QUALIFIED FINANCIAL ADVISER (QFA) PENSIONS EXAM 1 PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

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How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

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Questions

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1. How does salary sacrifice interact with pension contributions?

A. Employee reduces salary in exchange for additional employer pension contributions, often with tax advantages.

B. Employee increases salary to fund higher pension contributions.

C. Employer contributions are reduced in proportion to salary increases during sacrifice.

D. It has no impact on tax or pension contributions.

2. What is GMP and why is it important in pension planning?

A. Guaranteed Minimum Pension is a type of investment product.

B. Guaranteed Minimum Pension historically promised to some groups; affects benefit calculations, transfer decisions, and guarantees.

C. GMP stands for General Market Pension.

D. GMP is the maximum pension payable under a scheme.

3. What is a target date fund?

A. A fund with a fixed allocation that does not change

B. A fund that automatically shifts asset allocation toward more conservative investments as retirement date approaches

C. A fund that invests only in cash

D. A fund that focuses on high-growth small-cap stocks

4. What happens if the lifetime allowance is exceeded?

A. There is no tax relief on any further contributions.

B. The lifetime allowance is automatically reset for the following year.

C. The excess is carried forward to the next year for relief.

D. A tax charge is payable on the excess over the lifetime allowance.

5. What are the MAXIMUM permitted charges which can be levied on a Standard PRSA?

A. 1% of each contribution, and 1% of the fund value per annum

B. 1% of each contribution, and 5% of the fund value per annum

C. 5% of each contribution, and 1% of the fund value per annum

D. 5% of each contribution, and 5% of the fund value per annum

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6. What constitutes a crystallisation event?

A. The retirement date is reached.

B. Making a new contribution to the plan.

C. Using part of the pension fund to provide income or a lump sum, triggering potential tax consequences.

D. Changing investment strategy within the fund.

7. Which method must be used to calculate Christina's final remuneration for maximum approvable retirement benefits in a defined benefit scheme?

A. The annual rate of remuneration payable at retirement date

B. Basic remuneration over the last 12 months prior to retirement, plus the average of fluctuating emoluments over the last five years

C. Average of total emoluments over the last five consecutive years prior to retirement

D. Average of total emoluments over three or more consecutive years, ending no earlier than 10 years before retirement

8. In relation to a Pension Adjustment Order (PAO), contingent benefits include:

A. retirement benefits only

B. death-in-service and retirement benefits only

C. death-in-service benefits only

D. death-in-service, ill health and retirement benefits

9. Under a flexi-access drawdown arrangement, which statement is true?

A. You can withdraw only once and then the fund is exhausted.

B. You are forced to convert the entire pot into an annuity immediately.

C. You can withdraw from the pension pot flexibly while keeping funds invested.

D. You must liquidate the pot at retirement.

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10. What is the fundamental difference between a defined benefit pension and a defined contribution pension?

A. Defined benefit promises a guaranteed retirement income based on accrual and service; defined contribution builds a fund from contributions and investment returns, with retirement income dependent on the fund value.

B. Defined benefit guarantees a fixed annual payment never varies, regardless of service; defined contribution uses a pre-set annual pension amount.

C. Defined benefit is funded entirely by the employer; defined contribution only uses employee contributions.

D. Defined benefit uses employee investment choices; defined contribution guarantees retirement income from a formula.

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Answers

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1. A
2. B
3. B
4. D
5. C
6. C
7. D
8. D
9. C
10. A

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Explanations

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1. How does salary sacrifice interact with pension contributions?

A. Employee reduces salary in exchange for additional employer pension contributions, often with tax advantages.

B. Employee increases salary to fund higher pension contributions.

C. Employer contributions are reduced in proportion to salary increases during sacrifice.

D. It has no impact on tax or pension contributions.

Salary sacrifice is an arrangement where you give up part of your gross pay in exchange for extra employer pension contributions. Because the salary is reduced, you pay less income tax and employee national insurance on the reduced amount, while the employer adds the sacrificed amount to your pension. The result is a larger pension fund funded by the employer, often with tax advantages for you and potential NI savings for the employer. In short, you trade some take home pay for higher employer pension contributions, with tax relief built in.

2. What is GMP and why is it important in pension planning?

A. Guaranteed Minimum Pension is a type of investment product.

B. Guaranteed Minimum Pension historically promised to some groups; affects benefit calculations, transfer decisions, and guarantees.

C. GMP stands for General Market Pension.

D. GMP is the maximum pension payable under a scheme.

GMP stands for Guaranteed Minimum Pension. It originated as a minimum level of pension that defined benefit schemes had to promise for service earned when the member was contracted out of the state pension system. Because of this, GMP is a distinct part of a pension benefit with its own rules for accrual and increases, and it often needs to be preserved or carefully considered in transfers between schemes. In pension planning, this matters because the GMP portion can affect transfer values and whether benefits are guaranteed, as well as how benefit calculations are carried out when comparing schemes or deciding on retirement timing. The other options miss the point: it isn't an investment product, it isn't a general market pension, and it isn't a maximum pension payable.

3. What is a target date fund?

A. A fund with a fixed allocation that does not change

B. A fund that automatically shifts asset allocation toward more conservative investments as retirement date approaches

C. A fund that invests only in cash

D. A fund that focuses on high-growth small-cap stocks

A target date fund uses a glide path to align risk with your retirement timeline. It starts with a relatively higher allocation to stocks for growth, and automatically shifts toward more conservative investments like bonds and cash as the target retirement date nears. This rebalancing happens on a pre-set schedule, so the fund gradually reduces volatility as you approach and enter retirement. This is different from a fund with a fixed allocation that never changes, a cash-only fund, or a fund concentrating on high-growth small-cap stocks. The target date fund's automatic shift toward fixed income as the date approaches is what defines it.

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4. What happens if the lifetime allowance is exceeded?

A. There is no tax relief on any further contributions.

B. The lifetime allowance is automatically reset for the following year.

C. The excess is carried forward to the next year for relief.

D. A tax charge is payable on the excess over the lifetime allowance.

The lifetime allowance sets a cap on the total value of your pension benefits that can be taken without a tax charge. If the value of benefits crystallised (taken or tested) exceeds this cap, the excess is taxed. The charge is payable on the excess and reduces the amount you ultimately receive. This isn't reset next year, nor can any excess be carried forward for relief in future years. There isn't automatic relief for future contributions to offset the excess.

5. What are the MAXIMUM permitted charges which can be levied on a Standard PRSA?

A. 1% of each contribution, and 1% of the fund value per annum

B. 1% of each contribution, and 5% of the fund value per annum

C. 5% of each contribution, and 1% of the fund value per annum

D. 5% of each contribution, and 5% of the fund value per annum

The charges on a Standard PRSA are built from two parts: a charge when you contribute and an ongoing charge based on the fund value. The rules cap these at 5% of each contribution and 1% of the fund value per year. That means you could face up to 5% upfront from each contribution, and up to 1% each year on the value of the fund. These limits are designed to protect savers by limiting how much is taken at the start and how much is taken annually, preserving more for growth over time. Providers can charge less, and the annual charge is applied to the current fund value, so it moves with the fund.

6. What constitutes a crystallisation event?

A. The retirement date is reached.

B. Making a new contribution to the plan.

C. Using part of the pension fund to provide income or a lump sum, triggering potential tax consequences.

D. Changing investment strategy within the fund.

Crystallisation happens when part of a pension fund is unlocked to provide benefits and, with that access, tax rules apply. It occurs when you start taking money from the fund—either as a regular pension income or as a lump sum. Once crystallised, the portion of the fund accessed is taxed under the relevant rules, and any tax-free cash and remainder may be treated differently for tax purposes. That's why using part of the pension fund to provide income or a lump sum—and thereby triggering potential tax consequences—is the correct choice. Reaching a set retirement date without actually taking benefits doesn't automatically crystallise the fund, and making a new contribution or changing investment strategy inside the fund does not in itself crystallise benefits.

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7. Which method must be used to calculate Christina's final remuneration for maximum approvable retirement benefits in a defined benefit scheme?

A. The annual rate of remuneration payable at retirement date

B. Basic remuneration over the last 12 months prior to retirement, plus the average of fluctuating emoluments over the last five years

C. Average of total emoluments over the last five consecutive years prior to retirement

D. Average of total emoluments over three or more consecutive years, ending no earlier than 10 years before retirement

In defined benefit schemes, the pension amount is typically based on an average of the member's total emoluments over a period of consecutive years, chosen within a defined window before retirement. This approach smooths out year-to-year pay changes and allows selecting a period that yields the highest reasonable average. The best option fits exactly: take the average of total emoluments over at least three consecutive years, with the averaging period ending no earlier than 10 years before retirement. This setup lets you pick any eligible consecutive block within the last ten years before retirement to maximize the final remuneration used for the pension. Other approaches fix a specific window (such as the last year, or the last five years immediately before retirement) or mix different pay components in a way that isn't aligned with the maximum-approved method of using a flexible, at-least-three-years window within the 10-year look-back. Thus, the flexible three-or-more-year average that ends within the last ten years before retirement best achieves the maximum allowable final remuneration.

8. In relation to a Pension Adjustment Order (PAO), contingent benefits include:

A. retirement benefits only

B. death-in-service and retirement benefits only

C. death-in-service benefits only

D. death-in-service, ill health and retirement benefits

Contingent benefits are payments that only become payable if a specific event occurs. In a Pension Adjustment Order, these benefits can be included because they depend on events after the member's service begins. The main events are death while in service, ill health leading to retirement, and reaching retirement age. Therefore, death-in-service, ill health retirement, and retirement benefits all fall under contingent benefits. This is why the best answer includes all three categories. The other options omit one or more of these contingent payments, so they don't fully capture what may be treated as contingent benefits under a PAO.

9. Under a flexi-access drawdown arrangement, which statement is true?

A. You can withdraw only once and then the fund is exhausted.

B. You are forced to convert the entire pot into an annuity immediately.

C. You can withdraw from the pension pot flexibly while keeping funds invested.

D. You must liquidate the pot at retirement.

Flexi-access drawdown lets you access your defined contribution pension pot in flexible amounts over time, while the remaining funds stay invested. This means you can take withdrawals as needed to meet income, and the rest continues to be invested for potential growth (subject to investment risk and charges). You're not forced to take the entire pot in one go, do not have to convert everything into an annuity immediately, and you don't have to liquidate the pot at retirement. The other descriptions imply one-off withdrawals, mandatory annuitisation, or full liquidation, which don't fit how flexi-access drawdown works.

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10. What is the fundamental difference between a defined benefit pension and a defined contribution pension?

A. Defined benefit promises a guaranteed retirement income based on accrual and service; defined contribution builds a fund from contributions and investment returns, with retirement income dependent on the fund value.

B. Defined benefit guarantees a fixed annual payment never varies, regardless of service; defined contribution uses a pre-set annual pension amount.

C. Defined benefit is funded entirely by the employer; defined contribution only uses employee contributions.

D. Defined benefit uses employee investment choices; defined contribution guarantees retirement income from a formula.

The key difference is how retirement income is determined and who bears the risk. In a defined benefit plan, the retirement income is guaranteed by the pension scheme and is calculated using a formula that typically depends on your years of service and your final or average salary (accrual). This means the employer (or the scheme) promises a specific level of income for life, so investment risk and longevity risk are borne by the plan sponsor. In a defined contribution plan, contributions are paid into a fund, and the eventual retirement income depends on how much is in the fund and how the investments perform. Here, the member bears the investment risk and longevity risk, and there is no guaranteed payout—the income depends on the fund value at retirement. So the correct description captures that a defined benefit plan provides a guaranteed, formula-based income based on service and salary, while a defined contribution plan builds a fund from contributions and investment returns, with retirement income determined by the fund value. The other statements either misstate the guarantee, who bears risk, or how the plans are funded.

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Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://qfapensions1.examzify.com

We wish you the very best on your exam journey. You've got this!

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