



Chartered
Insurance
Institute

AF7

Advanced Diploma in Financial Planning

Unit AF7 – Pension transfers

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 AF7 – Pension transfers

Instructions to candidates

Read the instructions below before answering any questions

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.
- It is important to show all steps in a calculation, even if you have used a calculator.
- Tax tables are provided at the back of this paper.
- Additional supplementary information, relevant to pension planning, is also included at the end of the tax tables on the right-hand side of the interface and back 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.

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. A deferred member of a defined benefit pension scheme has requested a cash equivalent transfer value (CETV).

State the information the scheme trustees must provide in addition to the statement of entitlement.

(5)

2. Pippa, aged 57, is single. She was a member of a former employer's defined benefit pension scheme between 1992 and 2001. Pippa has received a statement of entitlement that shows part of her scheme benefits are made up of a guaranteed minimum pension (GMP).

Outline the information you would consider, in respect of the GMP benefits, when evaluating a potential transfer of the cash equivalent value to a personal pension plan.

(10)

3. Outline the expectations the Financial Conduct Authority (FCA) has of a firm when advising a self-investor about a possible defined benefit pension transfer.

(8)

4. Nikhil, aged 56, is considering transferring the value of his deferred benefits in a former employer's defined benefit pension scheme to a personal pension plan to access them flexibly to repay an unsecured loan.

State the information an adviser should obtain in respect of the unsecured loan as part of the advice process.

(7)

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 client's circumstances as set out in the case study.

Magda, who retired 5 years ago, will reach her State Pension Age in July 2026. She currently lives in rented accommodation but has plans to buy a flat for £120,000.

Magda is a widow and is in receipt of a spouse's pension from her late wife's defined benefit pension scheme of £15,000 gross per annum, increasing at CPI capped at 5%. She also has deferred benefits in her former employer's defined benefit pension scheme, which offers the following benefits:

Pension at normal pension age of 65	£19,400
Pension commencement lump sum paid in addition	£70,000
Escalation in payment	CPI capped at 5%
Cash equivalent transfer value (CETV)	£530,000

She has an investment portfolio valued at £64,000 which is invested in line with her cautious attitude to investment risk. She also has £20,000 in a cash ISA acting as an emergency fund.

Her State Pension forecast shows a pension of £9,800 per annum. She is considering topping this up by paying Class 3 National Insurance (NI) contributions to fill in the gaps in her NI record.

Magda, who does not have any children, plans to leave her estate to her niece on her death.

Questions**ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX**

5. State the additional information that you would require from Magda, before making a personal recommendation as to whether she should accept the cash equivalent transfer value (CETV) from her defined benefit pension scheme. (8)
6. Explain, based on the information provided in the case study, the factors you would consider when making a recommendation on the potential transfer of Magda's benefits within the defined benefit pension scheme. (8)
7. State the potential death benefit options and their income tax treatment, if Magda were to transfer the benefits of her defined benefit pension scheme to a personal pension plan and immediately take the pension commencement lump sum (PCLS) in full. (8)
8. List **nine** factors you would consider when making a recommendation to top up Magda's State Pension by paying Class 3 NI contributions, and whether this should be funded from her savings and investments or the crystallised portion of her transferred funds. (9)

Total marks available for this question: 33

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.

Sam is aged 62 and his wife Catherine will be 60 in two months' time, at which point they both intend to fully retire and travel extensively for the first few years of their retirement. They have two financially independent children and a grandchild, aged 9. They are both in good health but do have concerns over the cost of any care they may require in later life.

Sam and Catherine each have ISAs valued at £172,000, invested in line with their balanced attitude to investment risk. They also have a jointly held general investment account valued at £367,000 which they use to fund maximum contributions to their ISAs each year. This is invested in a multi-asset fund. Sam has a self-invested personal pension plan (SIPP) valued at £150,000 and Catherine has a workplace pension valued at £62,000. In addition to this, they have £85,000 in cash savings. They have no liabilities and own their own home, valued at £740,000.

They both have preserved benefits accrued under defined benefit pension schemes. Their benefits are summarised as follows:

Owner	Sam's benefits	Catherine's benefits
Employer	Brocken Ltd	Ellesmeer Ltd
Normal retirement age (NRA)	65	60
Scheme pension at NRA	£28,400 per annum	£52,500 per annum
Escalation in payment	Statutory	Fixed 5% per annum
Early retirement	From age 60, subject to trustee consent and an actuarial reduction of 5% per annum	From age 55, with an actuarial reduction of 6% per annum
Spouse's pension	50% of member's pre-commutation pension	Two-thirds of member's pre-commutation pension
Commutation factor	21:1	14:1
Cash equivalent transfer value (CETV)	£426,000	£1,020,000

Sam and Catherine need a guaranteed net income of £48,000 per annum to cover their essential expenditure. They would like this income to increase with inflation and anticipate their essential income needs will reduce by one third upon first death. They have no capital requirements other than a need for around £50,000 per annum for each of the next three years to cover their holiday and travel plans in the early years of retirement. Their longer-term discretionary expenditure is expected to be around £20,000 per annum.

They will both receive full State Pension at age 67.

They wish to ensure that the surviving spouse has sufficient, guaranteed income on first death. On second death the estate will be split equally between their two children.

ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX**Questions**

9. As part of the transfer advice process a cash flow forecast has been prepared for Sam and Catherine.

Explain the benefits of including cash flow modelling as part of the advice process. **(10)**

10. You have recommended that Catherine commences her defined benefit pension scheme without commutation, and that Sam transfers his benefits in the Brocken Ltd scheme to his SIPP.

Explain why you have made these recommendations, based on the information in the case study. **(12)**

11. Outline the factors you have considered in determining that Sam and Catherine have sufficient capacity for loss to transfer Sam's benefits in the Brocken Ltd scheme, based on the information in the case study. **(8)**

12. Sam has accepted your recommendation to transfer his benefits in the Brocken Ltd scheme into his existing SIPP.

State the factors you would take into account when recommending a suitable ongoing investment strategy following the receipt of the transferred funds. **(7)**

Total marks available for this question: 37

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
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Dividend allowance	£500	£500
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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
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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
Money purchase annual allowance	£10,000	£10,000

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.

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	2025/2026
		£ (per week)	£ (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	Up to 71.70	Up to 72.90
	Age 16 - 24		
	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
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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
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Standard rate	20%	20%
Annual registration threshold	£90,000	£90,000
Deregistration threshold	£88,000	£88,000

STAMP DUTY LAND TAX

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

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

- *First-time buyers benefit from SDLT relief on first £300,000 for properties up to £500,000 when purchasing their main residence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,001 and £500,000, a flat rate of 5% is charged on the balance above £300,000.*
- *Additional 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. The rates for LTT and LBTT are different to the rates shown above.*

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

SUPPLEMENTARY INFORMATION PENSION PAPERS – AF7 2025/2026

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%
After 5 April 2022	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 revaluation
All service before 6 April 1997	No increases
All service after 5 April 1997	CPI capped at 2.5%