PRACTICE QUESTIONS

Chartered Insurance Institute (CII)

PW8VTFD7

AF7 - Pension Transfers

EDITION	QUESTIONS	FORMAT
Demo	9	Limited Edition PDF

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Before you begin

What this is

9 practice questions for Chartered Insurance Institute (CII) `PW8VTFD7`, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, `PW8VTFD7`
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1 SINGLE CHOICE

Under FCA rules, what is the default maximum charge that may be levied on a pension transfer arrangement without the client having to specifically agree a higher fee in writing?

A The adviser must not levy any charge on the transfer arrangement itself.

B **An initial adviser charge of up to 1% of the transfer value, with no ongoing charge on the new arrangement.**

C An initial charge capped at 2% of the transfer value.

D An initial charge capped at 3% of the transfer value, provided the client is notified in writing.

ANSWER **B**

WHY Since the RDR and the FCA's pension transfer rules took effect, the default position is that an adviser may levy an initial adviser charge of no more than 1% of the transfer value where the transfer proceeds are invested in a new arrangement. The adviser cannot levy an ongoing adviser charge on the new arrangement unless the client specifically agrees in writing.

QUESTION 2 SINGLE CHOICE

Which of the following is a documented FCA requirement when advising a client on a pension transfer out of a defined benefits (DB) occupational scheme?

A The advice must be given by an adviser who does not hold the AF7 qualification, to provide an independent view.

B **The adviser must give the client a personal recommendation in a suitability report explaining why the transfer is, or is not, suitable.**

C The adviser must complete the transfer within 30 working days of the client's request.

D The adviser must obtain a guarantee from the new provider that benefits will be at least equal to the ceding scheme.

ANSWER **B**

WHY Under the FCA's pension transfer rules, where a personal recommendation is given, the adviser must issue a suitability report (often referred to as a 'transfer analysis report') setting out the personal recommendation and explaining why the transfer is, or is not, suitable for the client. AF7-qualified advisers are required for DB transfer advice; transfer timescales and provider guarantees are not FCA-prescribed in this way.

QUESTION 3 SINGLE CHOICE

In the context of pension transfer specialist (PTS) oversight, who is the 'Designated Transfer Representative' (DTR)?

A The ceding scheme administrator who authorises the transfer payment.

B The receiving scheme provider's compliance officer.

C **The appropriately qualified individual within the firm who is responsible for the firm's pension transfer business and to whom the Pension Transfer Specialist reports.**

D The FCA supervisor allocated to the firm's pension transfer permissions.

ANSWER C

WHY The Designated Transfer Representative (DTR) is the individual within the firm who has overall responsibility for the firm's pension transfer business and to whom the Pension Transfer Specialist formally reports. The DTR does not have to hold the AF7 qualification themselves, but they must take responsibility for the firm's pension transfer activity.

QUESTION 4 SINGLE CHOICE

Which of the following best describes a 'defined contribution' (DC) occupational pension scheme for AF7 purposes?

A A scheme where the benefits payable are defined by the scheme rules and normally based on the member's final salary and length of service.

B **A scheme where the contributions paid in are defined, but the benefits payable at retirement depend on the investment performance of the underlying funds and the annuity rate or drawdown rate then available.**

C A scheme where the benefits payable are guaranteed by the Pension Protection Fund (PPF).

D A scheme where the employer is legally obliged to fund any shortfall identified by the scheme actuary.

ANSWER **B**

WHY A defined contribution (DC) scheme is one where the contributions are defined but the benefits depend on investment returns and the cost of providing benefits at retirement. DC schemes are not covered by the PPF, which protects members of eligible DB schemes.

QUESTION 5 SINGLE CHOICE

Which statement best describes the 'accrual rate' in a final salary (defined benefit) occupational pension scheme?

A The rate at which the member's contributions to the scheme increase each year.

B **The fraction of pensionable salary that the scheme member earns as pension for each year of scheme membership, e.g. 1/60th.**

C The rate used to revalue deferred benefits in line with inflation.

D The rate at which the scheme's funding level increases each year.

ANSWER **B**

WHY The accrual rate is the fraction of pensionable salary that the member earns as pension for each year of scheme membership (commonly 1/60th or 1/80th in UK DB schemes). It determines the pension earned, alongside the member's pensionable service and pensionable salary.

QUESTION 6 SINGLE CHOICE

Following a pension transfer, into which of the following arrangements will a transfer payment normally be accepted without triggering an unauthorised payments charge under the Finance Act 2004?

A Any overseas life assurance policy held by the client.

B **A registered pension scheme, a recognised overseas pension scheme (ROPS), or a qualifying recognised overseas pension scheme (QROPS) where the conditions are met.**

C A general investment account held in the client's name.

D A UK investment bond issued by a life company.

ANSWER **B**

WHY A transfer payment from a registered pension scheme is normally permitted only into another registered pension scheme or a recognised/qualifying recognised overseas pension scheme (ROPS/QROPS) where the relevant conditions are met. Transfers into non-pension vehicles such as investment bonds or general investment accounts would constitute unauthorised payments and trigger tax charges.

QUESTION 7 SINGLE CHOICE

Which of the following safeguards applies specifically to transfers from a defined benefit (DB) occupational scheme under the Pensions Act 1995 (as amended)?

A A statutory right to a transfer payment equal to the full actuarial value of the accrued benefits.

B A statutory right to take advice from a suitably qualified adviser and to insist that the transfer does not proceed until the adviser confirms in writing that the transfer is in the client's best interests.

C An automatic requirement that the employer matches the transfer value into the receiving arrangement.

D An automatic right to transfer to the State Pension.

ANSWER **B**

WHY Section 48 of the Pensions Act 1995 (as amended) provides a statutory right for members of DB occupational schemes to insist that the transfer does not proceed until they have received advice from a suitably qualified adviser confirming the transfer is in their best interests. The transfer value is not statutorily the full actuarial value; it is calculated in line with the scheme's rules and statutory basis.

QUESTION 8 SINGLE CHOICE

Which of the following is the principal piece of legislation governing the payment of transfer values from UK occupational pension schemes?

A The Financial Services and Markets Act 2000 (FSMA).

B The Pension Schemes Act 1993, in particular Part IV (preserved rights and transfer values).

C The Consumer Rights Act 2015.

D The Equality Act 2010.

ANSWER **B**

WHY Part IV of the Pension Schemes Act 1993 (as amended and supplemented by subsequent regulations) sets out the statutory framework for the preservation of benefits and the right to a transfer value from an occupational pension scheme. FSMA regulates the financial advice, not the transfer payment itself.

QUESTION 9 MULTIPLE CHOICE

Which TWO of the following correctly describe requirements that apply to a firm advising on pension transfers under FCA and TPR rules? (Choose two.)

A The firm must hold the appropriate FCA permission to advise on pension transfers and opt to the activity.

B **The personal recommendation on a DB transfer must be given or countersigned by a Pension Transfer Specialist (PTS) who holds the AF7 qualification.**

C The firm must obtain a written guarantee from the receiving scheme provider that it will match the benefits of the ceding DB scheme.

D The firm must offer all clients a free annual review of their pension arrangements for at least five years after the transfer.

E **The firm must maintain records demonstrating that the PTS was actively involved in the transfer advice and that appropriate due diligence on the receiving scheme was carried out.**

ANSWER **B** · **E**

WHY The FCA requires that personal recommendations on DB transfers are given or countersigned by a Pension Transfer Specialist holding the AF7 qualification, and that the firm maintains appropriate records evidencing the PTS's involvement and the due diligence performed on the receiving arrangement. The other options are not FCA-prescribed requirements.