Chartered
Insurance
Institute

AF7

Advanced Diploma in Financial Planning

Unit AF7 – Pension transfers

September 2025 Examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2025/2026, unless stated otherwise in the question, and should be answered accordingly.

It should be assumed that all individuals have long-term UK residence status unless otherwise stated.

Unit AF7 – Pension transfers

Instructions to candidates

Read the instructions below before answering any questions

Two hours are allowed for this paper which carries a total of 100 marks as follows:

Section A: 28 marks
Section B: 72 marks

- You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.

- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.

- It is important to show all steps in a calculation, even if you have used a calculator.

- Tax tables are provided at the back of this paper.

- Additional supplementary information, relevant to pension planning, is also included at the end of the tax tables on the right-hand side of the interface and back of this paper.

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

SECTION A

The following questions are compulsory and carry a total of 28 marks

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

1. A firm has identified that a client is eligible for exemption from the contingent charging ban due to them being in serious financial difficulty.

Outline the relevant knowledge and experience the FCA expects the firm to have when dealing with this client. **(6)**

2. State **six** situations where a member of a defined benefit pension scheme does not have a statutory right to transfer. **(6)**

3. Aleksander, who is in good health, retired and took benefits from his employer's defined benefit pension scheme in February 2023, five years before his Normal Pension Age of 65. He joined the scheme in January 1998. He did not transfer any benefits into the scheme.

Aleksander currently receives an annual pension of £17,500 that increases by 5% per annum and includes a 66% spouse's pension. The scheme is about to enter the Pension Protection Fund.

Explain how Aleksander's pension benefits will be impacted as a result. **(6)**

4. Samir, who is married, has recently transferred his defined benefit pension scheme into a personal pension plan. He is about to commence taking an income using flexi-access drawdown.

Outline the factors that you would consider when determining a safe rate of withdrawal from his transferred funds. **(10)**

Total marks available for this question: 28

SECTION B

All questions in this section are compulsory and carry an overall total of 72 marks

Case study 1

Read carefully all information provided in the case study before attempting the questions. Your answers should consider the clients' circumstances as set out in the case study.

Donna, aged 57, is married to Craig, who will be 55 next month. They have two children, aged 15 and 16. Donna and Craig semi-retired last year and will both fully retire when Donna reaches age 60. They are both in good health with a family history of longevity.

Craig has the following deferred defined benefit pension scheme from a previous employment and has recently received the following information from the scheme administrator:

Normal pension age (NPA)	65
Scheme pension at date of leaving	£14,250 per annum gross
Pension commencement lump sum	Via commutation
Revaluation and escalation	Inflation to a maximum of 5% per annum
Spouse's pension (pre-and post-retirement)	50% of pre-commutation pension
Children's pension (pre-and post-retirement)	25% pre-commutation pension per child to age 23
Cash equivalent transfer value (CETV)	£427,500

Donna is a member of her current employer's workplace pension scheme, valued at £533,000. Craig is also a member of his current employer's workplace pension scheme, valued at £52,000. Donna and her employer each contribute 12% of her basic salary. Craig and his employer each contribute 5% of his basic salary.

Donna has a stocks and shares ISA valued at £16,000 and they have joint cash savings of £29,000, along with their mortgage-free home, valued at £770,000. Donna has a high attitude to risk and good investment experience, whereas Craig has a cautious attitude to risk, and limited investment experience.

Craig's part-time earnings are £8,000 per annum. Donna's net income is £46,000 per annum. They have calculated that they will need an additional £12,000 net income per annum to fully cover their current outgoings. They are currently drawing down on Donna's ISA to make up the difference but do not wish to use all of this money, nor dip into their cash savings which are kept for emergencies.

They are unclear at this stage what their net income requirements will be when they fully retire but have no anticipated capital requirements. They are keen to ensure that their children are protected in the event of their deaths.

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

5. Identify the additional information that you would require from the administrator of the defined benefit pension scheme before making a personal recommendation to Craig. **(10)**

6. Based on the information provided in the case study, explain why you have recommended that Craig does not transfer his benefits out of the defined benefit pension scheme at this time. **(12)**

7. Outline the factors that you should consider when preparing a recommendation on how best to draw the funds from their defined contribution pension schemes in order to top up their income until they fully retire. **(14)**

Total marks available for this question: 36

Case study 2

Read carefully all information provided in the case study before attempting the questions. Your answers should consider the clients' circumstances as set out in the case study.

Barry, aged 63, is married to Julia, aged 61. Barry does not have any children, and Julia has two financially independent sons and three grandchildren. Julia would like to leave a legacy to her grandchildren.

The couple, who are both in excellent health, are planning to retire on 1 January 2026 when Barry reaches the age of 64.

Both Barry and Julia will receive full State Pensions. Barry has a workplace pension scheme, which has a value of £45,000. Julia has a personal pension plan, with a value of £18,000.

Barry and Julia both have pension benefits held in their previous employers' defined benefit pension schemes. The details of these schemes are as follows:

	Barry	**Julia**
Normal pension age (NPA)	65	65
Estimated pension at NPA	£28,000 p.a.	£18,000 p.a.
Early retirement factor	From age 60 at 4.5% p.a.	From age 60 at 3.5% p.a.
Current commutation rate	14:1	18:1
Escalation rate	Fixed 5% p.a.	Statutory minimum
Dependant's pension	66.67%	50%
Cash equivalent transfer value (CETV)	£848,000	£520,000

Barry and Julia have estimated that they will require an inflation-proofed net joint income of £2,500 per month to cover their essential expenditure requirements and a further inflation-proofed net joint income of £1,000 per month to cover their discretionary and lifestyle expenditure. On first death the income needs of the survivor are expected to reduce by 30%.

The couple's home is valued at £650,000 with no mortgage. They have £24,000 held in bank deposit accounts and a stocks and shares ISA valued at £22,000 held in a balanced managed fund.

Barry has a low attitude to risk (ATR), and Julia has a medium ATR.

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

8. You have recommended that Barry takes his full scheme pension and does not take a pension commencement lump sum. You have also recommended that Julia transfers the benefits from her defined benefit pension scheme to a personal pension plan.

Based on the information given in the case study, explain why you have made these recommendations. **(14)**

9. You have recommended that Julia transfers the benefits from her defined benefit pension scheme to her existing personal pension plan and use this plan to cover the income shortfall until State Pension age.

Outline the factors you would take into account when deciding whether the shortfall should be covered by utilising flexi-access drawdown or by purchasing a temporary annuity. **(10)**

10. Julia would like her grandchildren to receive any residual personal pension fund on second death. However, Julia would like to ensure that Barry has access to her pension fund if she were to predecease him.

Outline the factors you would take into account when deciding whether to recommend that on her death, Julia's residual personal pension fund is nominated to a spousal bypass trust or nominated directly to Barry. **(12)**

Total marks available for this question: 36

INCOME TAX

RATES OF TAX	2024/2025	2025/2026
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£125,140	£125,140
High income child benefit charge:	1% of benefit per £200 of adjusted net income between £60,000 – £80,000	

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

Personal savings allowance (for savings income):		
Basic rate taxpayers	£1,000	£1,000
Higher rate taxpayers	£500	£500
Additional rate taxpayers	Nil	Nil
Dividend allowance	£500	£500
Dividend tax rates		
Basic rate	8.75%	8.75%
Higher rate	33.75%	33.75%
Additional rate	39.35%	39.35%
Trusts		
Income exemption up to**	£500	£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. Further, the £500 may need to be divided between other trusts in existence.*

MAIN PERSONAL ALLOWANCES AND RELIEFS	2024/2025	2025/2026
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£4,280	£4,360
Married/civil partners at 10% †	£11,080	£11,270
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance†	£37,000	£37,700
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£3,070	£3,130
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 £37,700 (£37,000 for 24/25) 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)	£125
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 £125 per week. This £125 to £242 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below £96.00**	Nil***
Over £96.00	15%

***Secondary threshold.*

****No employer NICs on the first £967 pw for employees generally under 21 years, apprentices under 25 years and veterans in first 12 months of civilian employment. No employer NICs on the first £481 pw for employees at freeports and investment zones in Great Britain in the first 36 months of employment*

Employment allowance £10,500 Per business – not available if sole employee is a director

CLASS 2 (self-employed) *	
Flat rate per week	£3,50
Small profits threshold per year	£6,845

Class 2 contributions are credited automatically where profits equal or exceed £6,845 per annum.

Class 2 contributions can be made voluntarily where profits are below £6,845 per annum.

Class 3 (voluntary)	Flat rate per week £17.75.
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 abolished from 6 April 2024.*

	2024/2025	2025/2026
Lump sum and death benefit allowance (LSDBA)	£1,073,100	£1,073,100
Lump sum allowance (LSA)	£268,275	£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**
2025/2026	£60,000**

**Between 2016/17 and 2019/20 the annual allowance is reduced by £1 for every £2 of 'adjusted income' over £150,000 to a minimum of £10,000 where 'threshold income' is over £110,000.*

**Between 2020/21 and 2022/23 the annual allowance is 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.*

***From 2023/24 the annual allowance is reduced 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	2024/2025		2025/2026
Individuals, estates etc	£3,000		£3,000
Trusts generally	£1,500		£1,500
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000		£6,000
TAX RATES	**Pre 30/10/2024**	**Post**	**2025/2026**
Individuals:			
Up to basic rate limit	10%	18%	18%
Above basic rate limit	20%	24%	24%
Surcharge for residential property - Basic Rate	8%	n/a	0%
Higher Rate	4%	n/a	n/a
Surcharge for carried interest**	8%	4%	**32%
Trustees and Personal Representatives:			
Residential property	24%	24%	24%
Other chargeable assets	20%	24%	24%
Business Asset Disposal Relief*	10%		14%
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.*

*** For 25/26, rate for carried interest for all tax bands is 32%*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2024/2025	2025/2026
Transfers made on death		
- Up to £325,000 (nil-rate band)	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		
- Long-term UK resident spouse/civil partner	No limit	No limit
- Spouse/civil partner who is not a long-term UK resident (from long-term UK resident spouse/ civil partner)	£325,000	£325,000
- UK-registered charities	No limit	No limit
- Residence nil rate band*	£175,000	£175,000

**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

		2024/2025 £ (per week)	2025/2026 £ (per week)
Child Benefit	First child	25.60	26.05
	Subsequent children	16.95	17.25
	Guardian's allowance	21.75	22.10
Employment and Support Allowance	Assessment Phase Age 16 - 24	Up to 71.70	Up to 72.90
	Aged 25 or over	Up to 90.50	Up to 92.05
	Main Phase Work-related Activity Group	Up to 126.45	Up to 128.60
	Support Group	Up to 138.20	Up to 140.55
Attendance Allowance	Lower rate	72.65	73.90
	Higher rate	108.55	110.40
Basic State Pension	Category A full rate	169.50	176.45
	Category B (lower) full rate	101.55	105.70
New State Pension	Full rate	221.20	230.25
Pension Credit	Standard minimum guarantee - single	218.15	227.10
	Standard minimum guarantee - couple	332.95	346.60
	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	71.70	72.90
	Age 25 or over	90.50	92.05
Statutory Maternity, Paternity and Adoption Pay		184.03	187.18

CORPORATION TAX

	2024/2025	2025/2026
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 effective rate of 26.5%. This provides a gradual increase in the effective Corporation Tax rate.

VALUE ADDED TAX

	2024/2025	2025/2026
Standard rate	20%	20%
Annual registration threshold	£90,000	£90,000
Deregistration threshold	£88,000	£88,000

STAMP DUTY LAND TAX

	Residential
Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

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

- *First-time buyers benefit from SDLT relief on first £300,000 for properties up to £500,000 when purchasing their mainresidence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,001 and £500,000, a flat rate of 5% is charged on the balance above £300,000.*
- *Additional SDLT of 5% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *Additional SDLT of 2% may apply to purchases by non-UK residents over £40,000.*
- *SDLT may be charged at 17% on interests in residential properties 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%

SUPPLEMENTARY INFORMATION PENSION PAPERS – AF7 2025/2026

REVALUATION

Guaranteed Minimum Pension – Fixed rate

Date of leaving service	Fixed rate of revaluation
Before 6 April 1988	8.5%
Between 6 April 1988 and 5 April 1993	7.5%
Between 6 April 1993 and 5 April 1997	7.0%
Between 6 April 1997 and 5 April 2002	6.25%
Between 6 April 2002 and 5 April 2007	4.5%
Between 6 April 2007 and 5 April 2012	4.0%
Between 6 April 2012 and 5 April 2017	4.75%
Between 6 April 2017 and 5 April 2022	3.5%
After 5 April 2022	3.25%

Non GMP benefits – statutory minimum rates

Date of leaving service	Statutory rate of revaluation
Before 1 January 1986	No requirement to revalue benefits
Between 1 January 1986 and 31 December 1990	CPI capped at 5% in respect of non GMP benefits accrued from 1 January 1985
Between 1 January 1991 and 5 April 2009	CPI capped at 5% in respect of all non GMP benefits
After 5 April 2009	CPI capped at 5% in respect of all non GMP benefits accrued before 6 April 2009 CPI capped at 2.5% in respect of all benefits accrued after 5 April 2009

NOTE: Statutory revaluation is based on RPI for revaluation prior to 2011

ESCALATION

Statutory rates of escalation: Member reached State Pension age before 6 April 2016

Accrual	Statutory rate of escalation
GMP: Accrual prior to 6 April 1988	**Scheme:** No requirement to provide any increases in payment **State:** Fully in line with CPI
GMP: Accrual between 6 April 1988 and 5 April 1997	**Scheme:** CPI capped at 3% **State:** Any increases in CPI in excess of 3%
Non GMP: Accrual prior to 6 April 1997	**Scheme:** No requirement to increase in payment
Non GMP: Accrual between 6 April 1997 and 5 April 2005	**Scheme:** CPI capped at 5% (LPI)
Non GMP: Accrual from 6 April 2005	**Scheme:** CPI capped at 2.5%

NOTE: Statutory escalation was based on RPI prior to 2011

Statutory rates of escalation: Member reaches State Pension age on or after 6 April 2016

Accrual	Statutory rate of escalation
GMP: Accrual prior to 6 April 1988	**Scheme:** No requirement to provide any increases in payment
GMP: Accrual between 6 April 1988 and 5 April 1997	**Scheme:** CPI capped at 3%
Non GMP: Accrual prior to 6 April 1997	**Scheme:** No requirement to increase in payment
Non GMP: Accrual between 6 April 1997 and 5 April 2005	**Scheme:** CPI capped at 5% (LPI)
Non GMP: Accrual from 6 April 2005	**Scheme:** CPI capped at 2.5%

NOTE: No increase to GMP is made by the State (via the State Pension) for individuals who reach State Pension age on or after 6 April 2016

PENSION PROTECTION FUND

Compensation cap no longer applies following a Court of Appeal ruling in July 2021 that it was unlawful on the grounds of age discrimination.

PPF Compensation:	
Members who have already reached the scheme's normal pension age when the employer suffers an insolvency event	100%
Members who have not reached the scheme's normal pension age when the employer suffers an insolvency event	90%

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%