

Pension Products

Occupational Pensions

- Available to those in employment.
- A final salary scheme is based on the employee's salary on retirement. The longer they belong to the scheme - the greater the fraction of their final salary will be paid.
- A money purchase scheme involves contributions from the employer and the employee (your boss and you). The more money that is contributed, the bigger the pension.

Private Arrangements

- Private arrangements include:
 - Additional Voluntary Contributions (AVCs)
 - Free Standing Additional Voluntary Contributions (FSAVCs)
 - Personal Pensions or Stakeholder Pensions
 - Stakeholder Term Assurance

Additional voluntary contributions

- These are paid by employees who belong to an occupational pension scheme and are run by the same people who run the main scheme.
- They provide extra income to the employee in return for higher monthly contributions.
- Full tax relief is available at source.

Free standing additional voluntary contributions

- FSAVCs are provided by life offices and other pension providers, rather than by occupational schemes.
- It is expected that FSAVCs will be phased out as employees are now able to contribute to stakeholder pensions which are much cheaper

Stakeholder Pensions

- Where you read personal pensions you should be thinking stakeholder pensions – they are broadly the same
- They are available to any UK Resident under the age of 75. This is employed people, self employed, unemployed, children – anyone.
- The most someone can contribute to their stakeholder pension is 100% of their annual income or £3,600 whichever is the higher figure. Each year there is a cap to contribution levels and for 2006/2007 this is £215,000.
- The pension fund will accumulate free of income tax and capital gains tax on investment gains.
- Contributions are paid net of basic tax for everyone, whether they pay tax or not. Higher rate tax payers recover the balance through their self assessment.
- Other Stakeholder features
 - An annual charge of no more than 1% of the fund.
 - The minimum contribution to a stakeholder pension cannot be more than £20 and contributions can be weekly, monthly or at other intervals, or can be single, one-off, contributions
 - They have the ability to stop and start contributions without penalty
- You can take your benefits from age 50 (this is going up to 55 in 2010). You can take up to 25% of your pension fund as a tax-free lump sum.
- The rest of the fund is used to buy an income (an annuity) which will be taxable. You can use an Open Market Option to buy the best annuity on the market.
- Alternatively you can simply draw money from your fund until you are ready to buy your annuity. This is known as drawdown.

Stakeholder Term Assurance

- These are single term assurance policies, level or decreasing, which benefit from tax relief on the premiums.
- Anyone can have these up to age 75 so long as they don't exceed the lifetime allowance of £1.5 million sum assured.

34. Miss Rowbottom has a £5,000 business loan which is repayable in one lump sum in ten years time from business profits. She needs a policy with a sum assured of £5,000 at the lowest cost to provide protection should she die before the loan is repaid. The most suitable policy will be a
- convertible term assurance
 - decreasing term assurance
 - level term assurance
 - low cost whole life assurance
35. The benefit under a family income benefit policy is
- tax-free
 - taxable at basic rate of income tax at source
 - paid gross but must be declared for income tax purposes
 - paid gross but subject to income tax after 12 months payments
36. A cash mini ISA could invest in which of the following?
- national savings
 - life assurance
 - OEICs
 - none of the above
37. Which is NOT a feature of a critical illness policy?
- It provides a regular income
 - It is paid whether or not the assured continues working
 - It can continue throughout the assured's lifetime
 - It can cover permanent total disability
38. There are three main elements that make up policy premiums for a term assurance which of the following would be the EXCEPTION?
- claims cost
 - investment
 - morbidity risk
 - expenses
39. Which of the following is correct when considering Stakeholder Pensions?
- Benefits can be taken from age 45
 - Non taxpayers can get tax relief on contributions
 - The annual allowance limit does not apply
 - Employees in occupational pensions cannot contribute to a stakeholder pension

40. Susan has a part time job and earns just enough to pay low rate tax. She has decided to contribute to a Stakeholder. How much tax relief will she receive on her contributions?
- a. 10%
 - b. 22%
 - c. 40%
 - d. None
41. Joanne was born on 1st July 1982 and her income is £12,000. What is the maximum contribution she can make into her Stakeholder pension this year?
- a. Nil
 - b. £3,600
 - c. £12,000
 - d. £215,000
42. Mr and Mrs Pope have a joint repayment mortgage with £30,000 outstanding. They have just had their house valued for £90,000. How much equity do they have in their home?
- a. £30,000
 - b. £60,000
 - c. £90,000
 - d. None, the mortgage lender does
43. A capped rate mortgage is
- a. a variable rate mortgage with a minimum rate payable
 - b. a mortgage with a fixed rate for the whole of the term
 - c. a variable rate mortgage with the option to change to a fixed rate at some point in the future
 - d. a variable rate mortgage with a maximum rate payable
44. Amy invested £1,000 in Cash Mini ISA in June 2005. What is the maximum she could invest in Stocks and Shares through ISAs in tax year 2005/2006?
- a. £1,000
 - b. £4,000
 - c. £6,000
 - d. £7,000