



THE CHARTERED INSURANCE INSTITUTE

TUESDAY 20 JULY 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

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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.

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### 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), (d) and (e) which follow.

### INFORMATION

Tom and Liz Brown, aged 47 and 41 respectively, are married. They have one child, Sophie, aged 5.

Tom is a senior manager of a small engineering firm, earning £48,000 per annum. He is a member of the firm's group personal pension scheme into which he pays £275 per month. Tom is a higher-rate taxpayer and wants to know how he obtains tax relief on his pension contribution which is currently deducted gross. He is considering increasing his monthly payments, but wants to consider paying this into his ISA or a personal pension and would like your advice on this matter.

Liz is a homemaker and has not been in paid employment for 10 years. She is concerned about how this will affect her State Pension entitlement when she reaches retirement at age 60.

They want to know how their income could be protected if Tom were to die or become seriously ill. Tom and Liz have informed you that Sophie has a Child Trust Fund and they would like to know more about it. They would also like to maintain tax efficiency throughout their working life and beyond.

Tom or Liz do not have any significant savings apart from an emergency fund of £4,000 in a local building society account in Tom's name. They live in a modest property worth £150,000 with a mortgage of £100,000 on an interest only basis. They have no other protection or savings policies, except a comprehensive private medical insurance that covers the whole family.

## Questions

- (a) Write down a list of questions that you would need to ask Tom and Liz, to obtain all the information required to enable you to advise them on their retirement planning. (11)

*In order to gain maximum marks, these questions should be written in question form in such a way that Tom and Liz will understand them.*

- (b) Identify and explain any errors and inconsistencies which are contained in the case history. (6)

- (c) (i) Compare personal pensions with individual savings accounts (ISAs) for retirement planning purposes for Tom, by clearly stating the **advantages** and **disadvantages** of each product. (12)

- (ii) Explain how Tom will obtain tax relief on his pension contributions. *No calculation is required.* (3)

- (d) State the protection policies that would be appropriate if Tom were to die or become seriously ill. Outline the main features of each type of policy and recommend a suitable term and appropriate level of cover for each case. (12)

- (e) Describe the main features of a Child Trust Fund. (6)

**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

Jamie and Jenny Williams are married with no financial dependants. They are aged 62 and 66 respectively.

Jamie Williams is employed as an executive for a major advertising company and earns £80,000 per annum. He currently contributes £250 per month, net of basic rate tax, into a personal pension.

Jenny Williams is retired and receives pension income totalling £13,500 per annum.

The Williams have recently received an inheritance of £475,000, net of all taxes. They wish to purchase a new car in eight months' time which will cost £13,000 and they would like to have an emergency fund of £40,000. They do not have any debts.

Apart from this inheritance money, their only other investments are £15,000 each in 46th issue index-linked National Savings Certificates, and £10,200 each in equity ISAs.

The Williams require a diverse portfolio. They want to invest the £475,000 in a range of products, but do not wish to have any high risk funds. They wish to preserve the value of their capital and would like the portfolio to be as tax efficient as possible.

Jamie and Jenny have decided that they would like to receive an income of £2,750 per annum net of tax from their portfolio to help fund school fees for their grandson. They have stated that they wish for this income to come from at least three different product types. They have also stated that they would like all deposit monies to have a competitive interest rate.

## Questions

- (a) (i) Calculate, **showing all your workings**, the maximum tax relievable single premium contribution net of basic rate tax that Jamie and Jenny can each pay into personal pensions. *Assume that Jamie's regular contribution continues to be paid.* (7)
- (ii) Using the product list on pages 8 to 11, identify **three** investment funds which would be high risk and unsuitable for Jamie and Jenny. (3)
- (b) (i) Recommend from the product list on pages 8 to 11, a portfolio of products that will meet Jamie and Jenny's requirements, showing the amount to be invested into each product. Your portfolio should include the existing investments, and you should 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 Jamie and Jenny require and state clearly, in words, the tax treatment of each product which is 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 the investment;
  - the risk profile;
  - the tax treatment.
- (18)
- (d) List **four** points you would discuss with Jamie and Jenny when you next visit them in 12 months' time to discuss their financial arrangements. (4)

**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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