Chartered Insurance Institute

J05

Diploma in Financial Planning

Unit J05 – Pension income options

October 2019 Examination Guide

SPECIAL NOTICES

Candidates entered for the October 2020 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. 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 obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

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.

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.

EXAMINER COMMENTS

Candidates overall performance:

Overall, candidates performed well in this exam. However, whilst the majority of candidates demonstrated good knowledge, there were still a number of candidates who did not include enough detail in their answers to gain many of the marks available.

Question 1

This question tested candidates' knowledge of death benefits under a scheme pension and a dependant's capped drawdown plan. Overall, it was well answered.

Some candidates struggled to explain the death benefits under a scheme pension. A typical error seen was a belief that the balance of the guarantee could be paid as a lump sum (and that the lump sum would be tax-free). There was also a lack of detail in some the answers, e.g. not making it clear that the income under the guarantee is paid for the **balance** of the guarantee period.

Some candidates stated that continuing in capped drawdown was an option. Other errors seen when considering the capped drawdown plan was that the benefits can be paid as an UFPLS or a PCLS. Only the better candidates described the beneficiary as a successor and virtually all the candidates thought that the two-year window applied.

Question 2

This question was asking candidates to outline the additional information you would require before advising Laila on whether she should take a scheme pension or accept a cash equivalent transfer value (CETV).

This question was generally well answered by candidates.

Question 3

This was a calculation question that asked candidates the amount that would be invested into flexi-access drawdown (FAD) after taking the pension commencement lump sum (PCLS) and deducting the lifetime allowance tax charge.

As with most calculation questions on this paper, this question was answered well by most candidates.

The most common mistakes were incorrect rounding of the percentage of the lifetime allowance (LTA) remaining and working out the PCLS as either 25% of £900,000 or £375,000 less £230,000. Some candidates applied a LTA tax charge of 55%.

Question 4

This was a question about a client with a retirement annuity contract (RAC).

Part (a) asked candidates to outline the additional information required about the RAC. Those candidates that understood that the question required information about the RAC (and not about Tania) did better than those who missed this important part of the question wording and so asked questions about Tania. Some candidates displayed poor knowledge of RACs, asking about things such as GMP and protected tax-free cash.

Part (b) asked candidates to explain the advice requirements that must be satisfied before transferring the RAC to a personal pension plan (PPP). Candidates who achieved low marks focussed on what the adviser must do before making a recommendation, rather than the FCA requirements for safeguarded benefits.

Question 5

This question asked candidates to outline the factors that would be taken into account in deciding between a lifetime annuity and FAD.

Most candidates did well on this question, however some candidates dropped marks because their answers were a list of questions. Where a question asks for 'factors' candidates are being asked to analyse the information provided, not fact-find.

Question 6

This question tested candidates understanding of the rules regarding UFPLS and lifetime allowance excess lump sums.

Part (a) asked candidates to explain the tax payable if the fund was taken before the age of 75 as an uncrystallised funds pension lump sum (UFPLS) and a lifetime allowance excess lump sum. This was generally well answered, although some marks were dropped due to lack of detail or lack of developed explanations.

Part (b) asked candidates to explain the tax payable if the fund was taken after age 75 as an UFPLS. This part of the question was not answered as well as part (a). Quite a lot of candidates did not consider the LTA tax charge at all and quite a lot thought that the PCLS would be £30,000.

Question 7

This question asked candidates to outline the conditions that must be satisfied to be eligible for the Guarantee Credit element of the State Pension Credit.

This question was not well answered and many candidates did not gain any of the marks available. The conditions have changed recently so this is quite a topical area for candidates to be aware of.

Several candidates seemed to have misunderstood the question and based their answers on achieving 35 years NI Credits to achieve a full State Pension.

Question 8

This question was about longevity risk. Part (a) of this question asked candidates to explain why longevity risk is an important factor to consider when accessing benefits flexibly. This was not answered well although most candidates did consider the impact of living longer than expected. Few candidates considered the impact of overestimating life expectancy.

Part (b) of this question was asking candidates why Jenny's life expectancy probability should be used rather than average life expectancy. Most candidates performed poorly as they answered this question generically rather than considering Jenny's circumstances, for example that her health is excellent.

Question 9

This question asked candidates to explain how taking a deferred State pension as a lump sum would affect Hugh's income tax position for 2019/2020.

This question was not well answered. Most candidates incorrectly treated the deferred lump sum as earned income, thereby incorrectly pushing Hugh into the higher tax bracket. There was also misunderstanding of how the savings and dividend income would be taxed with several candidates believing that the savings allowance would still apply even though the saving income is within the personal allowance. Holistic knowledge of how State Pension income and the deferred lump sum affects the overall tax position of a client is very important when giving advice and even though this is a pensions exam and not a tax exam a better basic knowledge is expected.

Question 10

This question was testing candidates' knowledge of the right of certain occupations (e.g. sportsmen and women) to take benefits before the age of 55.

Part (a) was asking candidates to outline the conditions that must be met for a member to take benefits before the age of 55. Despite the stem explaining that this right applies to sportsmen and women, many candidates gave the rules that relate to members of occupational pension schemes. Some candidates correctly stated the rules for these prescribed occupations.

Part (b) was asking candidates to outline the restrictions that apply when benefits are taken before the age of 55. This question was answered better than part (a) with many candidates achieving full marks.

Question 11

This was an application based question asking candidates to outline the factors that should be considered when advising Oleg on how much of his pension income he should commute for PCLS.

This question was generally well answered. Some candidates were still asking 'is the commutation rate good value?' Candidates are expected to understand that a commutation factor of 12:1 is poor value.

Question 12

This was an application based question asking candidates to outline five benefits and five drawbacks of drawing an income from a self-invested personal pension (SIPP) via phased drawdown.

This question was generally answered well. However, some answers were too generic, e.g. 'flexible death benefits'. Where there is a stem to a question candidate should use the information provided to ensure their answers are specific to the client's circumstances, e.g. 'fund remains available to provide death benefits for his children'.

Question 13

This was an application based question asking candidates to outline the factors that should be taken into account when determining how much income should be taken from a FAD each year.

This question was generally answered well.

Question 14

This question tasked candidates with outlining the HM Revenue & Customs conditions that must be satisfied in order to access benefits on the grounds of ill-health.

The stem of the question clearly stated that Jade's condition is not life threatening, but despite this a number of candidates lost marks because they stated the conditions that apply in the event of serious ill-health.

Question 15

This question asked candidates to state the factors that should be taken into account when carrying out an annual review of a client's investments in a FAD.

Most candidates performed well on this question.

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J05

Diploma in Financial Planning

Unit J05 – Pension income options

October 2019 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2019/2020, 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. Robert died in September 2019 aged 68. At the time of his death his private pension plans consisted of:

- A scheme pension of £32,000 per annum. The pension came into payment in March 2016 and includes a 10-year guarantee period and a 50% dependant's pension.

- A dependant's capped drawdown plan that Robert inherited in July 2013 following the death of his wife. Robert first drew an income from this plan in March 2016.

Robert nominated the death benefits under both plans to his financially independent son, aged 39.

Outline the death benefits available under both plans and their tax treatment.
You should assume that the death benefits are paid to Robert's son. **(10)**

2. Laila, aged 61, is about to retire due to some minor health issues. She is a member of her employer's defined benefit scheme and the scheme trustees have advised her that she is entitled to an immediate scheme pension of £17,000 per annum. Alternatively, the trustees have offered Laila a cash equivalent transfer value (CETV) of £544,000. The normal pension age of the scheme is age 65.

Outline the additional information you would require before advising Laila on whether she should take the scheme pension on offer, or if she should accept the CETV. **(12)**

3. Tameka, aged 67, holds Fixed Protection 2014. In 2014/2015 she crystallised her benefits in a previous employer's defined benefit scheme. At that time, she received a pension commencement lump sum (PCLS) of £230,000 and an indexed scheme pension of £34,600 per annum.

In addition to her scheme pension, Tameka has an uncrystallised personal pension plan (PPP) currently valued at £900,000. She now intends to fully crystallise her PPP and take the maximum permitted PCLS. Tameka then intends to place the balance of the fund, after deduction of the lifetime allowance tax charge, into a flexi-access drawdown plan (FAD).

Calculate, **showing all your workings**, the amount that will be invested into the FAD. **(10)**

4. Tania, aged 62, is married to Henry aged 66. Her only private pension plan is a retirement annuity contract (RAC) valued at £350,000. The contract offers a guaranteed annuity rate of 10.5% at age 65. This rate is based on a single life annuity that is level in payment and paid monthly in arrears.

(a) Outline the additional information you would require about the RAC before advising Tania on whether or not these benefits should be transferred to a personal pension plan (PPP) in order to access them flexibly. **(5)**

(b) Explain giving your reasons, the advice requirements that must be satisfied before Tania can undertake a transfer of these benefits to a PPP. **(5)**

5. Aileen, aged 58, was widowed in 2018. She is now in receipt of a dependant's scheme pension of £12,500 per annum gross. Aileen has no children and no dependants.

She has decided to retire and has calculated she will need a net income of £24,000 per annum to cover her regular outgoings. In addition to her dependant's scheme pension, she has an uncrystallised personal pension plan (PPP) valued at £700,000, which is wholly invested in fixed interest funds. Her other assets are her home, which is mortgage free and valued at £550,000, and cash on deposit of £45,000. Aileen has a cautious attitude to risk and very little investment experience.

Outline the factors that you would take into account when deciding whether you would recommend that Aileen use her PPP to purchase a lifetime annuity or if she should take her retirement income via flexi-access drawdown. **(8)**

6. Asif, aged 74, has 10% of his lifetime allowance remaining and has not registered for any form of transitional protection.

He has one pension fund that remains uncrystallised. This is a personal pension plan valued at £120,000. Asif would like to take the whole of this fund as a lump sum payment.

Assuming that Month 1 taxation does **not** apply, explain the tax payable if Asif takes the whole fund;

(a) in October 2019, before reaching the age of 75, as an uncrystallised funds pension lump sum (UFPLS) payment plus a lifetime allowance excess lump sum; **(5)**

(b) immediately after reaching the age of 75 in November 2019 as an UFPLS. **(5)**

7. Tim will reach his State Pension age in December 2019. His wife, Pauline, will reach her State Pension age in June 2021.

Outline the conditions that must be met in order for Tim to be able to make a successful application to receive the Guarantee Credit element of the State Pension Credit. **(5)**

8. Jenny, aged 64, is in excellent health. She recently crystallised her personal pension plan into a flexi-access drawdown plan in order to access this fund flexibly.

Explain briefly to Jenny why:

(a) longevity risk is an important factor to consider given that she plans to access her benefits flexibly; **(5)**

(b) her life expectancy probability should be used when assessing longevity risk, rather than her average life expectancy. **(5)**

9. Hugh deferred receipt of his basic and additional State Pension when he reached State Pension age in November 2015. He has elected to receive both elements of his deferred pension from 4 November 2019.

Hugh intends to take the deferred payments as a lump sum and has been informed that this will total approximately £35,000. His State Pension income will be £171.50 per week for the remaining 22 weeks of 2019/2020.

In 2019/2020 Hugh will also receive savings income of £2,000 and dividend income of £11,000.

Explain, giving your reasons, how taking his deferred State Pension from 4 November 2019 will affect Hugh's Income Tax position for the current tax year 2019/2020. **(9)**

10. Some individuals, for example sportsmen and sportswomen, with retirement annuity contracts (RAC) and personal pension plans (PPP), have a right to take their pension benefits from these contracts before the current minimum pension age of 55.

Outline the:

(a) conditions that must be met for a member of a RAC or PPP, who is in good health, to be able to draw their pension benefits before the age of 55 without being subject to unauthorised payment tax charges; **(3)**

(b) restrictions that apply when benefits are taken before the age of 55. **(4)**

11. Oleg, aged 64, is married to Yulia aged 62. He is a member of his previous employer's defined benefit scheme and now intends to draw his scheme pension.

Oleg has been advised that he will receive a pension of £35,000 per annum which will increase each year in line with RPI capped at 5%, and that in the event of his death, Yulia will receive a 50% dependant's pension. He has also been informed that he can commute part of the income for a pension commencement lump sum (PCLS). The commutation rate is 12:1 and Oleg can take any amount of PCLS up to the HM Revenue & Customs' maximum of £150,000.

Outline the factors that you would take into account when advising Oleg on how much of his pension income he should commute for PCLS. **(8)**

12. Mohit, aged 61, is divorced with three financially independent children. He is self-employed and plans to gradually reduce his working hours over the next five years until reaching State Pension age, when he intends to retire fully.

Mohit has a self-invested personal pension (SIPP) valued at £825,000. His only other assets are a cash ISA worth £47,000 and his house valued at £550,000. His house is owned outright. As he is reducing his working hours, Mohit intends to spend more time travelling.

Outline **five** potential benefits and **five** potential drawbacks for Mohit of starting to draw an income from his SIPP via phased drawdown. **(10)**

13. Stefanos has recently retired and has set up a flexi-access drawdown (FAD) plan to provide his income in retirement. He would also like to leave a legacy on his death to his financially independent children.

Outline the factors that you will take into account when determining the amount of income Stefanos should withdraw each year from his FAD. **(6)**

14. Jade, aged 48, is in poor health. She is a member of her employer's Group Personal Pension (GPP) and her fund is valued at £350,000. Although her condition is **not** life threatening, Jade feels she can no longer continue to work.

Outline the conditions, set by HM Revenue & Customs, that must be satisfied in order that Jade can now access the benefits in her GPP on the grounds of ill-health. **(5)**

15. State the factors that should be taken into account when carrying out an annual review of a client's investments held within their flexi-access drawdown plan. **(10)**

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

Options – DB scheme

- 100% of the income
- paid until Feb 2026/balance of the guarantee period.

Options – capped drawdown

- Lump sum
- Successors;
- flexi-access drawdown (FAD);
- Lifetime (annuity).

Tax treatment – DB scheme

- Taxed as son's pension income via PAYE/marginal rate.

Tax treatment – capped drawdown

Tax free.

- Outside estate for Inheritance Tax (IHT)
- No test against lifetime allowance.

Model answer for Question 2

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

- Level of income she requires in retirement;
- any reduction applied by the scheme for early retirement;
- and her other pension income/other assets/capacity for loss/downsizing.
- Other pension income/State Pension.

- Level of pension commencement lump sum (PCLS) required/offered by the scheme/need for capital/commutation rate/debts.

- Her attitude to investment risk;
- attitude to transfer risk/whether she wants/needs flexible income/wants secure income.

- Whether she requires inflation proofing/inflation proofing offered by the scheme/thoughts on inflation.

- Her health condition/life expectancy;
- annuity rates.

- Whether she has a dependant/is she married/dependant's benefits offered by the scheme/ does she need lump sum/desire for death benefits.
- TVC.

- Funding status of the scheme/employer covenant/Cash equivalent transfer value (CETV) enhanced/reduced
- Charges.

Model answer for Question 3

LTA remaining
£1,500,000
- [(£34,600 x 20) + £230,000]
= £578,000

Maximum PCLS
£578,000 x 25% = £144,500

LTA tax charge
£900,000 - £578,000 = £322,000
x 25% = £80,500

Amount placed into the FAD
£900,000 - (£144,500 + £80,500) = £675,000

Model answer for Question 4

(a)
- Other ages available.
- Other shapes of annuity.
- What death benefits are offered by the contract/return of fund/return of premium no interest?
- Charges on the contract/market value reduction/transfer penalties/transfer value.
- Investment choices offered by the contract/performance/bonus history.

(b)
- It is a transfer of safeguarded benefits;
- valued at more than £30,000.
- Tania must provide evidence that she has received advice;
- from an appropriately registered/regulated/qualified financial adviser;
- before the transfer can take place.

Model answer for Question 5

Candidates would have gained full marks for any eight of the following:
- Attitude to risk is cautious (which is not really suitable for drawdown).
- Capacity for loss/other assets.
- Limited investment experience/only other assets are in cash.
- Health and family longevity/annuity rates.
- Importance she places on guarantees/flexibility.
- Importance of death benefits/she has no dependants.
- Income required/capital requirements/debts liabilities.
- Fixed interest funds not suitable for drawdown/sequencing risk/sustainability.
- State Pension becomes payable in 7/8 years/level of State Pension.

Model answer for Question 6

(a)
- Maximum Uncrystallised funds pension lump sum (UFPLS) will be 10% of lifetime allowance (LTA) (£105,500);
- with 25%/£26,375 paid tax-free;
- and balance taxed as his pension income via PAYE/marginal rate.

- Excess over LTA/£14,500;
- will be taxed at 55%/£7,975.

(b)
- Excess over LTA taxed at 25%;
- on his 75th birthday.

- Balance of fund payable as an UFPLS;
- but tax-free element limited to £26,375;
- with balance all taxed as pension income via PAYE/marginal rate.

Model answer for Question 7

- Both Tim and Pauline;
- must have reached State Pension age.
- They must have an income;
- plus deemed income from capital/capital above £10,000 included;
- below the Guarantee Credit threshold.

Model answer for Question 8

(a)
- If she lives longer than expected/planned for;
- the fund may be exhausted before she dies/risk of outliving your pension funds;
- therefore income may not be sustainable/may have to reduce income taken.

- If she overestimates how long the fund will be needed for/how long she will live;
- she may take lower withdrawals than the fund could provide.

(b)
- Life expectancy probability can take into account Jenny's health;
- and so give a more accurate picture of her life expectancy/timescale of withdrawals;
- helping to reduce the chance that the fund is exhausted before her death.

- Average life expectancy is pooled data/takes account of all health categories;
- and as Jenny is in excellent health it is likely she will outlive the average/it is likely to underestimate the length of time Jenny will need to take withdrawals from the fund.

Model answer for Question 9

- The £3,773/£171.50 x 22 of State Pension he receives;
- will fall within his personal allowance (PA)/will have no tax applied.

- His savings income will be within his PA/be tax free;
- however (more of) his dividend income in excess of his dividend allowance;
- will now be taxed;
- at 7.5%.

- The lump sum received will not affect the tax on his income/cannot push him into higher rate;
- but as he has no PA remaining;/he is a basic rate taxpayer;
- he will pay tax at 20% on the entire lump sum.

Model answer for Question 10

(a)
- They must have been in a prescribed occupation;/recognised profession.
- with the right to take benefits before age 50/minimum pension age;
- and have taken out the retirement annuity contract (RAC)/personal pension plan before 6 April 2006.

(b)
- Cannot phase retirement/must take all benefits at the same time.

- LTA will be reduced by 2.5%
- for each complete year benefits are taken
- before age 55/minimum pension age

Model answer for Question 11

- The level of income he requires/importance of secure income.
- Other income sources of retirement income/assets/capacity for loss/potential inheritances/downsizing.
- Importance of indexation/he will lose indexation on the income commuted/ pension increases at RPI capped at 5%/inflation expectations.

- Need for PCLS/need for capital.
- Commutation rate is low.

- Health/likely longevity.
- Importance of death benefits/level of benefits.
- IHT position/PCLS will enter his estate for IHT purposes/(Income) Tax position.

Model answer for Question 12

Benefits:
- Level of income can be varied as required/tax can be controlled.
- Potential for growth.
- PCLS could be used to help fund his travel costs.
- Fund remains available to provide death benefits for children.
- Annuity rates may increase in the future/enhanced rates may be available in the future.

Drawbacks:
- Income subject to investment risk/poor performance may mean fund does not last through retirement.
- He may outlive the fund/longevity risk.
- He will be exposed to sequencing risk.
- Will trigger the money purchase annual allowance (MPAA)/he is still working and may want to make further contributions in excess of £4,000 per annum.
- Removes funds from an IHT exempt asset/pension income taxable.

Model answer for Question 13

- Income required/other assets or sources of income/tax status.
- Initial fund value/safe withdrawal rate.
- Assumption for inflation/economic climate.
- Expected longevity/health/expected timescale of withdrawal.
- Asset allocation/expected investment returns.
- Amount required to be left to dependants on death/importance of death benefits/pensions outside estate for IHT.
- Capacity for loss.

Model answer for Question 14

- Scheme administrator/scheme;
- must obtain medical evidence;
- from a registered medical practitioner/GP/doctor;
- confirming the member can no longer perform their occupation/work.
- Member must have ceased to perform their occupation/work.

Model answer for Question 15

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

- Change in personal circumstances/health/objectives.
- Individuals tax status.
- Investment performance.
- Attitude to risk and capacity for loss.
- Rebalancing required/current asset allocation.
- Adviser/product charges.
- Change in legislation/taxation/new products.
- Change in economy/markets/inflation.
- Income/capital requirements for future years.
- Continued suitability of current FAD/current annuity rates.
- State pension/other pensions/assets.

October 2019 Examination - J05 Pension income options		
Question No.	**Syllabus learning outcomes being examined**	
1.	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.
2.	5.	Understand the regulatory requirements and legal framework designed to protect clients who are drawing pension benefits.
	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
3.	1.	Understand the HMRC rules that apply when pension benefits are crystallised.
4.	5.	Understand the regulatory requirements and legal framework designed to protect clients who are drawing pension benefits.
	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
5.	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
	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
6.	3.	Understand the features, tax treatment and risks of flexible benefit options.
7.	6.	Understand the State retirement benefits available.
8.	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
9.	6.	Understand the State retirement benefits available.
	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
10.	1.	Understand the HMRC rules that apply when pension benefits are crystallised.
11.	2.	Understand in detail the features, tax treatment and risks of lifetime annuities and scheme pensions.
	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
12.	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.
13.	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
14.	1.	Understand the HMRC rules that apply when pension benefits are crystallised.
15.	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.

All questions in the April 2020 paper will be based on English law and practice applicable in the tax year 2019/2020, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the October 2019 and April 2020 examination.

INCOME TAX

RATES OF TAX	2018/2019	2019/2020
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	£34,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
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 of £5,000.*

Dividend Allowance	£2,000
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)	£11,850	£12,500
Married/civil partners (minimum) at 10% †	£3,360	£3,450
Married/civil partners at 10% †	£8,695	£8,915
Marriage Allowance	£1,190	£1,250
Income limit for Married Couple's Allowance†	£28,900	£29,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,390	£2,450
Enterprise Investment Scheme relief limit on £2,000,000 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.
*** Investment above £1,000,000 must be in knowledge-intensive companies.*

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)	£118
Primary threshold	£166
Upper Earnings Limit (UEL)	£962

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 166.00*	Nil
166.01 – 962.00	12%
Above 962.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £118 per week. This £118 to £166 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 166.00**	Nil
166.01 – 962	13.8%
Excess over 962.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.00 where profits exceed £6,365 per annum.
Class 3 (voluntary)	Flat rate per week £15.00.
Class 4 (self-employed)	9% on profits between £8,632 - £50,000. 2% on profits above £50,000.

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
2018/2019	£1,030,000
2019/2020	£1,055,000

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
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*
2018/2019	£40,000*
2019/2020	£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	2018/2019	2019/2020
	£4,000	£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	2018/2019	2019/2020
Individuals, estates etc	£11,700	£12,000
Trusts generally	£5,850	£6,000
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	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 (2018/2019), two years (2019/2020).*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2018/2019	2019/2020
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*	£125,000	£150,000
- 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 2019/2020:

- The percentage charge is 16% 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 19%.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 22%.
- Cars with CO_2 emissions of 95g/km have a percentage charge of 23% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 165g/km and above).

There is an additional 4% supplement for diesel cars not meeting Euro 6 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 (£24,100 for 2019/2020) e.g. car emission 90g/km = 22% on car benefit scale. 22% of £24,100 = £5,302.

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

	2018/2019 Rates	2019/2020 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

	2018/2019	2019/2020
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£200,000	£1,000,000
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%	6%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Electric charging points	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:	50 or less*	51-110	111 or more
Capital allowance:	100% first year	18% reducing balance	6% reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2018/2019	2019/2020
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	17.20	17.60
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 110.75	Up to 111.65
Attendance Allowance	Lower rate	57.30	58.70
	Higher rate	85.60	87.65
Basic State Pension	Single	125.95	129.20
	Married	201.45	201.45
Single Tier State Pension	Single	164.35	168.60
Pension Credit	Single person standard minimum guarantee	163.00	167.25
	Married couple standard minimum guarantee	248.80	255.25
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment*		2,000.00	2,000.00
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	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		145.18	148.68

**Only applicable where spouse or civil partner died before 6 April 2017.*
*** Only applicable where spouse or civil partner died on or after 6 April 2017.*

CORPORATION TAX

	2018/2019	2019/2020
Standard rate	19%	19%

VALUE ADDED TAX

	2018/2019	2019/2020
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 £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 and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown 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.

First-time buyers benefit from SDLT relief on purchases up to £500,000 when purchasing their main residence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,000 and £500,000, a flat rate of 5% is charged on the balance above £300,000.

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