



THE CHARTERED INSURANCE INSTITUTE

MONDAY 19 APRIL 2010

CERTIFICATE IN FINANCIAL PLANNING  
PAPER 5—INTEGRATED FINANCIAL PLANNING

SPECIAL NOTICE

All questions in this paper are based on English law and practice applicable in the tax year 2009/2010. Candidates should answer based on the legislative position BEFORE the 2010 budget.

INSTRUCTIONS

- Two hours are allowed for this paper.
- Read the instructions overleaf carefully before answering any questions.
- Fill in the information requested on the answer book and form B.
- If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements and you must enter the serial number, model and make on the form B.
- You are allowed to write on the inside pages of this question paper but you must hand it in at the end of the examination.
- The answer book and this question paper **must both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

CANDIDATE'S NAME (Block Capitals).....

CANDIDATE'S SIGNATURE.....

PERMANENT IDENTITY NUMBER.....

DATE .....

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**THE CHARTERED INSURANCE INSTITUTE**

**Paper 5 – Integrated Financial Planning**

**CANDIDATE INSTRUCTIONS**

**READ THE INSTRUCTIONS BELOW BEFORE ANSWERING ANY QUESTIONS**

The question paper consists of **two** questions. You should answer **both** questions in the answer book. Read the questions and information provided carefully. The time allowed for the examination is 2 hours. You are advised to spend approximately 60 minutes on each question. You are strongly advised to attempt **all** parts of each question in order to gain maximum possible marks for each question. The number of marks allocated to each question part is given next to the question.

Any rough notes made in your answer book must be crossed through before you hand it in.

You have been provided with a **Product List** on pages 8 to 11 which you should use when answering **question 2**. You may also find it helpful to use the **tax guides** on pages 12 to 13 when answering both questions.

Answer each question on a new page and leave six lines blank after each question part.

It is important to **show all steps in a calculation**, even if you have used a calculator.

Please ensure that you understand the Special Notice printed in the box on the front page.

***Subject to providing sufficient detail, you are advised to be as brief and concise as possible, using note format and short sentences on separate lines wherever possible.***

## ATTEMPT ALL QUESTIONS

TIME: 2 hours

You are advised to spend no more than approximately:

60 minutes on Question 1

60 minutes on Question 2

You are advised to take into account the number of marks allocated to each question part when deciding how long to spend on each part.

### Question 1

You are authorised to conduct business under the Financial Services and Markets Act (FSMA) 2000 and are qualified to provide financial advice. The information provided is accurate and adequate for the purpose of these questions.

Read the following carefully, then carry out **ALL** tasks (a), (b), (c) and (d) which follow.

#### INFORMATION

George and Susan Bancroft, both aged 41, are married. They have a daughter Emily, aged 11.

George and Susan have an endowment policy for £120,000 which has 15 years left to run. Their house is valued at £220,000. Apart from the endowment policy they have no other protection products. Their outstanding mortgage balance is £120,000 and they intend to use the endowment to repay the mortgage at maturity.

George works for the local authority earning £32,000 per annum. He is a member of his employer's final salary pension scheme. Susan is self-employed, providing bookkeeping services. Her business is successful and she will earn £50,000 in the current tax year. Prior to becoming self-employed, Susan worked for an accountancy firm and was a member of their final salary pension scheme. Susan has been paying £200 per month, net, into a personal pension for the last three years.

George and Susan want to financially support Emily through university. They are prepared to accept the risk of investing in equities and would prefer to save regularly rather than invest a series of lump sums. George has read about ISA tracker funds and would like to know more about them, as he is wondering whether these may be suitable for this university funding.

Despite running a successful business, Susan's income is inconsistent and she is concerned that a serious illness or accident would prevent her working, which would result in a loss of income and would have an immediate effect on their ability to pay the mortgage. Her bank manager has suggested that she takes out an accident, sickness and unemployment (ASU) policy. However, she has read about income protection policies (PHI) and is not sure which would be the best for her and would like advice on this.

## Questions

- (a) (i) List the typical pension-related benefits Susan would have been entitled to when she was a member of her previous employer's final salary pension scheme. (8)
- (ii) Calculate, **showing all your workings**, the maximum net single premium that Susan can pay into her personal pension in the current tax year. *Assume that her existing regular contribution continues to be paid.* (4)
- (b) Identify the **benefits** and **drawbacks** of using an accident, sickness and unemployment (ASU) policy compared with an income protection policy (PHI) as a way of protecting Susan's income. (16)
- (c) Recommend **two** other protection cover products that Susan and George should take out and identify the main features of the products and the level of cover you have recommended. *Do not include ASU or PHI.* (8)
- (d) (i) Outline the benefits of using a regular savings stocks and shares ISA to save for university costs. (10)
- (ii) Identify the basic features of a tracker fund. (4)

**Total marks available for this question: 50**

## Question 2

You are authorised to conduct business under the Financial Services and Markets Act (FSMA) 2000 and are qualified to provide financial advice. The information provided is accurate and adequate for the purpose of these questions.

Read the following carefully, then carry out **ALL** tasks **(a)**, **(b)**, **(c)** and **(d)** which follow.

### INFORMATION

Greg and Davina Davidson, aged 65 and 56 respectively, are married. They have no dependent children.

Greg has recently retired and together with his pension commencement lump sum (PCLS), they have accrued savings of £310,000. This is currently held in their joint bank account accruing 0.5% per annum interest. Greg receives £27,000 per annum, gross, from all his pensions including State Pension.

Davina is still working full-time and earns £50,000 per annum, gross. She has adequate pension provision through her employer and does not wish to add to this. She expects to retire at age 64 and wonders what her entitlement to State benefits will be.

Greg and Davina wish to invest their savings to produce an income of £3,000 per annum, net, to supplement Greg's retirement. They have specifically stated that they would like this income to come from at least three different product types.

They would like to take a medium attitude to risk with at least 50% of their investment and do not wish to have any high-risk products. They would like to have an emergency fund of at least £30,000 with a competitive rate of interest. They wish to preserve the value of their capital so that they can leave as much of their estate as possible to their children and they would like a diverse and tax efficient portfolio.

They have no mortgage, debts or other savings. Neither Greg nor Davina wish to make any further pension contributions in the current tax year.

## Questions

- (a) Explain how the eligibility criteria for the State Pension and State Second Pension (S2P) is determined and how this will affect Davina. (9)
- (b) (i) Recommend from the product list on pages 8 to 11, a portfolio of products that would meet Greg and Davina's requirements, showing the amount to be invested in each product. State clearly in whose name each product is to be held. (9)
- (ii) Show how the portfolio recommended in (b)(i) above will generate the income that Greg and Davina require and state clearly, in words, the tax treatment of each product you have used to provide the income. (9)
- (c) For **each** of the product types you have selected in (b)(i) above, including the non-income producing products, justify your recommendations under the following headings:
- the amount of investment;
  - the risk profile;
  - the justification of the product. (18)
- (d) State how Greg and Davina can maintain tax efficiency, both now and in the future. (5)

**Total marks available for this question: 50**

## PRODUCT LIST

**This list to be used in answering question 2.**

The products included in this list are to be used when recommending lump sum/single premium products to meet assessed client needs. Although the list is not exhaustive, it does provide the candidate with considerable choice and should be considered adequate for the task in hand. The details provided are either factual, e.g. National Savings and Investments Products, or fictitious products based on real examples, e.g. the list of unit trust/OEIC funds and their yields. AER means annual equivalent rate.

### 1. Bank and Building Society Accounts – UK

	<b>Gross yield/AER</b>
AnyBank High Interest Cheque Account (min £1)	0.50%
AnyBank Deposit Account (min £10)	0.90%
Shires Building Society Postal Account (Min £5,000)	1.20%
Shires Building Society 90 Day Notice (min £10,000)	0.95%
AnyBank 60 Day Account (min £15,000)	1.20%
Other Bank 1 Year Account (min £10,000)	3.40%
Other Bank Internet Account (min £1,000)	1.90%

### 2. Bank and Building Society Offshore Accounts – Jersey based

	<b>Gross yield/AER</b>
Other Bank Super Deposit Account (min £15,000)	1.75% (paid gross)
Shires Building Society Offshore Deposit (min £20,000)	1.40% (paid gross)
AnyBank Island Account (min £5,000)	1.50% (paid gross)

### 3. ISAs Cash Component

	<b>Term</b>	<b>Gross yield/AER</b>	<b>Investment Minimum £</b>
AnyBank	No notice	1.40%	1
A & G	No notice	1.05%	1
Axis Insurance	No notice	1.30%	1,000
NS ISA	No notice	1.30%	100
Shires Building Society	30 Day	1.95%	1,000

**4. Unit trusts and OEICs –  
for ISA Stocks and Shares Components and for Direct Investment outside ISAs**

		<b>Gross yield</b>
AnyBank	UK Equity Income	1.8%
	UK Gilts	2.0%
	International Equity	1.0%
A & G	UK Equity Income	5.2%
	UK Corporate Bond	5.0%
	UK Gilts	3.3%
	UK Equity Environment	1.0%
Eagle	UK Equity Growth	0.8%
	UK Smaller Companies	0.6%
	UK Gilts	4.9%
	Europe Equity	0.3%
	US Equity	0.1%
	Far East Equity	0.0%
	Technology	0.0%
Trust Insurance	UK Equity Income	2.8%
	UK Index Tracker	1.6%
	Europe Equity	0.3%
	International Equity	0.5%
	Fund of Funds	1.5%
	Property	1.0%

**OEICs for ISA Stocks and Shares Components and for Direct Investment outside ISAs**

		<b>Gross yield</b>
Axis Insurance	UK Equity Income	1.4%
	UK Equity Growth	0.7%
	UK Corporate Bonds	4.8%
	International Equity	0.6%
Professional	UK Index Tracker	1.8%
	UK Recovery	1.0%
	UK Gilts	4.0%
	International	0.0%

**Note:** Share exchange facilities are available.  
Both INCOME AND ACCUMULATION units are available.

**5. National Savings and Investments (NS&I)**

	<b>Gross yield</b>
Investment Account (£20 to £1,000,000) <i>Note (i)</i>	0.20%
Income Bond (£500 to £1,000,000) <i>Note (ii)</i>	0.70%
Guaranteed Growth Bonds 1 year Issue 47	1.00%
Guaranteed Growth Bonds 3 year Issue 41	1.75%
Guaranteed Growth Bonds 5 year Issue 38	2.60%
Guaranteed Income Bonds 1 year Issue 47	1.00%
Guaranteed Income Bonds 3 year Issue 41	1.70%
Guaranteed Income Bonds 5 year Issue 38	2.55%
* Children's Bonus Bond (£25 to £3,000)	2.30%
* 5 year NSC 95 <sup>th</sup> Issue	1.90%
* 2 year NSC 46 <sup>th</sup> Issue	0.95%
* 5 year NSC 46 <sup>th</sup> Index-linked	+1.00%
* 3 year NSC 19 <sup>th</sup> Index-linked	+1.00%
*ISA <i>Note (iii)</i>	1.30%

Note (i) 0.20% gross paid on holdings of £20-£499  
0.30% gross paid on holdings of £500 or more.

Note (ii) 1.00% gross paid on holdings of £25,000 or more.

Note (iii) Minimum investment £100

(\*Tax free)

**6. Insurance guaranteed income bonds**

Note to candidates: these are insurance-based products, rather than derivatives-based or so-called "precipice bonds."

	<b>Yield net of basic rate tax</b>
Trust Insurance 1 year income bond	1.90% (rate guaranteed)
Invicta Insurance 3 year income bond	2.00% (rate guaranteed)
Trust Insurance 4 year income bond	2.10% (rate guaranteed)
Axis Insurance 5 year income bond	2.30% (rate guaranteed)

**7. UK Insurance bonds – Unit linked**

Invicta Insurance Managed
Invicta Distribution Fund
Axis Insurance UK Equity Growth
Axis UK fixed interest
Axis Insurance Property
Sea Life Pacific
Sea Life North American
Arrow Life European
Arrow International Equity

**8. With-profits bonds**

Arrow Life With-profits Bond
Celtic Mutual With-profits Bond
Axis Provident With-profits Bond

**9. Pension Funds**

	<b>Stakeholder</b>
Trust Pensions UK Tracker Fund	✓
Trust Pensions Managed Fund	✓
Invicta Pensions UK Equity Fund	-
Celtic Mutual UK Fixed Interest Fund	✓
Celtic Mutual Emerging Markets Fund	-
Axis With-Profits Fund	-

**10. Child Trust Fund - Deposit Based**

	<b>Gross Yield</b>
Any Bank	1.0%
Axis Insurance	0.8%

**Child Trust Fund - Stocks & Shares**

	<b>Gross Yield</b>
Eagle/UK Equity Growth	0.8%
Trust Insurance Europe Equity	0.3%
Flushing American	0.6%

**Stakeholder Child Trust Fund Accounts**

Shires	Stakeholder Account
A & G	Stakeholder Account

## INCOME TAX

<b>RATES OF TAX</b>	<b>2009/2010</b>	<b>2008/2009</b>
Starting-rate	10%	10%
Income to which starting-rate applies	Savings	Savings
Basic-rate	20%	20%
Higher-rate	40%	40%
Starting-rate chargeable on taxable income not exceeding	£2,440*	£2,320*
Threshold of taxable income above which higher rate applies	£37,400	£34,800

*\*only applicable where taxable non-savings income is under £2,440 (£2,320 in 2008/2009).*

<b>MAIN PERSONAL RELIEFS</b>	<b>2009/2010</b>	<b>2008/2009</b>
	<b>£</b>	<b>£</b>
Personal (basic)	6,475	6,035
Personal (age 65-74)	9,490	9,030
Personal (aged 75 and over)	9,640	9,180
Married/civil partners (minimum) at 10% †	2,670	2,540
Married/civil partners (age under 75) at 10% §	N/A	6,535
Married/civil partners (age 75 and over) at 10%	6,965	6,625
Age-related relief reduced by 50% of income over	22,900	21,800
Child Tax Credit (CTC)		
- family element	545	545
- family element baby addition	545	545
CTC usually reduced by 6.67% of joint income over	50,000	50,000
Blind person's allowance	1,890	1,800

*† where at least one spouse/civil partner was born before 6 April 1935.*

*§ All Married Couple's Allowance claimants in this category will become 75 at some point during the tax year 2009/2010 and will therefore be entitled to the higher amount of the allowance.*

## INHERITANCE TAX

<b>RATES OF TAX ON DEATH</b>	<b>2009/2010</b>
Transfers made after 5 April 2009	
- Up to £325,000 (from £312,000 in 2008/2009)	Nil
- Excess over £325,000	40%
<b>MAIN EXEMPTIONS</b>	<b>£</b>
Transfers to	
- UK-domiciled spouse/civil partner	No limit
- non-UK-domiciled spouse/civil partner (from UK domiciled spouse)	55,000
- UK-registered charities	No limit
Lifetime transfers	
- annual exemption per donor	3,000
- small gifts, annual amount per donee (but not available to cover part of a larger gift)	250
Wedding/civil partnership gifts	
- to child of donor	5,000
- to grandchild (or more remote issue) of donor	2,500
- to others	1,000

## **CAPITAL GAINS TAX**

### **RATES OF TAX**

Chargeable gains, less allowable losses, are charged to tax as follows:

- for individuals the rate chargeable is 18% (18% in 2008/2009).
- for trustees of trusts and personal representatives the rate chargeable is 18% (18% in 2008/2009).
- entrepreneurs' relief is available at an effective rate of 10% (4/9ths of the gain) and is subject to a lifetime limit of £1,000,000.

### **ANNUAL EXEMPTION**

The annual exemption is £10,100 in 2009/2010 (£9,600 in 2008/2009).

Most trusts have an annual exemption of £5,050 in 2009/2010 (£4,800 in 2008/2009)

### **CHATTELS EXEMPTION**

Gains on chattels are exempt if proceeds do not exceed £6,000 per item.

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