Chartered Insurance Institute

J05

Diploma in Financial Planning

Unit J05 – Pension income options

September 2026 examination

SPECIAL NOTICES

All questions in this paper 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.

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

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

1. Heidi semi-retired on 1 June 2019, aged 58. At the time, she took the maximum pension commencement lump sum (PCLS) of £48,000 from her defined benefit pension scheme and received a scheme pension of £11,250 per annum. She has no transitional protection and has taken no other pension benefits. Heidi also has a personal pension plan (PPP), valued at £560,000, from which she now plans to take benefits.

(a) Describe briefly how the Lump Sum Allowance (LSA) will be reduced to take account of the benefits that commenced in 2019 using the standard calculation method. *No calculations are required.* **(3)**

(b) Explain why Heidi would be advised to request a transitional tax-free amount certificate (TTFAC). *No calculations are required.* **(2)**

2. Niko, aged 52, is a member of his employer's workplace group personal pension plan (GPP) which started on 10 June 2002. Additionally, he has a personal pension plan (PPP) which started on 5 September 2005 and a self-invested personal pension plan (SIPP) which started on 20 January 2024.

Niko is in the process of transferring his PPP and his SIPP to his GPP to simplify his pension holdings as part of a retirement planning exercise, with the hope of retiring at age 55.

The normal minimum pension age will increase to 57 from 6 April 2028. Transitional protections will be put in place for individuals who had an existing right to take benefits earlier than age 57.

Explain, giving your reasons, what transitional protections may apply to Niko in this respect. **(7)**

3. Alonso, aged 68, is self-employed. He would like to lend his granddaughter £75,000 for her to use as a house deposit. Alonso is considering taking an uncrystallised funds pension lump sum (UFPLS) from a self-invested personal pension plan valued at £145,000 to make this loan.

Identify the factors that you would consider when advising Alonso on whether he should take this course of action. **(12)**

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4. Valerie, aged 59, is in excellent health. She retired in December 2025 and has a portfolio of flexi-access drawdown pensions and investment ISAs, valued at £540,000, from which she is funding her retirement income. She is currently drawing £48,600 gross per annum from the portfolio. Valerie is seeking advice on how long her portfolio will last in retirement.

(a) Explain the purpose of creating a lifetime cashflow model for Valerie. **(5)**

(b) Having created a cashflow model, it is showing that Valerie's portfolio could be depleted to zero by age 82.

Identify the factors that you would consider in determining the most appropriate course of action to reduce the risk of the funds running out. **(10)**

5. State **four** benefits and **four** drawbacks of using a fixed term annuity with a maturity value as part of a phased retirement strategy instead of a lifetime annuity. **(8)**

6. Claire, aged 62, is approaching retirement and has been offered an immediate scheme pension of £14,750 per annum from her employer's defined benefit pension scheme.

Alternatively, the scheme trustees have offered her a cash equivalent transfer value (CETV) of £324,500, which she is considering using to purchase a lifetime annuity.

The scheme pension also includes the option of pension increase exchange (PIE).

(a) Outline the benefits for Claire of taking a lifetime annuity over the alternative of taking a scheme pension from her defined benefit pension scheme. **(4)**

(b) Identify the key factors you would consider when advising Claire on whether she should accept the offer of PIE. **(7)**

7. You are planning an email campaign to your clients to raise awareness of the risk of scams, particularly in relation to their retirement savings.

(a) Outline the most common tactics used by pension scammers to trick members out of their pension savings. **(6)**

(b) State The Pension Regulator's **four** key principles for consumers to follow to protect themselves from pension scams. **(4)**

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8. Lily died in August 2026, aged 72. At the time of her death her private pension plans consisted of:

- A scheme pension of £32,500 per annum. The pension came into payment in January 2020 and includes a 10-year guarantee period and a 67% dependant's pension.
- A dependant's flexi-access drawdown (FAD) plan that Lily inherited in November 2011 following the death of her husband. Lily first drew an income from this plan in April 2018.

Lily nominated the death benefits under both plans to her financially independent daughter, aged 48.

Outline the death benefits available under both plans and their Income Tax treatment. *You should assume that the death benefits are paid to Lily's daughter.* **(11)**

9. Kim, aged 62, is about to retire. Kim is single with no financial dependants. She has a personal pension plan valued at £625,000, from which she requires a net income of £22,000 per annum. Kim has a medium attitude to risk and no current need for capital.

Explain why phased flexi-access drawdown (FAD) is likely to be more suitable for Kim than purchasing a lifetime annuity. **(6)**

10. Max, aged 59, is a member of his employer's defined benefit pension scheme and has been provided with a cash equivalent transfer value (CETV) of £285,000. He plans to retire in the next six months and would like to transfer the CETV to a personal pension plan (PPP) to start taking a flexible income immediately.

Max is not married and has no children. He has a substantial savings and investment portfolio of £1,500,000 and no other pensions. His State Pension Age is 67.

(a) Outline the requirements the trustees of the scheme must fulfil prior to authorising the transfer of Max's benefits to a PPP. **(5)**

(b) State **five** drawbacks of Max transferring the CETV to a PPP. **(5)**

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

11. Outline the relevant circumstances, as detailed in Section 9.3 of the Financial Conduct Authority's Conduct of Business Sourcebook (COBS), that must be considered when a firm is making a personal recommendation to a client regarding income withdrawals. **(7)**

12. Carol's partner, Sergio, died 6 weeks ago. His death was caused by exposure to asbestos while at work. Prior to Sergio's death he had been employed for 22 years, earning £34,000 a year. Carol and Sergio were not married but lived together for 26 years in Scotland. Carol, aged 48, has three children with Sergio, aged 7, 15 and 19.

Carol 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 Carol will be eligible to make a successful claim for BSP for the full amount. **(4)**

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

13. Oscar, aged 70, retired three years ago. You are reviewing his flexi-access drawdown (FAD) arrangement and assessing his capacity for loss.

(a) Define capacity for loss. **(2)**

(b) Outline the factors you should take into account when assessing Oscar's capacity for loss. **(6)**

14. Melissa, aged 76, has been informed in writing by her GP that she has a life expectancy of less than one year. Melissa has a self-invested personal pension plan (SIPP) currently worth £650,000, from which she withdrew a £20,000 pension commencement lump sum (PCLS) at age 70. She has made no other withdrawals from the SIPP. Melissa also has an uncrystallised personal pension plan (PPP) worth £100,000.

Outline the factors you would consider in advising Melissa on whether or not to take a serious ill-health lump sum from her pensions, including its tax treatment. **(8)**

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

15. Carmen, aged 61, is currently in the process of finalising her divorce settlement. She is in good health and plans to retire when she reaches age 64. Her husband, George, is a member of his company's defined benefit (DB) pension scheme, and Carmen has the choice of a pension sharing order or an attachment order (earmarking) in respect of these benefits.

If a pension sharing order is awarded, Carmen will be offered a cash equivalent transfer value (CETV), which she can transfer into a pension arrangement in her own name.

Explain the benefits of Carmen using a pension sharing order rather than an attachment order in relation to George's DB pension scheme. **(6)**

Total marks: 130

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%