

# ApEx4

## Retirement Planning

Version 2 – January 2007

# Summary of Learning Outcomes

## LEARNING OUTCOME H1

### INTEGRATED LEARNING OUTCOME FOR THE APPROPRIATE EXAMINATIONS STANDARDS FOR RETAIL INVESTMENT ADVICE

It is a requirement that candidates are examined in their ability to COMBINE AND APPLY knowledge and understanding of the content of the four Standards to the circumstances of advising on investments which are packaged products. This will require an overarching assessment of the candidate's knowledge and understanding.

The outcome is:

Candidates will be expected to:	Attainment Levels to be tested
<p>H1 identify consumers' needs and demands and recommend suitable and affordable investment solutions, using their knowledge and understanding of</p> <ul style="list-style-type: none"><li>■ The UK financial services industry, regulation and ethics</li><li>■ Investment and Risks</li><li>■ Protection</li><li>■ Retirement Planning</li></ul>	<ul style="list-style-type: none"><li>■ Analysis</li><li>■ Synthesis</li><li>■ Evaluation</li></ul>

There is no separate indicative content for this outcome, since the knowledge and understanding to be tested is that covered by Standards ApEX1 to ApEx4 inclusive.

Awarding bodies are required to devise proposals for testing this outcome. The test or tests must provide evidence of candidate's capacity, when advising on investments which are packaged products, to demonstrate their ability to analyse, synthesise and evaluate information.

The scope of the test(s) should cover the areas of competence covered by the Performance Standards (otherwise known as national occupational standards) for Providing Retail Investment Advice:

1. Gather information needed to provide financial advice
2. Analyse information to provide financial advice
3. Advise on retail investment solutions
4. Review existing consumers' financial arrangements and requirements

It is for awarding bodies to determine whether this is best done through a single test (such as a case study) or a series of linked tests (such as vignettes which test different attainments). It is also for awarding bodies to determine the place of this test within their overall examination strategy. Whatever the arrangement, the test of this outcome must be clearly separated from tests for other outcomes in the examination regime.

ApEx4 Retirement Planning		Level
Candidates will be expected to:		
<b>U</b>	<b>Demonstrate an understanding of:</b>	
U1	The main aims and strategies for retirement planning.	Comprehension
U2	The main rules governing the tax treatment of pensions.	Comprehension
U3	The main state pension benefits to which individuals may be entitled in retirement and the impact they may have on retirement planning.	Comprehension
U4	The basic principles underlying defined benefit pension schemes.	Comprehension
U5	The basic principles underlying defined contribution pension schemes and how benefits are built up.	Comprehension
U6	How pension funds can be invested to provide capital and income in retirement.	Comprehension
U7	The main criteria that can be used in choosing pension contracts and providers.	Comprehension
U8	The main options for drawing retirement benefits for individuals with defined contribution schemes.	Comprehension
U9	The suitability of registered pension schemes and other types of investments which can be used to provide retirement benefits.	Comprehension
U10	Pressures? on pension provision, trends and planned future changes to legislation, tax regulations and practice applying to retirement planning arrangements.	Comprehension
U11	(in summary form) the main rules governing pensions and divorce or dissolution of civil partnership.	Comprehension
<b>An</b>	<b>Demonstrate an ability to</b>	
An1	analyse consumers' circumstances and products suitable to meet retirement needs, taking account of any existing Arrangements.	Analysis
<b>A</b>	<b>Demonstrate an ability to</b>	
A1	apply suitable retirement product solutions to specific consumers' circumstances.	Application

# Indicative Content for each Learning Outcome

### ApEx4 Retirement Planning – Version 2 (January 2007)

Attainment Level	Outcome	Indicative Content
<b>U</b> Demonstrate an understanding Of:	<b>U1 the main aims and strategies for retirement planning.</b>	<p>U1.1 Determining needs at retirement and after retirement – planning when and how to retire, need for capital for asset purchases, repayment of liabilities, retirement income and capital in the initial retirement years, longer term income needs, surviving spouse/partner income needs, potential need to fund long term care, estate planning aims.</p> <p>U1.2 Quantifying future retirement needs in advance – methods of assessing and budgeting, based on current and expected expenditure, potential long term care fees, estimating future rates of inflation and real investment returns, estimating clients' other income and capital resources.</p> <p>U1.3 Accumulating funds for retirement – investment strategies and asset allocation, long, medium and short timescales.</p> <p>U1.4 Accumulating funds for retirement – tax strategies, tax relief, tax shelter, advantages and disadvantages of maximising tax free cash, minimising future tax in retirement.</p> <p>U1.5 Overview of the main types of plans – state pension benefits, defined benefit and defined contribution occupational pension schemes, cash balance schemes, personal pensions/stakeholder pensions.</p> <p>U1.6 Identifying the existing pension provision from state and private sources – DWP projections, defined benefit scheme benefit statements and statutory money purchase illustrations.</p>

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Attainment Level	Outcome	Indicative Content
<b>U</b> Demonstrate an understanding Of:	<b>U2 The main rules governing the tax treatment of pensions.</b>	U2.1 Employee taxation, basic income tax and national insurance computations – simple fringe benefits, reliefs and allowances. U2.2 Employer taxation – corporation tax, national insurance contributions, income tax for unincorporated employers, effect of making pension contributions, ‘wholly and exclusively’ test (in outline), spreading of relief. U2.3 Special considerations for shareholding directors – the choice between salary and dividends. U2.4 Main aspects of the tax treatment of registered pension schemes, annual allowance, lifetime allowance, eligibility of individuals for tax relief, annual limit for relief, minimum pension age, benefit types and limitations U2.5 The tax position of pension funds – the treatment of different classes of asset. U2.6 Taxation of pension benefits – state benefits, occupational and personal pension schemes.
	<b>U3 The main state pension benefits to which individuals may be entitled in retirement and the impact they may have on retirement planning.</b>	U3.1 Basic state pension – payment age, entitlement, pension amount and increases, effect of deferment, taxation, national insurance contribution record, basic state pension widow(er)’s and civil partner’s death and bereavement benefits, Department for Work and Pensions pension forecast service. U3.2 Graduated pensions, state earnings related pension scheme (SERPS) and the state second pension (S2P) – calculation of benefits, including widow(er)’s and civil partner’s benefits under SERPS, contracting out of S2P generally. U3.3 Pension credit – structure, impact of claimants’ income and capital position, effects on pension planning.

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<b>Attainment Level</b>	<b>Outcome</b>	<b>Indicative Content</b>
<b>U</b> Demonstrate an understanding Of:	<b>U4 The basic principles underlying defined benefit pensions schemes.</b>	<p>U4.1 Pensions and life assurance benefits – accrual rates, eligibility, inflation protection, contracting out, commutation issues, life assurance, dependants' income benefits.</p> <p>U4.2 Main roles of employers and pension scheme trustees, requirement for member-nominated trustees, importance of scheme rules determining and limiting benefit options.</p> <p>U4.3 Basic position on early retirement, reduction in benefits, early retirement through ill health.</p> <p>U4.4 Early leavers and transfer values – reduction in benefits on leaving, where transfers can be made and how they can be calculated (in outline only), right to transfer value, refunds of contributions.</p> <p>U4.5 Funding and investment issues of defined benefit schemes – employers' commitment and risk, funding levels, protection of pension rights, employee contributions, annual limit for relief, topping up with additional voluntary contributions (AVCs) and free standing additional voluntary contributions (FSAVCs) and concurrent personal pensions.</p> <p>U4.6 Private sector schemes – scheme specific funding requirements, accounting for employers' pension funds and liabilities under accounting standard FRS17 and IAS 19, employees' financial security and risk to defined benefit pension benefits.</p> <p>U4.7 Death in service– tax efficiency and limitations of cover, cost.</p> <p>U4.8 Contracting out of S2P – basic position, effect on national insurance contributions.</p> <p>U4.9 Closure and winding up of schemes – main implications.</p> <p>U4.10 The Pension Protection Fund and Financial Assistance Scheme.</p> <p>U4.11 Advice issues – pension opt-outs, transfers and early leavers, added years AVCs as against money purchase AVCs, AVCs and concurrent personal pensions.</p> <p>U4.12 Public sector schemes – benefit structures, security, transfer club.</p>



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Attainment Level	Outcome	Indicative Content
<b>U</b> Demonstrate an understanding Of:	<b>U5 The basic principles underlying defined contribution pension schemes and how benefits are built up.</b>	U5.1 Basic structure of defined contribution occupational and personal pension schemes – contributions, funds, benefits, transferability. U5.2 Main roles of employers and pension scheme trustees, importance of scheme rules determining and limiting benefit options. U5.3 Nature and operation of group personal pension schemes – contributions by employer and employee, control of investment and benefits. U5.4 Income tax computations and employee contributions to occupational and personal pension schemes – methods of giving relief, computation of relief, timing of relief, effects on payments on account. U5.5 Tax relief on employers' pension contributions – to personal pensions and defined contribution occupational pension schemes. U5.6 Employee contributions, AVCs and FSAVCs. U5.7 Use of concurrent personal pension plan, effect on allowances, benefit types, timing of benefits. U5.8 Contracting out of S2P/SERPS via scheme or personal pensions – basic position, effect on national insurance contributions Protected Rights. U5.9 Death benefits before crystallisation of retirement benefits – lump sum benefits, dependants' income benefits, lifetime allowance test, term assurance. U5.10 Protecting against consequences of ill health - availability and effect of waiver of premium feature, income protection arrangements, the use of critical illness insurance, contributions whilst incapacitated. U5.11 Stakeholder pensions – definition, CAT standards, the requirements for employer designation. U5.12 Contributions for others, including contributions by parents for children. U5.13 Advice issues – estimating how much needs to be invested to accumulate adequate funds for retirement, affordability, assessing a client's investment risk profile.

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<b>Attainment Level</b>	<b>Outcome</b>	<b>Indicative Content</b>
<b>U</b> Demonstrate understanding of	<b>U6 How pension funds can be invested to provide capital and income in retirement.</b>	U6.1 Asset classes – risks, returns and past performance (cross reference to ApEx 2 & 19 Investment and Risk & Managing Investments). U6.2 Asset allocation – timescale, relation to other assets, client attitudes, life styling. U6.3 Self investment under registered pension schemes (occupational and personal) – the main rules, tax implications, characteristics and opportunities.
<b>U</b> Demonstrate understanding of	<b>U7 The main criteria that can be used in choosing pension contracts and providers.</b>	U7.1 The choice between the main kinds of defined contribution schemes and their relative merits. U7.2 Choosing pension providers – costs, administration, financial strength. U7.3 Fund choice, past performance, risk, life styling. U7.4 Self-investment options.
	<b>U8 The main options for drawing retirement benefits for individuals with defined contribution schemes.</b>	U8.1 Normal minimum pension age, effect of ill-health. U8.2 Maximum tax free pension commencement lump sum. U8.3 Annuities – main types of annuity: level or escalating, inflation linked, with profit and unit linked, criteria for selecting annuity type, impaired life and enhanced, single life and joint life, death benefits after retirement: capital protection and guarantees. U8.4 Basics of phased retirement and unsecured income with risk aspects, death benefits, income tax and IHT implications. U8.5 Basics of Alternatively Secured Pension (ASP) with risk aspects, death benefits, income tax and IHT implications. U8.6 Other sources of income in retirement.

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Attainment Level	Outcome	Indicative Content
<b>U</b> Demonstrate understanding of	<b>U9 The suitability of registered pension schemes and other types of investments which can be used to provide retirement benefits.</b>	<p>U9.1 The tax characteristics of registered pension schemes compared with other types of investment – tax treatment, accessibility, contribution limits and allowances, risk, availability, charges.</p> <p>U9.2 ISAs.</p> <p>U9.3 Direct investment in cash, bonds and equities, importance of diversification, danger of over-reliance on employer-linked investments (eg share schemes).</p> <p>U9.4 OIECS/unit trusts and other collective investments.</p> <p>U9.5 Life assurance contracts.</p> <p>U9.6 Property – residential and commercial – and use of equity release products to release funds.</p> <p>U9.7 Selling a business or share in a business.</p> <p>U9.8 Unregistered pension schemes.</p>
	<b>U10 Pressures on pension provision, trends and planned future changes to legislation, tax regulations and practice applying to retirement planning arrangements.</b>	<p>U10.1 Reasons for trend away from defined benefit schemes.</p> <p>U10.2 Effect of longevity on pension provision, including State Scheme.</p> <p>U10.3 Planned reforms to State Pensions, including increase in State Pension Age and changes to S2P structure.</p> <p>U10.4 Planned reinstatement of link between State basic pension and earnings Inflation.</p> <p>U10.5 Abolition of contracting out on defined contribution basis.</p> <p>U10.6 Personal Accounts.</p>
	<b>U11 (in summary form) the main rules governing pensions and divorce or dissolution of civil Partnership.</b>	<p>U11.1 Offsetting.</p> <p>U11.2 Earmarking.</p> <p>U11.3 Sharing.</p> <p>U11.4 Implications for pension planning – effect on allowances and the need to build up additional benefits.</p>

ApEx4 Retirement Planning		
Attainment Level	Outcome	Indicative Content
<b>An</b> Demonstrate an ability to	<b>An1 Analyse consumers' circumstances and products suitable to meet retirement needs, taking account of any existing arrangements.</b>	<p>An1.1 Factors shaping consumers' circumstances, retirement aspirations and prospects.</p> <p>An1.2 How to identify and analyse risk aversion and exposure.</p> <p>An1.3 How to assess affordability and suitability.</p> <p>An1.4 Methods of identifying and reviewing suitable product solutions.</p> <p>An1.5 The types of pension products, associated risks and suitability criteria.</p>
<b>A</b> Demonstrate an ability to	<b>A1 Apply suitable retirement product solutions to specific consumers' circumstances</b>	<p>A1.1 The range of solutions available to suit different types of circumstance.</p> <p>A1.2 The criteria for matching solutions to consumer needs and demands.</p> <p>A1.3 Factors influencing the way in which recommendations are presented.</p> <p>A1.4 How to check consumer's understanding of recommendations.</p> <p>A1.5 Consumer rights and the regulatory requirements applying to the provision of retirement planning advice.</p> <p>A1.6 The consequences of inadequate provision and how to explain these objectively to consumers.</p>