Chartered Insurance Institute

J05

Diploma in Financial Planning

Unit J05 – Pension income options

March 2025 examination

SPECIAL NOTICES

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

It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

Unit J05 – Pension income options

Instructions to candidates

Read the instructions below before answering any questions

- **Two hours** are allowed for this paper which consists of 15 short answer questions and carries a total of 130 marks.
- You are strongly advised to attempt all questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- It is important to show all steps in a calculation, even if you have used a calculator.
- Tax tables are provided towards the end of this paper.

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

Attempt ALL questions

Time: 2 hours

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

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

1. Janine took early retirement in January 2006, aged 50. She received a pension from her employer's defined benefit pension scheme of £17,400 which by 2018 had increased to £24,800 a year. In March 2018 she took a maximum pension commencement lump sum (PCLS) of £50,000 from her self-invested personal pension plan (SIPP) and designated the remainder to flexi-access drawdown (FAD). At the time, the lifetime allowance was £1,000,000 and Janine had no transitional protection, nor has she applied for any since.

Janine has taken no other pension benefits since 2018. As well as her scheme pension and FAD, she also has a personal pension plan (PPP). Janine has decided that she wishes to take benefits from her PPP, which is currently valued at £235,000.

(a) Calculate, **showing all your workings**, the maximum PCLS that Janine can receive from the PPP, assuming she does not apply for a transitional tax-free amount certificate (TTFAC). **(7)**

(b) Calculate, **showing all your workings**, the additional PCLS she may be entitled to if she applied for a TTFAC. **(5)**

2. Hari, aged 64, is married to Shabana aged 62. Hari is a member of his previous employer's defined benefit pension scheme and now intends to draw his scheme pension.

Hari has been advised that he will receive a pension of £35,000 per annum which will increase each year in line with the Consumer Prices Index (CPI) capped at 5%. This also includes a 50% dependant's pension. Hari has also been informed that he can commute part of the income for a pension commencement lump sum (PCLS). The commutation rate is 12:1.

Outline the factors that you would take into account when advising Hari on how much of his pension income he should commute for PCLS. **(8)**

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

3. Esme, aged 62, is divorced with two financially independent children. She is employed and plans to gradually reduce her working hours over the next five years until reaching State Pension age, when she intends to retire fully.

Esme has a self-invested personal pension plan (SIPP) valued at £975,000. Her only other assets are a cash ISA worth £62,000 and her house valued at £650,000 which she owns outright. As she is reducing her working hours, Esme intends to spend more time travelling.

Outline **five** potential benefits and **five** potential drawbacks for Esme, of drawing an income from her SIPP via phased drawdown. **(10)**

4. Annie, aged 68, is divorced and has four non-dependent children. She recently crystallised her personal pension plan (PPP) and used part of the fund to purchase a lifetime annuity on a single life basis with a 30-year guarantee. The balance of her fund was placed into flexi-access drawdown (FAD).

Outline the potential death benefits, including the Income Tax treatment, payable to Annie's children for:

(a) lifetime annuity; **(5)**

(b) FAD. **(8)**

5. Lars, aged 60, has just retired. His current annual income consists solely of a scheme pension of £7,600, increasing each year by the Consumer Prices Index (CPI). Lars has a personal pension plan (PPP) valued at £445,000 and will also be entitled to a full State Pension in seven years' time.

Lars requires an inflation linked net income of £22,000 per annum in retirement.

You have recommended that Lars uses a combination of pension commencement lump sum (PCLS) and taxable withdrawals via flexi-access drawdown to meet his objectives.

Explain, giving your reasons, why this is the most appropriate strategy for Lars rather than taking a series of uncrystallised funds pension lump sum (UFPLS) payments. **(7)**

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

6. Celine, aged 58, was widowed in 2023. She is now in receipt of a dependant's scheme pension of £11,750 per annum. Celine has one child, aged 26, who still lives at home due to a physical impairment.

Celine has decided to retire and has calculated she will need a net income of £26,000 per annum, increasing each year by inflation, to cover her regular outgoings. In addition to her dependant's scheme pension, she has an uncrystallised personal pension plan (PPP) valued at £540,000, which is wholly invested in fixed interest funds. Her other assets are her home, which is mortgage free and valued at £325,000, and cash on deposit of £14,000. Celine has a cautious attitude to risk and very little investment experience.

Outline the factors that you would take into account when deciding whether you would recommend that Celine use her PPP to purchase a lifetime annuity, or if she should take her retirement income via flexi-access drawdown (FAD). **(10)**

7. Section 9.4 of the Financial Conduct Authority's Conduct of Business Sourcebook (COBS) outlines the relevant risk factors that should be included in a suitability report, when a firm is making a personal recommendation to a client regarding income withdrawals.

Outline the relevant risk factors that must be considered. **(5)**

8. A financial advice firm has recently identified that a number of their clients have been approached by scammers, encouraging them to transfer their workplace pensions. The firm plans to write to all its clients to highlight the risk of potential scams.

(a) State **four** common tactics used by scammers that should be included within the firm's communication to its clients. **(4)**

(b) Identify **four** steps workplace pension scheme administrators should take to protect scheme members. **(4)**

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

9. Fleur's partner, Chris, died 6 weeks ago. His death was caused by exposure to asbestos while at work. Prior to Chris' death he had been employed for 20 years, earning £32,000 a year. Fleur and Chris were not married but lived together for 24 years in Wales. Fleur is 48 years old and has three children with Chris, aged 8, 14 and 21.

Fleur has been advised she is eligible to claim the Bereavement Support Payment (BSP) and that if she claims it now, she will be entitled to the full amount.

(a) State **four** reasons why Fleur will be eligible to make a successful claim for BSP for the full amount. **(4)**

(b) State how much BSP Fleur could receive and for how long. **(2)**

10. **(a)** Outline the key factors that you would take into account when assessing a client's attitude to risk as part of their retirement investment strategy. **(5)**

(b) Identify **three** drawbacks of relying solely on risk profiling tools for this purpose. **(3)**

11. Ivan, aged 72, retired last year. He is in receipt of a scheme pension of £48,000 a year from his former employer's defined benefit pension scheme and his State Pension of £11,502 a year. He also has a self-invested personal pension plan (SIPP) worth £150,000 which he has no plans to touch.

Ivan lives with his partner, Sally. He has no children. Ivan has a large estate worth approximately £900,000 and his income needs are £35,000 a year. He is concerned about the level of excess income he has and would like advice on using some of the excess to top up his SIPP.

State the **advantages** to Ivan of recycling his excess income into his SIPP. **(7)**

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

12. Norah, aged 64, plans to retire in the next 12 months. She is a deferred member of two defined benefit pension schemes and wishes to transfer these schemes to a personal pension plan (PPP), in order to access them flexibly.

Norah has recently obtained a cash equivalent transfer value (CETV) for each defined benefit pension scheme as detailed below:

Defined benefit pension scheme	**CETV (£)**
Scheme A	20,000
Scheme B	250,000

Explain, giving your reasons, the steps that Norah must take before the defined benefit schemes will agree to transfer the funds to a PPP. **(8)**

13. Craig is due to retire next month, aged 62. You have advised him to withdraw his maximum pension commencement lump sum (PCLS) and designate the remaining funds to flexi-access drawdown (FAD). This will meet his objectives of repaying his mortgage and supplementing the income he receives from his scheme pension, which is sufficient to meet his essential expenditure needs.

Outline **two** advantages and **two** disadvantages to Craig of drawing an income from FAD using:

(a) the safe withdrawal rate; **(4)**

(b) a natural income strategy. **(4)**

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

14. Sasha, aged 58, is married to Faisal, aged 56. Sasha and Faisal are both self-employed, earning £55,000 and £45,000 a year respectively. Their current total net yearly expenditure is £48,000, which they anticipate will remain broadly unchanged when they retire.

They have personal pensions worth £485,000 in total plus other savings and investments worth £75,000. They have an outstanding mortgage of £230,000 repayable in 12 years and a car loan for £12,000 repayable in two years.

Sasha and Faisal would like to retire next year and plan to take the maximum pension commencement lump sums (PCLS) available from their pensions and move their pensions into flexi-access drawdown (FAD) in order to withdraw the income they need in retirement, reducing their withdrawals when they reach State Pension age.

(a) Outline how cashflow modelling can be used when advising Sasha and Faisal on their retirement plans. **(7)**

(b) State **five** disadvantages of using cashflow modelling for this purpose. **(5)**

15. Mei, aged 59, is employed and plans to retire when she reaches age 60. She receives an annual basic salary of £85,000 and annual bonuses in the region of £55,000. She is a member of her employer's workplace group personal pension plan, in which she is invested in the default fund. Mei is currently contributing the required amount of 3% of her salary as well as annual lump sums using bonus sacrifice.

Due to her short-term to retirement, Mei is considering stopping her pension contributions and instead increasing her savings into her investment ISA.

Explain to Mei the potential **drawbacks** of this course of action. **(8)**

INCOME TAX

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

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

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

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

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

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

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

NATIONAL INSURANCE CONTRIBUTIONS

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

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

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

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

***Secondary threshold.*

CLASS 2 (self-employed)*

Flat rate per week £3.45

Small profits threshold per year £6,725

Class 2 contributions are credited automatically where profits equal or exceed £6,725 per annum.

Class 2 contributions can be made voluntarily where profits are below £6,725 per annum.

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

PENSIONS

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

**Lifetime allowance removed from 6 April 2024.*

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

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

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

ANNUAL ALLOWANCE

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

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

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

ANNUAL ALLOWANCE CHARGE

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

CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2023/2024	2024/2025
Individuals, estates etc	£6,000	£3,000
Trusts generally	£3,000	£1,500
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

TAX RATES		Pre 30/10/2024	Post 30/10/2024
Individuals:			
Up to basic rate limit	10%	10%	18%
Above basic rate limit	20%	20%	24%
Surcharge for residential property - Basic Rate	8%	8%	n/a
Higher Rate	8%	4%	n/a
Surcharge for carried interest	8%	8%	4%
Trustees and Personal Representatives:			
Residential property	28%	24%	24%
Other chargeable assets	20%	20%	24%

Business Asset Disposal Relief*	10%	10%
Lifetime limit	£1,000,000	£1,000,000

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2023/2024	2024/2025
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Reduced rate (where appropriate charitable contributions are made)	36%	36%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

MAIN EXEMPTION		
Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£175,000	£175,000
- UK-registered charities	No limit	No limit

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

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

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

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

100% relief: businesses, unlisted/AIM companies, certain farmland/building
50% relief: certain other business assets

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

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

Quick succession relief:

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

MAIN SOCIAL SECURITY BENEFITS

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

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

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

CORPORATION TAX

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

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

VALUE ADDED TAX

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

STAMP DUTY LAND TAX

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

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

- *First-time buyers benefit from SDLT relief on first £425,000 for properties up to £625,000 when purchasing their mainresidence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,001 and £625,000, a flat rate of 5% is charged on the balance above £425,000.*
- *Additional SDLT of 5% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *SDLT may be charged at 17% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.*
- *SDLT is payable in England and Northern Ireland only. Land Transaction Tax(LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. Therates for LTT and LBTT are different to the rates shown above.*

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