Chartered Insurance Institute

AF7

Advanced Diploma in Financial Planning

Unit AF7 – Pension transfers

March 2024 Examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2023/2024, 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.

Unit AF7 – Pension transfers

Instructions to candidates

Read the instructions below before answering any questions

Two hours are allowed for this paper which carries a total of 100 marks as follows:

Section A: 31 marks
Section B: 69 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.

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

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

- Additional supplementary information, relevant to pension planning, is also included at the end of the tax tables on the right-hand side of the interface and back of this paper.

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.

SECTION A

The following questions are compulsory and carry a total of 31 marks

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

1. Outline the main purpose of a triage process in relation to the potential transfer of benefits held in a defined benefit pension scheme. **(5)**

2. Identify the **key factors** you would consider when assessing a client's capacity for loss when advising on the potential transfer of safeguarded pension benefits. **(10)**

3. Rami, who is in good health, retired and took benefits from his employer's defined benefit pension scheme in January 2021, five years before his Normal Retirement Age of 65. He joined the scheme in January 1998. He did not transfer any benefits into the scheme.

Rami currently receives an annual pension of £17,500 that increases by 5% per annum and includes a 66% spouse's pension. The scheme is about to enter the Pension Protection Fund.

Explain how Rami's pension benefits will be impacted as a result. **(6)**

4. Sabine, aged 63, is married to Ross, aged 61. Sabine has a Retirement Annuity Contract valued at £160,000 that contains a Guaranteed Annuity Rate (GAR) of 10.5%. The plan's conditions are that a guaranteed rate is only available at age 65 and that it must be set up on the following basis:

- Single life;
- no escalation;
- payable monthly in arrears.

State the additional information you would require from Sabine, to advise her whether to accept the GAR or transfer to an alternative arrangement. **(10)**

Total marks available for this question: 31

SECTION B

All questions in this section are compulsory and carry an overall total of 69 marks

Case study 1

Read carefully all information provided in the case study before attempting the questions. Your answers should consider the client's circumstances as set out in the case study.

Lily, aged 52, is married to Patrick, aged 55. They have two daughters, aged 12 and 14. Lily and Patrick have both recently semi-retired. They need to supplement their earned income until they fully retire when Patrick reaches age 60. They are both in good health with a family history of longevity.

Lily has the following deferred defined benefit pension scheme from a previous employment and has recently received a statement of entitlement, containing the following information:

Normal pension age	66
Scheme pension at date of leaving	£16,633 per annum gross
Revaluation and escalation	Inflation to a maximum of 5% per annum
Spouse's pension (pre and post-retirement)	50% of pre-commutation pension
Children's pension (pre and post-retirement)	25% pre-commutation pension per child to age 23
Cash equivalent transfer value (CETV)	£570,500

Patrick has a personal pension plan (PPP) valued at £344,000 and is a member of his current employer's workplace pension scheme, valued at £88,240. Lily is also a member of her current employer's workplace pension scheme, valued at £153,000.

Patrick has a stocks and shares ISA valued at £55,000 and they have joint cash savings of £155,000, along with their mortgage-free home, valued at £830,000. Patrick has a medium to high attitude to risk and good investment experience, whereas Lily has a cautious attitude to risk, and limited investment experience.

Lily's part-time earnings will provide £15,000 net income per annum and Patrick's will provide £4,000 net income per annum. They have calculated that they will need an additional £15,000 net income per annum to fully cover their current outgoings. They are unclear at this stage what their net income requirements will be when they fully retire but have no anticipated capital requirements. They do not know what level of State Pension they will receive.

Patrick and Lily want to generate their additional income in a tax efficient way and make full use of their personal allowances. They also want to ensure their daughters' financial security should they both die before their daughters are financially independent. Lily wishes to explore the possibility of transferring her defined benefit pension scheme to her workplace pension scheme to increase the funds available upon her death.

Questions

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

5. Identify the additional information you would require from the scheme administrator of the defined benefit pension scheme before making a personal recommendation to Lily regarding a potential transfer of her pension benefits. **(9)**

6. Describe the factors that an Appropriate Pension Transfer Analysis would take into account when considering how best Lily could meet her death benefit objective. **(6)**

7. Based on the information provided in the case study, explain to Lily why you have recommended that she does **not** transfer her benefits out of the defined benefit pension scheme at this time. **(13)**

8. Based on the information in the case study, explain the factors you would take into account when advising Patrick and Lily on the best way to meet their income shortfall in line with their stated objectives. **(8)**

Total marks available for this question: 36

Case study 2

Read carefully all information provided in the case study before attempting the questions. Your answers should consider the client's circumstances as set out in the case study.

Jack, aged 61, is married to Eleanor, aged 59. They are both in good health with a family history of longevity. Jack has two sons, aged 30 and 32 from a previous marriage and several grandchildren. Eleanor has no children. They plan to retire when Eleanor reaches her 60th birthday next month.

The couple's home is valued at £650,000 with an outstanding mortgage of £93,000 and a remaining term of nine years. They have cash savings of £107,000, and individual ISAs valued in total at £174,000. Jack has a personal pension plan (PPP) valued at £83,000. Eleanor has a NEST pension valued at £33,000.

They both have preserved benefits accrued under defined benefit pension schemes, as follows:

Owner	Jack	Eleanor
Normal pension age (NPA)	65	60
Early retirement factor	From age 60 at 6.3% per annum	From age 55 at 5.2% per annum
Scheme pension at NPA	£15,353 per annum gross	£18,623 per annum gross
Escalation in payment	Statutory	Inflation capped at 4.5% per annum
Spouse's pension	50% of member's pre-commutation pension	66.67% of member's pre-commutation pension
Cash equivalent transfer value (CETV)	£474,960	£651,805
Scheme funding position	80% funded	100% funded

Jack and Eleanor need a net income of £23,000 per annum to cover their essential expenditure once their mortgage is fully repaid and would prefer this income to be guaranteed and increase in line with inflation. They will need a further net income of £16,000 per annum to cover their discretionary expenditure but expect this to vary over time. On first death they anticipate the surviving spouse's essential and discretionary income needs would reduce by 30%.

Jack and Eleanor want to explore the option of taking a scheme pension from one of their defined benefit pension schemes and transferring the benefits from the other to a PPP. They would like to fully repay their mortgage and take withdrawals from the residual fund value to cover discretionary expenditure until their State Pensions come into payment.

Jack's children are financially independent but he is keen to ensure his grandchildren inherit some pension assets where possible on second death, whilst providing Eleanor with income during her remaining lifetime if he should die first. They both have a medium attitude to investment risk.

Eleanor will receive a full State Pension at age 67. Jack has a gap in his National Insurance contribution (NIC) record and is aware that he can pay two years of Class 3 NICs to top up his State Pension to the maximum permitted.

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

9. Based on the information in the case study, outline why you have recommended that Eleanor draws the scheme pension from her defined benefit pension scheme and that Jack transfers his benefits within his defined benefit pension scheme to his PPP to access these flexibly. **(15)**

10. You have recommended to Jack that the transferred funds are used to meet their income shortfall prior to State Pension Age.

Outline **four** potential benefits and **two** potential drawbacks of meeting this shortfall by making annual withdrawals via flexi-access drawdown as opposed to buying a short-term annuity. **(6)**

11. Outline the factors you would take into consideration when determining whether to recommend that Jack should nominate the benefits in his PPP into a spousal bypass trust. **(6)**

12. Explain to Jack the **advantages** of him paying Class 3 NICs to maximise the State Pension he will receive. **(6)**

Total marks available for this question: 33

INCOME TAX

RATES OF TAX	2022/2023	2023/2024
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	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£125,140

High income child benefit charge: 1% of benefit per £100 of adjusted net income between £50,000 – £60,000

**Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance.*

	2022/2023	2023/2024
Personal savings allowance (for savings income):		
Basic rate taxpayers	£1,000	£1,000
Higher rate taxpayers	£500	£500
Additional rate taxpayers	Nil	Nil
Dividend Allowance	£2,000	£1,000
Dividend tax rates		
Basic rate	8.75%	8.75%
Higher rate	33.75%	33.75%
Additional rate	39.35%	39.35%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	39.35%	39.35%
- other income	45%	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS	2022/2023	2023/2024
Income limit for Personal Allowance *§*	£100,000	£100,000
Personal Allowance (basic) *§*	£12,570	£12,570
Married/civil partners (minimum) at 10% *†*	£3,640	£4,010
Married/civil partners at 10% *†*	£9,415	£10,375
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance*†*	£31,400	£34,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,600	£2,870
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £200,000 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.

*** Investment above £1,000,000 must be in knowledge-intensive companies.*

	2022/2023	2023/2024
Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,935	£3,235
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£17,005	£18,725

NATIONAL INSURANCE CONTRIBUTIONS

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

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 242.00*	Nil
242.00 – 967.00	12% / 10%**
Above 967.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £123 per week. This £123 to £242 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*

***From 6 April 2023 to 5 January 2024, 12% rate applies, from 6 January 2024 to 5 April 2024, 10% rate applies.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below 175.00***	Nil
Over £175.00	13.8%

****Secondary threshold.*

CLASS 2 (self-employed)	
Flat rate per week	£3.45
Small profits threshold per year	£6,725
Lower profits limit per year	£12,570

Class 3 (voluntary)	Flat rate per week £17.45.
Class 4 (self-employed)	9% on profits between £12,570 and up to £50,270. 2% on profits above £50,270.

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 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 – 2023/2024*	£1,073,100

**Lifetime allowance charge removed after 5 April 2023. Any excess over the lifetime allowance that would have been subject to a lifetime allowance charge of 55% prior to 2023/2024 will be taxable as the member's pension income via PAYE.*

Maximum tax-free pension commencement lump sum in 2023/2024 is £268,275 unless a higher amount is protected.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*
2023/2024	£60,000**

**From 6 April 2016 the annual allowance is reduced for those with income above a certain level. Between 2020/21 and 2022/23 the annual allowance will be reduced by £1 for every £2 of 'adjusted income' over £240,000 to a minimum of £4,000 if 'threshold income' is also over £200,000.*
***Reducing by £1 for every £2 of 'adjusted income' over £260,000 to a minimum of £10,000 if 'threshold income' is also over £200,000.*

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.

MONEY PURCHASE ANNUAL ALLOWANCE	2022/2023	2023/2024
	£4,000	£10,000

CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2022/2023	2023/2024
Individuals, estates etc	£12,300	£6,000
Trusts generally	£6,150	£3,000
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:		
Residential property	28%	28%
Other chargeable assets	20%	20%
Business Asset Disposal Relief*	10%	10%
Lifetime limit	£1,000,000	£1,000,000

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2022/2023	2023/2024
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Reduced rate (where appropriate charitable contributions are made)	36%	36%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

MAIN EXEMPTION		
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*	£175,000	£175,000
- 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
- Annual small gifts exemption per donor	£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%

MAIN SOCIAL SECURITY BENEFITS

		2022/2023	2023/2024
		£	£
Child Benefit	First child	21.80	24.00
	Subsequent children	14.45	15.90
	Guardian's allowance	18.55	20.40
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 61.05	Up to 67.20
	Aged 25 or over	Up to 77.00	Up to 84.80
	Main Phase		
	Work Related Activity Group	Up to 107.60	Up to 84.80*
	Support Group	Up to 117.60	Up to 129.50
Attendance Allowance	Lower rate	61.85	68.10
	Higher rate	92.40	101.75
Basic State Pension	Category A full rate	141.85	156.20
	Category B full rate	85.00	93.60
New State Pension	Full rate	185.15	203.85
Pension Credit	Standard minimumguarantee - single	182.60	201.05
	Standard minimum guarantee - couple	278.70	306.85
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	61.05	67.20
	Age 25 or over	77.00	84.80
Statutory Maternity, Paternity and Adoption Pay		156.66	172.48

**If a claim has begun before 3rd April 2017 the individual will also be awarded the Work Related Activity Component payment which in 2023/2024 is £33.70, so total awarded for these individuals may be up to £118.50.*

CORPORATION TAX

	2022/2023	2023/2024
Small profit rate - for taxable profits below £50,000	N/A	19%
Marginal rate – for taxable profits between £50,001 - £250,000	N/A	26.5%
Standard rate - for taxable profits above £250,000	19%	25%

VALUE ADDED TAX

	2022/2023	2023/2024
Standard rate	20%	20%
Annual registration threshold	£85,000	£85,000
Deregistration threshold	£83,000	£83,000

STAMP DUTY LAND TAX

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

Additional Stamp Duty Land Tax (SDLT) rules apply as follows:

- *First-time buyers benefit from SDLT relief on first £425,000 for properties up to £625,000 when purchasing their mainresidence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,001 and £625,000, a flat rate of 5% is charged on the balance above £425,000.*
- *Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *SDLT may be charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.*
- *SDLT is payable in England and Northern Ireland only. Land Transaction Tax(LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. Therates for LTT and LBTT are different to the rates shown above.*

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

SUPPLEMENTARY INFORMATION PENSION PAPERS – AF7 2023/2024

REVALUATION

Guaranteed Minimum Pension – Fixed rate

Date of leaving service	Fixed rate of revaluation
Before 6 April 1988	8.5%
Between 6 April 1988 and 5 April 1993	7.5%
Between 6 April 1993 and 5 April 1997	7.0%
Between 6 April 1997 and 5 April 2002	6.25%
Between 6 April 2002 and 5 April 2007	4.5%
Between 6 April 2007 and 5 April 2012	4.0%
Between 6 April 2012 and 5 April 2017	4.75%
Between 6 April 2017 and 5 April 2022	3.5%
After 5 April 2022	3.25%

Non GMP benefits – statutory minimum rates

Date of leaving service	Statutory rate of revaluation
Before 1 January 1986	No requirement to revalue benefits
Between 1 January 1986 and 31 December 1990	CPI capped at 5% in respect of non GMP benefits accrued from 1 January 1985
Between 1 January 1991 and 5 April 2009	CPI capped at 5% in respect of all non GMP benefits
After 5 April 2009	CPI capped at 5% in respect of all non GMP benefits accrued before 6 April 2009 CPI capped at 2.5% in respect of all benefits accrued after 5 April 2009

NOTE: Statutory revaluation is based on RPI for revaluation prior to 2011

ESCALATION

Statutory rates of escalation: Member reached State Pension age before 6 April 2016

Accrual	Statutory rate of escalation
GMP: Accrual prior to 6 April 1988	**Scheme:** No requirement to provide any increases in payment **State:** Fully in line with CPI
GMP: Accrual between 6 April 1988 and 5 April 1997	**Scheme:** CPI capped at 3% **State:** Any increases in CPI in excess of 3%
Non GMP: Accrual prior to 6 April 1997	**Scheme:** No requirement to increase in payment
Non GMP: Accrual between 6 April 1997 and 5 April 2005	**Scheme:** CPI capped at 5% (LPI)
Non GMP: Accrual from 6 April 2005	**Scheme:** CPI capped at 2.5%

NOTE: Statutory escalation was based on RPI prior to 2011

Statutory rates of escalation: Member reaches State Pension age on or after 6 April 2016

Accrual	Statutory rate of escalation
GMP: Accrual prior to 6 April 1988	**Scheme:** No requirement to provide any increases in payment
GMP: Accrual between 6 April 1988 and 5 April 1997	**Scheme:** CPI capped at 3%
Non GMP: Accrual prior to 6 April 1997	**Scheme:** No requirement to increase in payment
Non GMP: Accrual between 6 April 1997 and 5 April 2005	**Scheme:** CPI capped at 5% (LPI)
Non GMP: Accrual from 6 April 2005	**Scheme:** CPI capped at 2.5%

NOTE: No increase to GMP is made by the State (via the State Pension) for individuals who reach State Pension age on or after 6 April 2016

PENSION PROTECTION FUND

Compensation cap no longer applies following a Court of Appeal ruling in July 2021 that it was unlawful on the grounds of age discrimination.

PPF Compensation:	
Members who have already reached the scheme's normal pension age when the employer suffers an insolvency event	100%
Members who have not reached the scheme's normal pension age when the employer suffers an insolvency event	90%

Revaluation of deferred benefits within PPF

Service	Rate of revaluation
All service before 6 April 2009	CPI capped at 5%
All service after 5 April 2009	CPI capped at 2.5%

Escalation of benefits in payment from PPF

Service	Rate of revaluation
All service before 6 April 1997	No increases
All service after 5 April 1997	CPI capped at 2.5%