Chartered Insurance Institute

J05

Diploma in Financial Planning

Unit J05 – Pension income options

September 2024 Examination Guide

SPECIAL NOTICES

Candidates entered for the March 2025 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

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 an 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 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. 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 On-screen written exam.
- All questions are compulsory.
- The On-screen written exam 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.

On-screen written exam familiarisation

The familiarisation test allows you to experience using the assessment platform before your exam. Please note that while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality. This test is for the purpose of familiarisation with the assessment platform only. You can also access past exam papers here: https://www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/exam-papers-and-test-specifications/

You can access the familiarisation test at any time.

https://www.cii.co.uk/learning/qualifications/assessment-information/on-screen-written-exams-by-remote-invigilation/exam-familiarisation/

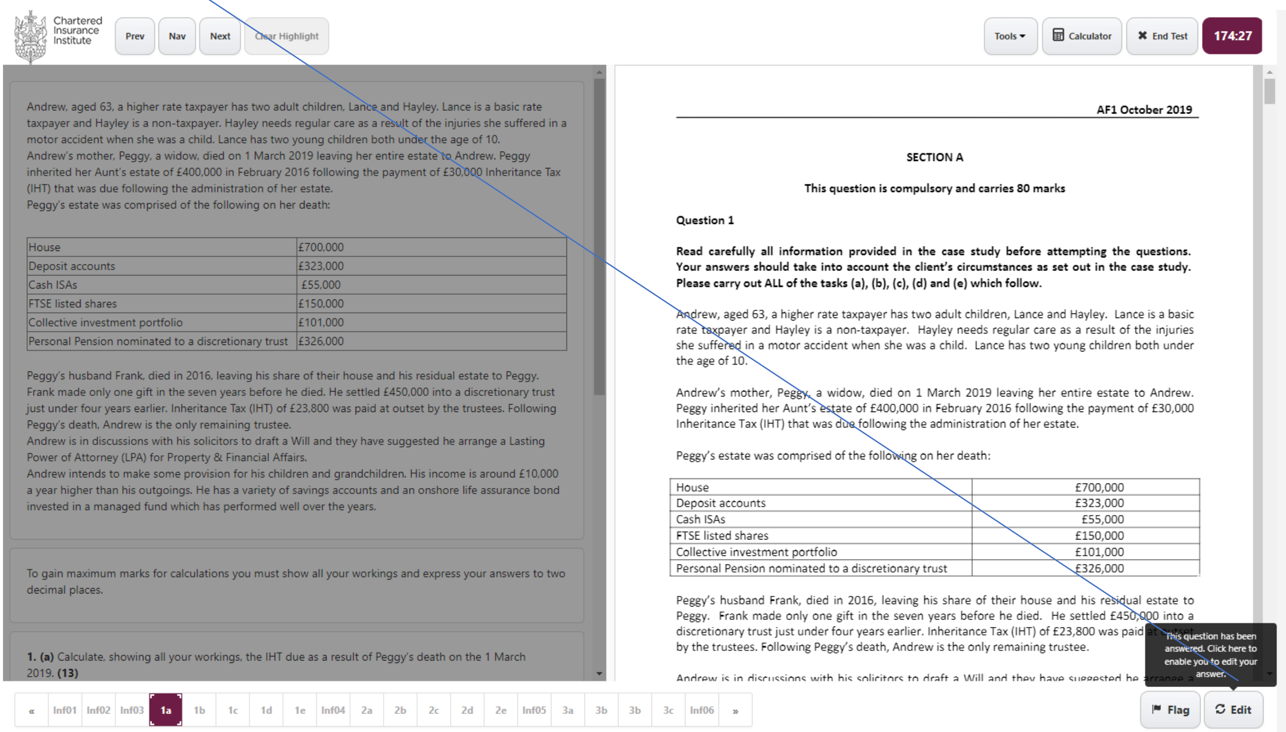
Although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

We strongly advise that you try the familiarisation test once you have received your login details and well in advance of the actual exam day.

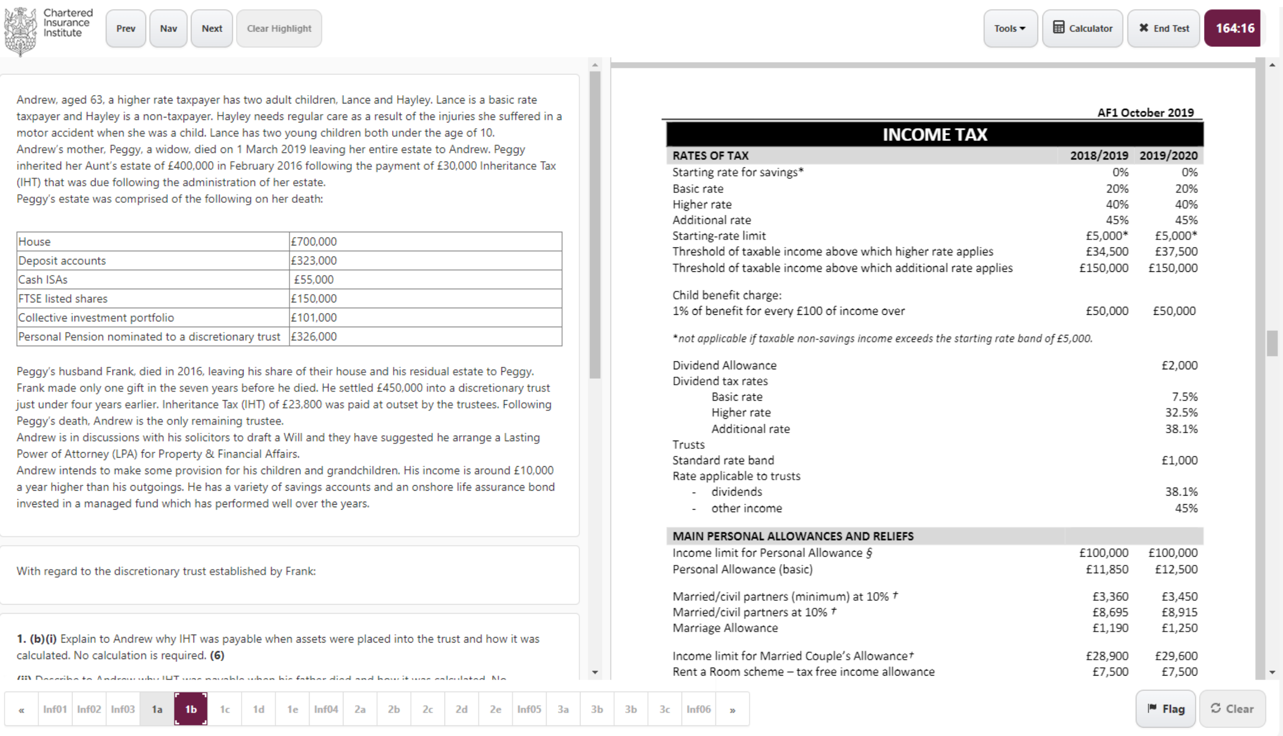
Please note you are strongly advised not to use a laptop provided by your employer.

Laptops and IT equipment provided by your employer typically include security protocols that conflict with any remote invigilation software. You should also avoid using a corporate Wi-Fi or any other internet connection that may include firewalls that you cannot personally control.

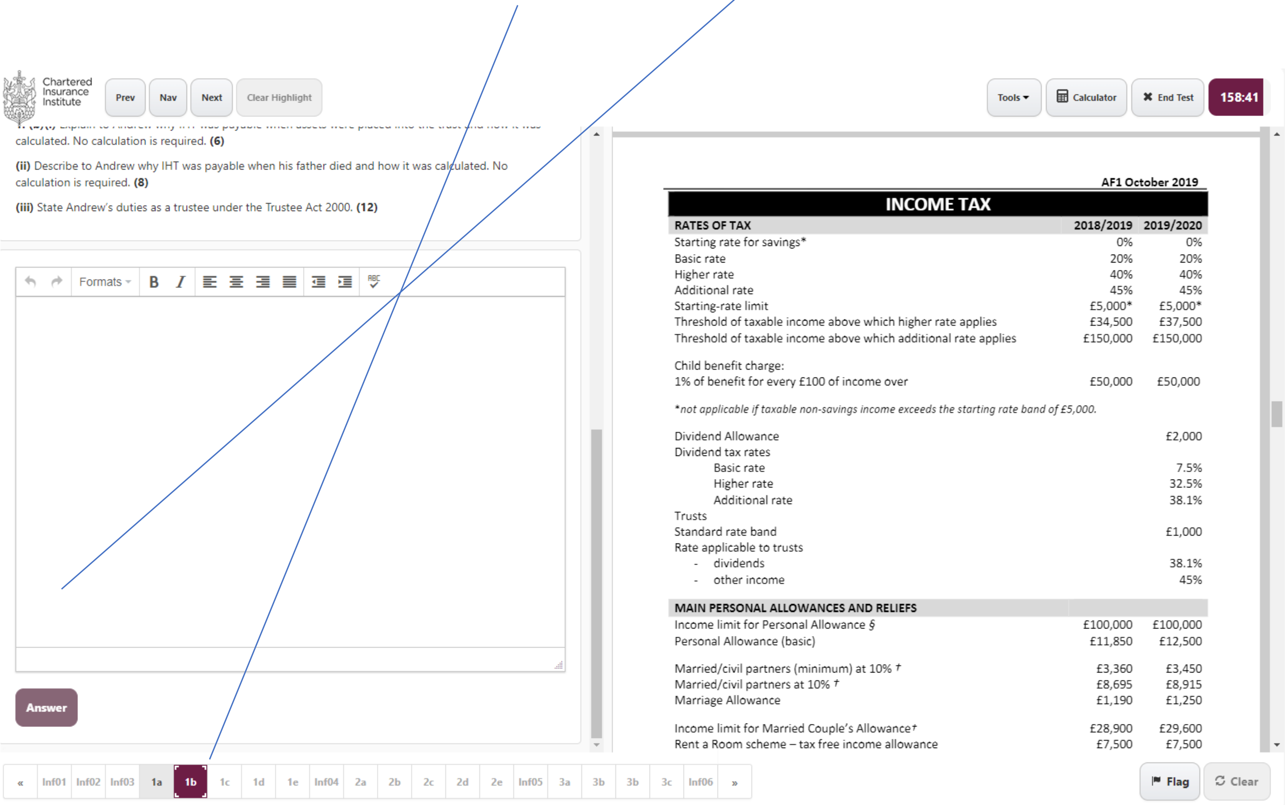
1. From the familiarisation test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them.



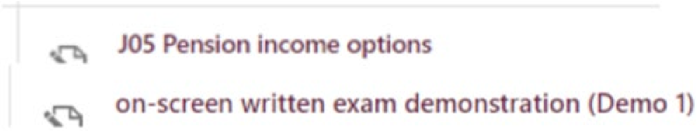
2. Tax tables are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam.



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. Unless you press 'Answer', you will not be permitted to move onto other questions. 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 J05 exam, please click J05 Pension income options



5. The above screenshot is also a space where you can 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: J05 Pension income options.

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, 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.

Candidates will **not** lose marks 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. You are permitted to use your own calculator.

Tips for laying out calculations in on-screen written exams

Where you are asked to perform a calculation, it is important to show **all the steps** in your answer. Most of the marks will be allocated for demonstrating the correct method of calculation.

While there are no marks for presentation, laying the calculation out well will make it easier for the examiner to identify all of the marks you have achieved. It does not matter how long the calculation is, if it is well set out. There is no preferred format but following the below guidelines is often helpful:

- Set out each stage of your calculation on a separate line.
- Label the values used i.e. in the Lifetime Allowance (LTA) calculation:
    - LTA 2021/22 - £1,073,100
    - Scheme Pension - £22,750
- Identify all allowances, pension values, tax rate bands, used in £ terms.
- Identify all tax rates in % terms.
- Use subtotals, where appropriate: i.e.:
    - Excess over LTA: £1,217,500 - £1,073,100
    - =£144,400
    - X 25%
    - =£36,100

- Show all your workings, for example:
    - Capitalising the value of a scheme pension by 20 or 25

- Double check all of your figures, specifically:
    - That you have calculated each section correctly.
    - That you have added up all of your figures correctly.
    - That you have expressed all your answers to two decimal places where relevant.

EXAMINERS' COMMENTS

Candidates' overall performance

This session aimed to test candidates' knowledge across the breadth of the syllabus. We continue to test understanding of current legislation and of the issues in giving advice to clients on taking pension benefits. There were some newer areas included in this session such as question one, which dealt with the lump sum allowance (LSA) and transitional tax-free amount certificate, and question seven, which dealt with investment pathways – the latter having been around for a few years but not tested within this paper previously.

Overall, most candidates did enough to gain good marks across the paper and those who prepared well will have passed this session.

Question 1
This question dealt with the new lump sum allowance (LSA) and transitional tax-free amount certificate (TTFAC) and asked candidates to calculate the LSA and determine whether a TTFAC would be required. Some candidates did not understand how to complete the calculation, and some knew but were getting the order wrong (i.e. calculating the LSA which uses £268,275, prior to the standard calculation which uses 25%), or only completing the first part thereby missing out on the final bullet point by incorrectly stating that a TTFAC would be beneficial in this case, when the correct answer is that it would not be. There were however a fair few candidates that had clearly demonstrated a strong understanding and completed the calculation correctly, thereby reaching the correct conclusion. Understanding these subjects is of even greater importance than the previous lifetime allowance (LTA) rules, as under the old rules LTA details were captured and effectively calculated by pension providers. Whereas, under the new LSA rules, these details must be obtained and calculated by the adviser.

Question 2
This question sought to identify the factors that should be taken into account when advising on whether to accept a cash equivalent transfer value (CETV) and purchase a lifetime annuity rather than take a scheme pension and pension commencement lump sum (PCLS). Overall, this was well answered by candidates, however there were some who had not read the question correctly and were assuming the CETV was for flexi-access drawdown purchase rather than annuity purchase.

Question 3
This question focussed on death benefit nominations and was mostly well answered by candidates. Disappointingly, a small number of candidates failed to state the fundamentals – that it is at the trustees' discretion but outlines the individual's wishes.

Question 4
This question asked about circumstances in relation to the transfer of capped drawdown. While it has not been possible to set up a new capped drawdown arrangement since April 2015, there remains a cohort of retirees who retain their arrangements and as such this continues to be an area advisers should be familiar with and comfortable advising on. In part (a) some candidates struggled beyond stating the money purchase annual allowance (MPAA) would not be triggered; while in part (b) many candidates failed to state anything beyond 'like for like'. However, overall, this question was answered better than in previous sessions.

Question 5
Death benefits are a fundamental consideration when advising on pension income options. As expected most candidates did well with this question, identifying the key points in parts (a) in relation to the interaction between the guarantee period and spouse's pension (although a few candidates still struggle with this, assuming the two overlap when they do not); and in part (b) in relation to the options available and taxation including the relevance of the new lump sum and death benefit allowance (LSDBA) (albeit only a minority identified the latter correctly). Unfortunately, many candidates were confused between dependants, nominees and successors.

Question 6
As phased flexi-access drawdown (FAD) is one of the most commonly used retirement strategies, we would expect candidates to demonstrate a robust understanding in this area and most candidates did.

Question 7
This was the first time we have asked a question specifically focussing on investment pathways. Some candidates (who studied across the syllabus) did well picking up most of the marks for this question. However, many appeared to not have any understanding of investment pathways. While investment pathways are designed for non-advised investors, it is a requirement that financial advisers consider them as a solution for individuals considering entering a drawdown arrangement, and therefore it is a relevant area that should be understood by candidates.

Question 8
This question dealt with the impact on an individual's pension benefits of their defined benefit scheme entering the Pension Protection Fund (PPF) and on the whole, was well answered.

Question 9
It is important for candidates to have a strong grasp of state benefits relevant to those approaching or in retirement. This question focussed on an individual's national insurance record. Some candidates lacked understanding of this topic, in particular in relation to part (b), which dealt with how gaps can be filled including relevant timescales.

Question 10
This question asked candidates to identify the important factors when assessing a client's capacity for loss. Most candidates did well here, with a minority placing more emphasis on the question being in relation to a potential transfer and therefore providing a set of answers that did not necessarily relate to a client's capacity for loss.

Question 11
This question required candidates to apply their knowledge rather than simply state generic factors and has proved challenging in the past. In part (a), some candidates did not evidence that they understood why longevity risk was important to Anatole, with most failing to identify that an overestimation of life expectancy can be as risky as an underestimation, thereby missing out on bullet points 4 and 5. Part (b) seemed to be better understood but not always that well-articulated.

Question 12
This question focussed on a direct comparison between a lump sum drawn as uncrystallised funds lump sum (UFPLS) and pension commencement lump sum (PCLS). It is a central concept to pension income options and on the whole candidates did very well. There were some candidates who stated factors like health and attitude to risk which aren't relevant here – they are for broader retirement planning.

Question 13
Cashflow modelling is another important area in this paper. This question was generally well answered by candidates but where stress testing is part of the question, as it was in part (b), candidates would do well to examine this and previous exam guides to ensure they sufficiently grasp the manner in which we expect the question to be answered – a stress test is about more than simply stating assumptions (e.g. low investment returns), it is instead about stating how that assumption measures up to expectations (e.g. returns are much lower than expected).

Question 14
This question dealt with the factors that should be taken into account when carrying out an annual review of FAD and was well answered by candidates.

Question 15
This question dealt with the drawbacks of using an UFPLS to purchase a buy-to-let property and was well answered by candidates.

Unit J05 – Pension income options

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 2024/2025, unless stated otherwise in the question, and should be answered accordingly. It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

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 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.
- 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.
- Different to CII multiple choice exams, tax tables are provided at the right-hand side of the interface after the question paper.
- 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.

Attempt ALL questions

Time: 2 hours

*To gain maximum marks for calculations you **must** show **all** your workings and express your answers to **two** decimal places.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Explain to Anatole why:

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

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

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

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

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

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

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

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

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

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

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

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

Standard calculation:
- 25% x (55.82%
- x £1,073,100)
- = £149,751.11
- £268,275-£149,751.11
- = £118,523.89

LSA calculation:
- £268,275 – (£58,346 + £111,854)
- = £98,075 (ft)

- Therefore, it is not beneficial to apply for a TTFAC/if she doesn't she will be able to take the full 25% of £448,194 = £112,048.50 as it is within standard available PCLS.

Model answer for Question 2

Candidates would have gained full marks for any ten of the following:
- Any reduction applied by the scheme for early retirement.
- He has no dependants to benefit from the scheme pension/could buy a single life annuity/importance of death benefits.
- Other assets/pension income/future inheritances/downsizing/state pension/capacity for loss.
- He has no immediate planned capital expenditure/no apparent need for PCLS/could use the full CETV to buy annuity and maximise income.
- Requirement for inflation proofing/scheme escalation/could buy a level annuity.
- Health/life expectancy/longevity.
- Annuity rates/enhanced annuity rates available.
- Funding status of the scheme/CETV enhanced/reduced.
- Charges for setting up annuity.
- The CETV is likely to buy an annuity to meet his income needs.
- The scheme pension does not meet his income requirements in retirement/he could use the PCLS to top up his income to £21k p.a. until his State pension comes into payment.

Model answer for Question 3

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

- The scheme administrator still has discretion on who to pay benefits to;
- but it will mean she can outline her wishes for payment.
- Her husband is likely to be seen as next of kin/less likely her husband will benefit/ensures child will benefit.
- It does not require probate;
- and speeds up payment to beneficiaries.
- If no nomination and the ex-husband is treated as a dependant, then benefits to the adult child can only be paid as a lump sum.

Model answer for Question 4

(a) *Candidates would have gained full marks for any two of the following:*

- Retains ability to take an income from capped drawdown (within limits) and not trigger money purchase annual allowance (MPAA)/if she converts to flexi-access drawdown (FAD) and then takes any income from the plan she will trigger the MPAA.
- Will not impact on her current pension contributions/will reduce her ability to fund her pension in the future as planned.
- She will be able to designate additional uncrystallised funds to her new capped drawdown (assuming allowed by the arrangement).

(b) *Candidates would have gained full marks for any three of the following:*

- The transfer must be made to a new arrangement.
- On a like-for-like basis/must retain current maximum income limit/review cycle.
- All of the current plan assets must be transferred.
- The funds transferred must be kept separate from any other funds.

Model answer for Question 5

(a)

- Guarantee payable as income/annuity/£14,750/100%;
- for remainder of period/4 years/balance of 10 years;
- reducing to 50% thereafter.
- Taxable as Mia's pension income.

(b) *Candidates would have gained full marks for any seven of the following:*

- Lump sum.
- Dependant's;
- Flexi-access drawdown (FAD).
- Annuity.
- Paid tax free;
- if designated within 2 years of date of death;
- and within LSDBA for lump sum death benefits only.
- Taxable as pension income if paid to Mia outside of 2 years/over LSDBA.

Model answer for Question 6

(a)
- Pension commencement lump sum (PCLS) can be taken gradually.
- Death benefits are more flexible.
- The fund has potential for growth/no growth on annuity.
- Income can be varied/annuity income cannot be changed or stopped.
- Matches his attitude to risk/annuity does not meet his attitude to risk.
- Annuity rates maybe higher/may be eligible for an enhanced annuity in the future.

(b)
- Annuity rates may fall in the future.
- Continued investment risk/risk of fund erosion.
- Income is not guaranteed/longevity risk.
- Charges higher than a lifetime annuity.
- Does not benefit from mortality gain cross subsidy.
- Drawdown is more complex/requires reviews.

Model answer for Question 7

(a) *Candidates would have gained full marks for any two of the following:*
- Offers a ready-made/simple strategy/ investment;
- that is broadly aligned to investor needs/one size fits all;
- without requiring advice.

(b)
- No plans to touch money in the next 5 years.
- Plan to set up a guaranteed income/annuity in the next 5 years.
- Plan to start taking a long-term income/FAD in the next 5 years.
- Plan to take out all of the money/cash-in pension in the next 5 years.

Model answer for Question 8

- As she had not reached normal pension age before the scheme entered the Pension Protection Fund (PPF)/when the employer suffered an insolvency event;
- annual pension will reduce to 90%/to £20,070.
- Escalation will reduce from fixed 3%;
- to Consumer Prices Index (CPI);
- capped at 2.5%;
- Spouse’s pension will reduce to 50%.

Model answer for Question 9

(a)
- He was living abroad at some point.
- He was working but with low earnings/low profits.
- He was not working and not claiming any benefits.

(b)
- He can pay voluntary class 3 National Insurance contributions;
- for the past 6 years.
- He has until 5 April 2025*;
- to pay voluntary contributions to make up for gaps between April 2006 and April 2016/ and for 2016/17 and 2017/18.

******The 2023/24 study text shows this date as 31 July 2025. Any candidates who stated this date instead would have been awarded this point, although please note the correct date as the time of the exam was 5 April 2025.*

Model answer for Question 10

- Proximity to retirement/drawing an income/taking capital.
- Likely longevity/health/investment term.
- Any dependants/importance of death benefits.
- ATR.
- Income needs in retirement/expenditure/likely pattern of expenditure/anticipated income changes.
- Importance of safeguarded benefits/guarantees.
- Other financial objectives/retirement objectives/change in circumstances.
- Other investments/defined contribution pension funds/rental income/partner's assets/non-secure income sources.
- Secure income sources/State pension forecast.
- Capital needs/debt outstanding.

Model answer for Question 11

(a) *Candidates would have gained full marks for any four of the following:*
- If he lives longer;
- the fund may be depleted/risk of outliving pension funds;
- therefore, income may not be sustainable/may have to reduce income taken.
- If he overestimates how long the fund will be needed for/how long he will live;
- he may take lower withdrawals than the fund could provide.

(b) *Candidates would have gained full marks for any four of the following:*
- Personal life expectancy probability can take into account health;
- and so give a more accurate picture of life expectancy/timescale of withdrawals/tailor recommendations;
- helping to reduce the chance that the fund is exhausted before death.
- Average life expectancy is pooled data/takes account of all health categories;
- and as he is in excellent health it is likely he will outlive the average/it is likely to underestimate the length of time he will need to take withdrawals from the fund.

Model answer for Question 12

- Amount needed.
- Income/tax status.
- Pension commencement lump sum (PCLS) is tax free.
- Only 25% of uncrystallised fund pension lump sum (UFPLS) is tax free/75% of UFPLS is taxable.
- Taking UFPLS uses more fund/leaves less invested/PCLS would leave more invested.
- UFPLS results in Month 1 taxation/tax would need to be reclaimed.
- Taking UFPLS triggers money purchase annual allowance (MPAA)/loses carry forward/taking PCLS does not trigger MPAA/keep carry forward/has MPAA already been triggered.
- MPAA reduces contributions (£10,000)/contribution levels.
- Taking UFPLS will leave more PCLS/taking PCLS reduces future PCLS available.
- Pension value.
- Protected PCLS/available lump sum allowance (LSA).

Model answer for Question 13

(a) *Candidates would have gained full marks for any eight of the following:*

- Current and forecasted wealth/other assets/spouse or partners income.
- Income needs.
- Capital requirements/ad-hoc lump sums required.
- Change in income needs over time/change in circumstances/requirement for death benefits.
- Pension fund size/overall importance of pension in total assets.
- Tax position.
- Attitude to risk/capacity for loss.
- Assumptions inflation/investment growth/charges.
- Health/longevity/plan for longer than average life expectancy.

(b)

- Loss of source of income or capital assets/market crash.
- Future returns lower than expected.
- Income requirements greater than projected (e.g. long-term care).
- Unplanned/ad-hoc capital withdrawal.
- Inflation greater than anticipated.
- Living longer than expected.

Model answer for Question 14

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

- Previous year's investment performance/need for rebalancing/value.
- Was performance sufficient to provide required income;
- if not, capital erosion will occur for amount taken in excess of growth.
- Income/capital required.
- Change in attitude to risk/capacity for loss.
- Changes in legislation/taxation/regulation.
- Economic/market conditions/new products/inflation.
- Whether annuity required/continued suitability of flexi-access drawdown (FAD).
- State Pension/other income/other assets/ inheritances/ downsizing/ liabilities/tax status.
- Change in circumstances/health/death benefits.
- Charges.

Model answer for Question 15

- Property is within estate for Inheritance Tax purposes.
- Potential void periods.
- Property is subject to Capital Gains Tax if sold.
- Potential month 1/emergency tax on UFPLS/taxed on 75%.
- High costs of purchase/maintenance.
- Illiquid investment.
- No flexibility of income/lack of diversification.

Glossary of terms

Some abbreviations candidates can use in financial planning online exams:

1. ATR – Attitude to risk
2. BRT – Basic rate taxpayer
3. BIK – Benefit in kind
4. BCE – Benefit crystallisation event
5. CLT – Chargeable lifetime transfer
6. CFL – Capacity for loss
7. CGT – Capital Gains Tax
8. CPI – Consumer Prices Index
9. DOV – Deed of variation
10. DIS – Death-in-Service
11. DFM – Discretionary Fund Manager
12. ESG – Environmental, Social and Governance
13. EPT – Excluded property trust
14. EPA – Enduring power of attorney
15. ERC – Early repayment charges
16. FAD – Flexi-access drawdown
17. FSCS – Financial Services Compensation Scheme
18. FOS – Financial Ombudsman Service
19. GAR – Guaranteed annuity rate
20. GAD – Governments Actuary's Department
21. HRT – Higher rate taxpayer
22. IHT – Inheritance Tax
23. IT – Income Tax
24. IVA – Individual Voluntary Arrangement
25. LPA – Lasting power of attorney
26. LTA – Lifetime allowance
27. MaPS – Money and Pension Service
28. MVR – Market value reduction
29. MPAA – Money purchase annual allowance
30. NICs – National Insurance contributions
31. NPA – Normal pension age
32. NRA – Normal retirement age
33. NRB – Nil rate band
34. OPG – Office of the Public Guardian
35. OEIC – Open ended investment company
36. PAYE – Pay As you Earn
37. PPF – Pension Protection Fund
38. PPP – Personal pension plan
39. PCLS – Pension commencement lump sum
40. PA – Personal allowance
41. PSA – Personal savings allowance
42. RAC – Retirement annuity contract
43. RNRB – Residence nil rate band
44. RPI – Retail Price Index
45. SIPP – Self-invested personal pension plan
46. SEIS – Seed Enterprise Investment Scheme
47. SPA – State Pension age
48. TPAS – The Pensions Advisory Service
49. UFPLS – Uncrystallised funds pension lump sum
50. VCT – Venture capital trust

September 2024 Examination - J05 Pension income options		
Question No.	**Syllabus learning outcomes being examined**	
1.	1.	Understand the HMRC rules that apply when pension benefits are crystallised.
2.	1. 2.	Understand the HMRC rules that apply when pension benefits are crystallised. Understand the features, tax treatment and risks of lifetime annuities and scheme pensions.
3.	7.	Understand the issues in giving initial and ongoing advice to clients on taking pension benefits.
4.	3.	Understand the features, tax treatment and risks of flexible benefit options.
5.	2. 3.	Understand the features, tax treatment and risks of lifetime annuities and scheme pensions. Understand the features, tax treatment and risks of flexible benefit options.
6.	4.	Understand the features, tax treatment and risks of phasing retirement benefits.
7.	3.	Understand the features, tax treatment and risks of flexible benefit options.
8.	5.	Understand the regulatory requirements and legal framework designed to protect clients who are drawing pension benefits.
9.	6.	Understand the State retirement benefits available.
10.	7.	Understand the issues in giving initial and ongoing advice to clients on taking pension benefits.
11.	7.	Understand the issues in giving initial and ongoing advice to clients on taking pension benefits.
12.	7.	Understand the issues in giving initial and ongoing advice to clients on taking pension benefits.
13.	7.	Understand the issues in giving initial and ongoing advice to clients on taking pension benefits.
14.	3. 7.	Understand the features, tax treatment and risks of flexible benefit options. Understand the issues in giving initial and ongoing advice to clients on taking pension benefits.
15.	7.	Understand the issues in giving initial and ongoing advice to clients on taking pension benefits.

All questions in the March 2025 paper will be based on English law and practice applicable in the tax year 2024/2025, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the September 2024 and March 2025 examinations.

INCOME TAX

RATES OF TAX	2023/2024	2024/2025
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£125,140	£125,140
High income child benefit charge: 1% of benefit per £200 of adjusted net income between £60,000 – £80,000		

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

	2023/2024	2024/2025
Personal savings allowance (for savings income):		
Basic rate taxpayers	£1,000	£1,000
Higher rate taxpayers	£500	£500
Additional rate taxpayers	Nil	Nil
Dividend Allowance	£1,000	£500
Dividend tax rates		
Basic rate	8.75%	8.75%
Higher rate	33.75%	33.75%
Additional rate	39.35%	39.35%
Trusts		
Standard rate band	£1,000	n/a
Income exemption up to**	n/a	£500
Rate applicable to trusts		
- dividends	39.35%	39.35%
- other income	45%	45%

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

MAIN PERSONAL ALLOWANCES AND RELIEFS	2023/2024	2024/2025
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£4,010	£4,280
Married/civil partners at 10% †	£10,375	£11,080
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance†	£34,600	£37,000
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,870	£3,070
Enterprise Investment Scheme relief limit on £2,000,000 max***	30%	30%
Seed Enterprise Investment relief limit on £200,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

§ The Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).

† where at least one spouse/civil partner was born before 6 April 1935. Married couple's/civil partners' allowance reduced by £1 for every £2 of adjusted net income over £37,000 (£34,600 for 23/24) until minimum reached.
**** Investment above £1,000,000 must be in knowledge-intensive companies.*

NATIONAL INSURANCE CONTRIBUTIONS

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

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 242.00*	Nil
242.00 – 967.00	8%
Above 967.00	2%

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

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

***Secondary threshold.*

CLASS 2 (self-employed)*

Flat rate per week	£3.45
Small profits threshold per year	£6,725

Class 2 contributions are credited automatically where profits equal or exceed £6,725 per annum.
Class 2 contributions can be made voluntarily where profits are below £6,725 per annum.

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

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2012/2013 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 – 2023/2024*	£1,073,100

**Lifetime allowance removed from 6 April 2024.*

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

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

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

ANNUAL ALLOWANCE

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

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

***Reducing by £1 for every £2 of 'adjusted income' over £260,000 to a minimum of £10,000 if 'threshold income' is also over £200,000.*

ANNUAL ALLOWANCE CHARGE

20% – 45% determined by the member's taxable income and the amount of total pension input in excess of the annual allowance or money purchase annual allowance.

CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2023/2024	2024/2025
Individuals, estates etc	£6,000	£3,000
Trusts generally	£3,000	£1,500
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000
TAX RATES		
Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property - Basic Rate	8%	8%
Higher Rate	8%	4%
Surcharge for carried interest	8%	8%
Trustees and Personal Representatives:		
Residential property	28%	24%
Other chargeable assets	20%	20%
Business Asset Disposal Relief*	10%	10%
Lifetime limit	£1,000,000	£1,000,000

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2023/2024	2024/2025
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Reduced rate (where appropriate charitable contributions are made)	36%	36%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%
MAIN EXEMPTION		
Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£175,000	£175,000
- UK-registered charities	No limit	No limit

**Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished.*

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- Annual small gifts exemption per donor	£250	£250

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

Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building

50% relief: certain other business assets

Reduced tax charge on gifts made in excess of the nil rate band within 7 years of death:

- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

Quick succession relief:

- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	100%	80%	60%	40%	20%

MAIN SOCIAL SECURITY BENEFITS

		2023/2024	2024/2025
		£	£
Child Benefit	First child	24.00	25.60
	Subsequent children	15.90	16.95
	Guardian's allowance	20.40	21.75
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 67.20	Up to 71.70
	Aged 25 or over	Up to 84.80	Up to 90.50
	Main Phase		
	Work-related Activity Group	Up to 84.80*	Up to 90.50**
	Support Group	Up to 129.50	Up to 138.20
Attendance Allowance	Lower rate	68.10	72.65
	Higher rate	101.75	108.55
Basic State Pension	Category A full rate	156.20	169.50
	Category B (lower) full rate	93.60	101.55
New State Pension	Full rate	203.85	221.20
Pension Credit	Standard minimumguarantee - single	201.05	218.15
	Standard minimum guarantee - couple	306.85	332.95
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	67.20	71.70
	Age 25 or over	84.80	90.50
Statutory Maternity, Paternity and Adoption Pay		172.48	184.03

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

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

CORPORATION TAX

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

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

VALUE ADDED TAX

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

STAMP DUTY LAND TAX

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

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

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

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