Chartered Insurance Institute

AF7

Advanced Diploma in Financial Planning

Unit AF7 – Pension transfers

September 2026 Exam Guide

SPECIAL NOTICES

Candidates entered for the March 2027 exam should study this exam guide carefully in order to prepare themselves for the exam.

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

AF7 – Pension Transfers

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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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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Exam Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you demonstrate to the Examiners that you meet the required levels of knowledge and skill to merit a pass in this unit. During your preparation for the exam, it should be your aim not only to ensure that you are technically able to answer the questions but also that you can do justice to your abilities under exam conditions.

Before the exam

Study the syllabus carefully
It is crucial that you study the relevant syllabus carefully, which is available online at www.cii.co.uk, on the relevant qualification page. All the questions in the exam are based directly on the syllabus. *You will be tested on the syllabus alone,* so it is vital that you are familiar with it.

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
To get the most out of your learning, it's important to explore beyond just one textbook. Relying solely on a single study text may not give you all the depth or perspectives you need. While the main study materials are designed to cover the syllabus, they might not always explain things in a way that works for you—or offer alternative viewpoints that deepen your understanding.

That's why reading around the subject is so valuable. If a topic feels unclear or you're curious to see how others approach it, looking at different sources can really help. Think of it as building a richer, more rounded picture of what you're learning.

Build confidence in your knowledge and ability to apply it.

Make full use of the Exam Guide
This Exam Guide contains a full exam 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 Exam Guides can be treated as 'mock' exam papers. Attempting them under exam 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 exam guides free of charge on the relevant qualification page at www.cii.co.uk.

Know the layout of the tax tables

Familiarise yourself with the tax tables printed at the back of the Exam Guide. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to use your own tax tables in the exam, these are provided in the portal when you sit the exam.*

Know the structure of the exam

- Assessment is by means of a two-hour online written exam in two sections.
- All questions are compulsory.
- **Section A** consists of 30 marks.
- **Section B** consists of two case studies worth a total of 70 marks.
- You will be expected to carry out a variety of tasks, after analysing the information provided.
- Each question part will clearly show the maximum marks which can be earned.

You can also access previous exam papers and test specifications **here**.

Appreciate the standard of the exam

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.

Assessment Information and Rules and Policies for candidates

Please review the assessment information and rules and policies for candidates. Full details of the administrative arrangements and the regulations governing your exam entry are available online.

On-screen written exam familiarisation

The familiarisation test allows you to experience using the assessment platform before your exam.

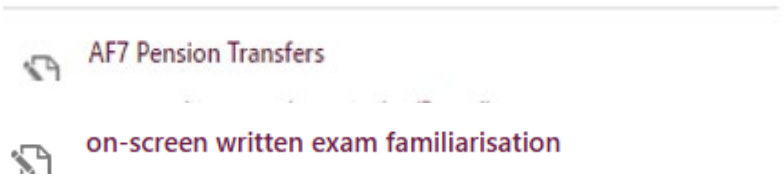
Please note, that while there might be slight differences in layout, it will give you a good idea of how to navigate and use the platform functionality. This test is for the purpose of familiarisation with the assessment platform only.

You can access the familiarisation test at any time. It can be found **here**.

We strongly recommend that you take the familiarisation test to ensure you are familiar with the on-screen assessment platform experience.

If you have previously sat any of the CII's multiple-choice exams, please note this familiarisation experience has a different set up.

On the day of the AF7 exam, upon accessing the platform, you will need to click on **AF7 Pension transfers** to start the exam:



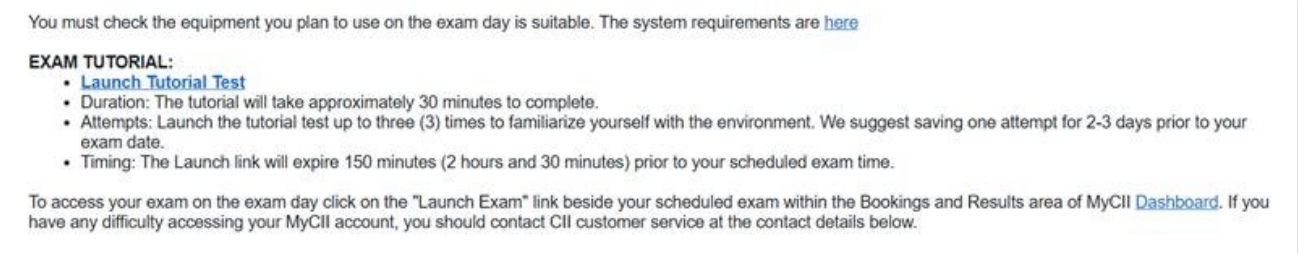
We would recommend that prior to starting the exam, you may wish to take a moment at this screen to jot down any notes on paper that may assist you during the exam.

Please note the exam timer will not start until you click the exam titled: **AF7 Pension transfers.**

Important information for remote invigilation candidates only

If you are taking the exam through remote invigilation, **we strongly advise that you try the online Tutorial test** once you have received your exam login details and well in advance of the actual exam day. This test is different to the familiarisation test.

You will receive the below information via email before your exam date.



You must check the equipment you plan to use on the exam day is suitable. The system requirements are here

EXAM TUTORIAL:

- Launch Tutorial Test
- Duration: The tutorial will take approximately 30 minutes to complete.
- Attempts: Launch the tutorial test up to three (3) times to familiarize yourself with the environment. We suggest saving one attempt for 2-3 days prior to your exam date.
- Timing: The Launch link will expire 150 minutes (2 hours and 30 minutes) prior to your scheduled exam time.

To access your exam on the exam day click on the "Launch Exam" link beside your scheduled exam within the Bookings and Results area of MyCII Dashboard. If you have any difficulty accessing your MyCII account, you should contact CII customer service at the contact details below.

This Exam Tutorial will help you feel confident and prepared for exam day. It guides you through the system and helps identify any potential issues with your equipment in advance, reducing the risk of technical problems during your exam.

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

The exam platform no longer supports Windows 10 or macOS Ventura for any online testing.
These operating systems no longer meet the minimum technical requirements. Continuing to use them may introduce compatibility issues, affecting performance during test sessions.

It is fundamentally important that, if you are sitting an exam via remote invigilation, you read all of the documents on this page; How to prepare for your on-screen written exam by remote invigilation.

If there is anything you are unsure of, or if you have not received the tutorial email, please contact Customer Service (telephone +44 (0)20 8989 8464 Mon to Fri: 9am – 5pm (UK time), email customer.serv@cii.co.uk, Webchat service: Mon-Fri: 8am-4pm (GMT)) as soon as possible, as this may affect your exam sitting.

On the exam day

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, flag the question, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

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

- Before you start writing, take a moment to think carefully about what the question is really asking. Understanding the examiner's requirements is key to producing a strong, focused answer.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Exam 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.

Order of answering questions

Answer the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which are felt to be challenging until the more familiar questions have been attempted but *remember not to spend excessive time on the questions you are most confident about.* You are able to flag questions and then go back to them.

Answering different question parts

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)'.

Always read all parts of a question before starting to answer it, otherwise you may find that after answering part (i), the answer you have given is more appropriate to part (ii) and it may be necessary to duplicate some of the answer.

Answer format

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

Marks <u>are not</u> lost for incorrect 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 in your answer, even if you have used a calculator. You are permitted to use your own non-programmable calculator.

EXAMINERS' COMMENTS

Candidates' overall performance:

Overall, candidates did not perform as well as expected on this exam paper, particularly on the 'analysis' type questions in section B.

The performance on the factual questions under Section A was similar, or even slightly better, than recent sittings where similar questions have been tested. However, on the analysis questions under section B candidates did not perform as well.

Candidates' performance per question:

Question 1
Whilst a reasonable number of candidates gained full marks on this question, there were a surprising number of low scores (4 or less). There was no real pattern to the marks that were lost but it was quite common for candidates to not correctly identify one or more of the four drivers (with things like 'old age' being stated) or for candidates to incorrectly provide an example of a stated driver that was an example of a different driver – i.e. stating a poor health example under the Capability driver.

Question 2
Overall, the majority of candidates did not perform well in this question. Candidates tended to simply provide a list of things you would take into account when advising a client on a defined benefit pension transfer, and not the things that are specific to establishing a client's attitude to transfer risk.

Question 3
Both parts of this question were not answered well by many candidates. A high proportion of candidates thought these aspects related to the strength of the scheme itself and its ability to meet member payments as opposed to the strength of the sponsoring employer.

Question 4
Some very good answers on this question, with several candidates gaining maximum marks. That said, it was disappointing to see some candidates with significant gaps in their knowledge of this area. Where marks were lost, it tended to be as a result of failing to cover points 3, 5 and 6 from the model answer.

Question 5
Performance on this question was good, with several candidates gaining maximum marks. Points 3 and 4 from the model answer were answered the least frequently – it was common for candidates to state one without the other.

Question 6
Although no candidates gained maximum marks on this question, overall, the performance was good. A high proportion of candidates gained at least 9 out of 14 marks. Where marks were missed, it tended to be as a result of failing to link the features of the defined benefit scheme to the client objectives – i.e. correctly covering points 9, 11 and 13 on the model answer but not covering points 10, 12 and 14.

Question 7

Candidates did not perform well in this question, with a number of candidates scoring less than 3 out of 7 marks. Some of the lost marks were a result of stating the wrong 'direction', for example, 'increased longevity' or 'gilt yield falls' as opposed to 'reduced longevity' or 'gilt yield increases'.

Question 8

Whilst a small number of candidates gained maximum marks, overall, the performance was below expectations. A high proportion of candidates stated that all benefits (including death benefits paid as income) were subject to the lump sum and death benefit allowance (LSDBA) and knowledge around the 2-year window only applying to uncrystallised funds was also limited to a handful of candidates.

Question 9

Most candidates performed well on this question. Where marks were lost, it tended to be as a result of not linking the scheme features to the case study. Several candidates stated that the ABC scheme provided better inflation protection or a higher level of secure income (points 6 and 8 on the model answer) but then didn't go on to say that the clients wanted their essential income covered by 'secure' and 'inflation protected' income (points 5 and 7 on the model answer).

Question 10

The majority of candidates gained at least half marks, but the answers provided by some candidates suggested they hadn't recognised the 'short-term annuity' aspect of the question. For example: some candidates stated, 'removes longevity risk', which it doesn't as it's not a lifetime annuity, and some stated 'including inflation protection may be expensive', which as it's only a short-term annuity, it won't be particularly expensive to build in inflation protection. In any event, the alternative drawdown withdrawals would need to increase each year to cover inflation, so the impact of inflation protection is not unique to the short-term annuity purchase.

Question 11

Most candidates performed well on this question, with no discernible patterns to the answers that candidates typically missed.

Question 12

This question was not well answered by many candidates and overall, the marks achieved were below the standard expected. The most common marks obtained were points 1, 2 and 3 from the model answer. It was rare to see any candidate getting points 4, 5 or 6 from the model answer.

Unit AF7 – Pension transfers

Instructions to candidates

Read the instructions below before answering any questions.

All questions in this exam are based on English law and practice applicable in the tax year 2026/2027, 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.

If you are sitting via remote invigilation please

- **Write down the following number +44 (0)80 8273 9244. This is the number to call if you experience any technical 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: 30 marks
- Section B: 70 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 30 marks

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

1. The Financial Conduct Authority (FCA) has identified four drivers of actual or potential vulnerability.

Identify the **four** drivers and provide an example of **each**. **(8)**

2. Outline the factors that should be considered when establishing a client's attitude to transfer risk. **(10)**

3. Explain briefly what is meant by the following terms when considering the strength of the employer covenant supporting a defined benefit pension scheme:

(a) The reliability period. **(3)**

(b) Covenant longevity. **(3)**

4. Ananya, aged 67, is about to fully retire. In 2023, she crystallised the benefits from a defined benefit pension scheme taking them in the form of a scheme pension, plus a pension commencement lump sum. This enabled her to semi-retire and repay her mortgage.

She now intends to transfer the benefits held in a second defined benefit pension scheme to a personal pension plan. This is Ananya's only other private pension, and her adviser has recommended that she applies for a transitional tax-free amount certificate (TTFAC).

Explain how Ananya would make this application. **(6)**

Total marks available for this question: 30

SECTION B

All questions in this section are compulsory and carry an overall total of 70 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.

Marcus, aged 58, and Rina, aged 56, are married and have two financially dependent children aged 17 and 20. They plan to fully retire when Marcus reaches age 67 but would like to repay their mortgage and consider reducing their working hours in the run-up to full retirement.

Marcus is employed with gross earnings of £80,000 per annum and has a workplace pension scheme valued at £70,000. He is a member of his previous employer's defined benefit pension scheme and has the following benefits:

Normal pension age (NPA)	65
Estimated pension at NPA	£62,500
Pension Commencement Lump Sum	By commutation
Death benefits (pre- and post-retirement)	50% pre-commutation spouse's pension 25% pre-commutation pension for each dependent child
Escalation in payment	RPI
Cash equivalent transfer value (CETV)	£980,000

Rina is a self-employed bookkeeper earning £40,000 per annum. She has a defined contribution pension fund of £275,000.

The couple's home is valued at £550,000 with an outstanding interest-only mortgage of £42,000. They have an emergency fund of £55,000 and an investment portfolio valued at £230,000. Both expect to receive a full State Pension.

Once fully retired they would like to achieve a minimum total inflation-protected net income of £60,000 per annum, reducing to £35,000 following first death.

Marcus and Rina prefer lower risk investments and want to ensure their children's financial security while they are still financially dependent. Marcus has seen a significant reduction in his CETV over the last 5 years. They have asked for advice on whether Marcus should transfer the benefits out of his defined benefit pension scheme in order for them to meet their objectives.

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

5. State the additional information you would request from Marcus and Rina regarding their mortgage before advising them on whether to repay it now. **(5)**

6. Outline, based on the information provided in the case study, the reasons why you would recommend Marcus does not transfer the benefits from his defined benefit pension scheme at this time. **(14)**

7. Explain the factors that may have led to the reduction in Marcus's cash equivalent transfer value. **(7)**

8. Explain to Marcus and Rina how the death benefits from their pensions may be taxed. **(9)**

Total marks available for this question: 35

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.

Darren, aged 62, is married to Lisa, aged 60. They are both in full-time employment and have no dependants. Darren and Lisa are in good health, as are their parents who are all in their late-80s.

In addition to £12,000 in joint cash savings, they both have a personal pension plan (PPP) invested in line with their low to medium attitude to risk. Darren's fund is valued at £47,000 and Lisa's is valued at £16,000. They will both be entitled to a full State Pension when they reach State Pension Age. The couple also have the following benefits accrued under their former employer's defined benefit pension schemes:

	ABC Pension Scheme	**XYZ Pension Scheme**
Member	Darren	Lisa
Date of joining scheme	April 1982	September 1986
Date of leaving scheme	July 2006	June 1998
Normal retirement age (NRA)	63	65
Scheme pension at NRA	£26,400 per annum gross	£11,200 per annum gross
Early retirement	From age 55 with an actuarial reduction of 4% per annum	From age 55 with an actuarial reduction of 6% per annum
Spouses'/civil partner pension	67% in deferment and retirement	50% in deferment and retirement
Increases to pension in payment	5% per annum	Statutory minimum
Transfer value enhanced	No	Yes
Cash equivalent transfer value (CETV)	£730,000	£342,000
Scheme funding position	92% funded	105% funded

The couple would like to retire when Darren reaches age 63 in a few months' time. Their essential expenditure needs will be £3,000 per month (net), which will reduce to £2,200 per month following the first death. They would like a further £1,000 per month (net) to cover their discretionary expenditure. They would prefer their essential expenditure to be covered by secure inflation-proofed income. They would also like to discuss clearing their outstanding mortgage of £40,000 before they retire.

As they do not have any financial dependants they would like to leave any money purchase pension funds to charity on second death.

Darren and Lisa have requested advice on whether the transfer of the benefits held in one of their former employers defined benefit pension schemes to a PPP would help to meet their objectives now and in retirement.

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

9. Outline, based on the information provided in the case study, the factors you would consider when advising the couple whether a transfer should be made from either the ABC Pension Scheme or the XYZ Pension Scheme. **(15)**

10. Darren and Lisa would prefer their essential expenditure to be covered by secure inflation proofed income.

Outline **three** benefits and **three** drawbacks of using a short-term annuity after the transfer to cover the shortfall in essential expenditure until they both reach State Pension Age, compared to the alternative of using a drawdown pension fund. *You should assume that the benefits from the XYZ Pension Scheme are transferred into a PPP.* **(6)**

11. Outline the factors you would consider when designing an investment strategy for the personal pension plan that receives the transfer from the XYZ Pension Scheme. **(7)**

12. The couple would like any residual personal pension fund to be left to charity following the death of both of them.

Explain the tax treatment of a charity lump sum death benefit, including the conditions that must be satisfied for this tax treatment to apply. **(7)**

Total marks available for this question: 35

NOTE ON MODEL ANSWERS

The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

Model answer for Question 1

- Health/ill health;
- physical disability/hearing or visual impairment/poor mental health/mental capacity/cognitive disabilities.
- Life events;
- Unemployment/caring responsibilities/bereavement/income shock/relationship breakdown.
- Resilience;
- low income/over indebtedness/low savings/low emotional resilience/lack of support structure/financial difficulty.
- Capability;
- low knowledge or confidence in managing financial matters/poor literacy or numeracy skills/poor or non-existent digital skills/learning impairments.

Model answer for Question 2

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

- The risks; and
- Benefits; of
- staying in the ceding arrangement; and
- transferring into flexible benefits.
- The client's attitude to certainty of income/guarantees.
- Whether they will access flexible benefits in an unplanned way; and
- the likely impact of this on the sustainability of the funds over time.
- The client's attitude to paying for advice; and
- experience of (managing) investments.
- Any client vulnerabilities.
- Percentage of overall wealth.

Model answer for Question 3

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

- How long the Trustees can be reasonably certain;
- of the employer's cash flows/ability to fund the scheme;
- and prospects/into the future;
- relative to funding the Scheme/to eliminate any deficit.

(b)

- How long the Trustees can be reasonably certain;
- the employer will be able to continue;
- to support the scheme/to trade/to exist.

Model answer for Question 4

- Application for transitional tax-free amount certificate (TTFAC) can be made to any of Ananya's pension schemes;
- providing documentary evidence (bank statement/benefit crystallisation event (BCE) statement);
- of how much lifetime allowance (LTA) has been used; and
- all tax-free cash sums received.
- The application must be made before the first Relevant Benefit Crystallisation/RBC;
- on or after 06/04/2024.

Case Study 1

Model answer for Question 5

- Outstanding term of mortgage.
- Cost of monthly payments/interest rate being charged.
- Facility to make overpayments.
- Early redemption penalties.
- Type of interest rate (e.g. fixed, variable, tracker, term of deal).

Model answer for Question 6

- It is an irrevocable decision/can revisit a potential transfer at a later date.
- Their required income will be achieved by Marcus DB scheme and both State Pensions once Rina reaches age 67.
- Retaining defined benefit (DB) scheme appropriate for attitude to risk (ATR); because
- the DB is secure;
- and not subject to sequencing risk or longevity risk; and
- it is protected by Pension Protection Fund.
- They have other resources to provide replacement income; and
- repay their mortgage.
- Generous rate of escalation with the scheme/Retail Prices Index (RPI).
- Which meets with their objectives of inflation protection.
- There is a generous/50% spouse's pension;
- meeting income requirements on first death.
- Scheme would pay 2 x 25% children's pension on Marcus's death;
- meeting their objective of children's financial security while dependent.

Model answer for Question 7

- Interest rates have increased.
- Gilt yields/annuity rates have increased.
- The scheme may be assuming reduced longevity/increased mortality.
- Inflation assumptions may be lower;
- which has reduced the lump sum required;
- to enable matching scheme benefits to be purchased;
- the previous cash equivalent transfer values (CETVs) may have been enhanced.

Model answer for Question 8

DB Scheme:
- Taxed as income at the marginal rate of tax;
- of the recipient.
- Will not form part of the estate even if death occurs after April 2027.

DC Scheme:
- Income is tax-free if death is prior to 75.
- If designated within 2 years for any uncrystallised funds.
- If taken as a lump sum, subject to lump sum and death benefit allowance (LSDBA).
- If death over 75.
- Taxed as income of recipient at their marginal rate of tax.
- From April 2027 the funds will form part of their estate for Inheritance Tax (IHT).

Case Study 2

Model answer for Question 9

Candidates would have scored full marks for any fifteen of the following:
- The ABC scheme is underfunded/the XYZ scheme is fully funded.
- The XYZ scheme CETV has been enhanced.
- If Lisa takes her benefits from the XYZ scheme before age 65 it will be subject to an actuarial reduction (of 6% p.a.).
- Darren can take his benefits from the ABC scheme from age 63 with no reduction.
- The couple want their retirement income to be inflation proofed.
- The ABC scheme provides higher escalation/fixed 5% escalation/the XYZ scheme only provides statutory escalation.
- The couple want their essential expenditure to be covered by secure income.
- The ABC scheme provides a higher level of income;
- and this income, plus the couple's State pensions, will cover their essential expenditure.
- The ABC scheme provides better death benefits;
- and this income, plus the survivor's State pension will cover the survivor's essential expenditure needs on first death.
- The ABC scheme would provide higher lump sum death benefits on transfer;
- but the couple have no dependants/leaving estate to charity (2nd death).
- Pension commencement lump sum (PCLS) following transfer in both schemes is sufficient to repay the mortgage.
- The couple have a low to medium ATR/do not appear to have much investment experience;
- and a transfer of the smaller scheme would be more in line with this.
- The couple have the capacity for loss (CFL) to consider a transfer.

Model answer for Question 10

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

- Peace of mind in knowing that (their essential expenditure will be covered).
- More in line with their ATR than drawdown/no investment risk.
- Less administration/lower charges.
- Can build in death benefits/inflation protection.

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

- The shortfall will reduce when Darren reaches State pension age (SPA)/not a level amount of shortfall for the full term.
- Inflexible/their essential expenditure needs may change during the term.
- If Darren were to die before Lisa, could provide more income than needed.
- No potential for investment growth.

Model answer for Question 11

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

- The level of income to be drawn from the pension fund.
- Pattern of income required/income withdrawal strategy.
- Timescale for the investment/they have a long-term time horizon.
- They have a low to medium attitude to risk.
- Their investment strategy preference e.g. passive or active.
- Desire for ongoing advice/self-service administration.
- Their ethical/religious considerations.
- Strategy of existing investments.

Model answer for Question 12

- (On first death) the survivor must nominate the charity/the scheme administrator cannot nominate the charity.
- The charity must be one registered with the Charity Commission (for England and Wales).
- (Assuming these conditions are met) the charity lump sum death benefit is made tax-free.
- There is also no tax charge on the charity receiving the payment;
- as long as it is used for charitable purposes/if it is not used for charitable purposes the payment will be taxed as an unauthorised member payment.
- A charity lump sum death benefit is not a relevant lump-sum death benefit/is not a relevant benefit crystallisation event (RBCE);
- and therefore will not use up any of the deceased member's or survivor's LSDBA.

Glossary of terms

Some abbreviations candidates can use in online written 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 September 2026 paper will be based on English law and practice applicable in the tax year 2026/2027, unless stated otherwise and should be answered accordingly.

The Tax Tables and Supplementary Information which follow are applicable to the September 2026 and March 2027 exams.

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

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 Age 16 - 24	Up to 72.90	75.65
	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 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 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. 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 2026/2027

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%
Between 6 April 2022 and 5 April 2027	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 escalation
All service before 6 April 1997	No increases
All service after 5 April 1997	CPI capped at 2.5%