AF7

Advanced Diploma in Financial Planning

Unit AF7 – Pension transfers

September 2022 Examination Guide

SPECIAL NOTICES

Candidates entered for the March 2023 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.

AF7 – Pension Transfers

Contents

This PDF document is accessible through screen reader attachments to your web browser and has been designed to be read via the speechify extension available on Chrome. Speechify is a free extension that is available from **https://speechify.com/**. If for accessibility reasons you require this document in an alternative format, please contact us at **online.exams@cii.co.uk** to discuss your needs.

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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 candidates' knowledge and their ability to apply this to a case study scenario. You can then use this understanding to help you in your preparation for the examination.

Before the examination

Read the Qualifications Brochure
Details of administrative arrangements and the regulations which form the basis of your examination entry are to be found in the current CII Qualifications Brochure and important notes for candidates, which is *essential reading* for all candidates. It is available online at www.cii.co.uk.

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 Advanced Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Diploma 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 tax tables printed at the back of the Examination Guide. The tax tables are provided as part of the examination and 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 use your own tax tables in the examination.*

Know the structure of the examination

Assessment is by means of a two-hour online paper in two sections. All questions are compulsory:

Section A consists of 34 marks.
Section B consists of two case studies worth a total of 66 marks.

You will be expected to carry out a variety of tasks based upon the information provided.

Each question part will clearly show the maximum marks which can be earned.

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

Details of administrative arrangements and regulations which form the basis of your examination entry are available online at https://www.cii.co.uk/learning/qualifications/assessment-information/. This is *essential reading* for all candidates.

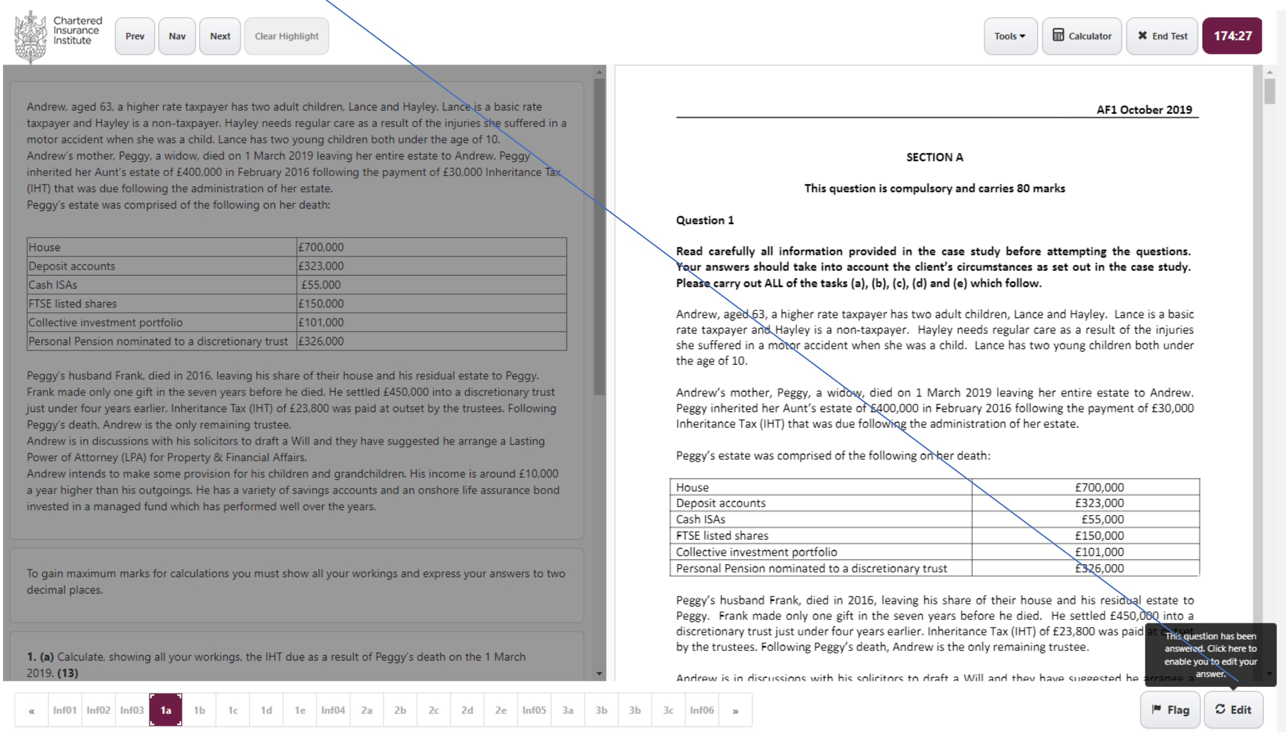
On-screen written exam demonstration (Demo 1)

The familiarisation test allows you to experience using the assessment platform before your exam. You can try the familiarisation test at any time: [on-screen written exam demonstration (Demo 1)]

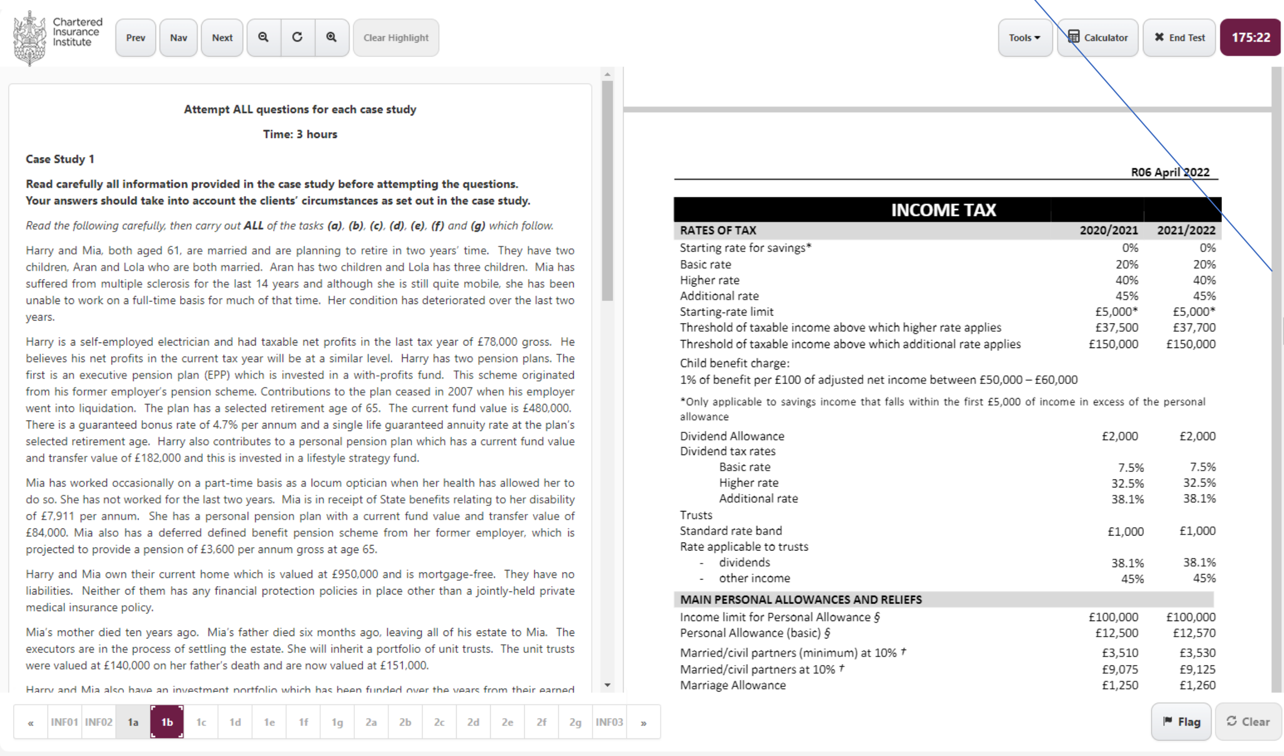
Please note, although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

The demonstration test is designed to allow you to go through the end-to-end process from logging in, to answering test questions, before the day of your exam. **We strongly advise that you try the demonstration test once you have received your login details and well in advance of the actual exam day to help pre-empt any potential exam day technical issues.**

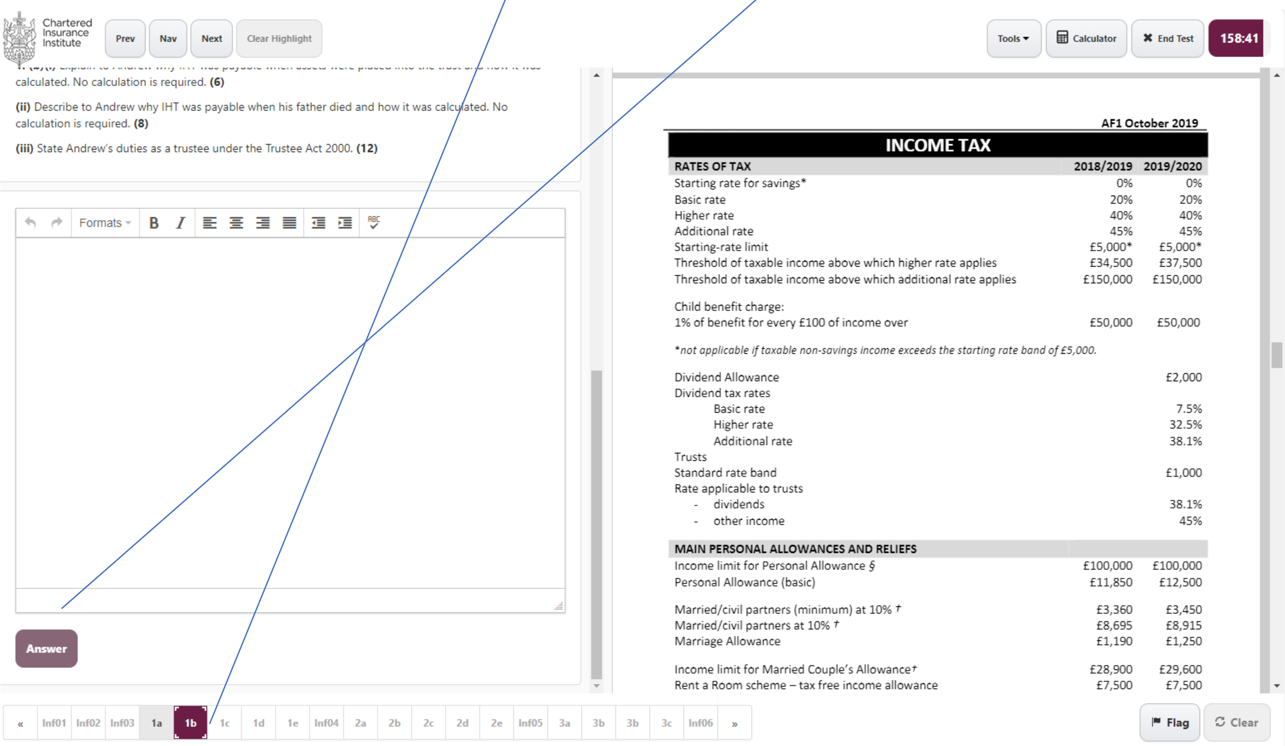
1. From the demonstration test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press '**Answer**' for the question you are already in otherwise it will not let you select a previous question you have answered to edit.



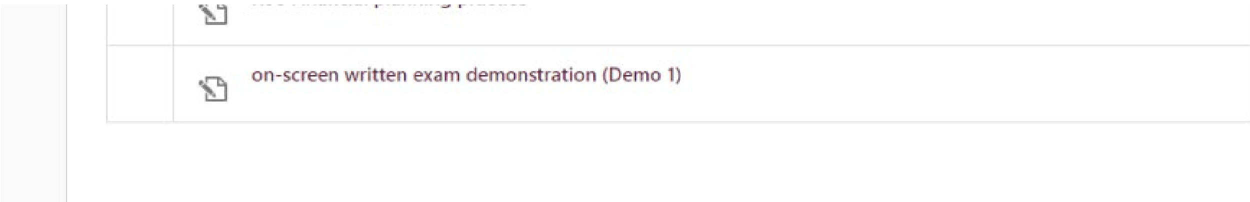
2. Tax tables and supplementary information are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam. Scroll up and down using the navigation bar.



3. Once you have typed in your answer ensure you click the red '**Answer**' box, this will save your answer and move you onto the next question. Furthermore, please do not type all of your answers for every question into the answer space for Q1a. You should familiarise yourself with all questions prior to starting the exam.



4. On the day of the AF7 exam, please click **AF7 Pension transfers**



5. The above screenshot shows the point before the examination has started; you may wish to take a moment at this screen to jot down any notes on paper that may assist you during the exam. **Please note, the exam timer will not start until you click the exam titled: AF7 Pension transfers.**

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. You can use the flag button to indicate which questions are incomplete.

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

- Many candidates finish the examination 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 answering.
- 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. 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.

Marks are not lost due to poor spelling or grammar.

Calculators

The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation, even if you have used a calculator.

EXAMINERS' COMMENTS

General

Overall performance was good and broadly in line with that of the previous sitting in May 2022.

We are still seeing a high proportion of candidates either not answering the specific question being asked; or not taking into account the circumstances outlined in the case study when answering certain questions.

Question 1

Often with questions relating to syllabus area 1.1, compliance/regulatory, performance tends to be mixed with either candidates performing to a high standard or not performing well.

It is hard to make an educated guess on this type of question as the answers have to be quite specific to reflect the exact wording in the regulations or FCA handbook in order to achieve the marks available.

Question 2

Most candidates performed very well on this question however it was surprising that a significant number of candidates did not obtain the mark for 'age Nadeem wants to retire'. Given that the guaranteed annuity rate quoted was only available at age 65, the age at which the individual intends to retire is an important piece of additional information that would be required.

Question 3

It was pleasing to see the majority of candidates performing very well on this question.

Where candidates did not gain marks, it tended to be where they stated a particular risk but then went on to describe a different risk. For example, some candidates stated Investment Risk as one of the four key risks (which is correct and gained a mark) but they then went on to give a description of Sequencing Risk. Whilst Investment Risk and Sequencing Risk both have a connection to investment returns, they are different and distinct risks.

Question 4

Well prepared candidates performed well with some candidates achieving the maximum marks available. However, a significant number of candidates did not show enough knowledge of the subject area being tested and overall performance was disappointing.

Quite a few candidates explained why it would have a value assigned by HMRC which is not what the question asked.

Question 5

This question has been tested before and candidates performed very well. Where candidates did not gain marks, tended to be as a result of not gaining the mark for 'that the individual must have ceased their occupation/job' or for confusing 'ill-health early retirement' with 'serious ill-health'.

Some candidates also had stated 'must have a life expectancy of less than 12 months', which is not correct in the context of the question asked.

Question 6

In part (a), the syllabus area being tested has not been for a while and overall candidates' performance was below expectations.

Whilst some candidates gained full marks, a high proportion of candidates thought the spouse's pension would be tested against the LTA and the death in service benefits (provided under a registered group life arrangement) would not be tested, when in fact it is the other way around.

Question 7

Performance on this question was generally quite good. Where candidates did not gain marks, it tended to be a result of simply stating facts as opposed to 'explaining the reasons' which is what the question asked for.

As an example, simply stating 'the scheme provides secure income' is not in itself an explanation of a reason for staying in the scheme. The reason for staying in the scheme is because he wants his wife to receive secure income upon his death and the scheme would meet this objective. Likewise, stating 'the scheme escalates benefits in payment at 5%' is not in itself an explanation of a reason. Stating that the 5% fixed increases are 'more generous than most schemes' or 'more generous than statutory increases' or 'will help to offset the future effects of inflation' etc are all an explanation of a reason for staying in the scheme.

Question 8

This type of question has been asked several times before and was generally well answered by candidates.

Question 9

It is important to read a question carefully. This question required candidates to identify the additional information required in respect of **both** schemes, Robert's scheme or Veronica's scheme. Those candidates who understood this, split their answer into the right categories and performed well.

Candidates who provided a generic list of additional information were still awarded marks where possible, but by not reading the question carefully, it was not possible for these candidates to gain full marks.

Question 10

The majority of candidates performed very well on part (a) of this question, with most achieving the maximum marks available.

In part (b), performance was mixed with only a few candidates gaining six marks or above.

Quite a few candidates didn’t link their answer to the information in the case study and simply listed generic questions they would ask to establish Capacity for Loss - this is not what the question asked and as a result those candidates tended to not perform well as their answers did not match the question.

Question 11

Overall performance on this question was very good with a high proportion of candidates getting more than half of the marks available and a few gaining maximum marks.

Unit AF7 – Pension transfers

Instructions to candidates

Read the instructions below before answering any questions.

All questions in this examination are based on English law and practice applicable in the tax year 2022/2023, 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.

If you are sitting via remote invigilation please

- **Write down the following number +44 (0)80 8273 9244 this is the number to use if your system freezes or you get forced out of your exam. It is fine to phone it if you have these issues.**
- Show your ID to the camera now, if you did not do so during the ID checks.
- Show the edge of your screen with a mirror, if you did not do this during the room scan.
- Show any blank sheets of paper for notes, if you did not show both sides to the camera during the room scan.

If you are sitting in a test centre and encounter a problem, please alert the invigilator.

For candidates sitting via remote invigilation or at a test centre

- **Two hours** are allowed for this paper which carries a total of 100 marks as follows:
- Section A: 34 marks
- Section B: 66 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.
- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation, even if you have used a calculator.
- **Tax tables are provided at the right-hand side of the interface after the question paper, this is different to the multiple choice exams.**
- Supplementary information is also included at the end of the tax tables on the right-hand side of the interface.
- For each answer, please type in the full question number you are answering e.g., 1
- **Please note each answer must be typed in the correct corresponding answer box.**
- **If you are wearing headset, earphones, smart watch please take them off. No watches are allowed.**
- Please familiarise yourself with **all** questions before starting the exam.

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

SECTION A

The following questions are compulsory and carry a total of 34 marks

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

1. When considering the potential transfer of benefits from a defined benefit pension scheme, the Financial Conduct Authority (FCA) requires advisers to undertake an appropriate pension transfer analysis (APTA).

Outline the elements that the FCA expect an adviser to consider when undertaking an APTA. **(12)**

2. Nadeem, aged 64, is married to Rabina, aged 58. Nadeem has a Retirement Annuity Contract (RAC) valued at £200,000 that contains a Guaranteed Annuity Rate (GAR) of 9.5%, which is only payable at age 65 on the following basis:

- 50% spouse's pension;
- no escalation;
- payable annually in arrears.

State the additional information you would require from Nadeem in order to advise him whether to accept the GAR or transfer to an alternative arrangement. **(9)**

3. Sabrina, aged 62, is considering transferring out of her employer's defined benefit pension scheme to access her pension benefits flexibly.

Identify and explain briefly, the **four** key risks Sabrina will be subject to if she chooses to transfer. **(8)**

4. Olla has recently been widowed. Her late husband, David, completed a transfer of his defined benefit pension scheme benefits into a personal pension plan, six months before he died following a lengthy illness. David left his entire estate to Olla.

HMRC has assigned a value to the defined benefit transfer for Inheritance Tax (IHT) purposes.

Outline how the value assigned to the defined benefit transfer will be treated for IHT purposes. **(5)**

Total marks available for this question: 34

SECTION B

All questions in this section are compulsory and carry an overall total of 66 marks

Case study 1

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

Ivo, aged 54, is married to Mary, aged 51. They have two children, Adam, aged 10, and Chloe, aged 8. Ivo has a self-invested personal pension plan (SIPP) valued at £241,000. He is a member of his current employer's workplace pension scheme valued at £99,950 and their registered death-in-service scheme with a current lump sum benefit of £300,000. Mary has a personal pension plan (PPP) valued at £114,000. They have cash saving of £105,000.

Mary is in good health with a family history of longevity, but Ivo has a congenital heart defect. He has been told that his life expectancy will likely be reduced but there is no way to know by how much. Although he is aware he may be eligible to retire early due to his health issues he is keen to continue working as long as he is able, even if he must reduce his hours.

Ivo has preserved benefits accrued under a defined benefit pension scheme, as follows:

	Larkin Ltd
Date of joining scheme	July 1988
Date of leaving scheme	January 2010
Normal retirement age	65
Current revalued pension	£20,500 per annum (gross)
Revaluation in deferment	Statutory
Escalation in payment	All benefits receive fixed 5% per annum increases
Early retirement	From age 60 with an actuarial reduction of 6% per annum
Death benefits pre-retirement	Spouse's pension of 50% of member's pension at date of death plus a 25% dependant's pension for each child payable until age 18 or 21 if in full time education.
Death benefits post retirement	As per pre-retirement benefits
Scheme funding	Underfunded
Transfer value reduced/enhanced	No
Cash equivalent transfer value (CETV)	£585,002

Ivo wants to ensure Mary has sufficient secure income should his condition worsen and he dies prematurely. Mary could then reduce her working hours to look after their children.

Both Ivo and Mary will receive their State Pension at age 67 but are unsure what level of income they will need in retirement. They have a low to medium attitude to risk.

Following an analysis of Ivo and Mary's income and expenditure, it has been ascertained that if Ivo were to die today, Mary would have a net income shortfall until she reaches State Pension age of £2,000 per month before any death benefits are taken into account. This figure assumes that Mary reduces her working hours and receives a salary of £20,000 per annum (gross).

Questions

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

5. Outline the HMRC requirements for Ivo to be eligible to take his scheme pension on the grounds of ill-health. **(4)**

6. If Ivo were to die immediately:

(a) State the Lifetime Allowance (LTA) treatment of the various benefits payable upon Ivo's death. **(4)**

(b) Explain briefly, the death benefits that would be payable from the Larkin Ltd scheme and outline how these could assist Mary in meeting her income shortfall until State Pension age. **(6)**

7. You have recommended that Ivo does not transfer his defined benefit pension scheme at this time.

Explain the reasons for this recommendation. **(12)**

8. Explain how Ivo's benefits from his defined benefit pension scheme would be affected if the scheme were to enter the Pension Protection Fund before Ivo reaches the scheme's normal retirement age.
Your answer should assume that Ivo does not take his benefits early on the grounds of ill-health. **(5)**

Total marks available for this question: 31

Case study 2

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

Robert is approaching his 65th birthday. He lives with his wife Veronica, aged 62, and they have now decided to retire. They have two financially independent children, and several grandchildren. They are both in good health with a family history of longevity.

Robert has a personal pension plan (PPP) valued at £536,506 in flexi-access drawdown (FAD). He took the full pension commencement lump sum (PCLS) five years ago to repay their mortgage. He has utilised 53% of his Lifetime Allowance to date and has no transitional protection in place.

In addition to £250,000 in cash savings, Robert has a stocks and shares ISA valued at £188,000 and Veronica has a stocks and shares ISA valued at £176,000. They also have an offshore investment bond valued at £405,000. They have no liabilities.

They both have preserved benefits accrued under defined benefit pension schemes. Their benefits are summarised as follows:

Owner	**Robert's benefits**	**Veronica's benefits**
Employer	Taylor Ltd	Rosengart Ltd
Date of joining scheme	1 April 1987	3 March 1990
Date of leaving scheme	1 April 2001	1 July 2005
Normal retirement age (NRA)	65	65
Scheme pension at NRA	£18,800 per annum (gross)	£15,155 per annum (gross)
Escalation in payment	Inflation capped at 5%	Statutory
Spouse's pension	Two-thirds of member's pre-commutation pension	50% of member's pre-commutation pension
Cash equivalent transfer value (CETV)	£658,000	£470,000

Robert and Veronica feel they need a guaranteed net income of £24,000 per annum to cover their essential expenditure and would like this income to increase in line with inflation. They will both receive full State Pensions at age 66.

They are keen to ensure that their two children inherit some pension assets where possible on first death. Veronica has a medium attitude to risk and Robert is more cautious.

Questions

9. Identify the additional information you would require from the administrators of both Robert and Veronica's defined benefit pension schemes before making a personal recommendation.
Specify whether the information being requested applies to both schemes or one particular scheme. **(10)**

10. Having established Robert and Veronica's attitude to risk, you are now assessing their capacity for loss.

(a) Explain the difference between attitude to risk and capacity for loss. **(2)**

(b) Outline the factors you would consider when assessing their capacity for loss, based on the information in the case study. **(8)**

11. You have recommended that Robert commences his scheme pension and that Veronica transfers her defined benefit pension scheme entitlement to a personal pension plan.

Explain in detail why you have made these recommendations, based on the information in the case study. **(15)**

Total marks available for this question: 35

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

Candidates would have scored full marks for any twelve of the following:
- Rates of return should reflect the underlying investments selected.

- FCA prescribed assumptions should be used.

- Impact of transferring on the members tax position;
- and any means tested State benefits.

- Comparison between schemes;
- in respect of the pattern of income/income objectives;
- and the death benefits;
- and the charges.

- An age beyond average life expectancy used for any planning calculations.

- Consider alternative ways of meeting client objectives;
- and any trade-offs needed to prioritise client needs.

- More cautious assumptions should be used whenever appropriate.

- A Transfer Value Comparator should be produced.

- Cashflow model;
- including stress testing.

Model answer for Question 2

Candidates would have scored full marks for any nine of the following:
- Age he wants to retire.
- Income requirements in retirement.
- Other pension provision/other assets/Capacity for Loss.
- Spouse's pension provision/spouse's income.
- Attitude to Risk
- Need for secure income/need for flexible income.
- Health/family longevity.
- Need for inflation protection.
- Legacy requirements/need for death benefits.
- Tax position.

Model answer for Question 3

- **Longevity risk**
- Is the risk of living longer than anticipated/outliving pension pot.

- **Investment/market risk**
- Is the risk of poor performance/investment loss.

- **Inflation/economic risk**
- Is the risk of investment growth being less than inflation/loss of purchasing power/higher, unsustainable withdrawals required.

- **Sequencing risk**
- Is the risk that comes from the order in which investment returns occur/risk of withdrawals in a declining market.

Model answer for Question 4

Candidates would have scored full marks for any five of the following:
- A discounted value of CETV will be calculated.

- It is not covered by the spousal exemption;
- and is treated as a chargeable (lifetime) transfer;
- although any available lifetime gift exemptions could be used (2 x £3000).

- As a result, some of David's Nil Rate Band (NRB) will be used;
- increasing the IHT payable on Olla's death/reducing the amount of transferable NRB for planning.

Case Study 1

Model answer for Question 5

- The scheme administrator must be provided with medical evidence that;
- Ivo is unable to continue to work;
- and is unlikely to recover.
- Ivo must have ceased that occupation/his current job.

Model answer for Question 6

(a)
- The Death in Service will count against the LTA.
- The SIPP will count against the LTA.
- The work place pension will count against the LTA.
- The spouse's pension will not count against the LTA.

(b)
- Pension income of £10,250 gross per annum/50% for Mary.
- Children's pension of £5,125 gross per annum/25%.
- To age 18/21 in full time education.
- Payments would increase annually by 5%.
- Mary would receive her payment directly to assist with income shortfall;
- and could use some of the monies payable to the children to cover their education and maintenance costs.

Model answer for Question 7

Candidates would have scored full marks for any twelve of the following:
- He does not need to transfer now; and
- he is not ceasing work/he is not retiring now; and
- his current death benefit objectives can be met; and
- he can transfer later should circumstances change.

- The scheme provides a spouse's pension; and
- a children's pension; and
- the children are still young.

- The pension lump sum/DC pensions can provide a legacy for the children.
- Unsure of future income requirements.
- SIPP fund can provide variable income (once he is 55) during next few years if required.
- The scheme has generous inflation protection in payment.
- Potential to breach the LTA if transferred.
- Transfer not suitable for ATR.
- Other than state pensions, it is their only form of secure income.

Model answer for Question 8

- 90%
- of full pension
- Escalation would <u>reduce</u> to
- pre 97 receives no increases
- remainder at CPI capped at 2.5%

Case Study 2

Model answer for Question 9

- Scheme funding position/Strength of the employer covenant.
- Any reduction/enhancement of the CETVs.
- Are partial transfers allowed.
- Commutation factors/level of PCLS.
- Split of the pension scheme benefit elements.
- Any guarantee period or lump sum death benefits.

- Definition of inflation for Robert's scheme.
- Late retirement factors for Robert's scheme.

- Increases in deferment for Veronica's scheme.
- Early retirement factors in Veronica's scheme.

Model answer for Question 10

(a)
- ATR is the degree of uncertainty a client is willing to accept in the hope of receiving higher returns.
- CFL is the client's ability to absorb falls in the value of their investments without it adversely affecting their standard of living/whilst still meeting their objectives.

(b)
- They are about to retire.
- They have no financial dependants.
- They have no outstanding debt.
- Their likely income needs in retirement will be met by secure DB/State pension income.
- Their planned capital expenditure is likely to be covered by their cash assets.
- They have other investments/pensions that can provide income in retirement.
- They are both in good health/have a history of longevity in their families/would still have sufficient secure income on first death.
- Their DB pensions/State Pensions are inflation proofed.

Model answer for Question 11

Candidates would have scored full marks for any fifteen of the following:

- They can meet their secure income retirement objectives,
- when Robert receives his State Pension at 66.

- They have joint CFL to support transfer.
- They want essential income to be covered by secure (guaranteed) income.
- Robert's DB pension pays higher income than Veronica's scheme to meet essential expenditure.
- Robert's scheme provides a higher spouse's pension/Veronica's scheme provides a lower spouse's pension.
- Robert's DB pension income has better inflation protection.
- No reduction on Robert's DB pension as he is at NRA.
- Robert likely to have a Lifetime Allowance issue if he transfers his defined benefit pension.
- He has cautious ATR (which does not suit a transfer).
- He already has some DC retirement benefits;
- which provides potential legacy for the children on his death.

- Transfer of Veronica's scheme will provide potential lump sum/legacy benefits for children on her death.
- Can access benefits flexibly when required.
- Potential for growth.
- She has medium/appropriate ATR.

Glossary of terms

Some abbreviations candidates can you use in financial planning online exams:

1. ATR – attitude to risk
2. BRT – Basic rate taxpayer
3. BIK – Benefit in kind
4. CLT – Chargeable Lifetime Transfer
5. CFL – capacity for loss
6. CGT – Capital Gains Tax
7. DOV – Deed of variation
8. DIS – Death-in-Service
9. DFM – Discretionary Fund Manager
10. ESG – Environmental, Social and Governance
11. EPT – Excluded Property Trust
12. EPA – Enduring Power of Attorney
13. ERC – Early repayment charges
14. FAD – flexi access drawdown
15. FSCS – Financial Services Compensation Scheme
16. FOS – Financial Ombudsman Service
17. GAR – guaranteed annuity rate
18. HRT – Higher rate taxpayer
19. IHT – Inheritance Tax
20. IT – Income Tax
21. IVA – Individual Voluntary Arrangement
22. LPA – Lasting Power of Attorney
23. LTA – lifetime allowance
24. MVR – market value reduction
25. MPAA – money purchase annual allowance
26. NICs – National Insurance contributions
27. NPA – Normal pension age
28. NRA – Normal retirement age
29. NRB – nil rate band
30. OPG – Office of the Public Guardian
31. OEIC – open ended investment company
32. PAYE – Pay As you Earn
33. PPP – personal pension plan
34. PCLS – pension commencement lump sum
35. PA – Personal Allowance
36. PSA – Personal Savings Allowance
37. RAC – retirement annuity contract
38. RNRB – residence nil rate band
39. SIPP – self-invested personal pension plan
40. SEIS – Seed Enterprise Investment Scheme
41. UFPLS – uncrystallised fund pension lump sum
42. VCT – Venture Capital Trust

All questions in the March 2023 paper will be based on English law and practice applicable in the tax year 2022/2023, unless stated otherwise and should be answered accordingly.

The Tax Tables and Supplementary Information which follow are applicable to the September 2022 and March 2023 examinations.

INCOME TAX

RATES OF TAX	2021/2022	2022/2023
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	£150,000

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*

Dividend Allowance	£2,000	£2,000
Dividend tax rates		
Basic rate	7.5%	8.75%
Higher rate	32.5%	33.75%
Additional rate	38.1%	39.35%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	38.1%	39.35%
- other income	45%	45%

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% †	£3,530	£3,640
Married/civil partners at 10% †	£9,125	£9,415
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance†	£30,400	£31,400
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,520	£2,600
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)	£2,845	£2,935
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,480	£17,005

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	13.25%
Above 967.00	3.25%

**£190 per week/£9,880 per annum before 6 July 2022.*
***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.*

Total earnings £ per week	**CLASS 1 EMPLOYER CONTRIBUTIONS**
Below 175.00***	Nil
175.00 – 967.00	15.05%
Excess over 967.00	N/A

**** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.15 where profits exceed £6,725 per annum.
Class 3 (voluntary)	Flat rate per week £15.85.
Class 4 (self-employed)	10.25% on profits between £11,908 – £50,270. 3.25% 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 – 2022/2023	£1,073,100

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.

ANNUAL ALLOWANCE

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

**Reducing 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.*

MONEY PURCHASE ANNUAL ALLOWANCE	2021/2022	2022/2023
	£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	2021/2022	2022/2023
Individuals, estates etc	£12,300	£12,300
Trusts generally	£6,150	£6,150
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%
Business Asset Disposal Relief* – Gains taxed at:	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	2021/2022	2022/2023
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers		
- 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 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
- 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%

PRIVATE VEHICLES USED FOR WORK

	2021/2022 Rates	2022/2023 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
Motorcycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2021/2022	2022/2023
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000
Plant & machinery* first year allowance for companies to 31/3/2023: Super-deduction		130%
Special rate		50%
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	6%	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 1 April 2016 (Corporation Tax) or 6 April 2016 (Income Tax)

CO_2 emissions of g/km:	0*	1-50	Over 50
Capital allowance:	100% first year	18% reducing balance	6% reducing balance

**If new and unused*

MAIN SOCIAL SECURITY BENEFITS

		2021/2022	2022/2023
		£	£
Child Benefit	First child	21.15	21.80
	Subsequent children	14.00	14.45
	Guardian's allowance	18.00	18.55
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 59.20	Up to £61.05
	Aged 25 or over	Up to 74.70	Up to £77.00
	Main Phase		
	Work Related Activity Group	Up to 104.40	Up to 107.60
	Support Group	Up to 114.10	Up to 117.60
Attendance Allowance	Lower rate	60.00	61.85
	Higher rate	89.60	92.40
Basic State Pension	Single	137.60	141.85
	Married	275.20	283.70
New State Pension	Single	179.60	185.15
Pension Credit	Single person standard minimum guarantee	177.10	182.60
	Married couple standard minimum guarantee	270.30	278.70
	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	59.20	61.05
	Age 25 or over	74.70	77.00
Statutory Maternity, Paternity and Adoption Pay		151.97	156.66

CORPORATION TAX

	2021/2022	2022/2023
Standard rate	19%	19%

VALUE ADDED TAX

	2021/2022	2022/2023
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 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

Additional SDLT rules still apply as below:

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 may be 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%

SUPPLEMENTARY INFORMATION PENSION PAPERS – AF7 2022/2023

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.

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%