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July 2026

AF5: Financial planning process Practice Test 3

2026/2027 Revision Aid
Based on February 2023 examination

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Advanced Diploma in Financial Planning

☆ Important:

These revision questions have been put together by an experienced trainer to provide a prompt for exam practice. However, please ensure that you bear in mind any changes to law, tax and practice that may have taken place since publication or update.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

This PDF document has been designed to be accessible with screen reader technology. If for accessibility reasons you require this document in an alternative format, please contact us on online.exams@cii.co.uk to discuss your needs.

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Contents

Useful tips as you prepare for the AF5 exam	4
Unit AF5 – Financial planning process FACT-FIND	5
Unit AF5 – Financial planning process Practice Test 3.....	17
Model Answers	21
Tax Tables.....	30

Useful tips as you prepare for the AF5 exam

1. **Schedule sufficient revision time** to use your notes and learning and support materials to refresh your learning and consider how what you have learned applies to the case studies.
2. **Familiarise** yourself with the format and the navigation options navigation of an onscreen written exam:

Familiarisation Test

The familiarisation test:

- Allows you to experience using the assessment platform before your exam.
- Is for the purpose of familiarisation with the assessment platform only.
- 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.

Follow these instructions to take the Familiarisation Test.

- Click [here](#) to access the Familiarisation Test.
- Once the test is open, click 'start'.
- Explore the platform to practice navigation and general 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 to help pre-empt any potential exam day technical issues.**

☆ Important:

If completing your exam via remote invigilation, 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.
3. **Visit the [Assessment Information - Before the exam](#)** area of the CII website, which has important further practical information and support.
 4. **Prepare exam technique** using the support of the Exam Guides on the AF5 unit page <https://www.cii.co.uk/learning/qualifications/unit-AF5/> which include examiner guidance and time-saving tips such as abbreviations.

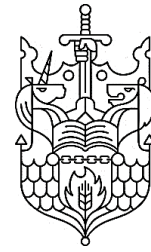
Unit AF5 – Financial planning process FACT-FIND

Practice Test 3

☆ Important:

The AF5 fact-find contains client information which will form the basis of the report you will be required to prepare in the exam. You will not be able to take a copy of the fact-find into the exam with you. The fact-find will be provided in the online exam. There will not be any new or different information contained within the fact-find.

AF5 - FINANCIAL PLANNING PROCESS



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FACT-FIND – Practice Test 3

You are a financial adviser authorised under the Financial Services and Markets Act 2000 (FSMA). You completed the following fact-find when you met Mr and Mrs Day.

PART 1: BASIC DETAILS

	Client 1	Client 2
Surname	Day	Day
First name(s)	Steve	Linda
Address	Salisbury	Salisbury
Date of birth	4 th January 1971	6 th November 1970
Domicile	UK	UK
Residence	UK	UK
Place of birth	Reading	London
Marital status	Married	Married
State of health	Good	Good
Family health	Good	Good
Smoker	No	No
Hobbies/Interests	Travel, Sport	Travel, Swimming

Notes:

Steve and Linda have recently been notified that Linda is due to receive an inheritance from her late aunt. This will be a cash lump sum of £750,000 and is due to be paid to Linda within the next six weeks following the settlement of her aunt's estate.

Steve and Linda have appointed you to assist them in planning how best to use this inheritance.

PART 2: FAMILY DETAILS**Children and other dependants**

Name	Relationship	Age	Health	Occupation	Financially dependent?

Notes:

Steve and Linda do not have any children or dependants.

PART 3: EMPLOYMENT DETAILS		
Employment	Client 1	Client 2
Occupation	HGV Lorry driver	Senior Retail Manager
Job title		
Business name	Clifton Nationwide Ltd	Sarum SVS Ltd
Business address		
Year business started		
Remuneration		
Salary (gross per annum)	£56,000	£72,000
State Pensions		
Overtime (gross per annum)	£12,000	
Benefits-in-kind		
Pension Scheme	See Part 11	See Part 11
Life cover	See Part 8	See Part 8
Private Medical Insurance		See Part 9
Income Protection Insurance	See Part 9	
Self-Employment		
Net relevant earnings		
Accounting date		
Partnership/Sole trader		
Other Earned Income		
Notes:		
Steve and Linda have worked for their current employers for the past 15 years. Their jobs are very demanding, and they are considering using the inheritance to take early retirement.		
Previous Employment	Client 1	Client 2
Previous employer	AZQ Logistics	KQT Markets
Job title		
Length of service	10 years	12 years
Pension benefits	See Part 11	See Part 11
Notes:		

PART 4: OTHER PROFESSIONAL ADVISERS

	Client 1	Client 2
Accountant		
Bank	Assent Bank	Assent Bank
Doctor		
Financial Adviser		
Solicitor	Henson Carter LLP	Henson Carter LLP
Stockbroker		
Other		

Notes:**PART 5: INCOME AND EXPENDITURE****Income**

	Client 1		Client 2		Joint	
	Monthly £	Annually £	Monthly £	Annually £	Monthly £	Annually £
State Pensions						
Pensions/Annuities						
Salary (gross)		56,000		72,000		
Overtime (gross)		12,000				
Benefits-in-kind						
Savings income (interest)				900		
Rental (gross)						
Dividends		3,125				

Notes:

Steve earns overtime of approximately £12,000 per annum (gross). This is not guaranteed but he has earned this level of overtime for the past 2 years.

	Client 1	Client 2
Income Tax	£	£
Personal allowances		
Taxable income		
Tax		
National Insurance		
Net Income		

Notes:

Expenditure

Household Expenditure	Monthly £			Annually £		
	Client 1	Client 2	Joint	Client 1	Client 2	Joint
Mortgage/Rent			1,026			
Council tax			372			
Buildings and contents insurance						300
Gas, water and electricity			250			
Telephone/Mobile	25	30				
TV licence and satellite			75			
Property maintenance						2,000
Regular Outgoings						
Life assurance (see Part 8)			20			
Income Protection insurance (see Part 9)	220					
Savings Plans						
Car tax, insurance and maintenance				1,000	1,600	
Petrol and fares	120	160				
Loans						
School fees						
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping			600			
Pension contributions (see Part 11)	224	384				
Other Expenditure						
Magazines and newspapers						60
Entertainment			400			
Clubs and sport	40	40				
Spending money	300	300				
Clothes				600	1,000	
Other (Holidays)						2,000
Total Monthly Expenditure	929	914	2,743			
Total Annual Expenditure	11,148	10,968	32,916	1,600	2,600	4,360
Total Outgoings						63,592

Do you foresee any major/lump sum expenditure in the next two years?

Notes:

Steve and Linda are considering taking early retirement and are planning some extended overseas trips, funded by the inheritance.

PART 6: ASSETS

	Assets	Client 1 £	Client 2 £	Joint £	Income (Gross) £
1.	Main residence			380,000	
2.	Contents/car			60,000	
3.	Current account			25,000	
4.	Deposit Savings Account – Fixed-Rate		50,000		900
5.	Stocks and shares ISAs – Global Managed funds (accumulation units)	80,000			
6.	Stocks and shares ISAs – UK High-Yield Bond funds (accumulation units)		60,000		
7.	Unit Trust fund – UK Managed Equity fund (accumulation units)	125,000			3,125

Notes:

Steve and Linda own their home as joint tenants and have an outstanding repayment mortgage of £70,000.

Steve and Linda have not used their ISA allowances for the current tax year.

Steve purchased the unit trust fund ten years ago with a lump sum of £60,000. This has performed well but he has noted that the recent performance has been disappointing. He has never sold any unit in this fund.

PART 7: LIABILITIES

Mortgage Details	Client 1	Client 2	Joint
Lender			Assent Bank
Type of mortgage			Repayment
Amount outstanding			£70,000
Start date			November 2003
Term/maturity			November 2028
Monthly payment			£1,026
Interest rate			1.8%
Life policies (see Part 8)			

Notes:

Steve and Linda have a fixed interest rate of 1.8% until November 2026. After this date, the mortgage will revert to the lender's Standard Variable Rate. There are early repayment penalties until November 2026. The early repayment penalty is 3% of the outstanding capital until November 2026.

Other Loans	Client 1	Client 2	Joint
Lender			
Type of loan			
Amount outstanding			
Start date			
Term/maturity			
Monthly payment			
Interest rate			
Payment protection			

Notes:

Steve and Linda do not have any other loans.

Other Liabilities (e.g. tax)**Notes:**

Steve and Linda do not have any other liabilities.

PART 8: LIFE ASSURANCE POLICIES

Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust?	Surrender Values £
Steve	Employer	168,000	N/A			Yes	N/A
Linda	Employer	288,000	N/A			Yes	N/A
Joint	Joint	50,000	20 per month	25 years	2003	No	N/A

Notes:

Steve and Linda have death-in-service policies with their employers. The policies are nominated for each other.

Steve and Linda took out a joint life first death level term policy to cover their original mortgage but have always relied on their employer death-in-service cover to meet their protection needs.

PART 9: HEALTH INSURANCE POLICIES

Type	Life Covered	Current Sum Assured £	Start Date	Term/Review	Deferred Period	Premium £
Income Protection	Steve	32,000 per annum	2018	To age 60	3 months	220 per month
Private Medical Insurance	Linda	N/A	N/A	Annual	N/A	N/A

Notes:

Steve has a personal Income Protection policy that he took out privately a few years ago. This is set up on an own occupation basis and offers a maximum annual benefit of £32,000 per annum.

Linda is a member of her employer's private medical insurance scheme which covers both herself and Steve.

PART 10: REGULAR SAVINGS

Type	Company	Ownership	Fund	Amount Saved £	Sum Assured	Maturity Date	Current Value £

Notes:

Steve and Linda do not make any regular savings.

PART 11: PENSION DETAILS**Occupational pension scheme**

	Client 1	Client 2
Member of employer's scheme		
Type of scheme		
Date joined		
Retirement age		
Pension benefits		
Death benefits		
Dependant's benefits		
Contracted-in/out		
Contribution Level (employee)		
Contribution Level (employer)		
Fund type		
Fund value		

Notes:

Steve and Linda do not have any occupational pension schemes.

Additional Voluntary Contributions (including free standing additional voluntary contributions).

	Client 1	Client 2
Type		
Company		
Fund		
Contribution		
Retirement date		
Current value		
Date started		

Notes:

Steve and Linda do not have any Additional Voluntary Contribution schemes.

Personal Pensions

	Client 1	Client 2
Type	Employer Workplace Pension scheme	Employer Workplace Pension scheme
Company	Monarch Life	Assent Life
Fund	UK Mixed Bond fund/UK High Yield Bond fund	UK Cautious Managed
Contributions	6% employer/6% employee	8% employer/8% employee
Retirement date	65	65
Current value	£170,000	£235,000
Date started	2007	2007

Notes:

Steve and Linda are both members of their employer's workplace pension schemes. Neither Steve nor Linda have had time to review their pension arrangements in recent years and are aware that their chosen funds may not be the most suitable options for them. Their employer schemes offer a wide range of funds options which cover all of the main asset classes.

Steve and Linda have completed death benefit nomination forms in favour of each other.

Previous/other pension arrangements

	Client 1	Client 2
Employer	AZQ Logistics	KQT Markets
Type of scheme	Group Personal Pension	Group Personal Pension
Date joined scheme	1997	1995
Date left scheme	2007	2007
Current value	£38,000	£53,000

Notes:

Steve and Linda have some deferred pension benefits in their former employer's Group Personal Pension schemes. Steve's pension is invested in the default managed fund and Linda's pension is invested in a UK Equity fund. They have not reviewed these pension funds since they left their former employers.

State Pension

	Client 1	Client 2
State Pension		

Notes

Neither Steve nor Linda have checked their State Pension entitlements but believe they should each have at least 25 qualifying years of credits.

PART 12: INHERITANCES

Wills	Client 1	Client 2
Do you have a current Will?	Yes	Yes

Notes:

Steve and Linda have mirror Wills which leave all of their assets to the survivor and then split between their five nephews and nieces on second death.

Trusts	Client 1	Client 2
Are you a beneficiary under a trust?	No	No
If yes, give details		
Are you a trustee?	No	No
If yes, give details		

Notes:

Gifts	Client 1	Client 2
Give details of gifts made and received	None	None

Notes:

Inheritances	Client 1	Client 2
Give details of any inheritances expected	None	£750,000

Notes:

Linda is due to receive an inheritance from her late aunt very shortly. This will be paid as a cash lump sum and the solicitor has arranged to pay this directly into Linda's bank account as soon as the monies are available.

PART 13: ATTITUDE TO RISK

What level of risk are you prepared to take to achieve your financial objectives?

Notes:
<p>Steve and Linda have completed a full risk-profiling assessment. Both consider themselves to be medium-risk investors and this has been confirmed by the assessment. Their capacity for loss is currently moderate but this is due to increase on receipt of the inheritance.</p> <p>Steve and Linda have no particular interest in Environmental, Social and Governance (ESG) investing.</p>

PART 14: BUSINESS RECORDS

Compliance		
Date fact-find completed	10.01.23	
Client agreement issued	10.01.23	
Data Protection Act	10.01.23	
Money laundering	10.01.23	
Dates of meetings		
Marketing		
Client source		
Referrals		
Documents		
Client documents held		
Date returned		
Letters of authority requested		

Notes:

PART 15: OTHER INFORMATION

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Unit AF5 – Financial planning process

Practice Test 3

☆ Important:

All questions in this paper are based on English law and practice applicable in the tax year 2026/2027, unless stated otherwise and should be answered accordingly.

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

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks as follows:
- 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.
- **In this examination you should use the fresh copy of the fact-find provided. You are not allowed to bring into the examination the pre-released copy of the fact-find.**
- **Client objectives are provided overleaf, and you should read them carefully before attempting the tasks.**
- 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.
- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Tax tables are provided at the back of this question paper.

☆ Important:

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.

CLIENTS' FINANCIAL OBJECTIVES

You have now been able to determine from the information in the fact-find that your clients have the following financial objectives:

Immediate objectives

- To consider the affordability of early retirement.
- To identify any actions to be taken in advance of leaving employment.
- To consider whether they should repay their mortgage on receipt of the inheritance.

Longer-term objectives

- Set up a long-term investment strategy for Linda's inheritance.
- Improve the tax-efficiency of their financial arrangements.
- To ensure a sustainable income can be generated in retirement.

Attempt ALL tasks**Time: 3 hours**

1. (a) Identify the additional information that you would require in order to advise Steve and Linda on the affordability of retiring early following receipt of Linda's inheritance. **(14)**
 - (b) Explain the key financial drawbacks for Steve and Linda if they decide to take early retirement. **(12)**

 2. (a) Recommend and justify how Steve and Linda can improve their personal pension arrangements before taking early retirement. **(14)**
- Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.*
- (b) Explain in detail to Steve and Linda the process that must be followed to establish and make use of their maximum carry forward pension allowance. *(No calculations are required).* **(9)**
-
3. (a) Explain to Steve and Linda why they could consider retaining their existing mortgage rather than using part of their inheritance to repay this. **(8)**
 - (b) Identify the key reasons why Steve and Linda's pension fund investments may not be suitable for their longer-term objectives. **(10)**
-
4. (a) Outline the key protection issues that should be considered by Steve and Linda once they leave employment. **(10)**
 - (b) Identify the key reasons why Steve and Linda may wish to retain at least two years' planned expenditure in low-risk assets, following their retirement. **(9)**
-
5. (a) Explain in detail to Steve and Linda why they may wish to consider a portfolio of global and UK passive equity tracker funds to invest a portion of the inheritance. **(8)**
 - (b) Identify the key drawbacks for Steve and Linda of using passive equity tracker funds within their portfolio. **(8)**

6. (a) Identify the key issues that Steve and Linda should take into consideration when establishing a safe level of withdrawal from their investment portfolio. (12)
- (b) Explain to Steve and Linda the key factors that they should take into consideration when setting up fixed monthly withdrawals from the investment portfolio, instead of drawing the natural income. (11)
7. (a) Recommend and justify how Steve and Linda can generate a tax-efficient income from their financial arrangements before they reach State Pension Age. (14)
- Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.*
- (b) Explain to Steve and Linda the key benefits of making voluntary National Insurance contributions for the State Pension after leaving employment. (9)
8. (a) Identify the key changes in Steve and Linda's circumstances which should trigger an immediate review of their financial arrangements. (6)
- (b) Identify **six** key issues that you would discuss with Steve and Linda when their mortgage reaches the end of its fixed term in November 2026. (6)

Total marks: 160

Model Answers

☆ Important:

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

- (a)
- When do they plan to retire?
 - Phased retirement/part-time work?
 - Cost of travel plans/planned capital expenditure.
 - Income needs in retirement.
 - Do they wish to repay mortgage?/plans for property/rent/sell/downsize?/any further inheritances?
 - Pension contribution history/how much carry forward available?
 - Employer matching.
 - Use of Capital Gains Tax (CGT) exemption/any losses.
 - BR19/National Insurance (NI) record/ State Pension (SP) entitlement/voluntary contributions.
 - Longevity (confirm they are in good health).
 - Willingness to deplete assets.
 - Charges/are investments held on platform?
 - Willing to invest in joint names for tax efficiency.
 - Projected pension values on retirement.
- (b) *Candidates would have scored full marks for any twelve of the following:*
- No earned income.
 - Loss of employer/employee pension contributions.
 - Pension allowances reduced to £3,600/£2,880 per annum.
 - Loss of employer benefits (Death in Service) /Private Medical Insurance/cannot use Permanent Health Insurance/Income Protection (PHI/IPI).
 - Personal Pensions not available until 55.
 - State Pension not available until 67.
 - State Pension accrual ceases/do not have full State Pension.
 - Reduces likelihood of sustainable income in retirement.
 - Capital erosion/need to spend capital.
 - Outstanding mortgage/no borrowing capacity/Early Repayment Charges (ERC).
 - High monthly expenditure.
 - Greater reliance on investments/low value in pensions.
 - Long timeframe (both in good health).

Model answer for Question 2

- (a)** *Candidates would have scored full marks for any fourteen of the following:*
- Make personal pension contributions/last chance for larger contributions.
 - 40% Tax relief.
 - Pension contributions could make them Basic Rate Taxpayers (BRT).
 - Can use carry forward (based on earned income £68,000/£72,000).
 - Employer matching.
 - Tax-efficient growth/limited tax-efficiency at present/Inheritance Tax (IHT) efficiency (under current regulations).
 - Affordable/inheritance received.
 - Future contributions limited to £3,600/£2,880 (net).
 - 25% pension commencement lump sum (PCLS) available.
 - Flexible retirement options/can create tax-efficient income in future (use of Personal Allowance (PA) as no future earned income).
 - Income Tax efficient for survivor if death before 75.
 - Nominations updated (include nephews and nieces).
 - Amend fund choice as do not match attitude to risk (ATR)/limited growth/limited diversification.
 - Review fund choice/charges on old schemes/consolidation.
 - Make voluntary NI contributions for State Pension.
- (b)**
- Establish personal and employer contribution for current tax year.
 - Earnings for previous 3 tax years.
 - Contributions made in previous 3 tax years.
 - Calculate residual allowance (each tax year).
 - Use current year maximum allowance first (£40,000).
 - Can use residual allowance for 2019/2020 tax year first.*
 - Tax relief limited to earned income in current tax year (£68,000 and £72,000).
 - Pay contribution net of 20% and claim back 20% via self-assessment (SA).
 - No need to inform HM Revenue & Customs (HMRC)/keep own calculations.

**Candidates should note that this exam paper was set in February 2023*

Model answer for Question 3

- (a)**
- Low fixed rate of interest (1.8%)/affordable.
 - Risk-free return exceeds interest-rate on mortgage/cash rates exceed 1.8%.
 - Liquidity.
 - Repayment mortgage/repayment strategy in place.
 - Early repayment penalties in place/saves 3% penalty/can repay in November 2026 without penalty.
 - No other liabilities/small outstanding debt.
 - Can invest monies for longer-term growth/increase likelihood of sustainable income in retirement.
 - Can use tax allowances/ISA/pension.
- (b)**
- Limited growth potential/they need growth.
 - Lack of asset class diversification/limited equity exposure.
 - Lack of geographical diversification.
 - Inflation risk.
 - Credit risk/default risk on high yield bonds.
 - Interest rate risk/bond funds negatively affected by interest rate rises.
 - Higher charges.
 - Old GPPs may have limited fund choice.
 - Do not match Attitude to Risk (ATR).
 - Unlikely to meet long-term retirement objectives.

Model answer for Question 4

- (a)**
- Level term policy does not match mortgage.
 - Loss of Death in Service (DIS).
 - Loss of Private Medical Insurance (PMI).
 - Reliant on National Health Service (NHS).
 - Can they continue PMI with same provider?/cost?
 - Income Protection can no longer be used (no earned income).
 - He should cancel Income Protection/waste of premiums.
 - Potential loss of State benefits/not paying National Insurance/no statutory sick pay (SSP).
 - They can self-fund protection needs.
 - They do not have Critical Illness Cover (CIC).
- (b)** *Candidates would have scored full marks for any nine of the following:*
- No guaranteed income/no earned income.
 - Liquidity/accessibility/peace of mind.
 - Income/capital needs unclear/major change in circumstances.
 - Timeframe for access unclear/travel plans not fixed.
 - Ongoing mortgage/property costs must be met.
 - Allows investment in higher-risk assets.
 - Reduces volatility risk/no need to rely on investment returns.
 - Reduced risk of capital loss/reduced risk of pound-cost-ravaging.
 - Interest rates are rising/improved returns on low-risk assets.
 - Retains funds to use future tax allowances (ISA/Pension).

Model answer for Question 5

- (a)** *Candidates would have scored full marks for any eight of the following:*
- Low cost/cost-effective.
 - Run by computer system/no human judgement/Efficient Market theory.
 - Improves long-term returns/equities can outperform.
 - Provides dividend income/can use Dividend Allowance (DA)/can invest in joint names/can hold in ISA.
 - Potential to keep pace with inflation/reduces inflation risk.
 - Geographical diversification/global.
 - Diversification can reduce risk.
 - Simple to understand/ease of access to markets.
 - Matches Attitude to Risk (ATR).
- (b)**
- Single asset class/all equities.
 - Will underperform the market due to charges/cannot outperform market/no active management/no Alpha.
 - Risk of capital loss/market risk/Perform poorly in falling market/volatility.
 - Tracking error/will never match market exactly.
 - Unsuitable for short-term/must hold for long-term.
 - Currency risk.
 - Does not seek to generate income/no income mandate.
 - Steve exceeds his Dividend Allowance (more tax to pay).

Model answer for Question 6

- (a)**
- Income needs.
 - Natural income/dividend yield.
 - Current value of assets/performance.
 - Current market conditions/Inflation expectations.
 - Growth expectations.
 - Limited future funding available/no earned income.
 - Pound-cost ravaging/sequencing risk/capital erosion.
 - Tax treatment of withdrawals/use of allowances.
 - Are their income needs flexible?/can they delay withdrawals in poor market conditions?/income needs when travel plans are completed.
 - No guaranteed income (until age 67).
 - Any further inheritances due?/downsizing?/Capacity for Loss (CFL).
 - Longevity/long time scale.
- (b)**
- Natural income will be insufficient/how much income do they need to meet expenditure.
 - Natural/Dividend income fluctuates/not guaranteed.
 - Pound cost ravaging/sequencing risk/market timing issues.
 - Capital will be eroded.
 - Capital withdrawals could be liable to Capital Gains Tax (CGT)/reduces ISA tax shelter.
 - They are not using full CGT exemptions/CGT exemptions available to generate tax-free withdrawals/CGT exemption reducing.
 - Natural income liable to dividend or savings tax/can use Dividend Allowance (DA)/Personal Savings Allowance (PSA).
 - Capital withdrawals reduce natural dividend income.
 - Capital withdrawals reduce future fund growth/natural income could be reinvested to boost growth.
 - Cost/charges.
 - Requires more regular review/more admin/more complex.

Model answer for Question 7

- (a)** *Candidates would have scored full marks for any fourteen of the following:*
- Make use of Personal Allowance for tax-free income (£12,570).
 - Use Dividend Allowance.
 - Use Capital Gains Tax (CGT) exemptions/£3,000.
 - Use ISA allowances/Bed & ISA/take income from ISAs.
 - Make pension contributions of £3,600/£2,880 per annum/use carry forward (before leaving work).
 - Tax-efficient fund (ISA and Pension).
 - Unrestricted access to ISA.
 - Hold Cash in Joint names.
 - £5,000 Starting Rate Band for interest/use Personal Savings Allowance (PSA).
 - Transfer Unit Trust to joint names.
 - Interspousal exemption/CGT-free.
 - Improved use of tax allowances.
 - CGT exemptions due to reduce significantly over next 2 tax years.
 - Can use flexi access drawdown (FAD)/uncrystallised funds pension lump sum (UFPLS) for tax efficient income (from age 55).
 - Pension nomination should allow retention of pension fund wrapper/old group personal pension (GPP) may not offer flexible death benefits/flexible access (transfer).
- (b)**
- They will not have full State Pension (SP) if they retire early.
 - Need 35 years of contributions for full SP.
 - Provides guaranteed income/no other sources of guaranteed income in future.
 - Income is inflation-proofed/triple lock applies.
 - No investment risk.
 - May erode personal pensions/low value in Personal pensions.
 - Good return on capital outlay/low cost/cost effective.
 - Affordable/they have funds to pay voluntary contributions.
 - They are in good health so likely to receive State Pension for many years.

Model answer for Question 8

- (a)**
- Health/family situation/death/divorce/domicile.
 - Retirement date decided/leaving employment.
 - Capital need/change in expenditure/income needs.
 - More funds received/further inheritances.
 - Travel plans formalised/duration/cost?
 - Affordability of mortgage/end of fixed-rate term.
- (b)**
- Do they wish to pay off mortgage?/any other liabilities.
 - Mortgage rate available from lender/affordability of repayments.
 - May not be able to re-mortgage with another lender (no guaranteed income)/rates available elsewhere.
 - Any charges to repay mortgage/no Early Repayment charge (ERC) in 2026.
 - Performance of investments/value of available assets.
 - Use of tax allowances/CGT exemption available?

Tax Tables

☆ Important:

The Tax Tables which follow are applicable to the examinations during September 2026 through to August 2027.

INCOME TAX

RATES OF TAX	2025/2026	2026/2027
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%	10.75%
Higher rate	33.75%	35.75%
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.

From 6 April 2026, carried interest is taxed as Income Tax, not Capital Gains Tax.

Qualifying carried interest is subject to a 72.5% multiplier before applying Income Tax rates.

Class 4 NICs may also apply.

MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£4,360	£4,530
Married/civil partners at 10% †	£11,270	£11,700
Marriage/civil partners' Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance †	£37,700	£39,200
Rent a Room scheme	£7,500	£7,500
Blind Person's Allowance	£3,130	£3,250
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%	20%

§ 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 £39,200 (£37,700 for 25/26) 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)	£129
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 £129 per week. This £129 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	£3.65
Small profits threshold per year	£7,105
Class 2 contributions are credited automatically where profits equal or exceed £7,105 per annum.	
Class 2 contributions can be made voluntarily where profits are below £7,105 per annum.	

Class 3 (voluntary)	Flat rate per week £18.40.
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.

	2025/2026	2026/2027
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 (MPAA)	£10,000	£10,000
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ANNUAL ALLOWANCE	
TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*
2023/2024	£60,000**
2024/2025	£60,000**
2025/2026	£60,000**
2026/2027	£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	2025/2026	2026/2027
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	2025/2026	2026/2027
Individuals:		
Up to basic rate limit	18%	18%
Above basic rate limit	24%	24%
Higher Rate	n/a	n/a
Trustees and Personal Representatives:		
Residential property	24%	24%
Other chargeable assets	24%	24%
Business Asset Disposal Relief*	14%	18%
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%*

For 26/27, rate for carried interest for all tax bands is 34.075%

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2025/2026	2026/2027
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

100% relief on first £2.5m* of combined qualifying agricultural property relief and business property relief assets.

50% relief on qualifying assets exceeding £2.5m

AIM listed shares generally restricted to 50% relief regardless of value

* The £2.5m allowance is frozen until April 2031.

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

		2025/2026	2026/2027
		£ (per week)	£ (per week)
Child Benefit	First child	26.05	27.05
	Subsequent children	17.25	17.90
	Guardian's allowance	22.10	22.95
Employment and Support Allowance	Assessment Phase	Up to 72.90	75.65
	Age 16 - 24		
	Aged 25 or over	Up to 92.05	95.55
	Main Phase		
	Work-related Activity Group	Up to 128.60	Up to 133.50
	Support Group	Up to 140.55	Up to 145.90
Attendance Allowance	Lower rate	73.90	76.70
	Higher rate	110.40	114.60
Basic State Pension	Category A full rate	176.45	184.90
	Category B (lower) full rate	105.70	110.75
New State Pension	Full rate	230.25	241.30
Pension Credit	Standard minimum guarantee - single	227.10	238.00
	Standard minimum guarantee - couple	346.60	363.25
	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	72.90	75.65
	Age 25 or over	92.05	95.55
Statutory Maternity, Paternity, Adoption, Neonatal Care, Shared Parental and Parental Bereavement Pay		187.18	194.32

CORPORATION TAX

	2025/2026	2026/2027
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

	2025/2026	2026/2027
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 main residence. 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 residential and all corporate residential properties £40,000 or more – add 5% to SDLT rates, 8% to LBTT. LTT has separate higher rate bands.*
- *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. The rates 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%

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