Chartered Insurance Institute

AF7

Advanced Diploma in Financial Planning

Unit AF7 – Pension transfers

May 2022 Examination Guide

SPECIAL NOTICES

Candidates entered for the September 2022 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 **ukcentreadministration@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 32 marks.
Section B consists of two case studies worth a total of 68 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.

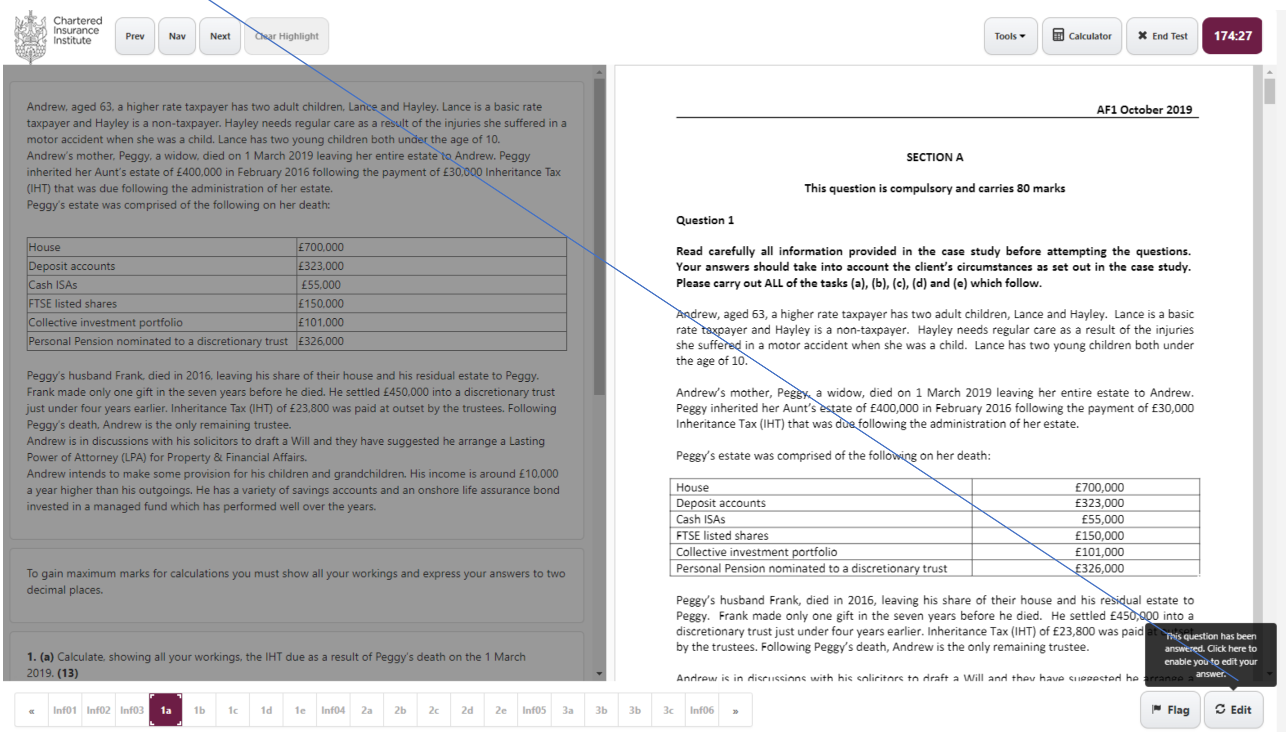
On-screen written exam demonstration (Demo 1)

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)]

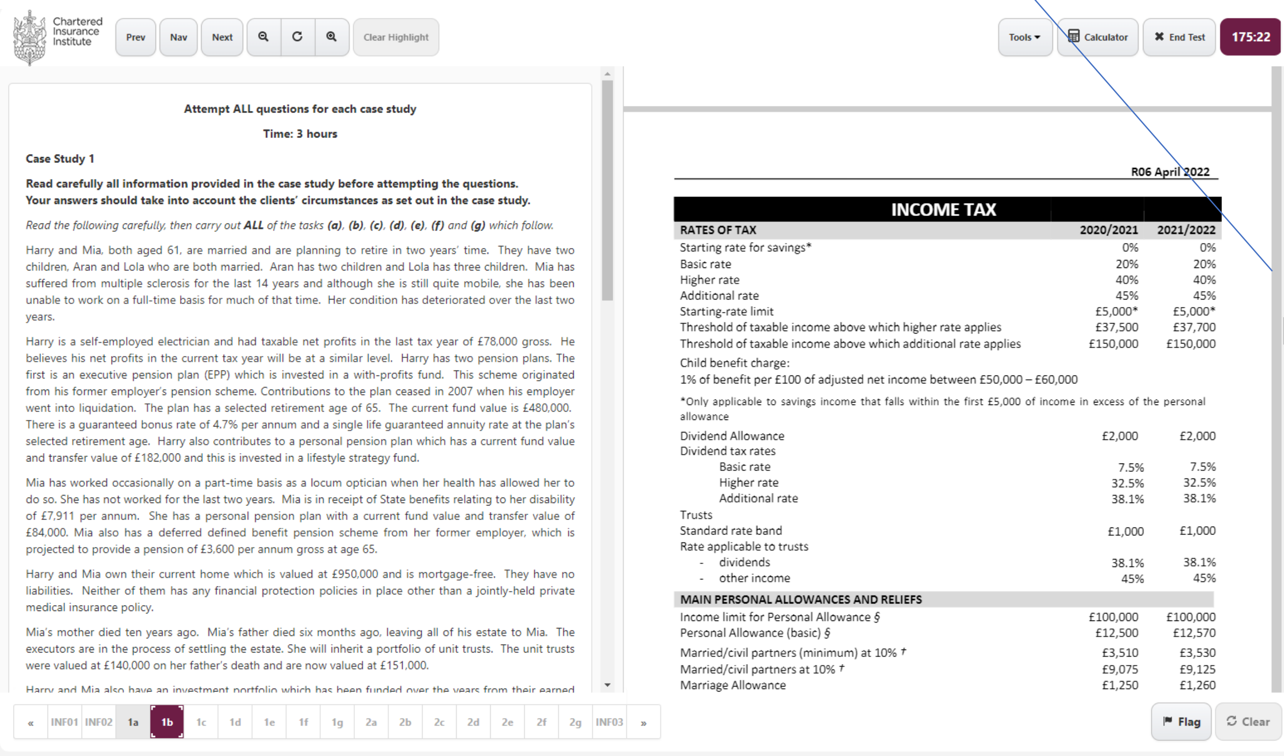
Please note, although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

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.**

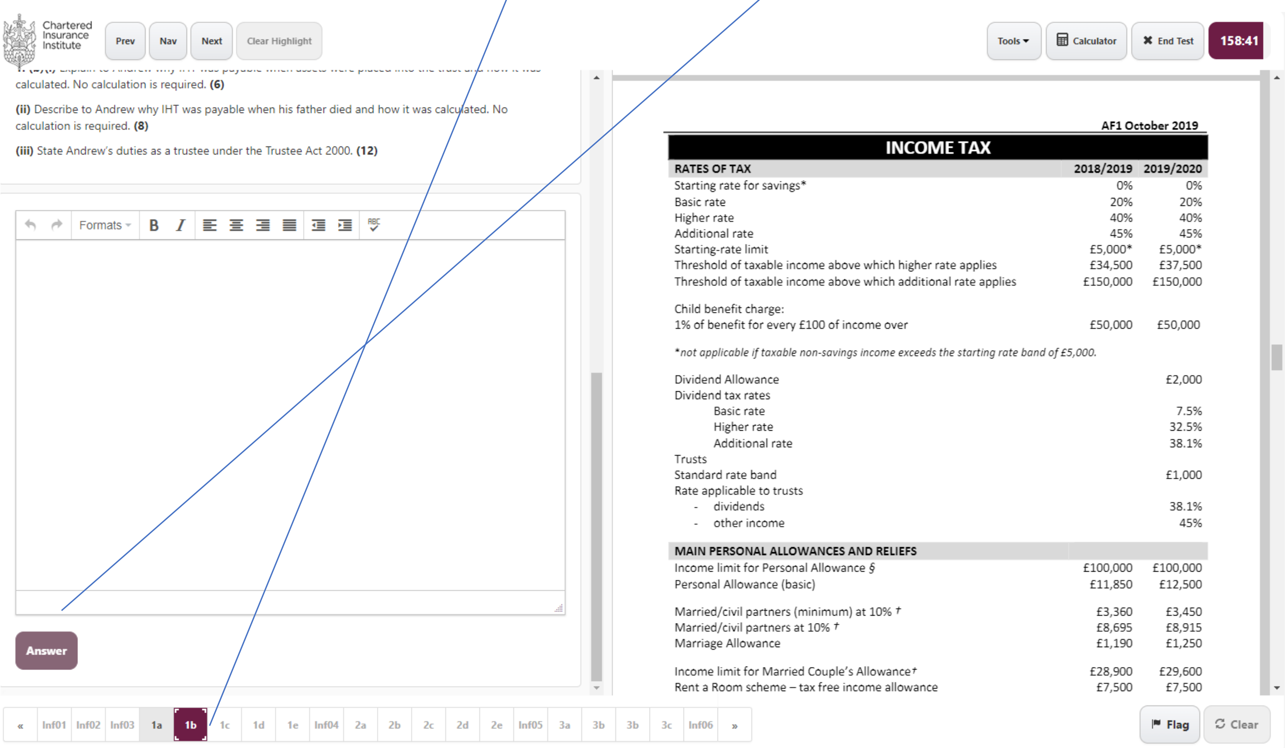
1. From the AF1 demonstration test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press 'Answer' for the question 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

General performance across the exam was good and on average slightly above recent sittings. As with all previous examinations, performance could have been improved further if candidates ensured they answered the specific question being asked.

There is still quite a high proportion of candidates who did not take into account the information provided within the case study when answering certain questions. Given that the financial planning needs of individuals vary significantly, as do the range of possible options for meeting those needs and objectives; the case studies are there to provide a particular 'client scenario' and as a result there is an expectation that candidate answers will be relevant to that scenario.

Question 1

This question has been tested before within AF7. Even candidates who have not read past papers or studied this syllabus area in significant detail, would still be expected to attain reasonable marks. This is because the various actions, including the timescales and deadlines, form a key aspect of 'real world' pension transfer advice cases.

Although candidate performance on this question was generally well above pass standard, it was disappointing to see some very low scores, even amongst those candidates that performed quite well overall on the paper.

Where marks were not gained, it tended to result from mixing up timescales (i.e. giving the right timescales but linked to the wrong action and vice versa).

Question 2

Generally, this question was answered quite well, although most candidates only made a passing reference to the PPF benefits. As a result, they missed specific points that could determine the level of compensation payable under the PPF such as 'length of service' and 'proximity to NRA'.

Question 3

Most candidates performed quite well on this question. Where marks were not gained, it was typically as a result of candidates not giving the correct reason as to why Individual Protection 2016 (IP16) cannot be applied for. Quite a few candidates incorrectly stated that it was because the CETV was above the current LTA.

The question did not quote a value as at 5 April 2016, so theoretically the individual could potentially have qualified for IP16 if the value was £1m or above at that date (albeit unlikely given the value was quoted as £634,400 as at 30 March 2016), candidates were still rewarded where they stated that the individual could potentially qualify for IP16 provided they correctly stated the qualification criteria.

Question 4

This question has been tested several times before and the performance was generally very good with many candidates gaining the maximum marks available.

Question 5

Well prepared candidates will know that 'additional information' questions are tested very regularly within this exam. As a result, only a small number of candidates did not perform well on this question with the vast majority achieving above the pass standard.

Question 6

Most candidates performed quite well on this question as it has been tested before. However, some candidates did not appear to read this question properly and answered it based on what you would typically take into account when putting together a lifetime cash flow model as opposed to focussing on the 'stress tests' that should be undertaken.

Question 7

Whilst generally on previous exams candidates have tended to not perform well on questions that involve state pension benefits, so it was pleasing to see the performance on this question was quite good with most candidates achieving the pass standard of marks.

Question 8

Candidates who performed well on this question typically performed well on the paper as a whole. Where marks were not gained tended to be as a result of missing the less obvious points such as the fact that the client's income requirements would be fully met via secured income and that inflationary increases in expenditure could be covered by flexible withdrawals from the remaining fund.

Question 9

The performance on this question was generally below expectations. A significant number of candidates quoted 'features' as opposed to 'benefits' and therefore where not able to gain a high proportion of the available marks.

Question 10

Some candidates did not read the question in part (a) fully. This question was quite clear in that it asked candidates to explain why the death benefits payable under the plan do not meet the client's objectives.

Quite a few candidates simply stated the benefits that would not be payable (i.e. spouse's pension) without providing any link to their objectives. As a result, candidate performance on this question was below expectations.

Part (b) was generally well answered by candidates.

Question 11

Candidates did not perform well on part (a). Very few candidates gained the marks for recognising what level of withdrawals might be required upon the death of either client and simply focussed on their current income requirements.

As with part (a), performance on part (b) was below expectations. Quite a few candidates stated points that were already covered within the case study and therefore could not be treated as 'additional' information. A number of candidates also did not mention, what could be considered to be the more obvious answers, such as 'what funds are available under the contract' and 'what are the charges on the funds'.

Question 12

This question has been asked quite regularly within AF7, so it was pleasing to see candidates' performance was very good, with a high proportion of candidates achieving the maximum marks available.

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 2021/2022, 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: 32 marks
- Section B: 68 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 32 marks

1. Katrina, aged 54, has a deferred pension of £31,000 per annum within her former employer's defined benefit pension scheme and is about to request a cash equivalent transfer value from the scheme administrators.

Explain the steps that must be followed in the statutory pension transfer process. *Your answer should include who is responsible for each step and any relevant timescales to complete each step.* **(12)**

2. Caleb is a deferred member of a defined benefit pension scheme. He has received an annual funding statement which shows that the scheme is underfunded and this has raised some concerns with him about the security of his benefits.

Outline the factors that you would consider in assessing the security of Caleb's scheme benefits. **(8)**

3. Maya, aged 52, became a deferred member of her previous employer's defined benefit pension scheme on 30 March 2016. At the date of leaving the scheme her preserved pension was £31,720 per annum. Maya does not have any form of transitional protection.

Maya transferred the cash equivalent value of £1,280,000 into a personal pension plan in June 2019. In November 2019, Maya was automatically enrolled into her current employer's workplace pension scheme, into which she contributes 5% of her salary in addition to her employer's contributions.

Explain, giving your reasons, whether Maya can apply for Individual Protection 2016 or Fixed Protection 2016. **(5)**

4. Arjune, aged 48, is a deferred member of his former employer's defined benefit pension scheme. He has recently received a cash equivalent transfer value (CETV) which is higher than the one that he obtained three years ago.

Outline **seven** possible reasons for the increase in the CETV. **(7)**

Total marks available for this question: 32

SECTION B

All questions in this section are compulsory and carry an overall total of 68 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.

Harry, aged 64, is single and plans to leave his entire estate to a wildlife protection charity. Due to a heart condition, Harry has recently retired from his job at Stonegrind Ltd and intends to spend his retirement carrying out voluntary work for the wildlife protection charity.

At age 60, Harry took the maximum pension commencement lump sum (PCLS) available from a personal pension plan to fully repay his mortgage. The residual fund was designated into flexi-access drawdown (FAD) and is currently valued at £153,000. It is invested in line with his low to medium attitude to risk.

In addition to his FAD, Harry also has the following benefits in a former employer's defined benefit pension scheme:

	Stonegrind Ltd
Date of joining scheme	01 March 1981
Date of leaving scheme	30 November 2003
Normal retirement age (NRA)	65
Scheme pension at NRA	£14,500 per annum gross
Spouse's pension	50% of member's pre-commutation pension
Guaranteed period	5 years
Partial transfer available	No
Cash equivalent transfer value (CETV)	£638,000

Harry requires a net income of £25,000 per annum to cover his essential expenditure. He also anticipates requiring an additional £1,500 per annum for discretionary expenditure plus ad-hoc lump sums for the occasional holiday. He has received a State Pension forecast identifying a shortfall in qualifying years that can be filled by paying Class 3 National Insurance Contributions (NICs) to increase his entitlement to the full amount.

Harry has requested advice on transferring his deferred benefits in the Stonegrind Ltd scheme to a personal pension plan to meet his retirement objectives. Given his health condition, Harry has been advised that he can obtain an annuity rate of 5.8% based on a single life level annuity.

Questions

5. State the additional information you would require regarding Harry's personal and financial circumstances, before advising him on the potential suitability of transferring his defined benefit pension scheme. **(8)**

6. A lifetime cash flow model is being produced to demonstrate the impact of transferring Harry's defined benefit pension scheme benefits to his personal pension plan.

State **six** stress tests that should be undertaken as part of the lifetime cashflow model. **(6)**

7. Outline **six** potential benefits of Harry paying Class 3 NICs to increase his State Pension entitlement. **(6)**

8. You have recommended that Harry transfers his defined benefit pension scheme to a personal pension plan.

Explain the **benefits** of purchasing a lifetime annuity with part of the personal pension fund **and** designating the residual funds into FAD. *You should take account of the annuity rate of 5.8% as quoted in the case study when answering this question.* **(8)**

Total marks available for this question: 28

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.

Alina, aged 59, lives with Ronan, aged 60. The couple, who have never been married or in a civil partnership, have one son, Alexei, aged 34, who is financially independent. Their home is mortgage free and valued at £670,000. The property is held as tenants-in-common, and the couple have written mirror Wills leaving their entire estates to each other in the event of death.

Ronan recently retired and receives a scheme pension of £28,000 per annum gross. In addition to his pension income, Ronan has £25,000 in a savings account and £42,000 in stocks and shares ISAs invested in line with his high attitude to risk.

Having obtained State Pension forecasts, they each expect to receive a full State Pension.

Alina intends to retire in August 2022, when she will be aged 60. Alina recently received the following information in respect of her entitlement under a former employer's defined benefit pension scheme:

	Arcade Retirement Plan
Date of joining scheme	12 September 1987
Date of leaving scheme	25 June 2016
Normal retirement age (NRA)	65
Projected pension at NRA	£26,500 per annum
Cash equivalent transfer value	£890,000
Early retirement factor	From age 60 at 5% per annum
Death benefits pre-retirement	Return of contributions with interest only, currently £42,800
Death benefits post-retirement	50% of member's pension at date of death, payable to a spouse or civil partner only
Guarantee period	5 years
Contracted-out status	Contracted-in throughout
Escalation in payment	Fixed 5%
Revaluation in deferment	Statutory minimum

In addition to the above pension, Alina has £26,100 in a workplace pension scheme and cash savings totalling £14,500. She has a medium attitude to risk.

The couple's objectives are:

- A joint, inflation-linked initial net income of £50,000 per annum in retirement, split to cover £42,000 essential expenditure and £8,000 to cover discretionary expenditure. The total income requirement is expected to reduce to around £40,000 per annum net in the event of either death.
- For Alexei to inherit some of Alina's pension benefits.

Questions

9. Identify **five** benefits and **five** drawbacks for Alina of transferring her defined benefit pension scheme to a personal pension plan to access benefits flexibly. **(10)**

10. Based on the objectives outlined in the case study:

(a) Explain briefly why the pre-retirement death benefits payable under the Arcade Retirement Plan do not meet their objectives should Alina die before drawing her benefits. **(4)**

(b) State **four** potential actions that could be taken to help meet their objectives. **(4)**

11. You have advised Alina to transfer her benefits from the Arcade Retirement Plan to a personal pension plan to access them flexibly.

(a) Explain the factors you would consider in assessing the sustainability of the withdrawals that would be required to meet the couple's income needs. **(8)**

(b) State the additional information you would require to advise Alina on a suitable investment strategy for her personal pension plan. **(7)**

12. Assuming Alina transfers the benefits from her Arcade Retirement Plan and utilises flexi-access drawdown to commence taking withdrawals:

Explain the potential death benefit options and their income tax treatment if Alexei is the recipient of the benefits upon Alina's death. **(7)**

Total marks available for this question: 40

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 tweleve of the following:

- Trustees inform Katriana of the need for financial advice;
- within one month of her initial request.

- Trustees set a guarantee date;
- within three months of her initial request.

- Trustees provide a statement of entitlement;
- within ten days of the guarantee date.

- Katriana must confirm she wishes to proceed with the transfer;
- within three months of the guarantee date.

- Katriana must provide evidence that she has received independent financial advice;
- no later than 3 months from the date she received the statement of entitlement / 3 months and 10 days of guarantee date.

- Before making the transfer, the trustees must check that the firm/adviser providing the financial adviser holds the relevant regulatory permissions;
- and that the scheme being transferred to is a legitimate arrangement.
- Trustees must transfer the benefits within six months of the guarantee date;
- unless it doesn't pass the scam warning tests.

Model answer for Question 2

- Extent of underfunding.
- Strength of sponsoring employer/employer covenant.
- Details of recovery plan/period.
- Does scheme qualify for PPF.
- Size of Caleb's benefits v. PPF compensation limits.
- Length of service.
- Scheme benefit structure – e.g. escalation/revaluation/spouse's pension.
- Caleb's proximity to NPA.

Model answer for Question 3

- Does not qualify for IP16.*
- As the value of the scheme pension on 5 April 2016 (as calculated as 20 times the scheme pension/£634,400);*
- is less than £1m.*

- Does not qualify for FP16;
- because a new arrangement has been established (other than for receipt of the transfer).

**Candidates who assumed that the value of their pension could have increased from £31,720 per annum at 30th March 2016 to £50,000 per annum or more as at 5th April 2016 and, therefore, stated that IP16 could be applied for if the value of benefits were at least £1m as at 5th April 2016 were equally rewarded in the marking scheme.*

Model answer for Question 4

Candidates would have scored full marks for any seven of the following:
- Previous transfer value may have been reduced due to scheme underfunding;
- Scheme funding may have improved/ new CETV enhanced.
- Annuity rates may have fallen.
- Revaluation and escalation rates have increased / inflation assumption higher;
- Life expectancy assumptions have increased.
- Discounting rate has reduced / gilt yields are lower*.
- He is three years older so shorter discount period.
- Discretionary increases have been added to the scheme.

**Despite the significant rise in gilt yields in the months leading up to the exam, yields were still generally lower than they were three years previously. As a result, it was felt that the alternative answer remained valid.*

Case Study 1

Model answer for Question 5

- Family longevity/to what extent has his heart condition reduced his life expectancy.
- Importance of guarantees versus benefit flexibility.
- Amount of planned capital expenditure /expected costs of holidays.
- Views on inflation proofing/pattern of future income.
- Investment knowledge/experience.
- Is he expecting any inheritances/other assets available for retirement/downsizing/value of property?
- Any further debts?
- State pension amount/shortfall.

Model answer for Question 6

- Future returns lower than expected.
- The need to increase the income more than expected (e.g. long-term care).
- Sudden loss of assets/stockmarket crash.
- Large unplanned capital withdrawal.
- Inflation greater than anticipated.
- Living longer than expected.

Model answer for Question 7

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

- The return is excellent/equivalent to an annuity rate of 32.7%.
- The income will increase (with the triple lock).
- The income is secure/guaranteed for life.
- Will reduce the amount of annuity he needs to buy / will meet more of his income requirement.
- No need for death benefits/single life benefits suits his circumstances.
- He can defer the income if it isn't required.
- Doesn't affect his LTA.

Model answer for Question 8

- Provides a secure income;
- Harry's essential and discretionary income could be securely covered by a partial annuity and his State Pension.
- He does not require death benefits / single life annuity suits his circumstances.
- He will have monies in FAD that could be used to cover inflationary rises in expenditure/donation to charity upon death.
- Ad-hoc requirements can be met from FAD.
- He is getting an enhanced rate due to health issues.
- The annuity purchase is in line with his low to medium risk profile.
- Future FAD withdrawals to be made tax efficiently.

Case Study 2

Model answer for Question 9

Benefits

- Provides the required income now/ DB doesn’t;
- and upon either death;
- and can leave potential legacy to Alexei;
- and can reduce income when State Pension commences/can provide inflation increases.
- Potential higher PCLS/can be provide tax efficient income.

Drawbacks

- Loss of guaranteed income.
- Loss of fixed 5% increases in payment/inflation risk.
- Exposure to investment risk.
- Costs/charges/complexity.
- Longevity risk/funds could run out.

Model answer for Question 10

(a)
- Only a return of contributions (with interest) would be payable;
- so Ronan’s income requirements would not be met;
- and these are unlikely to be paid to Alexei;
- because he is not financially dependent.

(b) *Candidates would have scored full marks for any four of the following:*
- Transfer to an individual arrangement (to meet income and death benefit objectives).
- Get married.
- Change Alina's Will.
- Take out life assurance (in trust).
- Ensure that Alexei is nominated to benefit from workplace pension.

Model answer for Question 11

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

- The level of withdrawal required from the starting fund of £625,000.

- The income will only be required for 6 years/to State pension Age;
- but Alina might need to recommence/increase withdrawals upon Ronan's death;
- depending on the level of death benefits (if any) payable from Ronan's scheme.

- Ronan would need to take small/no withdrawals upon Alina's death.

- Income needs to increase with inflation.
- Taxation of withdrawals/25% withdrawals tax free.
- The expected investment return (based on her medium ATR).
- Longevity/health.

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

- Alina's health/longevity.
- The asset allocation of Alina's workplace pension.
- Whether Alina is expecting any inheritances/lump sums.
- Alina's past experience of investments.
- Any ethical preferences/specific investment views.
- Alina's willingness to have frequent reviews/need for automatic rebalancing.
- The available investment funds under the contract.
- The charges on the investment funds/their view on charges.

Model answer for Question 12

- Alexei would be classed as a nominee and could take benefits as:
- An annuity,
- Flexi-access drawdown or;
- a lump sum.
- Tax free if death before age 75.
- Provided any uncrystallised funds are distributed within two years of death / notification.
- Otherwise taxed at recipients marginal rate / PAYE (i.e. death 75 or more or benefits paid outside 2-year window where relevant)

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 May 2022 paper will be based on English law and practice applicable in the tax year 2021/2022, unless stated otherwise and should be answered accordingly.

The Tax Tables and Supplementary Information which follow are applicable to the September 2021, February 2022 and May 2022 examinations.

INCOME TAX

RATES OF TAX	2020/2021	2021/2022
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	£37,500	£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%	7.5%
Higher rate	32.5%	32.5%
Additional rate	38.1%	38.1%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	38.1%	38.1%
- other income	45%	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance *§*	£100,000	£100,000
Personal Allowance (basic) *§*	£12,500	£12,570
Married/civil partners (minimum) at 10% *†*	£3,510	£3,530
Married/civil partners at 10% *†*	£9,075	£9,125
Marriage Allowance	£1,250	£1,260
Income limit for Married Couple's Allowance*†*	£30,200	£30,400
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,500	£2,520
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)	£2,830	£2,845
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,385	£16,480

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£120
Primary threshold	£184
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 184.00*	Nil
184.00 – 967.00	12%
Above 967.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £120 per week. This £120 to £184 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 170.00**	Nil
170.00 – 967.00	13.8%
Excess over 967.00	N/A

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.05 where profits exceed £6,515 per annum.
Class 3 (voluntary)	Flat rate per week £15.40.
Class 4 (self-employed)	9% on profits between £9,568 - £50,270. 2% on profits above £50,270.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 & 2021/2022	£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
2015/2016	£40,000~
2016/2017 – 2021/2022	£40,000*

~ increased to £80,000 for pension input between 6 April - 8 July 2015. If not used, can be carried forward to pension input period of 9 July 2015 - 6 April 2016, subject to a maximum of £40,000.

**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	2020/2021	2021/2022
	£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	2020/2021	2021/2022
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	2020/2021	2021/2022
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 EXEMPTIONS

Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£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

	2020/2021 Rates	2021/2022 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

	2020/2021	2021/2022
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000
Plant & machinery (reducing balance) per annum	18%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	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:	50 or less*	51-110	111 or more
Capital allowance:	100% first year	18% reducing balance	6% reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2020/2021	2021/2022
		£	£
Child Benefit	First child	21.05	21.15
	Subsequent children	13.95	14.00
	Guardian's allowance	17.90	18.00
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 58.90	Up to £59.20
	Aged 25 or over	Up to 74.35	Up to £74.70
	Main Phase		
	Work Related Activity Group	Up to 74.35	Up to 104.40
	Support Group	Up to 113.55	Up to 114.10
Attendance Allowance	Lower rate	59.70	60.00
	Higher rate	89.15	89.60
Basic State Pension	Single	134.25	137.60
	Married	268.50	275.20
New State Pension	Single	175.20	179.60
Pension Credit	Single person standard minimum guarantee	173.75	177.10
	Married couple standard minimum guarantee	265.20	270.30
	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	58.90	59.20
	Age 25 or over	74.35	74.70
Statutory Maternity, Paternity and Adoption Pay		151.20	151.97

CORPORATION TAX

	2020/2021	2021/2022
Standard rate	19%	19%

VALUE ADDED TAX

	2020/2021	2021/2022
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%

Important note regarding Stamp Duty Land Tax (SDLT) and residential property purchases:

- **For purchases between 1 July 2021 and 30 September 2021, SDLT does not apply up to £250,000.**
- **For purchases above £250,000, the band rates above apply as normal.**
- **For purchases from 1 October 2021, the band rates above apply as normal.**

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 2021/2022

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%
After 5 April 2017	3.5%

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 at age 65 (2021/2022): £41,461.07

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%