



**J08**

**THE CHARTERED INSURANCE INSTITUTE**

**TUESDAY 20 APRIL 2010**

**DIPLOMA IN FINANCIAL PLANNING  
J08 – FINANCIAL PLANNING PRACTICE**

**SPECIAL NOTICES**

- **All questions in this paper are based on English law and practice applicable in the 2009/2010 tax year, unless stated otherwise, and should be answered accordingly.**
- **Assume all individuals are domiciled, resident and ordinarily resident in the UK unless stated otherwise.**
- **Candidates should answer based on the legislative position immediately BEFORE the 2010 Budget.**

**INSTRUCTIONS**

- **Three 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 form B.**
- **You are allowed to write on the inside pages of this question paper but you must **not** write your name, candidate number, PIN or any other identification **anywhere** on this question paper.**
- **The answer book and this question paper **must both be handed in personally by you** to the invigilator before you leave the examination. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in future.****

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# THE CHARTERED INSURANCE INSTITUTE

## J08 – Financial planning practice

### CANDIDATE INSTRUCTIONS

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

The question paper consists of **two** case study based questions and carries a total of 150 marks. You should answer all question parts for each case study in the answer book.

Read the questions and information provided carefully. The time allowed for this examination is 3 hours. You are advised to spend approximately 90 minutes on the questions for each case study. 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.

**Tax tables are provided at the back of the paper.**

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 Notices 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 for each case study**

**Time: 3 hours**

### **Case Study 1**

Peter and Liz Bowler are married and have come to you for advice on their financial planning. Peter is 56 today and Liz is aged 55. They have three children, Philip, aged 22, Ian, aged 24 and Laura, aged 26. They plan to lend each of their children £100,000 to enable them to buy a house each.

Peter currently earns £100,000 per annum and Liz does voluntary unpaid charity work.

Peter has a defined benefit pension scheme from a previous employment which will provide an inflation-linked pension of £18,000 at age 60. He also has a paid-up unit linked personal pension scheme invested in cautious and balanced managed funds with a current fund value of £360,000 and he expects this to grow at 4% per annum after all charges.

In addition, he has a defined contribution pension scheme with his current employer to which he contributes 10% of salary and the company contributes 3% of salary. This pension fund is currently worth £46,000 and he expects it to be worth £110,000 when he reaches age 60.

Liz has no pension provision but she is nominated as the beneficiary on Peter's defined benefit pension scheme.

Peter and Liz invested £450,000 six years ago in a joint investment portfolio which is in a managed growth fund, currently valued at £500,000. They have said that they would use funds from this investment if required to meet their financial objectives. They also each have money on deposit in an easy access account.

Peter and Liz have a modest lifestyle and require a gross income of £40,000 per annum to meet their planned outgoings in retirement. Their house is jointly owned and is currently worth £660,000 with no mortgage.

Peter would like to retire at age 60. He wishes to make an additional pension contribution this year using £73,500 cash from his building society account. The reason he wishes to do this is so that he can get full tax relief on this amount. He has already decided that he will take the maximum tax free cash from his unit-linked pension and his defined contribution pension scheme. Assume annuity rates for a joint life annuity to be 5.9%.

They have simple mirror wills.

<b>Asset</b>	<b>Peter £</b>	<b>Liz £</b>	<b>Joint £</b>	<b>Total £</b>	<b>Yield %</b>
Main residence			660,000	660,000	NIL
Investment portfolio			500,000	500,000	NIL
Building Society Accounts	80,000	220,000		300,000	2.8
<b>Total</b>	<b>80,000</b>	<b>220,000</b>	<b>1,160,000</b>	<b>1,460,000</b>	<b>2.8</b>

Their financial aims are to:

- provide their desired lifestyle in retirement;
- reduce their Income Tax liability;
- minimise Inheritance Tax liability;
- help their children to buy their own homes.

**Questions for Case Study 1 can be found on pages 7 and 8**

### Question 1

- (a) Peter and Liz wish to pay by fees for the advice you provide. List **three** different methods of fee charging. (3)
- (b) State what other information you would need to obtain from Peter and Liz before you would be able to analyse and evaluate their financial position. (10)
- (c) (i) Calculate, **showing all your workings**, how much of Peter's annual allowance will be used, assuming that he makes the £73,500 pension contribution in addition to his normal pension contribution, and comment on the tax relief that Peter would receive. (6)
- (ii) Calculate, **showing all your workings**, the percentage of Peter's lifetime allowance used by vesting all his pension entitlement at age 60. *Assume that the £73,500 pension contribution grows at 5.5% per annum, after charges, and that the lifetime allowance remains unchanged from 2010/2011 tax year.* (8)
- (iii) Comment on Peter's decision to make the £73,500 pension contribution in relation to his existing pension provision and his stated reason for making this contribution, supporting your comments with calculations. *Assume annuity rates for a joint life annuity to be 5.9%.* (9)
- (d) Peter wishes to make investments which can provide Income Tax relief.
- (i) State **two** investments which could allow him to claim Income Tax relief. (2)
- (ii) Outline the considerations you would take into account before recommending either one to Peter. (5)
- (e) (i) Identify the actions that Peter and Liz could take to reduce or mitigate their Inheritance Tax liability, whilst maximising their children's inheritance. (6)
- (ii) Explain to Peter and Liz why including a NIL rate band discretionary trust in a will may still be good planning advice. (3)

- (f) Outline the considerations Peter should take into account before structuring and making the loans to his children to assist them to buy their own homes. (10)
- (g) Identify the potential risks and disadvantages for the money they have in the building society and recommend actions they could take. (10)
- (h) Liz and Peter are unsure of the need for regular financial reviews. List **three** reasons why a financial plan should be reviewed regularly. (3)

**Total marks available for this question: 75**

**Case Study 2 can be found on page 10**

## Case Study 2

Tom and Helen Henderson, aged 34 and 32 respectively, are married. They have two children, Amy, aged eight and David, aged five. Tom works for an engineering company as a supervisor earning £35,000 per annum, with no benefits in kind. He is a member of their stakeholder pension scheme and pays 3% of salary but there is no employer contribution. His fund is currently £15,000 and is invested in a technology fund. He would like to retire at age 55.

Helen works for the National Health Service (NHS) as a part-time district nurse with earnings of £10,000 per annum. She is not currently a member of the NHS pension scheme but wants to retire at the same time as Tom.

Tom and Helen have life cover of £750,000 on a joint life second death basis. They tell you this is to cover the mortgage and for family protection. It is a whole of life policy with terminal illness cover but no Critical Illness cover. Their property is worth £350,000 and they have a mortgage of £120,000 on an interest only basis.

Over the years they have built up credit card and loan debts of around £40,000 with various providers. The Annual Percentage Rate on each debt varies between 20% and 34% with a total monthly payment of £400.

They have an onshore investment bond valued at £30,000 which is in a US equity fund. Their attitude to risk is low.

You are informed:

The interest paid on the mortgage is 3% per annum.

Household bills	£280 per month
Debts and insurance	£500 per month
Food and holidays	£650 per month
Children and clothes	£200 per month
Cars and miscellaneous	£250 per month

Their financial aims are to:

- retire when Tom reaches age 55;
- reduce/repay any debts as soon as possible;
- review their pension and investments in view of their attitude to risk;
- review their protection arrangements.

## Question 2

- (a) (i) State the questions you would ask them in order to be able to advise them on their retirement aims. (7)
- (ii) State the factors which are likely to make it difficult to achieve their early retirement aim. (10)
- (b) Identify and explain any errors or inconsistencies in the information provided within the case study. (8)
- (c) Calculate, **showing all your workings**, Tom's average net monthly income. (6)
- (d) Comment on their debts and how these match or conflict with their risk profile and stated financial aims. (9)
- (e) List **five** advantages and **five** disadvantages for Tom and Helen of using their investments to repay their debts. (10)
- (f) Recommend and justify suitable long-term protection products to meet Tom and Helen's mortgage protection needs should either of them:
- (i) die; (3)
- (ii) suffer a serious illness; (10)
- (iii) suffer long-term disability. (12)

**Total marks available for this question: 75**

**The tax tables can be found on pages 13-17**

# TAX TABLES

## INCOME TAX RATES

2009/2010		2008/2009	
Rate	Band	Rate	Band
%	£	%	£
10	1 - 2,440*	10	1 - 2,320*
20	1 - 37,400	20	1 - 34,800
40	Over 37,400	40	Over 34,800

\* A new 10% starting rate is applied for savings income only from 06.04.2008. Only applicable where non-savings income after allowances is under £2,440 for 2009/2010.

## NATIONAL INSURANCE CONTRIBUTIONS

### 2009/2010 Rates

Class 1 Employee	Weekly	Monthly	Yearly
	£	£	£
Lower Earnings Limit (LEL)	95	412	4,940
Upper Earnings Limit (UEL)	844	3,656	43,875
Upper Accruals Point	770	3,337	40,040

### Class 1 Employee contributions 2009/2010

Total earnings £ per week	Contracted-in rate	Contracted-out rate
	%	%
Up to 110.00*	Nil	Nil
110.01 – 770.00	11	9.4
770.01 – 844.00	11	11
Above 844.00	1	1

### Class 1 Employer contributions 2009/2010

Total earnings £ per week	Contracted-in rate	Contracted-out rate	
	%	Final salary	Money purchase
	%	%	£
Below 110.00**	Nil	Nil	Nil
110.01 – 770.00	12.8	9.1	11.4
770.01 – 844.00	12.8	12.8	12.8
Excess over 844.00	12.8	12.8	12.8

\* This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £95 per week. This £95 to £110 band is a zero rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. Basic State Pension.

\*\* Secondary earnings threshold.

**Class 2 (self-employed)** Flat rate per week £2.40 where earnings exceed £5,075 per annum.

**Class 3 (voluntary)** Flat rate per week £12.05

**Class 4 (self-employed)** 8% on profits between £5,715 - £43,875 plus 1% on profits above £43,875

## INCOME TAX 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
Enterprise Investment Scheme relief limit @ 20%	500,000	500,000
Venture Capital Trust relief limit @ 30%	200,000	200,000

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

## PENSIONS

Lifetime Allowance		Annual Allowance	
2006/2007	£1.5 million	2006/2007	£215,000
2007/2008	£1.6 million	2007/2008	£225,000
2008/2009	£1.65 million	2008/2009	£235,000
2009/2010	£1.75 million	2009/2010	£245,000
2010/2011	£1.8 million	2010/2011	£255,000

### Notional Earnings Cap

£123,600 – (For schemes that require post 1989 benefits to be still subject to a cap)

### Annual allowance charge

40% member's tax charge on the amount of total pension input in excess of the annual allowance.

### Lifetime allowance charge

55% of excess over lifetime allowance if taken as a lump sum.

25% of excess over lifetime allowance if taken in the form of income, which is subsequently taxed under PAYE.



## INHERITANCE TAX

	<b>2009/2010</b>	<b>2008/2009</b>
Nil-rate band*	£325,000	£312,000
Rate of tax on excess	40%	40%
Lifetime transfers to and from certain trusts	20%	20%
Overseas domiciled spouse/civil partner exemption	£55,000	£55,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building

50% relief: certain other business assets

### Reduced tax charge on gifts within 7 years of death

	0-3	3-4	4-5	5-6	6-7
Years before death					
% of death charge	100	80	60	40	20
Annual exempt gifts	£3,000 per donor			£250 per donee	

\* From 8 October 2007 up to 100% of the unused proportion of a deceased spouse's/civil partner's nil-rate band can be claimed on the surviving spouse's/civil partner's death.

## MAIN SOCIAL SECURITY BENEFITS

		<b>From 06.04.09</b>	<b>From 06.04.08</b>
		£	£
Child Benefit	first child	20.00	20.00*
	subsequent children	13.20	13.20*
Incapacity Benefit	short-term lower rate**	67.75	63.75
	short-term higher rate**	80.15	75.40
	long-term rate	89.80	84.50
Attendance Allowance	lower rate	47.10	44.85
	higher rate	70.35	67.00
Retirement Pension	single	95.25	90.70
	married	152.30	145.05
Pension Credit	single person standard minimum guarantee	130.00	124.05
	married couple standard minimum guarantee	198.45	189.35
	maximum savings ignored in calculating income	6,000	
	increased from November 2009	10,000	
Bereavement Benefit (lump sum)		2,000.00	2,000.00
Widowed Parent's allowance		95.25	90.70
Jobseekers Allowance		64.30	60.50

\* From 5 January 2009

\*\* Under State Pension Age

## VALUE ADDED TAX

Standard rate	15%*/17.5%**
Annual registration limit - from 1 May 2009	£68,000

\* Effective from 1 December 2008

\*\* Effective from 1 January 2010

## CORPORATION TAX

Financial Year	2009 to 31/3/10	2008 to 31/3/09
Full rate	28%	28%
Small companies rate	21%	21%
Small companies limit	£300,000	£300,000
Effective marginal rate	29.75%	29.75%
Upper marginal limit	£1,500,000	£1,500,000

## CAPITAL ALLOWANCES

Plant & machinery 100% annual investment allowance (first year)	£50,000
Plant & machinery in excess of annual investment allowance (first year)	40%
Plant & machinery, patent rights, know-how (reducing balance) per annum	20%
Certain long-life assets, integral features of buildings (reducing balance) per annum	10%
Industrial & agricultural buildings (straight line)	2%
Energy & water-efficient investments	100%
Qualifying flat conversions & business premises renovations	100%
Motor cars: with emissions in excess of 160g/km	10%
Generally	20%*
with CO2 emissions of 110g/km or less	100%
Research & Development: Capital expenditure	100%
Revenue expenditure - small/medium-size firms	175%
- large firms	130%

\* Maximum £3,000

## CAPITAL GAINS TAX

Exemptions	2009/2010	2008/2009
Individuals, estates etc	£10,100	£9,600
Trusts generally	£5,050	£4,800
Chattels proceeds (5/3 excess gain is taxable)	£6,000	£6,000
<b>Rates</b>		
Individuals	18%	18%
Trusts and estates	18%	18%

## ENTREPRENEURS' RELIEF

### Entrepreneurs' Relief 2009/2010

4/9<sup>ths</sup> of gain tax free. Lifetime limit eligible for relief: £1,000,000

For trading businesses and companies (minimum 5% employee shareholding) held for 1yr+

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