

FINANCIAL PLANNING PROFESSIONAL

Editorial

This month in Foundations, we take a close look at the Pension Credit available for older people on relatively low incomes. Although most advisers will not have many clients affected by this benefit, there can be a real impact on advice relating to workplace pensions. Here some employees in the potential membership may feel that making pension provision themselves (even on a subsidised basis) may end up simply replacing the benefits they could have got for nothing.

David Harris has provided us with an interesting article on spread betting, which is particularly relevant in the volatile conditions we have seen on the stockmarket of late. The article covers the basics, and also makes the point that

this activity can be used to hedge risk as well as simply to provide an extra form of gambling.

Our Specialist article focuses on the problematic advice issues surrounding transfers where there is a possible involvement of the Pension Protection Fund. Rob Gaines has looked at the issues in some detail, and shares some of his insights with us.

Finally, we look at possible routes through the Diploma level examinations offered by the CII. Many advisers are considering these examinations at present, particularly in the light of the RDR, and the projected timescale is short. Although a change of government might alter the plans, it is a high risk option to defer consideration, and indeed defer starting to study, in the expectation that an election will ease the time pressure.

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FOUNDATIONS

The Pension Credit

It seems reasonable that the Social Security system should ensure a minimum level of income for pensioners, so that there is certainty that they can at least meet the cost of basic living needs. This is why the Pension Credit (originally the Minimum Income Guarantee) was introduced. For financial advisers, the benefit is an important one to be aware of, because it can affect the value which individuals get from making pension contributions, or having contributions made on their behalf. At low income levels, it may be that their contributions end up providing benefit which would have been wholly or mainly provided by the State if they had spent rather than saved.

Means testing is always a difficult issue for governments. It is an obvious way of trying to ensure that benefits are directed towards those who most need them. However, there are other

difficulties as well as the potential discouragement of savings. Inevitably, there are considerable administration costs involved, and some individuals entitled to benefits do not claim them because they do not want to submit themselves to means testing.

GUARANTEE CREDIT

There are two distinct elements of the Pension Credit: the Guarantee Credit, which fulfils the role of the original Minimum Income Guarantee, and the Savings Credit, intended to reward savings and reduce the disincentive effect of means testing.

The Guarantee Credit is available to those over 60 and provides a top up to bring income up to what is known as the standard minimum guarantee. This is currently £130 for a single person and £198.45 for those with a partner. The level can be increased in some cases,

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where the claimant is severely disabled or is a carer, or in respect of certain housing costs (such as mortgage interest). The term 'partner' includes a legally married spouse or registered civil partner, but also includes a common law partner, ie someone living with the claimant on a similar basis, but without having gone through the legal process of marriage or registration.

The minimum age of 60 will start to increase in line with State Pension Age for women from April 2010.

The Guarantee Credit tops up income, so the definition of income is important. It includes earnings (whether from employment or self-employment), pensions (both State and private pensions, whether derived from personal or occupational schemes), most social security benefits and Working Tax Credit. There are only limited exclusions (including Attendance Allowance and Disability Living Allowance), but income is measured after deduction of tax and any NI contribution liability, and half of any contributions made to registered pension schemes is also deducted.

Capital is also taken into account, by calculating a notional income based on the amount of capital, rather than using actual income. This means that holding capital in tax efficient wrappers such as ISAs has no effect on the calculation. However, some items (notably the surrender value of life assurance policies, including investment bonds) are not counted. The value of the individual's own home is also excluded, although the value of any other property, for example, a buy to let property or a holiday home, is included.

As with means testing for help with care fees, there is a deprivation of assets rule, which means that if an individual deprives themselves of capital in order to increase their Pension Credit, they can be regarded as if they still owned that capital.

The notional income is £1 per week for every £500 (or part thereof) of capital in excess of £6,000, or £10,000 for those who are living in

a care home on a permanent basis. (The £6,000 threshold will increase to £10,000 in November 2009.) There is no upper limit on capital above which a claim cannot be made (except to the extent that the notional income calculation will eventually mean that no benefit is payable).

SAVINGS CREDIT

When Minimum Income Guarantee was in operation and there was no Savings Credit, the existence of savings could, in effect, be heavily penalised. In some cases, the notional income derived from the savings could then reduce the benefit available on a £ for £ basis. It was this that led to the introduction of Savings Credit, which is certainly useful, although it has not entirely removed the problem, and has added considerably to the complications involved.

Savings Credit is available only from age 65, and can provide a maximum benefit of £20.40 per week for a single person and £27.03 per week for a couple. Generally, income is calculated in the same way as for Guarantee Credit, including the notional income derived from capital, but there are a few more exclusions, including Working Tax Credit, Employment and Support Allowance and Severe Disablement Allowance.

There is an income threshold for Savings Credit purposes, and benefit is available only if income is above this level. For 2009/10, the threshold is £96 for a single person and £153.40 for a couple.

The benefit is calculated as 60% of the excess of the individual's income over the income threshold, until the maximum level of Savings Credit is reached. This occurs when income is equal to the standard minimum guarantee for Guarantee Credit purposes (£130 pw for a single person or £198.45 pw for a couple). If income exceeds this level, the Savings Credit is reduced by 40% of the excess, until it reduces to nothing.

This means that there will be no Savings Credit if income is at or above a level of £181 pw for a single person or just over £266 pw for a couple.

THE EFFECT

Although the Savings Credit removes the £ for £ reduction in benefit which could previously apply, the reduction for income just above the standard minimum guarantee is still 40% – equivalent to the current higher rate of tax. Given the low level of income involved in these cases, the disincentive for saving is therefore considerable for those who feel they might be affected. Those who want to provide a good standard of living for themselves in retirement, and are able to do so, must end up well above these levels, but for low income earners, with limited available money to save, the temptation to spend instead of save is understandable.

Low income earners offered the opportunity to save in an employer-subsidised pension scheme may similarly feel that the overall potential outcome is not sufficiently attractive. This could make Personal Accounts, when introduced, quite difficult to recommend to this group, arguably amongst those most in need of private provision.

Much depends on how one evaluates the pros and cons of saving in this way. The DWP has conducted research which, it says, supports the validity of Personal Accounts for most people, but not everyone feels that the assumptions used are necessarily the most appropriate.

The Pension Credit itself may change over the years too, but it is impossible to predict how any such changes will impact. For the moment, advisers will need to take a great deal of care when advising groups who may be affected.

Those who feel they may be eligible to claim Pension Credit should do so promptly, because claims can only be backdated for three months, and it would be foolish to lose benefits simply through inertia. There is further information available from the DWP and claims can be made by telephone or in writing. There is also a very good series of factsheets that cover these issues on the Age Concern website which will be of assistance to many claimants. ■

www.ageconcern.org

FROM COMPETENCE TO EXPERTISE

Spread betting by David Harris

Benjamin Franklin famously said that nothing in life was certain except death and taxes. When an opportunity to make money and not pay any tax on the profit comes along, many people will feel that it is worth a second look.

Spread betting falls nicely into this category. It is an activity that has gone from being the preserve of City traders to becoming a fast growing form of investment for the private investor. There can be no doubt that part of the appeal is that profits from spread betting are free of tax. However, given the kind of stockmarket performance that has been prevalent recently, it is also an opportunity for individuals to make money whichever direction the indices are moving. Now of course spread betting is not without risk. Like any other investment, individuals can lose money, but although the term 'spread betting' may immediately conjure up images of gambling, the industry would argue that the risk profile is entirely different from a straightforward wager on the three o'clock race at Newmarket.

Conventional wisdom has it that in a falling or 'bear' market, only the brave will wish to buy and sell shares. The monthly figures from IMA (Investment Managers Association) and APCIMS (the trade body for Stock Brokers) do much to support this view. They indicate that stockmarket trading volumes, by private clients, drop substantially when markets are on a downward trend.

There are however investors who, far from being daunted by volatility, plunge headlong into active stockmarket bets on a daily basis. They are using spread betting as a tool to try to make money, not just when markets rise but also when they fall. Indications from the major spread betting firms are that, despite the recession, business turnover continues to rise.

So what might be the reasons for this? Paradoxically, it seems that market volatility (which frightens

so many investors) is actually encouraging others to place daily bets on share movements. Share price falls are as much of an incentive to place a bet as is their potential to rise. A falling market is the next best opportunity to make money for spread betters, after a rising market. The real enemy is a moribund market which goes nowhere!

WHAT IS SPREAD BETTING?

Betting, as a word, carries the sort of connotation that individuals who have a basic understanding of investment portfolio management might try desperately to avoid. Spread betting has its origins back in the 1970s when it was used as a means of hedging against the fluctuations in the price of gold. It is only in fairly recent times that it has entered into the vocabulary of private investors. The appeal is straightforward – it offers individuals the ability to bet on a huge variety of stocks, indices, commodities, bonds and sporting events.

The essence of spread betting is that you take a view on the price direction of, say, a particular share or index and then take a monetary position, without having to physically own that share or index. The spread betting firm will quote you a price spread based on their own judgement. You then decide which direction you believe the price of your chosen investment

opportunity will move from this quoted spread. Your potential profit or loss depends on how far above or below the spread the market moves – see the example below.

You can see from the example that spread betting offers a very simple mechanism for individuals to bet on the movement of markets. Historically, the only way an individual investor has been able to benefit from a falling market is by selling shares 'short' or maybe by investing in hedge funds. Spread betting is capable of solving this dilemma. However, as can also be seen from these examples, with the large fluctuations in share prices which are fairly commonplace these days, it would be easy to accumulate either very large profits or losses. Whilst no one is going to complain about making an outrageous profit, in order to avoid the problem of large losses mounting due to unexpected falls or misjudgements, spread betting firms will offer a 'stop loss' facility when an account is opened. Although this facility will limit the amount that can be won, it will also prevent a totally unacceptable loss occurring.

The process of opening an account is straightforward. Investors can hold a 'credit' account, where funds are deposited with the chosen spread betting firm, in a designated account, and winnings or losses are added to or taken out of this account. A 'debit' account is where

Example

If we look at the general levels of the FTSE 100 today (around 4000) a typical scenario such as this will occur. A call is made to the spread betting firm to ask them for their 'spread' on the FTSE 100. Typically, today, this might be 3900 – 4100 (4100 to place a 'buy or up bet' and 3900 for a 'sell or down bet').

If it is believed that the FTSE 100 Index is going to rise, an investor would place an 'up' or 'buy' bet. They could, for instance, buy £10.00 per point at 4100. If the FTSE 100 then rose to 4280 within a specific time period they would earn a profit of £1,800 which equates to £10 x 180 (the points rise in the index above 4100). Alternatively, if the FTSE 100 falls to a level of 3920 during that same specified period, they would lose £1,800 (again £10 x 180).

If a negative view is held on the prospects of the FTSE 100 investors would place a 'down' or 'sell' bet. Using the same example, they would bet £10 per point at 3900. If the FTSE 100 fell to 3720 they would make a profit of £1,800 (£10 x 180) but on the other hand if the FTSE 100 rose to 4080, they would lose £1,800 (£10 x 180).

the investor provides credit or debit card details. The maximum agreed potential loss is taken out, up front, and winnings are then credited back to the investor. Accounts may be closed at any time.

Interest will be added (usually monthly) on all funds held on deposit and every account holder will be sent regular statements (usually daily) in an effort by the industry to not only meet, but surpass, Financial Services Authority regulatory requirements. The spread betting industry is fully regulated and supervised and all client accounts are segregated from those of the firm with whom transactions are undertaken.

Whilst I have looked at the practicalities of a simple spread bet on one of the financial indices there are, of course, a wealth of different opportunities for the private investor to consider. These range from individual shares to currencies, property, politics and, particularly, sport (sport by its nature is wonderfully unpredictable and therefore a perfect setting to allow the spread betting industry to expand).

CONCLUSIONS

Whatever feelings you hold towards gambling, spread betting exists and many investors are already involved. If they ask your advice, therefore, just as with any other form of investment, never forget the basics. Individuals should not over-commit themselves in any one transaction. Ensure they have researched and understand fully the spread bet they are going to make. Suggest that they consider limiting their losses should markets or events move against the bet they have made. Make sure they are conversant with the principles of leverage (or gearing) - it is this factor that amplifies both gains and losses.

In my own view, spread betting, however you look at it, is, and will always be, gambling. That is why it attracts no Capital Gains Tax! Whether it will ever be able to shake off this connotation cannot be judged, but, sensibly run, the industry still has the potential to assist the retail investor in their quest to find ways to outperform general market returns.

Having followed the develop-

ment of spread betting for a few years I have not altered my original conclusions. Despite the potential rewards I feel it will remain a 'Cinderella' sector for the majority of private investors. I do not believe they will have the stomach for the huge potential losses that can so easily occur. For the majority, ultimately, I believe the conclusion will be to stick with what they know best, ie traditional equity investment into shares or collective equity funds. In that way individuals will more fully comprehend the nature of their investment risk.

For the minority, however, who enjoy their weekly flutter on the National Lottery or annual visit to the Grand National or the Derby the potential exists to create a hedge against their general investment decisions being wrong and having some fun by creating the opportunity to make above average gains (or losses).

As always, the key is that the individual understands what he or she is involved in. ■

David Harris is an independent consultant in investment matters

FOR THE SPECIALIST

Pension transfers and the PPF

by Rob Gaines

Pension transfers have always been problematic. Poor advice cost the industry dear at the start of the century and the regulator has since maintained close supervision of this business.

The essential problem is that it is extremely difficult to advise whether an individual should transfer his or her benefits from a defined benefit scheme to an individual arrangement. This is not so much because the technical aspects are difficult (and they are demanding), but because the advice and the decision are so influenced by qualitative factors. The adviser needs a comprehensive understanding of what is involved, not simply to be able to recite a manual.

Of course, this may be seen by some as an argument against the 'tick box' approach to supervision. It is not. There are many pieces of information to be gathered and many factors to consider before making a recommendation and the simplest way to 'audit' the process is by way of a series of tick boxes, but they have little other relevance to the advice.

The introduction of the Pension Protection Fund (PPF) with effect from April 2005 has added an additional layer of complexity to the process of giving advice on transfers from defined benefit schemes to individual money purchase arrangements.

Before the PPF there was little prospect of a member claiming

compensation when a scheme failed unless that failure was occasioned by fraud or misappropriation of funds. The claim was from the Pensions Compensation Board.

If a scheme was wound up because the employer became insolvent (and by definition was unable to top up the pension scheme), then the value of assets would be distributed according to priority rules. These rules suffered from three main disadvantages:

- They kept changing;
- They were inadequate to determine how some liabilities should be treated (especially after the equalisation judgement of Barber v GRE in 1990);
- The rules required all liabilities in an early category to be

exhausted before later categories could be addressed. This meant that it was unusual for active and deferred members to qualify for anything like their full entitlement.

The Pension Protection Fund changed the landscape.

If an employer experienced an insolvency event after 5 April 2005 and the scheme was found to be in deficit, the PPF, in effect, took over the scheme. Immediately before it did so, there would be an assessment period during which a range of options would be considered by the PPF. This would include not only the possibility of sufficient funds becoming available to meet the scheme's liabilities (to a certain level), but also if, in the opinion of the insolvency practitioner, there might be a 'rescue' of the sponsoring employer and a renewal of the scheme funding covenant.

The PPF would only become involved for the longer term if all else failed.

The scheme was required to meet its liabilities to the level of benefit that would otherwise be available from the PPF. We should recall here that the PPF is funded by a levy on defined benefit schemes and the government has always been at pains to stress that it offers no guarantee of last resort (although the political consequences of letting the fund collapse do not bear thinking about).

Broadly speaking, the PPF provides compensation that is determined by whether you are below normal pension age when the employer fails, or whether you are past normal pension age, or have retired early due to ill health. Normal pension age is the lowest age at which you can retire without requiring the agreement of the trustees and without actuarial reduction; this is usually the scheme's normal retirement age because earlier retirement without trustee permission is unusual.

If a member has not yet reached normal pension age, then the entitlement is limited to 90% of the accrued pension and this applies to most active and deferred members as well as pensioner members who

have retired early other than on grounds of ill health. There is also a cap on the accrued pension that can be taken into account. It varies with age, but in 2009/10 is £31,936.32 (90% of which is £28,742.69).

Those members who had passed normal pension age when the insolvency event occurred are entitled to their full pension entitlement.

This is where the problems start for a significant number of potential clients. Put succinctly, how do you advise the deferred member whose scheme is underfunded and who is concerned about the strength of the employer covenant (to fund the scheme to 100% of liabilities) no matter how well intentioned the employer may be?

The prospect of a limit on benefits to 90% of their accrued value is unlikely to figure highly in the advice, but for a member with an accrued pension well in excess of the monetary cap and who may be close to retirement, things are not so straightforward. A typical example might be the 55 year-old ex-director who has a deferred pension of £50,000 a year and a normal pension age of 65. Here are some of the questions that will have to be addressed in addition to those that would normally be taken into account:

- To what extent is the scheme adequately funded to meet its liabilities? The answer to this will simply prompt further questions. For example, does the basis assume immediate winding-up (or discontinuance basis) or an ongoing basis? An ongoing basis that reveals the scheme to be 90% funded may hide the fact that on wind-up only 60% of liabilities could be covered. (The ongoing value will exceed the wind-up value because it can assume that future returns to normal retirement date will exceed the growth in liabilities over the same period.) Furthermore, is the scheme sufficiently funded to meet its liabilities to the level of the PPF? If so (and a judgement will have to be made in most cases), the member is likely to be restricted to little more than the PPF 'scale'

even if the scheme does not fall into the PPF.

- Is a full transfer value available? This would be unusual in the circumstances. If the scheme is not fully funded, then the trustees will usually wish to scale back transfer values to reflect the underfunding and indeed might be expected to do so to protect the interests of other members. If the transfer value has not been proportionately reduced, then the member should make his decision before the guaranteed transfer value is recalculated. If the transfer value is reduced, the critical yield (the investment return needed to match the projected defined benefit pension) will be correspondingly higher.
- What is the future of the sponsoring employer? This of course is the most difficult although there is often a correspondence between the knowledge of the member and the size of his or her pension. The skill here is to assess how much the member actually knows and what sort of position he is in to make a judgement and then with the client make a risk assessment. This inevitably means swapping information: the client knows about his employer and the adviser knows about pensions.

It remains for the adviser to make a recommendation, but because the actuality may not coincide with the projection of events it is even more important that everything is documented and agreed with the client. There are a number of outcomes for the struggling employer and its deficient pension scheme, especially when the economy has been through seismic shocks of the type we have seen recently. For example, both the scheme and the employer might recover. The employer might be taken over and new life breathed into the scheme. The scheme might be bought out and the liability transferred to another institution such as a life assurance company with different compensation arrangements.

The whole scenario is made much more complicated by overlaying these possibilities with a timeline. Suppose the member has a few years to go to normal pension age. If he or she waits until normal pension age, the full accrued benefit is payable if the scheme is still viable. If the transfer goes ahead now, the transfer value may be discounted and the projection of fund performance over such a short period is likely to be very unreliable. On the other hand if the employer collapses before

normal pension age, benefits may be decimated if they remain in the defined benefit scheme.

So, much will depend on an intelligent judgement made by client and adviser based on all the facts and well documented. Sometimes, the way to make the judgement is to rehearse some very basic questions – not to replace the technical aspects, but to supplement them. For example, would the client be more distressed if investment returns fell short of providing the scheme benefit because contrary to

expectations the scheme survived and provided full benefits or would that same client be more distressed if he or she did nothing and as was thought to be likely, the employer folded and benefits were capped?

It is the old problem with risk and best compared, albeit crudely, with an attack on a nuclear power station. The consequences can be disastrous, but they are unlikely to arise. The problem is how to ascribe a value to each aspect. ■

Rob Gaines is a freelance consultant specialising in pensions issues

TRAINING AND SUPERVISION

The route to Diploma

The FSA's Retail Distribution Review has put pressure on advisers to reach Diploma level by the end of 2012, so choosing the best route will be important. There is a significant amount of work to get done to reach this standard, and those with only a Certificate level qualification will need to budget sufficient time to avoid the pressure building further.

Although there is some doubt as to the future of the FSA if there is a change of government, nothing is certain, so relying on this as a deferment may turn out to be ill-advised, and the stakes are high. Also, on a positive note, there is much to gain from increased knowledge, so studying for the exams can deliver a positive advantage for advisers.

This article focuses on the Diploma exams available from the CII. We considered the *ifs* route in a recent article, and with that route, there are no choices, so there are no decisions for advisers to make. With the CII, there is a range of alternatives, so advisers can tailor their approach to their specific needs. This should reflect not just their current business areas, but also those which are seen to offer opportunities for the future.

The final syllabuses will be developed over the coming months, with the Financial Services Skills Council (FSSC) doing the groundwork. However, the FSA has

reconfirmed its 'no regrets' policy, which essentially means that those who pass exams now will be able to fill any gaps with CPD rather than having to retake an exam based on the revised syllabus.

The Diploma exams are demanding, but certainly achievable (as the growing number of advisers with the Diploma testifies). Advisers need to consider their own study skills and academic abilities – many who have not taken exams for a few years may find they are rusty and, if so, this will underline the need to start earlier rather than later.

CREDITS

The CII qualification structure is based on a points system, under which exam passes qualify for a given number of credits. To achieve the Diploma, the requirement is a minimum of 140 credits, of which at least 80 must be at Diploma level. The Diploma level exams are written papers rather than multiple choice question papers, and success demands knowledge, the ability to apply knowledge and examination technique.

Advisers can obtain a statement from the CII showing their current position, and this will be a good starting point for planning the way forward.

Those who have so far only passed the old FPC (Financial Planning Certificate) exams will have 50 credits, assuming that

the version they did included the written FP3 paper. This would mean that a further 90 credits will be required for Diploma.

Most Diploma exams are worth 20 credits each, which would imply the need to pass five Diploma level subjects. However, one subject (J08: Financial planning practice) carries 30 credits, so four passes would be sufficient if one was J08. Also, it is possible to count one Advanced Diploma subject (but no more) towards qualification for the Diploma, and these subjects also carry 30 credits.

There are clearly various options therefore. Advisers need to consider the format of the exams and the amount of study likely to be required. Most Diploma subjects are based on 15 short answer questions which need to be answered in two hours. The exception is J08, which is based on two case studies, details of which are provided to candidates in advance. The exam sets questions based on the case studies; and the time allowed is three hours.

The Advanced Diploma exams are three hour papers, generally based on three case studies, and focusing on the application of knowledge.

The AF5 paper (Financial planning process) is different, and requires candidates to study a single, quite complex, case study in advance. The client objectives are revealed in the exam room,

and candidates then respond to questions relating to these objectives, in a holistic context.

The passmark is around 55% in all cases.

CHOICES

The range of CII Diploma subjects is as follows:

- J01 Personal taxation (53%)
- J02 Trusts (43%)
- J03 Legal and taxation aspects of business (40%)
- J04 Pension funding options (46%)
- J05 Pension income options (54%)
- J06 Investment principles, markets and environment (37%)
- J07 Supervision in a regulated environment (42%)
- J08 Financial planning practice

The figures in brackets are the approximate percentages of candidates for each subject who passed at the 2008 sittings. (The J08 exam has been introduced in 2009, with the first sitting in July, so no pass rate figures are available as yet.)

Choosing the best subjects for a particular adviser will involve a combination of aspects. Relevance is a vital consideration, but where a decision between two subjects is closely balanced, the pass rate may also guide the choice to some extent. Advisers should always look through the syllabus thoroughly before finalising their choice, and it is a good idea to look at one or more past papers to get an idea of what is involved. Syllabuses are available on the CII website

www.cii.co.uk

as are examiners' reports which include a past paper, although these must be paid for.

The Advanced Diploma subjects, with 2008 pass rates in brackets) are:

- AF1 Personal tax and trust planning (45%)
- AF2 Business financial planning (35%)
- AF3 Pension planning (39%)
- AF4 Investment planning (58%)
- AF5 Financial planning process (44%)

As already mentioned, only one Advanced Diploma subject can be counted towards the Diploma.

However, because these subjects apply knowledge gained in Diploma subjects, it would be natural for someone who has studied and passed J01 and J02 (for example) to go on to take AF1, which is the related Advanced Diploma subject.

The suggested study time is 100 hours for each Diploma subject and 150 hours for each Advanced Diploma subject. Different people will need different periods of time, depending on knowledge and study skills, but these figures are a reasonable guide and highlight the size of the challenge. It is wise not to try to skimp on the study because failing will mean the need to resit and so to start the study again.

USING CF2

For those who have not undertaken exam study for a while, a useful way in can be to tackle a Certificate examination, for example, CF2 Investment and Risk. This should not be too demanding academically for an experienced adviser, but can help the candidate to get back into study mode. The exam is 100 multiple choice questions and most advisers will find the study will tighten up existing knowledge and extend it in some areas.

The CF2 exam can contribute 20 credits to the total, although this is not a Diploma level exam, so it does not count towards the 80 required at that level. The other attraction of studying a subject like CF2 is that passing it will start to build the adviser's confidence in his or her ability to pass exams. This can be invaluable.

OPTIONS

There are many possible paths to Diploma using CII exams. But some possibilities, based on an adviser with 50 credits from FPC, are:

- Two Diploma subjects and the related Advanced Diploma subject, plus one further Diploma subject. For example, this might be J01 (20 credits) and J02 (20), with AF1 (30), then a choice of one of the other Diploma subjects (20), depending on business relevance. This gives a total of 140 points, as required.

- One Diploma subject (eg J01 for 20 credits) plus the related Advanced Diploma subject (AF1: 30 credits) plus J08 (30 credits). Allowing for the credits for FPC, this would give a total of 130 credits, including 80 at Diploma level, so a pass in CF2 would then top-up to the total needed for Diploma.
- Similarly, choosing four Diploma subjects, perhaps J01, J02, J04 and J05 would mean the adviser had 130 credits in total, and could again top-up with CF2.

These are only examples, and each adviser will have an individual decision to make. The main thing at this stage is to formulate a realistic plan, allowing for study time and for other commitments. Most people find it best not to try to do more than one, or at most two, exams in one sitting.

The plan should include some leeway for any resits that may be required (the pass rates show that not everyone gets through first time).

For many advisers, J01 is a good starting point. Taxation is relevant to almost all advisers and most will improve their understanding from studying this subject in an organised way. Preparation is also quite straightforward. It is still demanding and certainly not easy, but tax calculation methods can be learned and practised, and are likely to provide a significant number of marks in the exam.

It should also be based on reaching the goal of the Diploma well before the deadline – no one wants to be entering the last sitting before the deadline knowing they have to pass to continue in their job. There is enough pressure in the exam room already. ■

ANSWERS TO SELF-TEST QUESTIONS

(see page 8)

Foundations

1.c, 2.a, 3.c, 4.a, 5.d

From Competence to Expertise

6.d, 7.d, 8.b, 9.b, 10.a

For the Specialist

11.a, 12.b, 13.c, 14.b, 15.c

Self-Test Questions

These questions will help you to check your understanding of the articles that appear in this Newsletter. For each question there is only one correct answer. The answers are given at the foot of page 7.

1 At what minimum age can an individual qualify for Guarantee Credit and Savings Credit?

- a. 60 for both
- b. 65 for both
- c. 60 for Guarantee Credit, 65 for Savings Credit
- d. 65 for Guarantee Credit, 60 for Savings Credit

2 Generally, which of the following would not be included in the calculation of 'income' for Guarantee Credit purposes?

- a. Attendance Allowance
- b. Earnings
- c. Private pension
- d. State pension

3 To what extent do contributions to a registered pension scheme reduce 'income' for Guarantee Credit purposes?

- a. Not at all
- b. 20% of the contribution is deducted
- c. 50% of the contribution is deducted
- d. All of the contribution is deducted

4 Is capital in an ISA taken into account when determining an individual's entitlement to Pension Credit?

- a. Yes, for both Guarantee Credit and Savings Credit
- b. Only for Guarantee Credit
- c. Only for Savings Credit
- d. No, not at all

5 Savings Credit is reduced by what percentage of income in excess of the standard minimum guarantee?

- a. 10%
- b. 20%
- c. 30%
- d. 40%

6 How are gains from spread betting taxed?

- a. They are subject to income tax in full
- b. They are subject to income tax at higher rate only
- c. They are subject to CGT
- d. They are free of tax

7 Spread betting can provide opportunities for gain:

- a. Only if markets are rising
- b. Only if markets are falling
- c. If markets are rising or static
- d. If markets are rising or falling

8 The FTSE 100 stands at 4400 and John places a sell bet at 4300, staking £10 per point. If the index falls to 4360, the outcome of the bet is:

- a. A gain of £600
- b. A loss of £600
- c. A gain of £400
- d. A loss of £400

9 A stop loss facility on a spread betting account would:

- a. Limit losses only, in return for a fee
- b. Limit gains and losses
- c. Limit gains but not losses
- d. Limit losses but increase gains, in return for a fee

10 Is the spread betting industry regulated?

- a. Yes, by the FSA
- b. Yes, by the Office of Fair Trading
- c. Yes, by the London Stock Exchange
- d. No, it is not

11 The PPF is relevant only where an employer experiences an insolvency event:

- a. After 5 April 2005
- b. After 31 December 2006
- c. After 30 June 2008
- d. At any time

12 The PPF provision for an individual who had not reached normal pension age at the time of the insolvency event and is not in ill-health is:

- a. 90% of entitlement with no cap
- b. 90% of entitlement subject to a cap
- c. 100% of entitlement with no cap
- d. 100% of entitlement subject to a cap

13 The PPF provision for an individual who had passed normal pension age at the time of the insolvency event is:

- a. 90% of entitlement with no cap
- b. 90% of entitlement subject to a cap
- c. 100% of entitlement with no cap
- d. 100% of entitlement subject to a cap

14 A 45 year old has a substantial deferred benefit in a DB scheme and is concerned that it might be taken over by the PPF. If a full transfer value is currently available, it is likely to be:

- a. Poor value relative to PPF benefits
- b. Good value relative to PPF benefits
- c. Roughly in line with the value of PPF benefits
- d. Exactly in line with the value of PPF benefits

15 In measuring scheme funding, the winding-up basis will give a result:

- a. Higher than the ongoing basis
- b. Exactly equal to the ongoing basis
- c. Lower than the ongoing basis
- d. Sometimes higher, sometimes lower than the ongoing basis