



THE CHARTERED INSURANCE INSTITUTE

MONDAY 7 JUNE 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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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), (d) and (e) which follow.

INFORMATION

Alan and Linda Connor, aged 51 and 47 respectively, have three grown up children. Alan is employed as a senior engineer with a local company and earns £52,000 per annum. Linda is employed as a hairdresser and earns £19,000 per annum.

Alan is a member of the company's group stakeholder pension scheme and contributes £175 per month net of basic-rate tax. The employer does not contribute to the scheme. Alan would like to maximise his pension contributions in this tax year. In addition he would like you to explain how his pension income will be determined when he eventually retires.

Alan and Linda own their property which is worth £270,000 and they have recently paid off their mortgage.

They are now in a position where they would like to invest for the long term and are keen to receive advice on investment planning. In particular, Alan has stated that he has heard about investment trusts and would like to receive information on this product.

They have a with-profits bond in joint names, which they took out five years ago with a lump sum of £20,000. They would like your advice on whether to surrender it as they have heard that it may no longer be suitable for them. Their only other savings are £3,000 in a jointly held current account.

Alan and Linda wish to receive advice on obtaining suitable life cover. They have asked you to help them make an informed choice between a whole of life policy and a level term assurance.

Questions

- (a) Write down a list of questions that you would need to ask Alan and Linda to obtain the information required to enable you to advise them on their investment planning.

In order to gain maximum marks, these questions should be written in question form in such a way that Alan and Linda will understand them. (8)

- (b) (i) Calculate, **showing all your workings**, the maximum net tax relievable contribution that Alan could make to his stakeholder pension scheme in the tax year 2009/2010. *Assume Alan's regular contributions continue to be paid.* (5)

(ii) Outline the factors that will determine the level of pension income from a stakeholder pension when Alan elects to take the benefits. (6)

- (c) (i) State the main features of an investment trust. (8)

(ii) Explain the tax treatment of an investment trust on the investor. (4)

- (d) List the information you would require from the product provider to give advice on whether to surrender the with-profits bond. (7)

- (e) Compare a whole of life policy with a level term assurance by stating the **advantages** and **disadvantages** of **each** product. (12)

Total mark 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

John and Viv Boston, are both aged 53, with two grown up children. They want to leave as much of their estate to their children as possible.

John is employed as a senior manager for an engineering firm and earns £50,000 per annum. John is satisfied that he has adequate pension provision from his current employer and does not wish to make any further contributions towards pensions.

Viv is a self-employed beauty specialist and earns £3,000 per annum. As she has no pension provision she would like to start a personal pension and pay the maximum contribution into it.

They have recently inherited £200,000 net of all taxes, from their late aunt. As John's mother is about to go into a care home they would like this to generate income of £2,000 per annum net of tax to help pay the fees. They would like to invest for income and capital growth in a tax efficient and diverse portfolio. They require that the income is obtained from at least three different product types

They plan to go on a special holiday costing £10,000 in nine months time and they require this money to be placed in a separate account. Additionally, they require an emergency fund of at least £20,000. They would like these deposits to be in accounts with competitive interest rates.

They are medium risk investors but want to invest £15,000 in a high risk fund. They have recently read an article on investing in second-hand endowment policies and would like more information on them, but they have stated that they do not wish to include this type of investment in their portfolio at the present time.

Prior to receiving their inheritance, John and Viv have already fully funded their ISA's in the 2009/2010 tax year. They have no other savings. They do not want to invest in any investment bonds or with-profits bonds.

John and Viv have a grandson, Sam, who is two years old. They have also indicated that they wish to pay the maximum into their grandson's Child Trust Fund.

Questions

- (a) Explain to John and Viv the main features and taxation rules of investing in second hand endowment policies. (10)
- (b) (i) Recommend from the product list on pages 8 to 11, a portfolio of products that would meet John and Viv'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 John and Viv 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 that you have selected in (b)(i) above, including non-income producing products, justify your recommendations under the following headings:
- the amount of the investment;
 - the risk profile;
 - the justification of the products. (18)
- (d) State how John and Viv can maintain tax efficiency when you next visit them in 12 months' time. (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

	Gross yield/AER
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

	Gross yield/AER
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

	Term	Gross yield/AER	Investment Minimum £
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**

		Gross yield
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

		Gross yield
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)

	Gross yield
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 th Issue	1.90%
* 2 year NSC 46 th Issue	0.95%
* 5 year NSC 46 th Index-linked	+1.00%
* 3 year NSC 19 th 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.”

	Yield net of basic rate tax
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

	Stakeholder
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

	Gross Yield
Any Bank	1.0%
Axis Insurance	0.8%

Child Trust Fund - Stocks & Shares

	Gross Yield
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

RATES OF TAX	2009/2010	2008/2009
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).*

MAIN PERSONAL RELIEFS	2009/2010	2008/2009
	£	£
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

RATES OF TAX ON DEATH	2009/2010
Transfers made after 5 April 2009	
- Up to £325,000 (from £312,000 in 2008/2009)	Nil
- Excess over £325,000	40%
MAIN EXEMPTIONS	£
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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