildings and contents insurance premiums only.
  - C. Mortgage payments, buildings and contents insurance and endowment premiums only.
  - D. Mortgage payments, buildings and contents insurance, endowment and MPPI premiums.
33. Ellie is risk averse and is arranging a new mortgage. What type of mortgage is **likely** to be **most appropriate** for her?
- A. Capital and interest.
  - B. Endowment-linked interest only.
  - C. Pension-linked interest only.
  - D. Pure interest only.
34. A holder of an offshore bank account, who is both resident and domiciled in the UK, will be exempt from UK Income Tax on the interest only if
- A. he is a non-taxpayer.
  - B. the account is held outside the EU.
  - C. the account is held within the EU.
  - D. the interest is not remitted to the UK.
35. What rate of tax, if any, is **automatically** applied at source to the gross interest paid on a bank deposit account of £45,000 held by a higher-rate taxpayer in the tax year 2017/2018?
- A. None.
  - B. 10%
  - C. 20%
  - D. 40%
36. How is the income paid from a National Savings & Investments Income Bond?
- A. Gross and at a fixed rate.
  - B. Gross and at a variable rate.
  - C. Net of 20% tax and at a fixed rate.
  - D. Net of 20% tax and at a variable rate.

37. What is the Income Tax treatment of the interest paid to a higher-rate taxpayer from his cash ISA which he has held for less than one year?
- A. It is free from tax.
  - B. It is taxed at 20%.
  - C. It is taxed at 28%.
  - D. It is taxed at 40%.
38. Neil pays £110 per annum into a tax-exempt friendly society savings plan. What is the **maximum** permitted increase in his annual premium?
- A. £140
  - B. £160
  - C. £190
  - D. £270
39. A gilt with between 7 and 15 years to maturity is categorised as
- A. short.
  - B. medium.
  - C. long.
  - D. irredeemable.
40. John holds £1,000 of 4% Treasury Gilt 2022. How will he receive his income payment(s)?
- A. £20 every 6 months.
  - B. £40 every 6 months.
  - C. £20 every 12 months.
  - D. £40 every 12 months.
41. Jennifer incurred a Market Value Reduction (MVR) when she surrendered her investment. This indicates she had invested in
- A. an ethical fund.
  - B. an index-tracker fund.
  - C. a structured equity fund.
  - D. a with-profits fund.
42. What is the current rate of Stamp Duty Reserve Tax, if any, charged on the purchase of gilts?
- A. None.
  - B. 0.5%
  - C. 0.75%
  - D. 1%



43. An investor bought a residential property for £250,000 with costs of buying of £7,000. The rental income is £1,000 per month with general management expenses of 25% of rental income. What is the net rental yield?
- A. 3%
  - B. 3.25%
  - C. 3.5%
  - D. 3.75%
44. When compared to residential property, direct investment into commercial property **usually**
- A. has lower Stamp Duty costs.
  - B. more closely mirrors the movements in equity returns.
  - C. provides greater security of income.
  - D. provides a lower yield.
45. An unexpected reduction in the dividend level paid by a company **usually** leads to a
- A. decrease in the net asset value.
  - B. decrease in the gross asset value.
  - C. reduction in the dividend cover.
  - D. reduction in the share price.
46. Reena wishes to purchase £10,000 worth of shares in a company listed on the London Stock Exchange. How much Stamp Duty Reserve Tax, if any, will she need to pay in respect of this transaction?
- A. Nil.
  - B. £1
  - C. £50
  - D. £100
47. Preference shareholders have priority over ordinary shareholders
- A. for payment of dividends and on liquidation.
  - B. for payment of dividends but not on liquidation.
  - C. on liquidation but not for payment of dividends.
  - D. for neither payment of dividends nor on liquidation.
48. Which type of institution offers Permanent Interest Bearing Shares?
- A. A bank.
  - B. A building society.
  - C. A friendly society.
  - D. A local authority.

49. The **main** difference between ordinary shares and 'A' shares **normally** relates to
- A. Capital Gains Tax treatment.
  - B. capital redemption.
  - C. dividend levels.
  - D. voting rights.
50. If the share price of an investment trust is 140p and the net asset value per share is 120p, it is trading at a
- A. discount of 14.3%.
  - B. discount of 16.7%.
  - C. premium of 14.3%.
  - D. premium of 16.7%.
51. If a company wishes to float on the Stock Exchange for the first time, from which authority does it require approval?
- A. AIM.
  - B. Financial Conduct Authority.
  - C. London Stock Exchange.
  - D. United Kingdom Listing Authority.
52. The reason that Stamp Duty Reserve Tax would be payable instead of Stamp Duty on a share transaction is because the transaction was
- A. a gift.
  - B. made through CREST.
  - C. over £10,000.
  - D. paper-based.
53. The **main** responsibility of the Depositary in connection with an open-ended investment company is to
- A. decide on the investment strategy.
  - B. manage the day-to-day subscription collection.
  - C. market the product to the general public.
  - D. safeguard the assets of the company.
54. For unit trust distributions to be treated as interest payments for tax purposes, the percentage invested in interest bearing assets **must** be at least
- A. 7.5%
  - B. 10%
  - C. 20%
  - D. 60%

55. Shane earns £30,000 per annum and receives a gross dividend of £10,000 in the current tax year 2017/2018. He has no other income. How much tax will be charged on the dividend payment, if anything?
- A. Nil.
  - B. £375
  - C. £750
  - D. £3,250
56. For which tax may an individual be liable, if any, on the gain from the encashment of an onshore investment bond?
- A. None.
  - B. Capital Gains Tax only.
  - C. Income Tax only.
  - D. Capital Gains Tax and Income Tax.
57. A director of a private limited company draws a basic salary of £30,000 per annum. He is also paid a dividend of £10,000 and has benefits-in-kind of £5,000. What are his relevant UK earnings for pension purposes?
- A. £30,000
  - B. £35,000
  - C. £40,000
  - D. £45,000
58. What is the **minimum** number of qualifying years of National Insurance contributions required to become entitled to an element of single-tier State Pension?
- A. 10 years.
  - B. 11 years.
  - C. 15 years.
  - D. 30 years.
59. What will be used to assess the level of annual increase to the new single-tier State Pension after 2016?
- A. Earnings only.
  - B. Earnings or price inflation only.
  - C. Price inflation or 2.5% only.
  - D. Earnings, price inflation or 2.5%.
60. Mike, a higher-rate taxpayer, pays £800 net per annum into a personal pension scheme. How much will the provider claim per annum from HM Revenue & Customs?
- A. £160
  - B. £200
  - C. £280
  - D. £400

61. What is the pension input period of a personal pension plan used to determine?
- A. The level of relevant UK earnings.
  - B. The level of tax relief on the contribution.
  - C. The tax year in which the contribution will be deemed paid for annual allowance purposes.
  - D. The tax year in which the contribution will be deemed paid for lifetime allowance purposes.
62. For pension purposes, a benefit crystallisation event is tested against an individual's
- A. annual allowance.
  - B. lifetime allowance.
  - C. personal allowance.
  - D. savings allowance.
63. Julie, aged 57, is an additional-rate taxpayer and has £400,000 within a personal pension fund. How much of this is she permitted to take and with what tax implications?
- A. £100,000 tax free.
  - B. £400,000 tax free.
  - C. £400,000 taxed at 25%.
  - D. £400,000 taxed at 45%.
64. Where an employer makes contributions to a UK registered pension scheme on behalf of an employee, what is the **maximum** amount, if any, that can be paid into the pension scheme in any one tax year?
- A. There is no maximum.
  - B. £3,600
  - C. The level of the employee's salary.
  - D. The level of the annual allowance.
65. Paul is a member of a defined benefit pension scheme with an accrual rate of 1/60ths. He has been a member of the pension scheme for 35 years and has a final pensionable salary of £60,000. To what annual pension will he be entitled?
- A. £33,000
  - B. £35,000
  - C. £37,000
  - D. £39,000
66. What **maximum** number of personal pension schemes may an individual withdraw under the small pension pots commutation rules?
- A. One scheme.
  - B. Two schemes.
  - C. Three schemes.
  - D. Four schemes.

67. For the purpose of the lifetime allowance, what factor is used to determine the capital worth of a pension from a defined benefit pension scheme which commenced payment on 6 April 2010?
- A. 10:1
  - B. 16:1
  - C. 20:1
  - D. 25:1
68. What happens to an ISA on the investor's death?
- A. It can be passed to the surviving spouse only if it remains within the surviving spouse's allowance.
  - B. It can be passed to the surviving spouse with an additional ISA allowance.
  - C. It immediately matures and must be paid to the investor's estate.
  - D. It keeps its tax-free status for a minimum of five years.
69. Whilst past performance may be considered when selecting investment funds, what important factor **must** be taken into account?
- A. It is a reliable indication of future returns.
  - B. It is not a guarantee of future returns.
  - C. It should only be used to demonstrate the potential maximum return.
  - D. It should only be used to demonstrate the potential minimum return.
70. Jenny, aged 55, requires a pension arrangement which will allow her to use drawdown when she takes her benefits. Which type of plan is **likely** to be the **most suitable**?
- A. A lifetime annuity.
  - B. A retirement annuity.
  - C. A self-invested personal pension scheme (SIPP).
  - D. A stakeholder pension plan.
71. What is the structure of a group personal pension scheme?
- A. A collection of individual pension plans in the name of each member.
  - B. A collection of individual pension plans in the name of the trustees.
  - C. A pooled arrangement in the name of the trustees.
  - D. A pooled arrangement with each member having an earmarked entitlement.
72. When compared to a conventional personal pension, a distinction about a self-invested personal pension scheme (SIPP) is that it
- A. allows the policyholder greater choice and control over investments.
  - B. can invest directly in residential property and obtain tax benefits.
  - C. can make loans to the member.
  - D. typically has lower annual management charges.

73. An investor has subscribed £7,500 into a cash ISA for this tax year. What type of ISA contribution(s) are permitted in the same tax year?
- A. A new cash ISA only.
  - B. A new stocks and shares ISA only.
  - C. The existing cash ISA and a new stocks and shares ISA.
  - D. A new cash ISA and a new stocks and shares ISA.
74. Henry, a basic-rate taxpayer, has surrendered his investment bond. To help reduce his potential tax liability he may be able to take advantage of
- A. business property relief.
  - B. his Capital Gains Tax exemption.
  - C. pound cost averaging.
  - D. top-slicing relief.
75. Julie is a controlling director and for the previous tax year her gross income of £60,000 was split 40% salary and 60% dividends. If she made the **maximum** personal tax-relievable contribution for that year, how much did she contribute to her self-invested personal pension scheme (SIPP)?
- A. £24,000
  - B. £36,000
  - C. £40,000
  - D. £60,000

# INCOME TAX

## RATES OF TAX 2017/2018

Starting rate of 0% on savings income up to*	£5,000
Personal Savings Allowance	
Basic rate	£1,000
Higher rate	£500
Basic rate of 20%	£0 to £33,500
Higher rate of 40%	£33,501 to £150,000
Additional rate of 45%	£150,001 and over

*\*Not available if taxable non-savings income exceeds the starting rate band.*

Dividend Allowance	£5,000
Dividend tax rates	
Basic rate	7.5%
Higher rate	32.5%
Additional rate	38.1%
Trusts	
Standard rate band	£1,000
Rate applicable to trusts	
- dividends	38.1%
- other income	45%

## MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000
Personal Allowance (basic) §	£11,500
Transferable Tax allowance for married couples and civil partners	£1,150
Rent-a-room tax-free income	£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)	£113
Primary threshold	£157
Upper Earnings Limit (UEL)	£866

Class 1	Employee	Employer
NICs rate	12%	13.8%
No NICs on the first (per week)*	£157	£157**
NICs rate charged up to (per week)	£866	No limit
2% NICs on earnings over	£866	n/a

*\*This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £113 per week. This £113 to £157 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 earnings threshold.*

<b>Class 2 (self-employed)</b>	Flat rate per week £2.85 where profits exceed £6,025 per annum.
<b>Class 3 (voluntary)</b>	Flat rate per week £14.25.
<b>Class 4 (self-employed)</b>	9% on profits between £8,164 - £45,000. 2% on profits above £45,000.

## CAPITAL GAINS TAX

TAX RATES	2017/2018
Individuals:	
Up to basic rate limit	10%
Above basic rate limit	20%
Surcharge for residential property and carried interest	8%
Trustees and Personal Representatives	20%
Entrepreneurs' Relief* – Gains taxed at:	10%
Lifetime limit	£10,000,000

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

### EXEMPTIONS

Individuals, estates etc	£11,300
Trusts generally	£5,650
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000



## PENSIONS

**2017/2018**

Lifetime Allowance	£1,000,000
Annual Allowance*	£40,000
Money Purchase Annual Allowance	£10,000

\* Tapered by £1 for every £2 of 'adjusted income' over £150,000 to a minimum of £10,000 if 'threshold income' is also over £110,000.

## INHERITANCE TAX

### RATES OF TAX ON TRANSFERS

**2017/2018**

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*	£100,000
- 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
- Small gifts exemption	£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

2017/2018

Standard rate 19%

## VALUE ADDED TAX

2017/2018

Standard rate 20%  
Annual registration threshold £85,000  
Deregistration threshold £83,000

## STAMP DUTY LAND TAX

Residential

Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

- *Stamp Duty Land Tax (SDLT) is payable in England, Wales and Northern Ireland only. Land and Buildings Transaction Tax (LBTT) is payable in Scotland at different rates to the 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.*

## MAIN SOCIAL SECURITY BENEFITS

2017/2018

Child Benefit	First child	£20.70
	Subsequent children	£13.70
	Guardian's allowance	£16.70
basic State Pension	Single	£122.30
	Married	£195.60
new State Pension	Single	£159.55
Pension Credit	Single person standard minimum guarantee	£159.35
	Married couple standard minimum guarantee	£243.25
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

\* Only applicable where spouse or civil partner died on or after 6 April 2007.

Copyright ©2017 The Chartered Insurance Institute. All rights reserved.

## Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
<b>Learning Outcome 1</b>			<b>Learning Outcome 4</b>			<b>Learning Outcome 6</b>		
1	A	1.1	29	D	4.1	56	C	6.4
2	B	1.1	30	C	4.1	57	B	6.1
3	B	1.2	31	C	4.1	58	A	6.1
4	A	1.2	32	D	4.1	59	D	6.1
5	B	1.2	33	A	4.1	60	B	6.1
<b>5 Questions</b>			<b>5 Questions</b>			61	C	6.1
						62	B	6.1
<b>Learning Outcome 2</b>			<b>Learning Outcome 5</b>			63	A	6.1
6	B	2.1	34	A	5.1	64	A	6.1
7	B	2.1	35	A	5.1	65	B	6.1
8	C	2.1	36	B	5.1	66	C	6.2
9	D	2.2	37	A	5.1	67	C	6.2
10	B	2.2	38	B	5.1	68	B	6.3
11	C	2.2	39	B	5.1	69	B	6.2
<b>6 Questions</b>			40	A	5.1	70	C	6.2
			41	D	5.1	71	A	6.2
<b>Learning Outcome 3</b>			42	A	5.1	72	A	6.2
12	A	3.1	43	C	5.1	73	C	6.3
13	D	3.1	44	C	5.1	74	D	6.1
14	A	3.1	45	D	5.1	75	A	6.2
15	A	3.1	46	C	5.1	<b>20 Questions</b>		
16	D	3.2	47	A	5.1			
17	D	3.2	48	B	5.1			
18	C	3.2	49	D	5.1			
19	A	3.2	50	D	5.1			
20	C	3.2	51	D	5.1			
21	B	3.2	52	B	5.1			
22	C	3.2	53	D	5.2			
23	D	3.2	54	D	5.2			
24	C	3.2	55	B	5.1			
25	D	3.2	<b>22 Questions</b>					
26	C	3.2						
27	D	3.2						
28	A	3.2						
<b>17 Questions</b>								