Chartered Insurance Institute

J05

Diploma in Financial Planning

Unit J05 – Pension income options

September 2024 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2024/2025, 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 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.
- It is important to show all steps in a calculation, even if you have used a calculator.
- Tax tables are provided towards the end 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.

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.*

PLEASE ENSURE YOU TYPE YOUR ANSWER TO EACH QUESTION IN THE CORRECT ANSWER BOX

1. Francesca, aged 70, has been phasing her retirement for the past 15 years, and is planning to fully retire within the next three months. She has previously accessed some of her pensions, withdrawing pension commencement lump sums (PCLS), as follows:

Pension	**PCLS withdrawn**	**Date withdrawn**	**Lifetime allowance used**
Defined benefit pension scheme	£58,346	June 2009	13.42%
Personal pension plan (PPP)	£111,854	January 2020	42.40%

Francesca has £448,194 of uncrystallised benefits remaining in the PPP. She would like to withdraw the full available PCLS, and then designate the residual fund into flexi-access drawdown. Francesca has no form of transitional protection.

Francesca has been informed she may be able to apply for a transitional tax-free amount certificate (TTFAC) in order to maximise her PCLS.

Calculate, **showing all your workings**, whether it would be beneficial for Francesca to apply for a TTFAC. *You should assume Francesca has not crystallised any further benefits since 2020.* **(8)**

2. Harris, aged 58, is single with no financial dependants. He has been told by his doctor that he is unable to continue to work in his current role due to his declining mental health and is therefore planning to take early retirement. Harris is an active member of his employer's defined benefit pension scheme. He will be entitled to a scheme pension of £17,500 per annum, plus a pension commencement lump sum (PCLS) of £64,055 at the scheme's normal pension age of 65. Alternatively, he has been offered a cash equivalent transfer value (CETV) of £574,000.

Harris anticipates requiring a net income of £21,000 per annum throughout his retirement and does not have any immediate planned capital expenditure.

Outline the factors you would take into account when advising on whether Harris should accept the CETV and purchase a lifetime annuity rather than take the scheme pension and PCLS offered by the scheme. **(10)**

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3. Jenna, aged 68, has a flexi-access drawdown pension. She is separated from her husband and has one adult child who is financially independent.

Explain the reasons why it is advisable for Jenna to complete a death benefit nomination for her pension. **(5)**

4. Sinead, aged 64, crystallised her personal pension plan (PPP) in 2014. After taking the maximum pension commencement lump sum, the balance was designated into a capped drawdown arrangement from which she has not taken any income. Sinead also contributes £16,000 per annum into a separate PPP and plans to continue to do so.

You have advised transferring the capped drawdown arrangement to a new provider to benefit from lower charges and a wider range of fund options.

(a) Explain briefly the benefits of transferring into a new capped drawdown arrangement rather than converting it into a flexi-access drawdown arrangement. **(2)**

(b) Explain briefly the criteria that must be met in order to transfer from an existing capped drawdown arrangement to a new capped drawdown arrangement. **(3)**

5. Rommy died recently at the age of 71. At the time of her death, she was in receipt of a scheme pension of £14,750 per annum from a defined benefit pension scheme. This commenced when Rommy reached age 65 and included a ten-year guarantee and a 50% spouse's pension. The scheme pension does not include any pension protection lump sum death benefits or any defined benefit lump sum death benefits. Rommy also held an uncrystallised personal pension plan (PPP).

Rommy had completed nomination forms showing that her widow, Mia, should receive the death benefits from her pensions.

Outline the death benefit options available to Mia, including the income tax treatment, in respect of Rommy's:

(a) scheme pension; **(4)**

(b) uncrystallised PPP. **(7)**

PLEASE ENSURE YOU TYPE YOUR ANSWER TO EACH QUESTION IN THE CORRECT ANSWER BOX

6. Sanjay, aged 56, is married and is taking early retirement. He has a personal pension plan (PPP) valued at £725,000, from which he requires a net income of £21,000 per annum. Sanjay has an adventurous attitude to risk and no current need to draw his full pension commencement lump sum.

(a) State **six** benefits of choosing phased flexi-access drawdown (FAD) over a lifetime annuity. **(6)**

(b) State **six** drawbacks of choosing phased FAD. **(6)**

7. The Financial Conduct Authority (FCA) requires that firms include consideration of investment pathways when making a personal recommendation to a retail client about the investment of funds in the client's drawdown pension fund.

(a) Explain briefly the purpose of investment pathways. **(2)**

(b) Outline the **four** investment objectives that are designed to be met by using investment pathways. **(4)**

8. Hallie retired and took benefits from her employer's defined benefit pension scheme four years ago, when she was aged 60. The scheme's normal pension age was 65 and she had been a member of the scheme for 18 years. She currently receives an annual pension of £22,300. All of Hallie's pension increases by 3% per annum and includes a 66% spouse's pension. She is married and has two children, aged 25 and 27. The pension scheme has now entered the Pension Protection Fund (PPF).

Explain, giving your reasons, how Hallie's pension benefits will be impacted as a result of the defined benefit pension scheme entering the PPF. **(6)**

9. Matteo, aged 64, is currently employed and does not have enough qualifying years of National Insurance (NI) contributions to be entitled to his full State Pension at his State Pension age of 66.

(a) State the possible reasons why Matteo may have gaps in his NI record. **(3)**

(b) Outline how Matteo can fill these gaps and by what date(s) any action must be taken. **(4)**

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

11. Anatole, aged 56, is in excellent health. He recently crystallised his self-invested personal pension (SIPP) plan into a flexi-access drawdown plan in order to access this fund flexibly.

Explain to Anatole why:

(a) longevity risk is an important factor to consider given that he plans to access his benefits flexibly; **(4)**

(b) his life expectancy probability should be used when assessing longevity risk, rather than his average life expectancy. **(4)**

12. Outline the factors that you would take into account when advising on whether to take a lump sum from a personal pension plan (PPP) via an uncrystallised funds pension lump sum (UFPLS) or as a pension commencement lump sum (PCLS). **(11)**

13. Leon, aged 63, is about to retire and intends to draw an income from his personal pension plan (PPP) using flexi-access drawdown. Leon would like to assess his projected income and expenditure requirements before taking an income from his PPP.

(a) State **eight** factors that should be taken into account when carrying out a projected cash flow analysis for Leon. **(8)**

(b) Outline **six** scenarios that should be discussed with Leon when carrying out a stress test of his cash flow analysis. **(6)**

14. Artem is currently drawing an income from his flexi-access drawdown plan (FAD) using a performance driven withdrawal strategy.

Outline the factors that should be taken into account when carrying out an annual review of Artem's FAD. **(10)**

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15. Ivan, aged 69, is considering withdrawing his entire pension fund as an uncrystallised funds pension lump sum and purchasing a buy-to-let property to provide his retirement income.

Outline **seven** drawbacks of this course of action. **(7)**

INCOME TAX

RATES OF TAX	2023/2024	2024/2025
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	£125,140	£125,140
High income child benefit charge:	1% of benefit per £200 of adjusted net income between £60,000 – £80,000	

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

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	£1,000	£500
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	n/a
Income exemption up to**	n/a	£500
Rate applicable to trusts		
- dividends	39.35%	39.35%
- other income	45%	45%

*** Where net income exceeds £500, the full amount is subject to Income Tax.*

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance *§*	£100,000	£100,000
Personal Allowance (basic) *§*	£12,570	£12,570
Married/civil partners (minimum) at 10% *†*	£4,010	£4,280
Married/civil partners at 10% *†*	£10,375	£11,080
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance*†*	£34,600	£37,000
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,870	£3,070
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. Married couple's/civil partners' allowance reduced by £1 for every £2 of adjusted net income over £37,000 (£34,600 for 23/24) until minimum reached.
**** Investment above £1,000,000 must be in knowledge-intensive companies.*

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	8%
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.*

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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

Class 2 contributions are credited automatically where profits equal or exceed £6,725 per annum.

Class 2 contributions can be made voluntarily where profits are below £6,725 per annum.

Class 3 (voluntary)	Flat rate per week £17.45.
Class 4 (self-employed)	6% on profits between £12,570 and up to £50,270. 2% on profits above £50,270.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
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 removed from 6 April 2024.*

	2023/2024	2024/2025
Lump sum and death benefit allowance (LSDBA)	n/a	£1,073,100
Lump sum allowance (LSA)	n/a	£268,275

LSA and LSDBA may be higher if transitional protections are available.
Where pension benefits were crystallised prior to 6 April 2024 the LSA and LSDBA may be reduced.

Money purchase annual allowance	£10,000	£10,000

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*
2023/2024	£60,000**
2024/2025	£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.

CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2023/2024	2024/2025
Individuals, estates etc	£6,000	£3,000
Trusts generally	£3,000	£1,500
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 - Basic Rate	8%	8%
Higher Rate	8%	4%
Surcharge for carried interest	8%	8%
Trustees and Personal Representatives:		
Residential property	28%	24%
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	2023/2024	2024/2025
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

Gifts from surplus income are immediately exempt, as long as they are made from income, are made regularly and do not impact donor's standard of living.

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 made in excess of the nil rate band 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

		2023/2024	2024/2025
		£	£
Child Benefit	First child	24.00	25.60
	Subsequent children	15.90	16.95
	Guardian's allowance	20.40	21.75
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 67.20	Up to 71.70
	Aged 25 or over	Up to 84.80	Up to 90.50
	Main Phase		
	Work-related Activity Group	Up to 84.80*	Up to 90.50**
	Support Group	Up to 129.50	Up to 138.20
Attendance Allowance	Lower rate	68.10	72.65
	Higher rate	101.75	108.55
Basic State Pension	Category A full rate	156.20	169.50
	Category B (lower) full rate	93.60	101.55
New State Pension	Full rate	203.85	221.20
Pension Credit	Standard minimumguarantee - single	201.05	218.15
	Standard minimum guarantee - couple	306.85	332.95
	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	67.20	71.70
	Age 25 or over	84.80	90.50
Statutory Maternity, Paternity and Adoption Pay		172.48	184.03

**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.*

***If a claim has begun before 3rd April 2017 the individual will also be awarded the Work-related Activity Component payment which in 2024/2025 is £35.95, so total awarded for these individuals may be up to £126.45.*

CORPORATION TAX

	2023/2024	2024/2025
Small profit rate - for taxable profits below £50,000	19%	19%
Main rate - for taxable profits above £250,000	25%	25%

Companies with profits between £50,000 and £250,000 will pay tax at the main rate, reduced by a marginal relief. This provides a gradual increase in the effective Corporation Tax rate.

VALUE ADDED TAX

	2023/2024	2024/2025
Standard rate	20%	20%
Annual registration threshold	£85,000	£90,000
Deregistration threshold	£83,000	£88,000

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%