

THE CHARTERED INSURANCE INSTITUTE

R06—FINANCIAL PLANNING PRACTICE

CASE STUDIES – JANUARY 2012

Case study 1

Ravi, aged 62, and Dyta, aged 48, are married and have one child, Joy, aged 14. Ravi has a son, Isaac, aged 23, from his first marriage. Dyta is a volunteer for a local charity and has no income other than Child Benefit.

Ravi owns a small, profitable manufacturing business, Zoola Ltd, which he purchased in 1995 for £82,000. In 2003, Ravi sold 40% of the business to a large plc and used the money to repay their mortgage. The same plc has now contracted to purchase the remaining shares for £390,000 after all costs. Ravi is keen to sell the business as he has health issues and wishes to retire.

Ravi has recently received a statement of his paid up defined benefit pension scheme confirming his entitlement to an immediate pension of £15,000 per annum.

In addition to his defined benefit pension scheme, Ravi has a self-invested personal pension (SIPP) with a fund value of £400,000. The assets in the SIPP include a property which is leased to Zoola Ltd with a rental income of £15,000 per annum. There are three years remaining on the lease. The property is valued at £200,000 and the balance of the SIPP is held in cash. Ravi has read about a 'two pools' approach to asset allocation in pension funds and would like further information.

Ravi and Dyta have the following other assets:

Name	Asset	Current Value £	Gross Yield per annum %
Dyta	Current Account	1,000	Nil
Dyta	Cash ISA (taken out May 2011)	2,000	3
Ravi	Current Account	8,320	Nil
Ravi	Portfolio of UK Equities	62,000	2.3
Joint	Main Residence	730,000	N/A
Ravi	Corporate bond OEIC	40,000	3.5
Joint	Chattels	80,000	N/A

Dyta has expressed concerns that Ravi has no Will, and they own their home equally as tenants in common. Ravi feels that he does not need one as his close friend, Thomas, died without a Will and all his £1,500,000 assets passed to his wife, Sue, and there was no liability to Inheritance Tax.

Ravi and Dyta have a medium attitude to investment risk.

Their financial aims are to:

- generate sufficient income in retirement;
- ensure the suitability of their investment portfolio;
- complete the sale of Zoola Ltd;
- maximise the estate for the benefit of Dyta and Joy if Ravi were to die.

Case study 2

James, aged 45, has recently divorced from Natalie. They have two children aged 12 and 10. As part of the divorce settlement, James must pay £1,000 per month in total to Natalie to support her and their children.

James is a self-employed accountant and in the tax year 2011/2012, he will have £90,000 taxable net profits. In the previous two tax years his taxable net profits were £120,000 and £75,000 respectively. James has paid £250 net per month for the last four years into a personal pension which he commenced 12 years ago.

James is currently living in rented accommodation and pays £750 per month to his landlord. His living expenses are £1,000 per month. James holds £20,000 in a bank deposit account and £50,000 in an onshore investment bond. He has no other capital assets or liabilities.

James plans to retire at age 55 and is keen to ensure that he can support his two children during university. He would like to receive advice on how he can fund for this.

James has stated that he would prefer to have ethical investments.

James has a level term assurance policy which has five years left to run and has a sum assured of £62,000. He has no other protection arrangements.

His financial aims are to:

- provide sufficient income to meet his retirement needs;
- improve his tax efficiency;
- ensure his protection arrangements are suitable in the event of death or serious illness;
- fund for the children's university costs.