Chartered Insurance Institute

J05

Diploma in Financial Planning

Unit J05 – Pension income options

October 2017 Examination Guide

SPECIAL NOTICES

Candidates entered for the April 2018 examination should study this examination guide carefully in order to prepare themselves for the examination.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

J05 – Pension income options

Contents

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Telephone: 020 8989 8464
Fax: 020 8530 3052
Email: customer.serv@cii.co.uk

IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you in your preparation for this examination.

Before the examination

Study the syllabus carefully
This is available online at www.cii.co.uk or from Customer Service. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone,* so it is vital that you are familiar with it.

There are books specifically produced to support your studies that provide coverage of all the syllabus areas. However, you should be prepared to read around the subject. This is important particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Note the assumed knowledge
For the Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Certificate in Financial Planning or the equivalent. This knowledge is set out on the relevant syllabus.

Read widely
If you do not have experience in advising clients whose financial needs are relatively sophisticated, *it is quite unrealistic to expect that the study of a single textbook will be sufficient to meet all your requirements.* While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. It is vital that your knowledge is widened beyond the scope of one book. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide

This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks. *However, you should note that there are alternative answers to some question parts which would also gain high marks.* For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible, and then comparing your answers to the model ones, should be seen as an essential part of your exam preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can purchase copies of the most recent Examination Guides online at www.cii.co.uk. CII members can download free copies of older Examination Guides online at www.cii.co.uk/knowledge/.

Know the layout of the tax tables

Familiarise yourself with the information contained within the tax tables printed at the back of each Examination Guide. These tax tables will be provided to candidates as part of the examination paper. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to take your own tax tables into the examination.*

Know the structure of the examination

- Assessment is by means of a two-hour written paper.
- All questions are compulsory.
- The paper is made up of 15 short questions.
- Each question part will clearly show the maximum marks which can be earned.
- The paper will carry a total of 130 marks.

Appreciate the standard of the examination

Candidates must demonstrate that they are capable of advising clients *whose overall levels of income and capital require a more sophisticated scheme of investment* than is normally prepared by a level 4 qualified adviser. These clients require a critical appraisal of the various financial planning options available to them.

Read the Assessment information and Exam policies for candidates

The details of administrative arrangements and the regulations which form the basis of your examination entry are available online at www.cii.co.uk/qualifications/assessment-information/introduction/. This is *essential reading* for all candidates. For further information contact Customer Service.

In the examination

The following will help:

Spend your time in accordance with the allocation of marks:

- The marks allocated to each question part are shown on the paper.
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking for, so a long answer is wasting valuable time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper is not completed, your chances of passing will be reduced considerably.
- Do not spend excessive time on any one question; if the time allocation for that question has been used up, leave some space, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

Take great care to answer the question that has been set.

- Many candidates leave the examination room confident that they have written a 'good' paper, only to be surprised when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before putting pen to paper.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

Tackling questions

Tackle the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which you find challenging until you have attempted the questions you are confident about. Candidates should avoid mixing question parts, (for example, 1(a)(i) and (ii) followed by 2(b)(ii) followed by 1(e)(i)) as this often leads to candidates unintentionally failing to fully complete the examination paper. This can make the difference between achieving a pass or a narrow fail.

It is vital to label all parts of your answer correctly as many questions have multiple parts to them (for example, question 1(a) may have parts (i), (ii) and (iii)). Failure to fully distinguish between the separate question parts may mean that full credit cannot be awarded. It is also important to note that a full answer must be given to each question part and candidates should not include notes such as 'refer to answer given in 1(b)(i)'.

Answer format

Unless the question requires you to produce an answer in a particular format, such as a letter or a report, *you should use 'bullet points' or short paragraphs,* since this allows you to communicate your thoughts in the most effective way in the least time. The model answers indicate what is acceptable for the different types of question.

Where you are asked to perform a calculation it is important to show **all** the steps in your answer. The majority of the marks will be allocated for demonstrating the correct method of calculation.

Provided handwriting is legible, candidates will **not** lose marks if it is 'untidy'. Similarly, marks are not lost due to poor spelling or grammar.

Calculators

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 alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. The majority of the marks will be allocated for demonstrating the correct method of calculation.

EXAMINERS' COMMENTS

Candidates overall performance:

Candidates generally performed well in this exam session and demonstrated a good breadth of knowledge across the key syllabus areas. The paper continued to test understanding of the legislation introduced with pension freedoms, particularly death benefits. Whilst some candidates demonstrated good knowledge in these areas there were still a lot of candidates who did not include enough detail in their answers to gain sufficient marks.

Question 1

This was a calculation to test the value of a scheme pension against the lifetime allowance. Part (a) was a calculation question to test the benefits value assuming the the scheme pension was vested. Part (b) was a calculation to test the benefits assuming the benefits were transferred. In the main both parts were very well answered and most candidates achieved maximum marks. The common errors made by a minority of candidates involved multiplying the scheme pension by 25 instead of 20 and applying both rates of 25% and 55% tax to their eventual answer.

Question 2

This question asked what protection someone would receive following their scheme entering the Pension Protection Fund (PPF). As the customer had already retired at the scheme retirement age and was in receipt of the pension prior to it entering the PPF he was entitled to 100% of benefits, although his future escalation would be affected. The main errors made were candidates stating that his benefits would be limited by the cap which was not the case. Candidates also did not correctly state the split between how pre-97 benefits would not escalate and post-97 benefits would still escalate but capped at 2.5%.

Question 3

This question required candidates to state the instances where a customer could have a higher lifetime allowance. Most candidates correctly stated Primary, Individual and Fixed protection but few managed to achieve any of the other available marks.

Question 4

This was a maximum Government Actuary's Department (GAD) calculation following further monies being designated into a capped drawdown arrangement. Most candidates achieved full marks, those who did not achieve full marks typically did not include the existing value of the client's drawdown in their calculation.

Question 5

Part (a) asked candidates to state the benefits of taking withdrawals via phased flexi-access drawdown. Most candidates stated that it would allow flexible income, the pension commencement lump sum (PCLS) could be used for tax efficiency and the remaining fund could remain invested. Better prepared candidates scored higher marks for stating it provided better death benefits and deferred the decision on an annuity purchase.

Part (b) asked candidates to state why it was more appropriate to take the withdrawals from Ian's pension instead of Sarah's. Most candidates stated that it would avoid Sarah paying higher rate tax, her pot was smaller so could be exhausted and she was still working. Only the better prepared candidates stated she would lose carry forward and trigger money purchase annual allowance (MPAA) if the withdrawal was taken from her pension.

Question 6

This was an uncrystallised funds pension lump sum (UFPLS) calculation which asked candidates to ignore 'month one' and just apply the figures across the tax bands. A small number of candidates scored well and achieved full marks. A large number of candidates did not achieve more than half marks because they either used the incorrect formula or calculated using just one tax band.

Question 7

Part (a) asked candidates for advantages and disadvantages of a life styling fund when the client was looking to purchase a lifetime annuity with some of their pension fund. Most candidates provided a good answer and achieved at least half marks. Common errors included candidates failing to state the fund switching was automatic and the fund mix positioned itself to purchase an annuity.

Part (b) asked for the drawbacks of life styling when a client is entering flexi-access drawdown. Whilst many stated that the fund have less invested in equities, few stated that it would be invested for a longer term and would therefore need rebalancing.

Question 8

Part (a) asked what death benefits could be paid from a scheme pension. Part (a) was not answered well as many candidates stated that no benefits would be paid as Irene was not a spouse or dependent. This was not correct as the scheme had a remaining guarantee period.

Part (b) was about death benefits in relation to an uncrystallised pension. The level of knowledge on death benefits since April 2015 is improving, but there were still some common errors regarding the tax treatment and options available. Overall the majority of candidates scored well but there were still some candidates who demonstrated a lack of understanding in this area.

Question 9

Most candidates achieved more than half marks by stating the increases applicable by deferring state pension and that it would provide a higher income in retirement. Better prepared candidates achieved higher marks by linking it to the case study and stating that Karen did not need the income and by deferring she would avoid paying higher rate tax on her state pension.

Question 10

Part (a) asked candidates to state the criteria for ill health payments. Whilst most stated that it needed to be proved by a medical practitioner/GP and the client must have less than 12 month life expectancy, only the better prepared candidates gained higher marks for stating it must be paid from uncrystallised funds and the client must have some Lifetime Allowance available.

Part (b) was not answered well and most candidates did not differentiate between the tax treatment pre and post age 75.

Question 11

This was a standard review question and was well answered by the majority of candidates.

Question 12

This was a Conduct of Business Sourcebook question regarding risks for decumulation. Overall most candidates achieved half marks or more on this question. However, there were a few candidates who did not demonstrate sufficient understanding and as result only scored one or two marks.

Question 13

This was a factors question and was generally well answered by candidates. The common errors were made by candidates who did not state that the overall annuity market in general and fund value can also influence the annuity rate.

Question 14

This was a question in relation to mortality drag and was not well answered. The majority of candidates did not demonstrate a good understanding and scored few marks on both question parts.

Question 15

Most candidates scored half marks of more on this question and stated it would provide an increasing rent, better death benefits, would be liable to Capital Gains Tax and would incur additional costs. Very few candidates stated expenses could be offset against income tax or it would provide diversification within their overall portfolio.

THE CHARTERED INSURANCE INSTITUTE

J05

Diploma in Financial Planning

Unit J05 – Pension income options

October 2017 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2017/2018, unless stated otherwise in the question, and should be answered accordingly.

It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

Instructions

- Two hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

Unit J05 – Pension income options

Instructions to candidates

Read the instructions below before answering any questions

- **Two hours** are allowed for this paper which consists of 15 short answer questions and carries a total of 130 marks.

- You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.

- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.

- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.

- It is important to show all steps in a calculation, even if you have used a calculator.

- 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.

- Tax tables are provided at the back of this question paper.

- Answer each question on a new page and leave six lines blank after each question part.

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

Attempt ALL questions

Time: 2 hours

*To gain maximum marks for calculations you **must** show **all** your workings and express your answers to **two** decimal places.*

1. John, aged 57, is about to retire. He is entitled to a scheme pension of £60,000 per annum, plus a pension commencement lump sum (PCLS) of £180,000 from his employer's defined benefit pension scheme.

John has been offered a cash equivalent transfer value (CETV) of £1,600,000. He has not registered for any form of transitional protection.

Assuming any excess is taken as income, calculate, **showing all your workings,** the lifetime allowance charge that may apply, if John:

(a) takes his benefits directly from the defined benefit pension scheme; **(5)**

(b) transfers his CETV into a personal pension plan and takes the maximum PCLS, designating the balance into flexi-access drawdown. **(2)**

2. Peter retired and took benefits from his employer's defined benefit pension scheme five years ago at the scheme's normal pension age of 65. He had been a member of the scheme for 25 years. Peter is married and has no children.

Peter's former employer has suffered serious financial difficulties and the pension scheme has now entered the Pension Protection Fund (PPF).

Explain the compensation that Peter will receive as a result of the scheme entering the PPF. **(6)**

3. State the **seven** circumstances when an individual's lifetime allowance could be greater than the standard lifetime allowance in a given tax year. **(7)**

4. Zaila, aged 60, has an uncrystallised personal pension plan valued at £600,000 and a capped drawdown arrangement valued at £150,000. The maximum permitted income is currently £11,700 per annum.

Zaila wishes to crystallise £100,000, so that she can take a pension commencement lump sum of £25,000, with the balance of £75,000 being designated into her existing capped drawdown arrangement.

Calculate, **showing all your workings**, the revised maximum income that can be paid to Zaila from her capped drawdown fund. *Assume the GAD basis amount is £43 per £1,000.* **(5)**

5. Ian, aged 61, is married to Sarah, aged 57. Ian has recently retired and Sarah has reduced her working hours with a view to retiring fully at age 66. As a result of the reduction in working hours, Sarah's salary is now £40,000 per annum.

Ian is in receipt of a scheme pension, which is currently £28,000 per annum. He also has an uncrystallised personal pension plan (PPP) with a current value of £220,000. Sarah is an active member of her employer's group personal pension (GPP) scheme which has a current value of £45,000. Ian and Sarah would like to withdraw an additional £15,000 per annum from their pension assets to top up their income.

(a) Outline **five** benefits of taking the withdrawals using phased flexi-access drawdown. **(5)**

(b) Explain why they should take the withdrawals from Ian's PPP rather than Sarah's GPP. **(5)**

6. Angela is aged 60. Her only income for 2017/2018 is her salary of £33,000. She has an uncrystallised personal pension fund of £315,000. Angela wishes to take an uncrystallised funds pension lump sum (UFPLS) which will provide her with a net payment of £25,000 after all taxes have been settled.

Calculate, **showing all your workings**, the amount of fund which must be crystallised to provide the net amount of £25,000 as an UFPLS. *You should assume that the scheme administrator has Angela's tax code and therefore Month 1 does not apply.* **(12)**

7. Harry, aged 61, will retire when he reaches his State Pension age of 66. His only pension is a personal pension plan currently valued at £320,000. This is wholly invested in a fund that adopts a lifestyling approach with a selected pension age of 65.

He has calculated that in addition to his State Pension, he will require an extra guaranteed income of £8,000 per annum to cover his committed outgoings in retirement. In order to provide this income, he plans to crystallise £210,000 of his fund to purchase a lifetime annuity.

Any amount remaining after the annuity purchase will be left uncrystallised.
Harry plans to flexibly access this part of the fund in later retirement.

(a) Outline **three** benefits and **three** drawbacks of the lifestyling approach in relation to Harry purchasing a lifetime annuity. **(6)**

(b) Explain why the lifestyling approach may not be suitable for the part of the fund he intends to flexibly access. **(4)**

8. Bernard, aged 73, has an uncrystallised personal pension plan (PPP). He is also in receipt of a scheme pension of £2,000 per annum from a defined benefit pension scheme, which commenced when Bernard reached age 65. The scheme pension does not include any pension protection lump sum death benefits and the scheme does not provide any defined benefit lump sum death benefits.

Bernard is a widower with no dependants and has completed nomination forms showing that his sister, Irene, should receive the death benefits from his pensions.

In the event of Bernard's death before the age of 75, outline the options Irene will have in how she receives the benefits and how they will be taxed in respect of Bernard's:

(a) scheme pension; **(5)**

(b) uncrystallised PPP. **(9)**

9. Karen will reach her State Pension age (SPA) in November 2017. She is employed on a salary of £56,000 per annum and plans to retire in 2021 when she will receive an index linked scheme pension of £32,000 per annum.

Karen's current income is more than sufficient for her needs. When she retires, her scheme pension, plus the income from her State Pension, will be her only taxable income.

Explain the **benefits** to Karen of deferring receipt of her State Pension and outline the rates of increase that would be applied in deferment. **(7)**

10. **(a)** Explain the conditions that must be satisfied in order that a member's pension benefits can be commuted for a serious ill-health lump sum. **(6)**

(b) Outline the tax treatment of a serious ill-health lump sum. **(4)**

11. Outline the factors that should be taken into account when carrying out an annual review of a client's phased capped drawdown plan. **(10)**

12. Examples of the risk factors that should be considered when advising on pension decumulation are set out in Section 19.7 of the Financial Conduct Authority's (FCA) Conduct of Business Sourcebook (COBS).

State **ten** of these risk factors. **(10)**

13. State **eight** factors that influence lifetime annuity rates. *You should consider both general and client specific factors in your answer.* **(8)**

14. Gareth, aged 64, is looking to reduce his working hours and semi-retire. He is going to crystallise his personal pension plan and take an income via a flexi-access drawdown pension to bridge his income shortfall until he fully retires. Gareth plans on working part-time until he is 75 at which point he anticipates purchasing a lifetime annuity to replace his earnings.

In relation to this course of action:

(a) outline what is meant by the term 'mortality drag'; **(3)**

(b) outline the effects of mortality drag, assuming Gareth does choose the flexi-access drawdown pension option. **(3)**

15. Rebecca, aged 60, has a personal pension plan valued at £800,000. She is about to retire and, as she does not have an immediate need for a capital lump sum, her adviser has recommended that she uses the entire fund to purchase a non-increasing lifetime annuity on a single life basis.

However, Rebecca is considering taking the pension commencement lump sum (PCLS) and using this to purchase a rental property to provide part of her income.

Outline **four** benefits and **four** drawbacks of using the PCLS to purchase a rental property compared to using the entire fund to purchase a lifetime annuity. **(8)**

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

Model answer for Question 1

(a)
- £60,000 x 20 = £1,200,000
- plus £180,000 = £1,380,000
- £1,380,000 less £1,000,000 = £380,000
- £380,000 x 25%
- = £95,000

(b)
- £1,600,000 less £1,000,000 = £600,000
- £600,000 x 25% = £150,000

Model answer for Question 2

- As Peter retired at Scheme normal pension age;
- he will receive 100% of his pension.
- Only his post-1997 benefits will escalate in payment/no escalation on pre-1997 benefits.
- Post 1997 benefits will escalate in line with Consumer Prices Index;
- Subject to 2.5% per annum maximum.
- Spouse's/Widow's pension will be a maximum of 50%.

Model answer for Question 3

- Individuals who have not always been relevant UK individuals.
- Transfer in from a Qualifying Recognised Overseas Pension Scheme /Overseas Pension.
- Primary protection applies.
- Individual protection 2014 or 2016 applies.
- Fixed protection 2012, 2014 or 2016 applies.
- Pension credits that came into payment on or after A-Day.
- Pension credits in respect of a sharing order affected before A-Day.

Model answer for Question 4

- Existing drawdown fund £150,000
- + £75,000 = £225,000
- Maximum income is £43/£1,000 (4.3%)
- x £225,000 x 150%
- = £14,512.50

Model answer for Question 5

(a) *Candidates would have gained full marks for any five of the following:*

- pension commencement lump sum (PCLS) as can be used as part of income/can just take PCLS.
- Flexible income to match their needs.
- Defers purchase of annuity/rates currently low/.
- Defers decision on survivor benefits/flexible death benefits under flexi-access drawdown (FAD)/remaining fund available on death.
- Fund remains invested/potential for tax-free growth.
- More PCLS could be available in future on undrawn funds.

(b) *Candidates would have gained full marks for any five of the following:*

- Ian no longer working/Sarah still working/active member.
- Money purchase annual allowance being triggered will have no impact on Ian/would be triggered for Sarah.
- Sarah will not lose carry forward.
- Will not exhaust all her funds in pension/Ian has a larger pension fund.
- Company contributions can continue into group personal pension plan (GPP)/GPP may not allow.
- Ian basic-rate tax payer/Sarah will pay higher rate tax.

Model answer for Question 6

- £33,000 - £11,500 = £21,500 (Angela's taxable income).
- £33,500 - £21,500 = £12,000

- £12,000/0.75 = £16,000 (Gross UFPLS required to have £12,000 subject to basic rate tax).
- £16,000 gross UFPLS provides net income of £4,000 (£16,000 x 25%)
- + £9,600 (£12,000 x 0.8) = £13,600.

- £25,000 – £13,600 = £11,400 (subject to higher rate tax)
- £100 provides £25 pension commencement lump sum
- Plus £75 less 40% tax = £45
  £100 provides £70 net income
- £11,400/0.70
- = £16,285.71 to be crystallised
- £16,000 + £16,285.71 = £32,285.71

Model answer for Question 7

(a) Benefits

- Reduces risk as approaches retirement.
- Mirrors assets to match annuity purchase/assumes an annuity will be purchased.
- Automatic – no involvement from Harry.

Drawbacks

- Automatic – no consideration given to market timing.
- Reduces growth potential as less exposure to equities in lead up to retirement.
- Does not match his selected retirement age.

(b) *Candidates would have gained full marks for any four of the following:*

- At age 66 fund will be cash/fixed interest.
- Reduced growth potential/less held in equities.
- Longer investment term for FAD element.
- Likely to need rebalancing.
- Adviser fees/ongoing reviews.

Model answer for Question 8

(a)

- Guarantee;
- paid as continuing income until Bernard would have reached age 75/for another two years/balance of 10-year guarantee.
- Can commute for a trivial commutation lump sum if valued at £30,000 or less;
- taxable as Irene's pension income via PAYE/marginal rate.
- Not tested against (Bernard's) lifetime allowance.

(b)

- Lump sum.
- Nominee's.
- Flexi-access drawdown.
- Lifetime annuity.
- Paid tax free;
- if paid/designated within two years of date of death.
- Taxable as Irene's earned income if paid outside of two years
- Subject to a check against Bernard's lifetime allowance.
- Not subject to Inheritance Tax.

Model answer for Question 9

- Deferring receipt means she avoids paying higher rate tax/she is a higher rate tax payer;
- on income she does not need.
- Deferring gives her a higher income in retirement;
- When she will be a basic rate taxpayer.
- Her State Pension will increase by 1%/just under 5.8%;
- for every nine weeks deferred/per annum.
- No lump sum available/can only take increased pension.

Model answer for Question 10

(a)
- Scheme administrator/scheme must obtain medical evidence.
- from a registered medical practitioner/doctor/GP.
- that the member has less than a year to live.
- Can only be paid from uncrystallised funds/unused funds after age 75.
- Must have some lifetime allowance remaining.
- Payment must extinguish all uncrystallised or unused rights under the arrangement.

(b)
- Payable tax-free if under age 75.
- Subject to lifetime allowance.
- If over 75 then taxed as the recipients earned income.
- But not subject to a lifetime allowance charge.

Model answer for Question 11

Candidates would have gained full marks for any ten of the following:

- The investment performance.
- Rebalancing/is a fund switch necessary.
- Change in attitude to risk/the capacity for loss.
- Changes in legislation/taxation/regulation.
- Economic/market conditions/new products/inflation.
- Income for the coming year/any future income requirements.
- Whether uncrystallised funds pension lump sum/flexi-access/annuity required/continued suitability of current arrangement.
- State Pension benefits/other income/other assets.
- Change in circumstances/health/death benefits.
- Changes to Government Actuary’s department rates/annuity rates/gilt yields.
- Individual's tax status.

Model answer for Question 12

Candidates would have gained full marks for any ten of the following:

- The client's state of health/longevity.
- Loss of any guarantees.
- Whether the client has a partner or dependant/the member's desire for death benefits.
- Inflation.
- Whether the client has shopped around/use of Open Market Option.
- Sustainability of income and risk of pension fund being eroded.
- Tax position.
- Charges.
- Impact on means tested benefits.
- Debts.
- Investment scams.

Model answer for Question 13

Candidates would have gained full marks for any eight of the following:

- Age.
- Fund size
- Longevity/mortality rates.
- Escalation.
- Survivors benefits/guarantees/annuity protection.
- Lifestyle/postcode/geographical location.
- Health/medical conditions/underwriting.
- Gilt yields/quantitative easing.
- Reduction in general annuity pool.

Model answer for Question 14

(a)

- Annuitants who die young subsidise those that live longer/annuities are pooled.
- Leading to mortality gain/cross subsidy.
- Mortality drag is loss of this subsidy/additional growth required to make up for loss of the pooling effect.

(b)

- An additional investment return will be needed.
- Mortality Drag increases rapidly after age 70/increases with age.
- He may end up with a lower annuity income.

Model answer for Question 15

Candidates would have gained full marks for any four of the following:

Benefits:

- Potential for increasing income as rent increases in the future.
- Potential capital growth of the property.
- Flexible options on death/no death benefits under a lifetime annuity.
- Expenses can be offset against income before income taxation.
- Diversification.

Drawbacks:

- More expensive purchase costs/solicitor fees/estate agent fees/running costs.
- May incur Capital Gains Tax on sale of property.
- More complex to administer/ongoing maintenance.
- Investment risk/value of property may fall.
- Income not guaranteed/may be void periods.

October 2017 Examination - J05 Pension income options		
Syllabus learning outcomes being examined		
1.	1.	Understand the HMRC rules that apply when pension benefits are crystallised.
2.	5.	Understand the regulatory requirements and legal framework designed to protect clients who are drawing pension benefits.
3.	1.	Understand the HMRC rules that apply when pension benefits are crystallised.
4.	3.	Understand the features, tax treatment and risks of flexible benefit options.
5.	3.	Understand the features, tax treatment and risks of flexible benefit options.
	4.	Understand the features, tax treatment and risks of phasing retirement benefits.
6.	4.	Understand the features, tax treatment and risks of phasing retirement benefits.
7.	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
8.	2.	Understand in detail the features, tax treatment and risks of lifetime annuities and scheme pensions.
	3.	Understand the features, tax treatment and risks of flexible benefit options.
9.	6.	Understand the State retirement benefits available.
10.	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
11.	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
12.	5.	Understand the regulatory requirements and legal framework designed to protect clients who are drawing pension benefits.
13.	2.	Understand in detail the features, tax treatment and risks of lifetime annuities and scheme pensions.
14	4.	Understand the features, tax treatment and risks of phasing retirement benefits.
15.	4.	Understand the features, tax treatment and risks of phasing retirement benefits.
	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.

All questions in April 2018 papers will be based on English law and practice applicable in the tax year 2017/2018, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the April 2018 examinations.

INCOME TAX

RATES OF TAX	2016/2017	2017/2018
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£32,000	£33,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge from 7 January 2013:		
1% of benefit for every £100 of income over	£50,000	£50,000

**not applicable 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	£100,000
Personal Allowance (basic)	£11,000	£11,500
Married/civil partners (minimum) at 10% †	£3,220	£3,260
Married/civil partners at 10% †	£8,355	£8,445
Transferable tax allowance for married couples/civil partners	£1,100	£1,150
Income limit for age-related allowances†	£27,700	£28,000
Rent a Room relief	£4,250	£7,500
Blind Person's Allowance	£2,290	£2,320
Enterprise Investment Scheme relief limit on £1,000,000 max	30%	30%
Seed Enterprise Investment relief limit on £100,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).
† where at least one spouse/civil partner was born before 6 April 1935.

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,780
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,105

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£113
Primary threshold	£157
Upper Earnings Limit (UEL)	£866

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 157.00*	Nil
157.01 – 866.00	12%
Above 866.00	2%

**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.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below 157.00**	Nil
157.01 – 866.00	13.8%
Excess over 866.00	13.8%

*** Secondary earnings threshold.*

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

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013	£1,500,000
2013/2014	£1,500,000
2014/2015	£1,250,000
2015/2016	£1,250,000
2016/2017	£1,000,000
2017/2018	£1,000,000

LIFETIME ALLOWANCE CHARGE

55% of excess over lifetime allowance if taken as a lump sum.
25% of excess over lifetime allowance if taken in the form of income, which is subsequently taxed under PAYE.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2011/2012	£50,000
2012/2013	£50,000
2013/2014	£50,000
2014/2015	£40,000
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*

~ increased to £80,000 for pension input between April - 8 July 2015. If not used, can be carried forward to pension input period of 9 July 2015 - 6 April 2016, subject to a maximum of £40,000.

**tapered at a rate of £1 for every £2 of adjusted income in excess of £150,000 where threshold income exceeds £110,000.*

MONEY PURCHASE ANNUAL ALLOWANCE	2016/2017	2017/2018
	£10,000	£4,000

ANNUAL ALLOWANCE CHARGE

20% - 45% determined by the member's taxable income and the amount of total pension input in excess of the annual allowance or money purchase annual allowance.

CAPITAL GAINS TAX

EXEMPTIONS	2016/2017	2017/2018
Individuals, estates etc	£11,100	£11,300
Trusts generally	£5,550	£5,650
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

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

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2016/2017	2017/2018
Transfers made on death after 5 April 2015		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers made after 5 April 2015		
- Lifetime transfers to and from certain trusts	20%	20%

A lower rate of 36% applies where at least 10% of deceased's net estate is left to a registered charity.

MAIN EXEMPTIONS

Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£100,000	£100,000
- UK-registered charities	No limit	No limit

Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- Small gifts exemption	£250	£250
Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building
50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:

- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

Quick succession relief:

- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	100%	80%	60%	40%	20%

CAR BENEFIT FOR EMPLOYEES

The charge for company car benefits is based on the carbon dioxide (CO_2) emissions. There is no reduction for high business mileage users.

For 2017/2018:

- The percentage charge is 9% of the car's list price for CO_2 emissions of 50g/km or less.
- For cars with CO_2 emissions of 51g/km to 75g/km the percentage is 13%.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 17%.
- Cars with CO_2 emissions of 95g/km have a percentage charge of 18% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 200g/km and above).

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards. However, the maximum charge remains 37% of the car's list price.

Car fuel The benefit is calculated as the CO_2 emissions % relevant to the car and that % applied to a set figure (£22,600 for 2017/2018) e.g. car emission 100g/km = 17% on car benefit scale. 17% of £22,600 = £3,842.

1. **Accessories** are, in most cases, included in the list price on which the benefit is calculated.
2. **List price** is reduced for capital contributions made by the employee up to £5,000.
3. **Car benefit** is reduced by the amount of employee's contributions towards running costs.
4. **Fuel scale** is reduced only if the employee makes good **all** the fuel used for private journeys.
5. **All car and fuel benefits** are subject to employers National Insurance contribution's (Class 1A) of 13.8%.

PRIVATE VEHICLES USED FOR WORK

	2016/2017 Rates	2017/2018 Rates
Cars		
On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile
Motor Cycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2016/2017	2017/2018
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£200,000	£200,000
Plant & machinery (reducing balance) per annum	18%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	8%	8%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

Motor cars: Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)

CO_2 emissions of g/km:	75 or less*	76-130	131 or more
Capital allowance:	100% first year	18% reducing balance	8% reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2016/2017	2017/2018
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	16.55	16.70
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 57.90	Up to 57.90
	Aged 25 or over	Up to 73.10	Up to 73.10
	Main Phase		
	Work Related Activity Group	Up to 102.15	Up to 102.15
	Support Group	Up to 109.30	Up to 109.65
Attendance Allowance	Lower rate	55.10	55.65
	Higher rate	82.30	83.10
basic State Pension	Single	119.30	122.30
	Married	190.80	195.60
new State Pension	Single	155.65	159.55
Pension Credit	Single person standard minimum guarantee	155.60	159.35
	Married couple standard minimum guarantee	237.55	243.25
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment Support Payment*		2,000.00	2,000.00
Higher rate - lump sum		N/A	3,500.00
Higher rate - monthly payment		N/A	350.00
Standard rate – lump sum		N/A	2,500.00
Standard rate – monthly payment		N/A	100.00
Jobseekers Allowance	Age 18 - 24	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		139.58	140.98

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

CORPORATION TAX

	2016/2017	2017/2018
Standard rate	20%	19%

VALUE ADDED TAX

	2016/2017	2017/2018
Standard rate	20%	20%
Annual registration threshold	£83,000	£85,000
Deregistration threshold	£81,000	£83,000

STAMP DUTY LAND TAX

	Residential
Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 and £925,000	5%
£925,001 and £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 is charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.

	Non residential
Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%