TOPIC 22

Other repayment vehicles for interest-only mortgages

LEARNING OBJECTIVES

As we noted in Topic 21, although endowment policies were once a very popular way to build up a fund to repay an interest-only mortgage, they are rarely used now. This topic looks at other investment products that are used to support interest-only mortgages.

By the end of this topic, you should have an understanding of the following investment products and their role in supporting mortgages:

- individual savings accounts, including Help to Buy and Lifetime ISAs;
- unit trusts and open-ended investment companies;
- pension plans.

THINK ...

Before you start work on this topic, take a moment to think about what you already know. You have already studied ISAs, unit trusts, OEICs and pension plans in UK Financial Regulation, and our aim in this topic is to refresh your memory and explain their use in relation to mortgages.

Can you recall:

- the key features of an ISA?
- how unit trusts and OEICs work?
- the different ways in which people can access their pension funds at retirement?

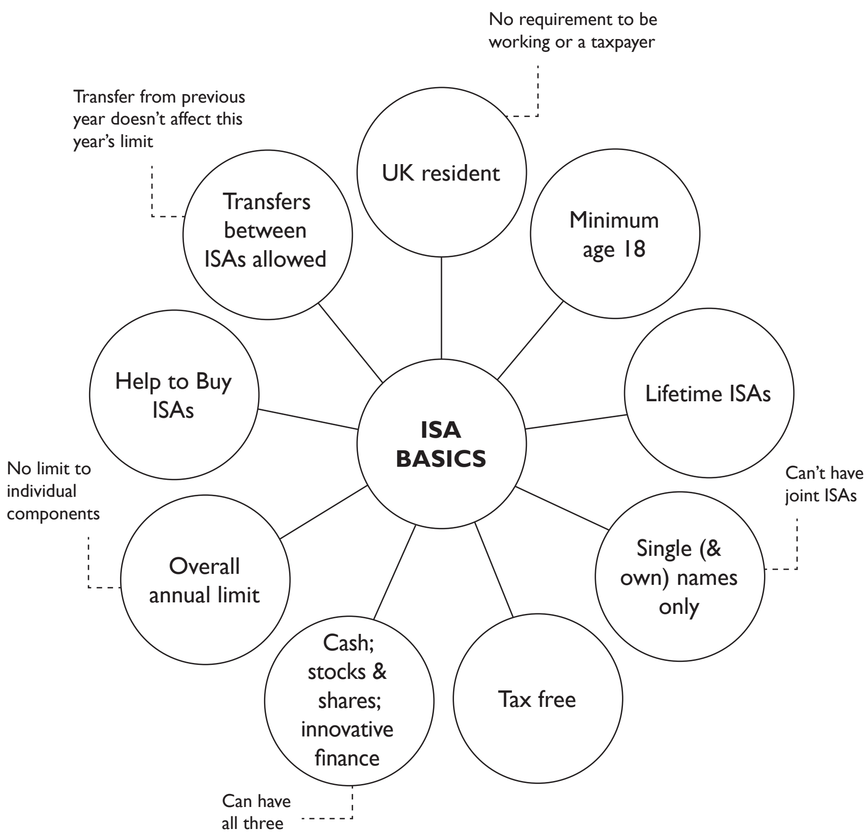
TOPIC 22

22.1 How is an ISA used as a mortgage repayment vehicle?

CHECK YOUR UNDERSTANDING 1

You should be familiar with ISAs from your studies for UK Financial Regulation. Refer back to your study text if you need to refresh your memory. Figure 22.1 provides a summary of the basics.

FIGURE 22.1 BASIC FEATURES OF ISAS



ISAs are subject to an annual investment limit, which is usually increased each year in line with inflation.

FACTFIND

Find the latest information on ISAs at:

www.gov.uk/individual-savings-accounts

The characteristics of an ISA mortgage are that:

- like an endowment mortgage, only the interest due on the loan is paid to the lender during the term – the entire capital remains outstanding throughout the term;
- investment is made into an ISA on a regular basis, usually monthly but sometimes annually;
- separate life cover is needed to repay the loan should the borrower die before the end of the term. The sum assured should be the same as the initial mortgage because the value of the ISA could fluctuate during the term;
- at the end of the mortgage term the ISA fund is used to repay the capital;
- ISAs can be cashed in at any time without penalty, which means that the planholder can increase payments to reduce the mortgage term, reduce payments to suit their cash flow or cash in the plan early if growth is better than expected.

It is important to realise that the underlying investment risk depends on the underlying product and fund.

TECHNICAL NOTE

Unlike endowments, it is not possible to assign ISAs, and the lender can gain no legal or equitable rights over them.

In terms of investment, there are three categories of ISA:

- **cash** – deposit based, very similar to a standard savings account;
- **stocks and shares** – invested in shares, collective investments and corporate bonds;
- **innovative finance** – investment in peer-to-peer lending platforms.

Given the need for capital growth, and the time span for a mortgage, stocks and shares ISAs are the only realistic option for ISA mortgages, and so we will focus on them.

There are four types of ISA that can be used to hold the investments summarised above:

- Standard ISA;
- Junior ISA – available to those under the age of 18, so not applicable here;
- Help to Buy ISA;
- Lifetime ISA.

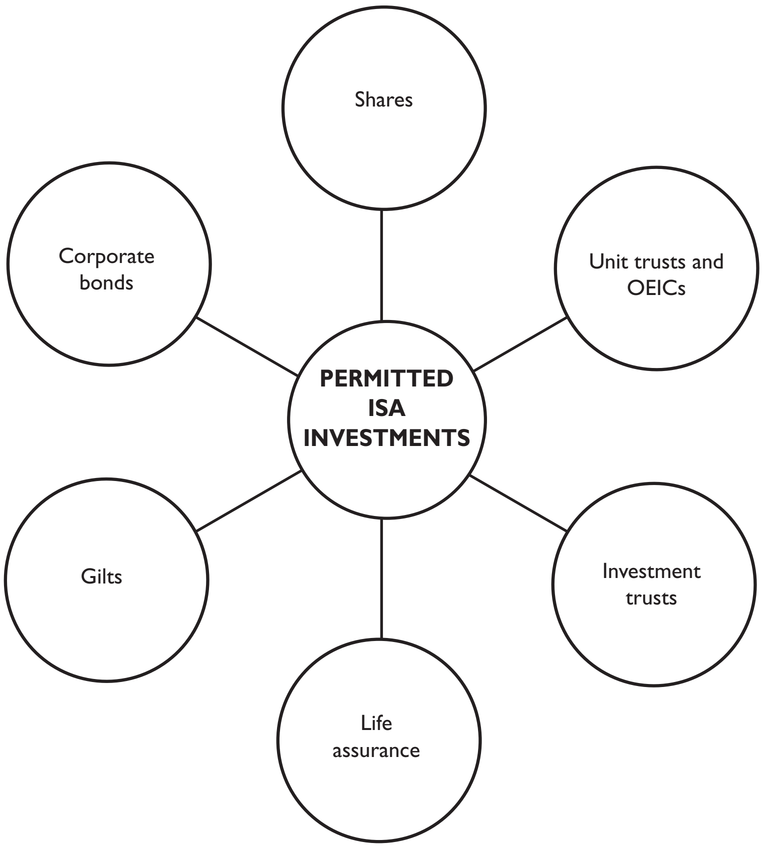
22.1.1 Standard ISA

The standard ISA is available to those who meet the minimum age requirement.

Stocks and shares ISAs

Stocks and shares ISAs are available to UK residents aged 18 or over. They carry the same level of risk as the underlying shares, unit trusts, OEICs or investment trusts. Figure 22.2 summarises the types of investment that can be included in an ISA.

FIGURE 22.2 PERMITTED INVESTMENTS



The annual limit applies to total investment made in a tax year. Unless the product is categorised as a flexible ISA, as explained below, the ISA holder cannot withdraw money from the ISA and then 'replace' it later in the tax year unless they have sufficient unused ISA subscription available.

Cash ISA

The cash ISA is available to those aged 18 or older. It involves investment in savings accounts, fixed interest or cash unit trusts, and open-ended investment companies, including some NS&I products. Other than relatively short-term saving for a deposit, the cash ISA is of limited value in relation to mortgages, given that capital growth is limited by the nature of the underlying assets.

Flexibility

Changes to ISA rules in 2016 allow providers to offer 'flexible' ISAs, although they are not obliged to do so. The key elements of a flexible ISA are:

- They can be cash, stocks and shares or innovative finance ISAs. Help to Buy and Lifetime ISAs cannot be flexible ISAs, and some ISAs, such as those offering fixed rates or bonuses, are likely to have penalties for withdrawal and will not be flexible.
- The flexibility only applies to cash held in the ISA. In the case of stocks and shares ISAs, this means cash held in the account, dividends received and the proceeds of selling investments.
- The ISA holder can withdraw cash held in the account and then re-invest it in the same tax year without the re-investment counting as part of that tax year's ISA contribution allowance. Cash withdrawn can be from investments made in previous tax years.
- Re-investment must be into the same account and must be made in the same tax year as the withdrawal.
- For example, James fully funded his ISA for this year. Later in the same tax year he withdrew £3,000 cash held in the account. Before the end of the tax year, he had sufficient cash available to pay £3,000 back into his ISA. Even though the total paid into the ISA in the tax year was £3,000 above the annual limit, the new payment was permitted because he had withdrawn cash and then replaced it within the same tax year.

22.1.2 What is the Help to Buy ISA?

The Help to Buy ISA is designed to help first-time property buyers accumulate money for their purchase, with the help of a government incentive. Applications for the Help to Buy ISA could be made from 1 December 2015 to 30 November 2019. Anyone who opened an account within those dates will be able to continue funding it until November 2029 if needed. Holders then have until November 2030 to buy a property and claim the bonus.

- **Providers** – the accounts are cash accounts available through participating banks and building societies, with the interest rate set by the provider. Once started, a Help to Buy ISA can be transferred to another provider.
- **Other ISAs** – each individual can only have one Help to Buy ISA. Contributing to a Help to Buy ISA does not prevent the individual from contributing to other ISAs within the annual ISA allowance.
- **Tax treatment** – interest and the government bonus is tax free.
- **Property price** – the account can be used to save a deposit for property purchases up to £450,000 in London and £250,000 elsewhere.

- **Monthly limits** – savers can deposit up to £1,200 in the first month (it does not have to be in one payment) and then between £1 and £200 a month after that.
- **Withdrawals** – money can be withdrawn at any time without penalty, but the bonus is only payable if the money is used to buy a property.
- **Government bonus** – the government will add a bonus equal to 25 per cent of the total amount saved, plus interest earned, with a maximum bonus of £3,000 per person.
- **Bonus threshold** – the minimum government bonus that can be paid is £400 per person, which means that the account holder must have at least £1,600 saved in order to receive a bonus.
- **Purchase deadline** – the government bonus is paid to the buyer's conveyancer ready for completion, subject to a deadline of 1 December 2030. This contrasts with the Lifetime ISA, where the bonus can be paid at exchange of contracts to form part of the deposit.
- **Death of the ISA holder** – if the Help to Buy ISA holder dies, the account will close and no bonus is payable. A surviving spouse could claim the additional permitted subscription (refer to the box in section 22.1.3 on what happens when an ISA holder dies).

22.1.3 What is the Lifetime ISA?

The Lifetime ISA became available from 6 April 2017 and is designed to help those saving for retirement or to purchase their first property. Like the Help to Buy ISA, it forms part of the overall annual ISA allowance and can run alongside a Help to Buy ISA.

- **Eligibility** – UK resident individuals (not joint accounts) aged between 18 and 39 when the account is opened. Contributions can be made up to the day before the investor's fiftieth birthday.
- **Limits** – up to £4,000 can be paid in each tax year and invested in the full range of permitted ISA investments. The Lifetime ISA contributions are part of the overall ISA limit, which means that the saver could pay the balance of their ISA allowance into other ISAs, including a stocks and shares ISA.
- **Government bonus** – the government credits a 25 per cent bonus on the annual contributions (not the fund value) each year, up to a maximum £1,000 per annum. The bonus is paid monthly.
- **Access to fund at age 60** – the ISA is designed to run until the saver reaches the age of 60 (or buys their first property), at which point money can be withdrawn without penalty. If funds are withdrawn before the age of 60 for any reason other than serious ill-health or buying a first property, a 25 per cent penalty will apply to the amount withdrawn, including growth.

20 per cent of the penalty represents a return of the bonuses to date (plus any growth or minus any loss), with a further 5 per cent as a penalty.

EXAMPLE

Assuming no investment growth, a £4,000 contribution would attract a £1,000 bonus, giving a fund value of £5,000. If the ISA holder withdrew the funds early, a penalty of £1,250 (25 per cent of the funds withdrawn) would apply. This equates to the original bonus of £1,000 plus a further £250 (5 per cent of the withdrawal) – effectively a penalty for early withdrawal. Clearly, if the fund had grown, the penalty would have been higher.

- **Access for property purchase** – once the ISA has run for 12 months, the saver can access the fund (including bonuses) before the age of 60 to buy their first property. The property must be a first home, in the UK and worth up to £450,000 and, unlike the Help to Buy ISA, the fund can be released to provide a deposit at exchange of contracts. If the sale falls through, the money can be repaid to the account without affecting the year's contribution limit.
- **Death of the ISA holder** – if the investor dies before withdrawing the fund, the ISA wrapper is removed and the fund becomes part of their estate. No withdrawal penalty would be applied, and a surviving spouse could claim the additional permitted subscription (please refer to the upcoming box on what happens when an ISA holder dies).
- **Interaction with the Help to Buy ISA** – It is possible to transfer a Help to Buy ISA to a Lifetime ISA, counting towards the year's Lifetime ISA limit. Alternatively, the planholder can continue to pay into the Help to Buy ISA, or contribute to both a Lifetime ISA and their Help to Buy ISA. If contributions are made to both, only the bonuses from one plan can be used to buy a property. If the Help to Buy bonus is claimed to buy a property, the Lifetime ISA bonus can be claimed when the investor reaches the age of 60.

WHAT HAPPENS WHEN AN ISA HOLDER DIES?

ISA funds continue to retain tax advantages until the earlier of completion of administration of the deceased's estate, closure of the ISA or three years from the date of death, although the ISA forms part of the estate for inheritance tax purposes. During this period, the ISA is referred to as a 'continuing account of a deceased investor', often abbreviated to a 'continuing ISA'.

The surviving spouse or civil partner can claim an 'additional permitted subscription' (APS). This allows their own ISA allowance to be increased by the higher of the value of the deceased's ISA fund at the time of their death or its value when the allowance is claimed. The APS allowance must be claimed by the surviving spouse and is available until the later of three years after the date of death or 180 days after administration of the estate is complete. As a result of a successful claim, their own ISA allowance for the relevant tax year will be increased by the APS.

The APS applies even if the original ISA holder left their ISA assets to someone else.

If someone other than the spouse or civil partner inherits the assets, the ISA tax wrapper is removed from their legacy and the assets become subject to income and capital gains taxes as with any other investment. The additional allowance applies only to a spouse or civil partner.

EXAMPLE: DEATH OF AN ISA HOLDER

Nadira died leaving an ISA fund of £50,000 to her grandchildren. Nadira's wife Lori would be able to claim an APS of £50,000, even though she did not inherit the money.

The ISA would remain tax free until the earlier of:

- completion of administration of Nadira's estate;
- closure of the ISA; or
- three years from Nadira's death.

When the ISA is passed to her grandchildren, the tax 'wrapper' will be removed, and any future income or gains will be taxable in their hands.

TABLE 22.1 ADVANTAGES AND DISADVANTAGES OF ISA MORTGAGES

Advantages	Disadvantages
▪ No liability to income tax or capital gains – final value will be higher than same investment outside an ISA	▪ No guarantee fund will be sufficient to fully repay mortgage
▪ A number of investment products can be held in an ISA	▪ No life cover included – must be arranged separately
▪ Flexibility – no contractual term, so contributions can be regular or single, can be varied and no penalties for early closure or encashment	▪ ISAs are as risky as the underlying investments
▪ ISA benefits from all the advantages of the underlying investment	▪ Investment limits might not be sufficient for very large or short-term mortgages
▪ Withdrawals can be made at any time – no impact on the tax-free status	▪ The fund value could affect eligibility for means-tested benefits
▪ If the investment performs well, there could be a chance of paying off the mortgage early	
▪ No limit on total value of ISA holdings	

22.2 How are unit trusts and open-ended investment companies used for mortgage repayment?

It is possible to use unit trusts and open-ended investment companies (OEICs) as mortgage repayment vehicles. However, since both these vehicles can be held within an ISA, it is more tax efficient, and more common, for them to be used as part of an ISA repayment 'package' as a stocks and shares ISA permitted investment.

CHECK YOUR UNDERSTANDING 2

Again, you should be familiar with unit trusts and OEICs from your studies for UK Financial Regulation, so we will refresh the basics and then look at them in relation to mortgages. Refer back to your earlier studies if necessary.

22.2.1 Unit trusts and OEICs – the basics

Unit trusts and OEICs are pooled (or collective) investments, with investments made via regular payments or single lump sums. Both types of investment fund are open-ended, which means that there is no limit on the number of units or shares that can be issued. Unit trust funds are managed by a fund manager and an OEIC fund is managed by the authorised corporate director (ACD). The manager/ACD can create them to meet demand and must buy back units or shares from investors who want to cash in their investment.

Unit trusts sell units to investors and OEICs sell shares, although there is little practical difference between the two methodologies. In simple terms, the fund value is divided by the number of units or shares to calculate the value of each individual unit or share. For example, if the fund is worth £1m and there are £1m units or shares, each is worth £1 at that time. Funds, and therefore units or shares, are valued daily and, as with any investment, prices can fluctuate.

There are technical differences between unit trusts and OEICs, but in practical terms they operate in much the same way, so much so that the Investment Association puts the 3,000 plus unit trust and OEIC funds available in the UK into the same categories and performance tables.

The funds in both arrangements are held by a third party to protect investors' interests, and both are subject to regulation by the PRA and the FCA to provide investor protection.

Unit trusts and OEICs can be actively managed, where the manager reviews, assesses and changes the fund investments on a regular basis, or passively managed (trackers), where the fund tracks a benchmark, such as the FTSE 100. The manager of a tracker fund ensures that the fund's assets are representative of the benchmark in terms of its constituents and weightings, but does not make day to day investment decisions.

Unit trust and OEICs are subject to charges, the principal of these being the initial charge and the annual management charge.

Taxation of unit trusts and OEICs depends on the nature of the underlying investments. If the fund is share based, income may be paid out as dividends, which will be subject to the income tax regime for dividends, including the availability of the annual dividend allowance.

If the fund has more than 60 per cent of its money in cash and fixed interest investments, income paid out is regarded as interest and is paid without tax deducted at source. Distributions are taxed under the savings regime as interest, including the availability of the personal savings allowance.

The fund itself is exempt from capital gains tax, but the investor's gains on disposal are subject to capital gains tax.

22.3 How can a pension be used as a mortgage repayment vehicle?

Historically, a pension mortgage was a mortgage arranged on an interest-only basis, with the tax-free lump sum from the pension providing the capital to repay the mortgage and the balance of the fund used to provide an income for life. New pension freedoms have given planholders more flexibility in the way they can take their benefits and the amount of cash they can take, which may make a pension an attractive repayment proposition in certain circumstances. However, as we will see, there are many points to consider before making such a decision.

You should be familiar with pensions from your studies for UK Financial Regulation. We will refresh the basics and then look in more detail at those factors that are important for pension mortgages. Refer back to your earlier studies if necessary.

Personal pensions, stakeholder pensions and Self Invested Personal Pensions (SIPPs) are 'defined-contribution' pension schemes. For the purposes of this text we will use the term 'personal pension' in reference to these schemes. It is also possible to use benefits from an employer's defined-benefit pension scheme, also known as a 'final salary' or career average scheme. A pension plan can be arranged by, or for, any person under the age of 75 who is resident in the UK.

CHECK YOUR UNDERSTANDING 3

From your studies for UK Financial Regulation, can you recall the key difference between a defined-benefit and a defined-contribution scheme?

22.3.1 Contributions, tax relief and allowances

TABLE 22.2 CONTRIBUTION LIMITS AND TAX RELIEF

Contribution limit	Subject to earnings, annual and lifetime allowances
Tax relief limit on personal contributions	£3,600 or the individual's earned income for the year if higher, subject to the annual allowance
Annual allowance (ie maximum for tax relief)	There is a limit on the amount of annual contributions that qualify for tax relief, which can change in a Budget
Tax treatment of contributions	Paid net of basic-rate tax Higher- and additional-rate taxpayers can claim the difference between the basic rate and their marginal rate of tax via self-assessment

PENSION TAX RELIEF IN SCOTLAND

The Scottish government has devolved powers to set the rate of income tax applicable to earned income (not savings or dividend income) for Scottish tax residents. This means that the rate of pension income tax relief may be different for some Scottish taxpayers, depending on the rate of income tax they pay.

Although the rates are set by the Scottish government, tax is collected by HMRC with relevant amounts then paid to the Scottish government, which has resulted in complications. A temporary scheme is in place until consultations with relevant stakeholders are completed to establish a permanent system.

Scottish taxpayers continue to receive tax relief at the UK basic rate, even if they pay the lower starter rate. Where the individual pays more than the basic rate of income tax, they can claim the difference between the rate they paid and the basic rate via self-assessment.

The most that an individual can contribute to pensions in a tax year and receive tax relief on the full amount is £3,600 or their earned income if higher.

If they pay more than their earned income they will not receive tax relief on the excess.

An individual's employer can pay into an employee's pension and receive tax relief by claiming it as a business expense. If the combined payment from employer and employee is more than the annual allowance, the employee will have to pay tax at their highest income tax rate on the excess above the allowance. In effect, the excess will be treated as additional income and taxed accordingly.

Contributions to an occupational pension scheme are paid through the 'net pay' arrangement. Contributions are deducted from gross pay before tax. Contributions from an employer are paid gross, and the employer can set the contribution against the business's income as a business expense.

It may also be possible to carry forward unused allowances from the previous three tax years to use in the current year.

Tapered annual allowance

A tapered annual allowance applies to someone who has both:

- **threshold income** exceeding a certain limit – threshold income is total income less personal gross contributions to registered pension schemes; and
- **adjusted income** exceeding a certain limit – adjusted income is total income plus any employer contributions to a registered pension scheme.

The taper reduces the annual allowance by £1 for every £2 of adjustable income above the threshold income limit, subject to a specified minimum annual allowance.

Money purchase annual allowance

Once a pension planholder starts to take benefits using flexi-access drawdown or uncrystallised pension fund lump sum arrangements (see section 22.3.2 below), the money purchase annual allowance applies. This means that, for tax relief purposes, they can contribute a much smaller annual amount into a defined-contribution (eg personal pension) scheme each year without a tax charge. However, the balance of the annual allowance can still be used to fund an occupational pension scheme if they are a member.

IN BRIEF

THE LIFETIME ALLOWANCE

- The lifetime allowance (LTA) was the maximum amount that could be held in pension funds by an individual at the point when they took benefits.
- It was usually index-linked each year, but the base allowance was reduced over time.
- If the fund exceeded the LTA on taking the benefits, there was a tax charge on the excess if taken as a lump sum or as income.
- The LTA was abolished with effect from 6 April 2024, although a notional LTA remains in place for the calculation of the maximum tax-free lump sum.

22.3.2 Pension benefits

It is not necessary to retire in order to start taking benefits from a personal pension. A planholder aged 55 or older can take benefits and continue working if they wish. The minimum age from 2028 will be set at ten years below the state pension age, so when the state pension age increases to 67 in 2028, the minimum age for taking pension benefits will increase to 57. The state pension age will increase in line with life expectancy from that date. When benefits are drawn, the scheme member can usually take up to 25 per cent of the fund as a tax-free cash sum, known as a pension commencement lump sum (PCLS).

Modern pension plans allow parts of the fund to be crystallised separately. This means that, subject to the provider's systems functionality, each of the benefit options outlined below can be used with part of the fund, allowing the benefits to be phased in over time, or all three options can be applied to the whole fund.

There are three options for those wishing to take benefits:

- uncrystallised funds pension lump sum;
- flexi-access drawdown;
- annuity.

Uncrystallised funds pension lump sum (UFPLS)

The planholder can take the entire fund as a single lump sum or a series of smaller lump sums. Twenty-five per cent of each lump sum is tax-free, with the remainder added to the planholder's income for that tax year and subject to income tax.

This may be tempting for those who wish to pay off a mortgage, but only 25 per cent of the amount withdrawn will be tax free; 75 per cent will be taxed as income in the same way as earned income. So, if 75 per cent of the withdrawal kept the planholder in the basic-rate tax band when added to their existing income, they would pay basic-rate tax on it. If 75 per cent of the withdrawal took them above the higher-rate threshold, they would pay basic-rate tax on the amount within the basic-rate band, higher-rate tax on the part above the higher-rate threshold and additional-rate tax on the amount above the additional-rate threshold.

In terms of mortgage repayment, this is unlikely to be the most efficient way to provide the required lump sum, because only 25 per cent of each lump sum taken is tax-free.

Flexi-access drawdown (FAD)

The planholder can take 25 per cent of the fund as a tax-free lump sum and then take an income (known as 'drawdown') from the balance of the fund. The income is taxable in the same way as earned income. The income can be stopped and started as required and there is no minimum or maximum amount required. The income is taken directly from the fund, which remains invested. It is also possible to take the full 25 per cent tax-free cash at the start and delay taking the income until a later date.

In terms of mortgage repayment, this is likely to be the most efficient method of providing the required lump sum.

Annuity

The planholder can take the tax-free cash and then use the balance of the fund to purchase an annuity. The annuity will provide an income for life, and can be:

- fixed; or
- escalating by a set percentage each year or with inflation; or
- investment-linked (with-profits and unit-linked).

It is also possible to arrange an annuity that provides a reducing income (designed for those who need extra income earlier in retirement), or one that runs for a defined term rather than for life.

Joint-life annuities continue to pay a spouse or dependant an income on the death of the annuity holder, typically between 50 and 100 per cent of the original annuitant's income for the rest of their life.

22.3.3 Death benefits

Death before age 75

If a planholder dies before the age of 75, the remaining fund can pass to their chosen beneficiaries (who do not have to be dependants). Beneficiaries can then take the fund as a lump sum, take income withdrawals or buy an annuity – all tax-free.

Income from joint life and guaranteed annuities that started payment on or after 6 April 2015 is tax-free when paid to the survivor or a beneficiary. However, those that were in payment before 6 April 2015 are taxed as the beneficiary's income.

Death at or after age 75

If the individual dies after reaching the age of 75, beneficiaries can take the fund as a lump sum, take income withdrawals or buy an annuity – all of these will be taxed at the beneficiary's marginal tax rate. Income from joint life and guaranteed annuities will be taxed at the survivor or beneficiary's marginal rate.

TABLE 22.3 ADVANTAGES AND DISADVANTAGES OF A PENSION MORTGAGE

Advantages	Disadvantages
▪ Tax relief on contributions, tax-free lump sum, tax-free fund growth ▪ Wide fund choice ▪ Choice in how benefits are taken ▪ Flexible income options ▪ Fund is free from inheritance tax and can be passed to beneficiaries tax-free on death before age 75 or at the beneficiaries' marginal rate on death at or after age 75	▪ Limits on contributions for tax relief ▪ No guarantee of final fund value ▪ Taking funds to repay the mortgage will result in a lower pension being received ▪ Funds are locked in until at least age 55* – this may result in a term longer than 25 years for younger borrowers. *57 from 2028 ▪ Taking more than 25 per cent of the fund will result in an increased tax bill ▪ Until April 2024, the amount an individual could hold in pension funds when taking benefits was limited by the LTA. A penalty applied when benefits were taken from funds above that allowance. From April 2024, the LTA no longer applied, although there is a maximum amount of tax-free cash available

THINK AGAIN . . .

Now that you have completed this topic, how has your knowledge and understanding improved?

For instance, can you:

- outline the key features of the Help to Buy ISA and the Lifetime ISA?
- summarise the advantages and disadvantages of using an ISA for mortgage repayment?
- explain the main similarities and differences between unit trusts and OEICs?
- explain how a pension fund can be used to repay a mortgage?
- discuss the methods of the different approaches to pension drawdown?

Go back over any points you don't understand and make notes to help you revise.

Test your knowledge before moving on to the next topic.

Test your knowledge

?

Use these questions to assess your learning for Topic 22. Review the text if necessary.

Answers can be found at the end of this book.

1) A couple wishing to arrange an interest-only mortgage can arrange a joint ISA as the repayment vehicle. True or false?

2) An individual cannot contribute to both a cash ISA and a Help to Buy ISA in a tax year. True or false?

3) A Help to Buy ISA saver will need a minimum of £1,600 in the account to earn a bonus. True or false?

4) For a Lifetime ISA:

   a) applicants must be under 50 to open an account.

   b) the maximum annual bonus is £1,000.

   c) a 20 per cent early withdrawal penalty applies before age 60.

   d) there is no limit on the price of a property purchased using the scheme.

5) Which of the following is true in relation to personal pensions?

   a) Individuals can pay in to a defined-benefit pension or a defined-contribution pension, but not both.

   b) An individual using flexi-access drawdown must take the available tax-free cash in instalments.

   c) It is possible to take the maximum tax-free cash and delay taking an income until later.

6) Tanya is self-employed and wants to make a pension contribution that exceeds her earned income for the year by £5,000, but is below the annual allowance. The excess will be subject to a tax penalty. True or false?

7) Jane, aged 28, wishes to arrange an interest-only mortgage, which she intends to pay off by the age of 53, although she would like to do so earlier if she has sufficient funds. She will be able to make regular contributions to a repayment vehicle but also intends to make additional payments from her quarterly bonus scheme when she feels able to do so. Other than a savings account for her deposit, she has no other

investments. Which of the following products would best meet her needs as a repayment vehicle?

a) A stocks and shares ISA.

b) A with-profits endowment.

c) A personal pension.

d) A unit trust.

8) Kevin is a basic-rate taxpayer and has a pension fund of £500,000 and an interest-only mortgage of £150,000. What is the maximum amount of cash he could take from his pension without potentially incurring a tax bill?

a) £125,000.

b) £150,000.

c) £200,000.

d) £500,000.