Chartered Insurance Institute

J05

Diploma in Financial Planning

Unit J05 – Pension income options

April 2018 Examination Guide

SPECIAL NOTICES

Candidates entered for the October 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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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:

The paper covered a range of topics and as with the last couple of papers, some of the new rules were tested. Candidate's performance was mixed in relation to the pension freedoms rules surrounding death benefits and the tax treatment of pensions on withdrawal. Whilst some candidates demonstrated good knowledge in these areas there were still a lot of candidates that do not seem to have got to grips with the changes.

Question 1

Part (a) was a calculation to test the lifetime allowance charge on an uncrystallised personal pension plan where the client was already in receipt of a scheme pension which commenced pre A-day. The common errors made by candidates were multiplying the scheme pension by 25 instead of 20 and applying both rates of 25% & 55% tax to the eventual answer. In the main this part was well answered and most candidates achieved high marks.

Part (b) asked what protection the client was potentially eligible for and what additional information was required to assess their eligibility. The majority of candidates stated the correct protections available but did not correctly state what additional information was required. A large number of candidates simply stated the qualification criteria which didn't achieve full marks.

Question 2

This question asked what protection someone would receive following their scheme entering the Financial Assistance Scheme (FAS). As the customer had not already retired he was entitled to 90% of benefits subject to the cap and his future escalation would be affected. The majority of candidates stated that his benefits would be limited to 90% and subject to the cap. The better prepared candidates also correctly stated the split between how benefits pre 97 wouldn't escalate and post 97 benefits would escalate in line with CPI but capped at 2.5%.

Question 3

This was similar to a standard review question and was well answered by the majority of candidates. The main points omitted were in relation to the performance of the funds being sufficient to meet the required income and whether this approach was sustainable.

Question 4

This question asked what death benefits would be payable from a defined benefits scheme for a member who died whilst in active service. Most candidates correctly stated that there would be a tax free lump sum payable and a taxable spouse's/children's pension payable. The main errors were in relation to which benefits were tested against the lifetime allowance and how the benefits would typically be calculated. Candidates also stated that guarantee period payments would continue which was also incorrect as the scheme pension had not started prior to David's death.

Overall the majority of candidates scored more than half marks but there were still some candidates who demonstrated a lack understanding in relation to death benefits.

Question 5

Part (a) was an uncrystallised funds pension lump sum (UFPLS) calculation which asked candidates to calculate the net lump sum payable assuming it was taxed on a 'month 1' basis. Performance for this question varied. A number of candidates scored well and achieved full marks. There were also a number of candidates whose only error made was in relation to calculating the tax liability on the element that fell into the higher rate tax band.

However, there were a small number of candidates who failed to achieve over half marks because they used just one tax band which was not correct.

Part (b) asked candidates to state the drawbacks of taking an UFPLS to pay off a buy to let mortgage. Most candidates stated it would trigger money purchase annual allowance (MPAA), client would lose carry forward and it would result in a higher level of tax being paid. Most candidates stated it resulted in tax needing to be reclaimed, increase the client's estate for Inheritance Tax purposes and it would reduce the future income that could be taken from the pension.

Question 6

This was a calculation to determine how much tax-free cash a client was entitled too as their entitlement was over 25% at A-day. Candidates that were aware of the formula were able to achieve full marks for this question. However, a small number of candidates did not use the correct formula and a result only scored two marks for this question.

Question 7

Part (a) asked candidates what death benefits would be payable from an uncrystallised group personal pension (GPP). Most candidates stated that a lump sum, flexi-access drawdown (FAD) and annuity could be payable but did not specify that the flexi-access drawdown and annuity would be a 'dependents'.

Part (b) asked what death benefits would be payable from an annuity which only included a guarantee. Most candidates stated that the remaining guarantee would continue to be paid but very few candidates stated it couldn't be paid as a lump sum as the value was over the trivial commutation level of £30,000. Despite the question stating that no protection or dependents pension was included on the annuity a number of candidates still stated these within their answers which were incorrect.

Question 8

Part (a) asked candidates to describe briefly how a cashflow modeller could be used to assist with retirement planning. Most candidates stated that it could highlight how much income was required and show when their funds would run out. The common points omitted were the term it was projected over and it includes all assets, not just pensions.

Part (b) asked candidates to describe briefly the limitations of a cashflow modeller. Most candidates stated that the assumptions used could differ and a client could be impacted by an unforeseen change of circumstances. The common points omitted were the impact of legislation changes and the ongoing reviews that would be required.

Question 9

This question asked candidates to state the conditions that must be met in order for a capped drawdown plan to be transferred to a new capped drawdown plan. Overall this question was not well answered and the only points typically stated were that the receiving scheme must be able to accept the transfer. Some candidates stated that the scheme must not hold any other assets, all assets in the old scheme must be transferred and the review date and income would remain unaltered.

Question 10

Part (a) asked candidates to state how a pre A-day pension would be valued for triviality purposes. A large number of candidates incorrectly stated the pension would be multiplied by 20 instead of 25.

Part (b) asked candidates to state the criteria for a payment to be made under triviality. It was generally answered better than part (a) and most candidates stated the value of all benefits cannot exceed £30,000 and it must be taken within a 12 month window. The better prepared candidates also correctly stated that it must extinguish all rights under the scheme and the client must have some available lifetime allowance remaining.

Question 11

This question asked why a spouse could claim a lump sum payment in respect of her deceased husband's deferred state pension. Very few candidates did not identify her husband had deferred his state pension prior to April 2016 and therefore she was entitled to take the payment as a lump sum. Candidates also omitted to state that the payment is taxed at the client's highest marginal tax rate and as Melanie was a non-taxpayer it would be paid tax free.

Question 12

This question asked candidates to state six benefits and six drawbacks of transferring a Cash Equivalent Transfer Value (CETV) into flexi-access drawdown. Most candidates stated that it would allow flexible income, the pension commencement lump sum (PCLS) would be sufficient to cover the planned gift to the son, the remaining fund could remain invested and would offer flexible death benefits.

In relation to drawbacks, most candidates stated that she would lose guaranteed income, be subject to investment risk and the flexi-access drawdown would be more expensive. Only the better prepared candidates stated she would lose the inflation proofing and it may not meet her attitude to risk and that the full fund could be depleted.

Question 13

This was a Conduct of Business Sourcebook (COBS) question regarding risks for client's taking withdrawals. Overall most candidates scored half marks or more on this question however there were a small number of candidates who struggled and only scored one or two marks.

Question 14

This question asked for the benefits of a client using a phased annuity approach rather than phased flexi-access drawdown. Most candidates stated it would provide a guaranteed income, they may qualify for enhanced rates and that annuities are cheaper and less complex. Only the better prepared candidates stated that the client could include escalation, death benefits, and would benefit from mortality gain and that investment risk would be reduced.

Question 15

This question asked why Natalie can best achieve her objectives by taking the required income from her ISA rather than from her dependant's flexi-access drawdown. Most candidates scored well on this question and correctly stated the income tax treatment of the flexi-access drawdown and ISA as well as the Inheritance Tax position.

Chartered Insurance Institute

J05

Diploma in Financial Planning

Unit J05 – Pension income options

April 2018 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. Fran, who will reach the age of 75 next week, is retired. She is currently in receipt of a scheme pension of £48,000 per annum which commenced at the scheme's normal pension age of 60. Fran also has an uncrystallised personal pension plan valued at £450,000. She has not registered for any form of transitional protection.

(a) Calculate, **showing all your workings**, the lifetime allowance charge that will be payable when Fran reaches age 75. **(5)**

(b) State the transitional protections that Fran may be eligible for and outline the information you would require to determine her eligibility for these protections. **(6)**

2. Simon is a deferred member of his former employer's defined benefit pension scheme. He left the company several years ago and will reach the scheme's normal pension age of 65 next year. The scheme has been wound-up and has qualified for assistance from the Financial Assistance Scheme (FAS).

Outline the benefits that will be paid by FAS to Simon when he reaches the scheme's normal pension age of 65. **(6)**

3. Emily is currently drawing an income from her flexi-access drawdown plan using a performance driven withdrawal strategy.

Outline the factors that should be taken into account when carrying out an annual review of her flexi-access drawdown plan. **(10)**

4. David was an active member of his employer's defined benefit scheme when he died recently at the age of 45. David leaves a widow, Helen, aged 40, and three young children.

Describe the potential death benefits payable under David's defined benefit scheme, including the tax treatment. **(12)**

5. Ben, aged 58, is employed and is a higher-rate tax payer. He has an uncrystallised personal pension fund of £875,000. He plans to draw an uncrystallised funds pension lump sum (UFPLS) of £140,000 to repay his outstanding buy to let mortgage.

(a) Calculate, **showing all your workings**, the net lump sum that Ben will receive initially, assuming that the UFPLS is taxed on a 'month 1' basis. **(10)**

(b) Outline **five** drawbacks of this course of action. **(5)**

6. On 5 April 2006, Edward had an entitlement to £75,000 tax-free cash from his executive pension plan (EPP), which, at that time, was valued at £155,000. He crystallised the EPP on 5 April 2018 when it was valued at £245,000. Edward has not registered for any form of transitional protection and no partial transfers have been made.

Calculate, **showing all your workings**, the maximum pension commencement lump sum paid to Edward. **(7)**

7. Tessa died in March 2018, aged 68. She had nominated her husband, Phil as the beneficiary of her pension arrangements.

At the time of her death, Tessa had an uncrystallised group personal pension (GPP) valued at £835,000. She was also in receipt of income of £10,000 per annum from a lifetime annuity. This was purchased in 2013 and was set up on a single life basis including a ten-year guarantee.

Outline the death benefit options available to Phil in respect of Tessa's:

(a) uncrystallised GPP; **(4)**

(b) lifetime annuity. **(4)**

8. Richard, aged 63, is about to retire and is considering drawing an income using flexi-access drawdown. Richard would like to assess his projected income and expenditure requirements before taking an income from his fund.

(a) Describe briefly how a cashflow model could be used to assist Richard in planning his future income needs. **(4)**

(b) Explain briefly the limitations of cashflow modelling. **(4)**

9. State the conditions that must be met when transferring a capped drawdown fund to a new capped drawdown fund, including any impact on the maximum permitted income withdrawal. **(5)**

10. Gurinder, aged 72, is in receipt of a scheme pension from her defined benefit pension scheme, which has been in payment since she retired in May 2005. She has been contacted by the pension scheme administrator regarding the potential option of exchanging her scheme pension for a trivial commutation lump sum.

(a) Explain briefly how Gurinder's pension benefits will be valued for trivial commutation purposes. **(2)**

(b) Outline the criteria that must be met before a trivial commutation lump sum can be paid to Gurinder. **(6)**

11. Don died in May 2017, aged 68. At the time of his death he was not in receipt of his State Pension as he chose to defer this when he reached his State Pension age in March 2014. His widow Melanie, aged 67, is retired and her only income is her State Pension of £6,500 per annum.

Explain briefly why Melanie is now able to claim a tax-free lump sum payment in respect of Don's deferred State Pension. **(5)**

12. Doreen, aged 58, is divorced and has a son aged 23, who is financially independent. She works part-time, earning £12,000 per annum. Doreen would like to gift her son £65,000 and also needs an additional annual income of £4,000 gross.

Doreen, who has no savings, has deferred benefits in a previous employer's defined benefit pension scheme. The scheme's normal pension age is 65. Doreen is entitled to an immediate early retirement pension of £7,680 per annum, plus a pension commencement lump sum (PCLS) of £45,893. Alternatively, she could take a cash equivalent transfer value (CETV) of £307,680 and utilise flexi-access drawdown.

Outline **six** potential benefits and **six** potential drawbacks for Doreen if she accepts the CETV and utilises flexi-access drawdown rather than the early retirement pension and PCLS offered by the scheme. **(12)**

13. Section 9.3 of the Financial Conduct Authority's Conduct of Business Sourcebook (COBS) outlines the client relevant circumstances that should be considered when a firm is making a personal recommendation to a client regarding income withdrawals.

Outline the relevant circumstances that must be considered. **(8)**

14. Bernard, aged 63, is married to Joan, aged 58. He wishes to reduce his working hours as his health has started to deteriorate. Bernard has a personal pension plan valued at £750,000. He has no capital requirements and intends to draw an income via phased annuity purchase.

Outline the potential **benefits** to Bernard of using this approach rather than phased flexi-access drawdown. **(8)**

15. Natalie's husband, Gareth, died recently, aged 78. Natalie, aged 69, is in receipt of a State Pension of £98 per week and her own pension of £16,500 per annum from her previous employer's occupational pension scheme. She has inherited a dependant's flexi-access drawdown (FAD) plan valued at £560,000 from Gareth and she also has an ISA valued at £410,000. Her total estate is valued in excess of £1.5 million. Natalie's own pensions provide her with sufficient income to maintain her standard of living, however, she would like £20,000 to cover the cost of a holiday with her family.

Her primary financial aims are for her income to be tax efficient and to maximise the amount left to her non-dependant children.

Explain in detail why Natalie can best achieve her objectives by taking the £20,000 from her ISA rather than from her dependant's FAD. **(7)**

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)
- £48,000 x 25 = £1,200,000
- No LTA remaining
- £450,000 x 25%
- = £112,500

(b)
- Fixed Protection 2016.
- Individual Protection 2016.
- Pension contribution history;
- since 5/6th April 2016.
- Value of total pension benefits;
- on 5/6th April 2016.

Model answer for Question 2

- Simon will receive 90% of accrued pension.
- Subject to a cap/£34,229.
- No increase in respect of pre-97 accrual.
- (Post-97 accrual) increases in line with CPI.
- Capped at 2.5%
- 50% spouse's pension.

Model answer for Question 3

Candidates would have gained full marks for any ten of the following:
- Previous year's investment performance.
- Was performance sufficient to provide required income.
- If not, capital erosion will occur for amount taken in excess of growth.
- Income required for the coming year/any future income requirements.
- Need for rebalancing.
- Change in attitude to risk/capacity for loss.
- Changes in legislation/taxation/regulation.
- Economic/market conditions/new products/inflation.
- Whether annuity required/continued suitability of this approach.
- State Pension benefits/other income/other assets.
- Change in circumstances/health/death benefits.

- Individual's tax status/position.

Model answer for Question 4

- Defined Benefit Lump Sum Death Benefit (DBLSDB)/death in service/lump sum.
- Fixed amount/multiple of salary.
- DBLSDB paid tax-free.
- if paid within the two-year window.
- Taxable as recipient's earned income outside of two years.
- Tested against lifetime allowance.
- Spouse's scheme pension.
- Children's scheme pension.
- Based on % of member's entitlement on date of death.
- Children's pension only paid while they are financially dependent.
- Taxable as the recipient's earned income under PAYE/marginal rate.
- Not tested against the lifetime allowance.

Model answer for Question 5

(a)
- £35,000/25% is payable as tax-free cash.
- £105,000 taxable as follows:
- £11,500/12 = £958.33
- is payable tax-free.
- £33,500/12 = £2,791.67
- Taxed at 20% = £558.33
- £116,500/12 = £9,708.33
- Taxed at 40% = £3,883.33
- £105,000 – (£958.33 + £2,791.67 + £9,708.33) = £91,541.67
- Taxed at 45% = £41,193.75
- Net UFPLS received:
- £140,000 – (£558.33 + £3,883.33 + £41,193.75) = £94,364.59

(b)
- Increases his estate for Inheritance Tax purposes/funds left in pension outside of estate for Inheritance Tax.
- Will result in large amount of tax payable.
- He will have to reclaim the overpayment of tax on the uncrystallised funds pension lump sum (UFPLS).
- No income flexibility in respect of the property/property is illiquid/reduces potential income from the personal pension plan.
- Payment of the UFPLS will trigger the money purchase annual allowance (MPAA).
- Loses ability to carry forward.

Model answer for Question 6

- £1,800,000/£1,500,000
- X £75,000 = £90,000
- £1,000,000/£1,500,000
- X £155,000 = £103,333.33
- £245,000 - £103,333.33 = £141,666.67
- X 25% = £35,416.67
- £90,000 + £35,416.67 = £125,416.67

Model answer for Question 7

(a)
- Lump sum.
- Dependant's.
- (Flexi-access) drawdown.
- (Lifetime) annuity.

(b)
- Guarantee must be taken as an income;
- as it is valued at more than £30,000.
- It cannot be commuted for a trivial commutation lump sum payment
- until the value of remaining payments is £30,000 or less.

Model answer for Question 8

(a)
- Quantifies capital/income required/income versus expenditure.
- Taking into account other assets or income.
- Identifies when Richard will run out of money/sustainability.
- Over a given timeframe/life expectancy.

(b)
- Long-term tool/provides estimates only/snapshot/requires regular reviews
- inflation/growth/charges/longevity assumptions can be incorrect.
- Personal circumstances/objectives can change.
- Tax/legislation rules may change.

Model answer for Question 9

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

- All assets under current arrangement must be transferred.
- The new scheme must not already hold any assets.
- The new scheme must accept transfer.
- Maximum income not affected.
- Review date unaltered.
- Not a benefit crystallisation event.

Model answer for Question 10

(a)
- Pension income;
- multiplied by 25.

(b)
- Any trivial payments must be made within the commutation period/12 months.
- Value of Gurinder's total rights;
- is not more than £30,000;
- on the nominated date.
- Gurinder has lifetime allowance available when the payment is made.
- Lump sum extinguishes all entitlements under the scheme.

Model answer for Question 11

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

- Don reached his state pension age before 6/4/16;
- and had been in deferral for at least 12 months when he died.
- They were married at the time of his death;
- and Melanie has not remarried.
- Melanie has now reached her state pension age;
- and is a non-tax payer in 2017/18.

Model answer for Question 12

Benefits
- Pension commencement lump sum (PCLS) is greater/PCLS sufficient to gift money to son.
- Can amend income as required/reduce income if she gets a full- time job/does not currently need the full scheme pension.
- The fund remains invested and has the potential to grow/potential for higher income.
- Annuity rates may improve in future/maybe entitled to impaired life annuity.
- Full fund available as lump sum death benefit/flexible death benefits.
- Cash Equivalent Transfer Value (CETV) includes value of spousal pension.

Drawbacks
- No inflation proofing built in/loss of escalation.
- Fund remains subject to investment risk.
- Loss of guaranteed income.
- Longevity risk/High levels of withdrawals could lead to fund erosion.
- Regular reviews required/costs/charges of contract.
- May not match attitude to risk.

Model answer for Question 13

- State of health.
- Investment objectives.
- Requirement for tax free cash/capital.
- Current and future income requirements.
- Existing pension assets/fund value.
- Overall wealth/Income from other sources.
- Attitude to risk/capacity for loss.
- Charges.

Model answer for Question 14

Candidates would have gained full marks for any eight of the following:
- Income paid for life/guaranteed income.
- Money purchase annual allowance doesn't apply/continue to benefit from full annual allowance.
- Indexation/escalation of income could be chosen to keep pace with inflation over the longer term.
- Guaranteed death benefits could be selected at outset.
- Enhanced annuity rates may be available due to declining health.
- Simple to administer and understand.
- Lower charges.
- Less investment risk.
- Benefits from mortality gain.

Model answer for Question 15

- Lump sums taken from the ISA will be tax free.
- Any lump sum taken from the drawdown plan will be taxed;
- as Natalie's pension income/at Natalie's marginal rate of Income Tax;
- as Gareth died over age 75.
- Taking the lump sum from the ISA will reduce the value of her estate for Inheritance Tax purposes/the ISA is in her estate for Inheritance Tax purposes;
- but as the lump sum is tax free less needs be drawn than from the drawdown plan/more of the estate is preserved for the children/a larger lump sum would need to be taken from the drawdown plan.
- The pension can be passed on to her children without a charge to Inheritance Tax/and so is outside of her estate for Inheritance Tax purposes.

April 2018 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.	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
4.	2.	Understand in detail the features, tax treatment and risks of lifetime annuities and scheme pensions.
5.	4.	Understand the features, tax treatment and risks of phasing retirement benefits.
6.	1.	Understand the HMRC rules that apply when pension benefits are crystallised.
7.	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.
8.	3.	Understand the features, tax treatment and risks of flexible benefit options.
	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
9.	3.	Understand the features, tax treatment and risks of flexible benefit options.
10.	1.	Understand the HMRC rules that apply when pension benefits are crystallised.
11.	6.	Understand the State retirement benefits available.
12.	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
	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.
13.	5.	Understand the regulatory requirements and legal framework designed to protect clients who are drawing pension benefits.
14.	4.	Understand the features, tax treatment and risks of phasing retirement benefits.
15.	3.	Understand the features, tax treatment and risks of flexible benefit options.
	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.

All questions in the April 2018 paper 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 those that were used in April 2018 examinations. The October 2018 will use the published 2018/2019 Tax Tables which can be found online on the CII website: www.cii.co.uk.

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%