J05

Diploma in Financial Planning

Unit J05 – Pension income options

March 2026 examination

SPECIAL NOTICES

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

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

Unit 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. Fred, who crystallised pension benefits once between 6 April 2006 and 5 April 2024, has been advised to apply for a transitional tax-free amount certificate (TTFAC).

(a) Identify **three** scenarios that might result in the pension commencement lump sum taken before 6 April 2024 being less than 25% of £1,073,100. **(3)**

(b) Outline the step-by-step process for applying for a TTFAC, including any timescales that apply. **(4)**

2. Sanjay holds a self-invested personal pension (SIPP) currently valued at £120,000.

Explain briefly how the transaction is treated under the relevant benefit crystallisation event (RBCE) rules if he:

(a) withdraws benefits as an Uncrystallised Funds Pension Lump Sum (UFPLS); **(3)**

(b) applies the full SIPP value to buy a lifetime annuity. **(2)**

3. Jonny, aged 74, retired last year. He has been in receipt of a level scheme pension of £490 a year since January 2006. Jonny is also a deferred member of a defined benefit pension scheme, which is offering him a scheme pension of £750 per annum and a pension commencement lump sum (PCLS) of £2,250. Jonny's State Pension is sufficient to meet his regular outgoings, and he is therefore considering drawing all his benefits as a cash lump sum under the trivial commutation rules. He has no other pension arrangements.

(a) Calculate, **showing all your workings**, the **total** value of Jonny's scheme pensions for the purpose of taking these benefits as trivial commutation lump sums. **(4)**

(b) Outline the conditions that must be satisfied for trivial commutation to take place, and state whether Jonny would be able to take his benefits as a trivial commutation lump sum. **(4)**

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4. Rowan died recently at the age of 51. At the time of her death, she held an uncrystallised personal pension plan (PPP). Rowan had two children, Helena aged 26 and Ross aged 17. She had not completed a nomination form for her PPP and had no other pensions.

(a) Describe, in detail, the eligibility requirements for a potential beneficiary to be treated as a dependant, nominee, or successor. **(8)**

(b) Outline the death benefit options available to Helena and Ross in respect of Rowan's uncrystallised PPP. *Tax treatment can be ignored*. **(6)**

5. Tobias, aged 61, is planning to phase his retirement by reducing his working hours next year. He has a personal pension plan (PPP), valued at £335,000, and he requires an income of £12,000 per annum (net) to supplement his earned income until he fully retires. Tobias has a very cautious attitude to risk and no current need to draw his full pension commencement lump sum (PCLS).

(a) Describe briefly the steps that will be taken to implement phased retirement using lifetime annuities, and how the balance between PCLS and taxable income will change over time. **(5)**

(b) State **nine** factors that will influence the annuity rate Tobias will receive. **(9)**

6. Outline the factors that you would consider when advising on whether to take a lump sum from a personal pension plan (PPP), via an uncrystallised funds pension lump sum (UFPLS) or as a pension commencement lump sum (PCLS). **(11)**

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)**

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8. Sian retired and took benefits from her employer's defined benefit (DB) pension scheme 2 years ago, when she was aged 60. The scheme's normal pension age is 65 and she had been a member of the scheme for 30 years. She currently receives an annual pension of £14,750. All of Sian's pension increases by 3% per annum and includes a 66% spouse's pension. She is married and has no children. The DB pension scheme has now entered the Pension Protection Fund (PPF).

Sian is concerned about how the PPF will impact her DB pension.

Explain, giving your reasons, how Sian's pension benefits will be impacted as a result of the DB scheme entering the PPF. **(6)**

9. Amanda and Lee are permanent UK residents. They live together as a couple but are not married. Amanda is due to reach State Pension age in May 2026, and Lee will reach his one year later. They are seeking advice regarding their State Pensions. Amanda is particularly concerned she may not be eligible for a full State Pension and is considering applying for the Guarantee Credit element of the State Pension.

State the conditions that must be met for Amanda to receive the Guarantee Credit element of the State Pension. **(5)**

10. Dwight has recently retired and has set up a flexi-access drawdown (FAD) plan to provide his income in retirement. He would also like to leave a legacy on his death to his financially independent children.

Outline the factors that you would take into account when determining the amount of income Dwight should withdraw each year from his FAD. **(7)**

11. **(a)** Outline the key factors that you would consider 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)**

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12. Carlos, aged 63, has a personal pension plan (PPP) valued at £340,000. The PPP is wholly invested in a lifestyle annuity fund with a selected retirement age of 65.

Carlos has a high attitude to risk. He plans to draw an income via a series of uncrystallised funds pension lump sums when he retires at the age of 65.

(a) Explain briefly why Carlos' current investment approach is unsuitable. **(4)**

(b) Explain briefly why he would benefit from an earmarked investment strategy in retirement. **(4)**

13. Oscar, aged 55, retired in July 2025 and would like to start drawing an income from his pensions by using flexi-access drawdown.

(a) Explain briefly what is meant by sequencing risk. **(3)**

(b) Outline **four** strategies that could be used to reduce its potential impact. **(4)**

14. Norah, aged 58, is in receipt of a dependant's scheme pension of £8,000 per annum gross. She is single and has no dependants.

Norah plans to retire in six months and has calculated she will need a net income of £26,000 per annum to cover her regular outgoings. In addition to her dependant's scheme pension, she has an uncrystallised personal pension plan (PPP) valued at £550,000, which is wholly invested in fixed interest funds. Her other assets are her home, which is mortgage free and valued at £375,000 and cash on deposit of £5,000. Norah 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 Norah uses her PPP to purchase a lifetime annuity or if she should take her retirement income via flexi-access drawdown. **(13)**

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15. Sally, aged 62, is married to Pippa, aged 56. Sally and Pippa are both self-employed, with gross profits of £25,000 and £80,000 a year, respectively. Their current total net yearly expenditure is £50,000, which they anticipate will remain broadly unchanged when they retire.

They have personal pensions worth £590,000 in total plus other savings and investments worth £125,000. They have a mortgage remaining of £112,000 repayable in four years and a car loan for £7,000 repayable in two years.

Sally and Pippa would like to retire next year and plan to take the maximum pension commencement lump sums (PCLS) available from their pensions and move the balances 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 the use of cashflow modelling would be of benefit to Sally and Pippa when advising them on their retirement plans. **(7)**

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

INCOME TAX

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

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

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

*** Where net income exceeds £500, the full amount is subject to Income Tax. Further, the £500 may need to be divided between other trusts in existence.*

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£4,280	£4,360
Married/civil partners at 10% †	£11,080	£11,270
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance†	£37,000	£37,700
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£3,070	£3,130
Enterprise Investment Scheme relief limit on £2,000,000 max***	30%	30%
Seed Enterprise Investment relief limit on £200,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

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

† where at least one spouse/civil partner was born before 6 April 1935. Married couple's/civil partners' allowance reduced by £1 for every £2 of adjusted net income over £37,700 (£37,000 for 24/25) until minimum reached.
**** Investment above £1,000,000 must be in knowledge-intensive companies.*

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£125
Primary threshold	£242
Upper Earnings Limit (UEL)	£967

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

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £125 per week. This £125 to £242 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*

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

***Secondary threshold.*

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

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

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

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

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

Class 3 (voluntary)	Flat rate per week £17.75.
Class 4 (self-employed)	6% on profits between £12,570 and up to £50,270. 2% on profits above £50,270.

PENSIONS

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

**Lifetime allowance abolished from 6 April 2024.*

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

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

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

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*
2023/2024	£60,000**
2024/2025	£60,000**
2025/2026	£60,000**

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

**Between 2020/21 and 2022/23 the annual allowance is reduced by £1 for every £2 of ‘adjusted income’ over £240,000 to a minimum of £4,000 if ‘threshold income’ is also over £200,000.*

***From 2023/24 the annual allowance is reduced by £1 for every £2 of ‘adjusted income’ over £260,000 to a minimum of £10,000 if ‘threshold income’ is also over £200,000.*

ANNUAL ALLOWANCE CHARGE

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

CAPITAL GAINS TAX

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

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

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2024/2025	2025/2026
Transfers made on death		
- Up to £325,000 (nil-rate band)	Nil	Nil
- Excess over £325,000	40%	40%
- Reduced rate (where appropriate charitable contributions are made)	36%	36%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%
MAIN EXEMPTION		
Transfers to		
- Long-term UK resident spouse/civil partner	No limit	No limit
- Spouse/civil partner who is not a long-term UK resident (from long-term UK resident spouse/ civil partner)	£325,000	£325,000
- UK-registered charities	No limit	No limit
- Residence nil rate band*	£175,000	£175,000

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

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

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

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

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

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

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

Quick succession relief:

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

MAIN SOCIAL SECURITY BENEFITS

		2024/2025 £ (per week)	2025/2026 £ (per week)
Child Benefit	First child	25.60	26.05
	Subsequent children	16.95	17.25
	Guardian's allowance	21.75	22.10
Employment and Support Allowance	Assessment Phase Age 16 - 24	Up to 71.70	Up to 72.90
	Aged 25 or over	Up to 90.50	Up to 92.05
	Main Phase Work-related Activity Group	Up to 126.45	Up to 128.60
	Support Group	Up to 138.20	Up to 140.55
Attendance Allowance	Lower rate	72.65	73.90
	Higher rate	108.55	110.40
Basic State Pension	Category A full rate	169.50	176.45
	Category B (lower) full rate	101.55	105.70
New State Pension	Full rate	221.20	230.25
Pension Credit	Standard minimum guarantee - single	218.15	227.10
	Standard minimum guarantee - couple	332.95	346.60
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	71.70	72.90
	Age 25 or over	90.50	92.05
Statutory Maternity, Paternity and Adoption Pay		184.03	187.18

CORPORATION TAX

	2024/2025	2025/2026
Small profit rate - for taxable profits below £50,000	19%	19%
Main rate - for taxable profits above £250,000	25%	25%

Companies with profits between £50,000 and £250,000 will pay tax at the effective rate of 26.5%. This provides a gradual increase in the effective Corporation Tax rate.

VALUE ADDED TAX

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

STAMP DUTY LAND TAX

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

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

- *First-time buyers benefit from SDLT relief on first £300,000 for properties up to £500,000 when purchasing their mainresidence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,001 and £500,000, a flat rate of 5% is charged on the balance above £300,000.*
- *Additional SDLT of 5% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *Additional SDLT of 2% may apply to purchases by non-UK residents over £40,000.*
- *SDLT may be charged at 17% on interests in residential properties costing more than £500,000 purchased by certain corporate bodies or non-natural persons.*
- *SDLT is payable in England and Northern Ireland only. Land Transaction Tax(LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. Therates for LTT and LBTT are different to the rates shown above.*

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