

CF5

Certificate in Financial Planning

Unit 5 – Integrated financial planning

April 2013 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2012/2013, 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 2013 budget.

Instructions

- Two hours are allowed for this paper.
- Do not begin writing until the invigilator instructs you to.
- Read the instructions on page 3 carefully before answering any questions.
- Provide the information requested on the answer book and 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 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.**

Unit CF5 – Integrated financial planning

Instructions to candidates

Read the instructions below before answering any questions

- **Two hours** are allowed for this paper which carries a total of 100 marks.
- 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. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- 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 tables** on pages 12 to 16 when answering both questions.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show all steps in a calculation, even if you have used a calculator.
- 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.
- Answer each question on a new page and leave six lines blank after each question part.

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:

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** of the tasks **(a)**, **(b)**, **(c)**, **(d)** and **(e)** which follow.

INFORMATION

Paul and Helen Hill, both aged 42, are married with two children, James aged 14 and Susan aged 12.

They bought a house 18 months ago for £185,000 and have a capital and interest mortgage of £145,000 over 25 years. They took out a joint life, first death, mortgage protection policy to cover the mortgage. They have no other protection policies in place and are concerned about how they would cope financially if either of them were to suffer a long-term or serious illness.

Helen is employed as a restaurant manager on an annual salary of £38,000. She pays into a personal pension scheme but wants to do more to save for retirement and would like your advice on whether it would be best to fund for her retirement using a pension or an ISA.

Paul is employed as a sales manager for a national catering firm on an annual salary of £34,000. He is in a final salary company pension scheme but has heard that this is soon to be closed to members and his future contributions will be invested in a money purchase pension scheme. Paul's pension scheme provides three times salary as death in service cover.

Paul and Helen have found that they have surplus funds at the end of the month and have accumulated £25,000 in their joint current account and ask for your advice on investment for the future.

Questions

- (a) Write down a list of questions you would need to ask Paul and Helen to obtain all the information required to enable you to advise them on their investment planning. *In order to gain marks, these questions should be written in question form in such a way that Paul and Helen will understand them.* (10)
- (b) Describe the main features of the policies you would recommend to Paul and Helen to protect them if either were to suffer a long-term or serious illness. (12)
- (c) Describe the main **similarities** and **differences** between Money Purchase and Final Salary Pension Schemes. (10)
- (d) Compare ISAs and personal pensions as suitable vehicles for retirement planning. State **three** advantages and **three** disadvantages of each product. (12)
- (e) Compare a pension annuity and a purchase life annuity by stating **three** features of each. (6)

Total marks available for this question: 50

Questions continue over the page

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** of the tasks **(a)**, **(b)**, **(c)** and **(d)** which follow.

INFORMATION

Richard and Mary Brown are married with no children.

Richard has recently reached age 60 and has taken his company pension benefits of £6,000 per annum. Richard is now a self-employed driver and has net profits of £300 per week. When becoming self-employed he started a personal pension and would like to contribute the maximum to this pension in the tax year 2012/2013.

Mary, aged 51, is still employed with a salary of £23,000 per annum. She has no work based pensions and has been told that a stakeholder pension may be suitable for her. Mary has asked for information on the charging structure of a stakeholder pension.

Richard holds shares and Unit Trusts totalling £22,000. Mary has a number of ISAs with a current total value of £12,000 and has recently inherited £250,000, after all taxes, which is currently held in an instant access account.

Richard has taken out the maximum in a Cash ISA for the tax year 2012/2013. Mary is considering taking out an ISA for the tax year 2012/2013 but has not done so yet.

Richard has had to find a suitable residential care home for his mother, aged 92. The care home fees required mean that Richard needs to supplement his mother's income with a further £250 per month. Therefore, Richard and Mary require an additional income from their investments of £3,000 per annum. This income is to come from at least three different product types but they have said that they do not want to invest in insurance guaranteed income bonds.

Richard and Mary are both happy for no more than half of the funds available to be invested in medium risk investments and the balance to be invested in low risk.

Richard and Mary require £12,000 for a holiday in America that they are planning in 10 months time. They would also like a further £8,000 to be readily accessible as an emergency fund and they wish to see competitive rates of interest on these accounts.

Richard and Mary want their portfolio to be diverse and tax efficient.

Questions

To gain maximum marks you **must** show **all** your workings and express your answers to **two** decimal places.

- (a) (i) Calculate, **showing all your workings**, the maximum single net tax relievable pension contributions that Richard and Mary could each pay in the tax year 2012/2013. *Ignore any carry forward allowances.* (5)
- (ii) Explain briefly how a stakeholder pension charging structure works. (4)
- (b) (i) Recommend, from the product list on pages 8 to 11, a portfolio of products that will meet Richard and Mary'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 will meet Richard and Mary's requirements, stating clearly 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 the investment;
 - the risk profile;
 - the justification of the product type. (18)
- (d) List **five** issues that you would like to discuss with Richard and Mary when you visit them in 12 months time to review their financial arrangements. (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

	Gross yield/AER
AnyBank High Interest Cheque Account (min £1)	0.50%
AnyBank Deposit Account (min £10)	1.00%
Shires Building Society Postal Account (min £5,000)	1.90%
Shires Building Society 90 Day Notice (min £10,000)	1.95%
AnyBank 60 Day Account (min £15,000)	1.50%
Other Bank 1 Year Account (min £10,000)	2.85%
Other Bank Internet Account (min £1,000)	2.50%

2. Bank and Building Society Offshore Accounts – Jersey based

	Gross yield/AER
Other Bank Super Deposit Account (min £15,000)	2.50% (paid gross)
Shires Building Society Offshore Deposit (min £20,000)	2.10% (paid gross)
AnyBank Island Account (min £5,000)	1.90% (paid gross)

3. ISAs Cash Component

	Term	Gross yield/AER	Investment Minimum £
AnyBank	No notice	2.50%	1
A & G	No notice	2.65%	1
Axis Insurance	No notice	3.30%	1,000
NS ISA	No notice	2.50%	100
Shires Building Society	30 Day	2.62%	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	4.8%
	UK Corporate Bond	4.6%
	UK Gilts	3.3%
	UK Equity Environment	1.0%
Eagle	UK Equity Growth	0.8%
	UK Smaller Companies	0.6%
	UK Gilts	3.7%
	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%
Axis Insurance	UK Equity Income	1.4%
	UK Equity Growth	0.7%
	UK Corporate Bonds	4.0%
	International Equity	0.6%
Professional	UK Index Tracker	1.8%
	UK Recovery	1.0%
	UK Gilts	3.5%
	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
Income Bond (£500 to £1,000,000)	Note (i)
* Children's Bonus Bond (£25 to £3,000)	2.50%
ISA Note (ii)	2.50%
Premium Bond Note (iii)	1.50%
Direct Saver	1.50%

Note (i) 1.45% gross paid on holdings under £25,000
1.75% gross paid on holdings of £25,000 or more

Note (ii) Minimum investment £100

Note (iii) Monthly tax-free prizes.

(*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	2.50% (rate guaranteed)
Trust Insurance 4 year income bond	2.75% (rate guaranteed)
Axis Insurance 5 year income bond	2.85% (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	-

INCOME TAX

RATES OF TAX	2011/2012	2012/2013
Starting rate for savings*	10%	10%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	50%	50%
Starting-rate limit	£2,560*	£2,710*
Threshold of taxable income above which higher rate applies	£35,000	£34,370
Threshold of taxable income above which additional rate applies	£150,000	£150,000

Child benefit charge from 7 January 2013:

1% of benefit for every £100 of income over N/A £50,000

**restricted to savings income only and not available if taxable non-savings income exceeds starting rate band.*

MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£7,475	£8,105
Personal Allowance (age 65-74) §	£9,940	£10,500
Personal Allowance (aged 75 and over) §	£10,090	£10,660

Married/civil partners (minimum) at 10% †	£2,800	£2,960
Married/civil partners (age 75 and over) at 10%	£7,295	£7,705

Income limit for age-related allowances	£24,000	£25,400
Blind Person's Allowance	£1,980	£2,100

Enterprise Investment Scheme relief limit on £1,000,000 max (£500,000 in 2011/2012)	30%	30%
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Seed Enterprise Investment relief limit on £100,000	N/A	50%
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Venture Capital Trust relief limit on £200,000 max	30%	30%
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§ *the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age.*
 † *where at least one spouse/civil partner was born before 6 April 1935.*

Child Tax Credit (CTC)		
- Child element per child (maximum)	N/A	£2,690
- family element	£545	£545
Threshold for tapered withdrawal of CTC	N/A	£15,860

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£107	£464	£5,564
Primary threshold	£146	£634	£7,605
Upper Accrual Point	£770	£3,337	£40,040
Upper Earnings Limit (UEL)	£817	£3,540	£42,475

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate/contracted-out (money purchase)	Contracted-out rate (final salary)
Up to 146.00*	Nil	Nil
146.01 – 770.00	12%	10.6%
770.01 – 817.00	12%	12%
Above 817.00	2%	2%

*This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £107 per week. This £107 to £146 band is a zero rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. Basic State Pension.

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS		
	Contracted-in rate	Contracted-out rate	
		Final salary	Money purchase
Below 144.00**	Nil	Nil	Nil
144.01 – 770.00	13.8%	10.4%	13.8%
770.01 – 817.00	13.8%	13.8%	13.8%
Excess over 817.00	13.8%	13.8%	13.8%

** Secondary earnings threshold.

Class 2 (self-employed)	Flat rate per week £2.65 where earnings exceed £5,595 per annum.
Class 3 (voluntary)	Flat rate per week £13.25.
Class 4 (self-employed)	9% on profits between £7,605 - £42,475 2% on profits above £42,475.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE	ANNUAL ALLOWANCE
2006/2007	£1,500,000	£215,000
2007/2008	£1,600,000	£225,000
2008/2009	£1,650,000	£235,000
2009/2010	£1,750,000	£245,000
2010/2011	£1,800,000	£255,000
2011/2012	£1,800,000	£50,000
2012/2013	£1,500,000	£50,000

ANNUAL ALLOWANCE CHARGE

20% - 50% 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

RATES OF TAX ON DEATH TRANSFERS

2011/2012 2012/2013

Transfers made after 5 April 2012

- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Lifetime transfers to and from certain trusts	20%	20%

**For deaths after 5 April 2012, a lower rate of 36% applies where at least 10% of deceased's net estate is left to charity.*

MAIN EXEMPTIONS

Transfers to

- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£55,000	£55,000
- UK-registered charities	No limit	No limit

Lifetime transfers

- Annual exemption per donor	£3,000	£3,000
- Small gifts exemption	£250	£250

Wedding/civil partnership gifts by

- parent	£5,000	£5,000
- grandparent	£2,500	£2,500
- other person	£1,000	£1,000

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:

- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

CAR BENEFIT FOR EMPLOYEES

The charge for company car benefits is based on the carbon dioxide (CO₂) emissions. There is no reduction for high business mileage users.

For 2012/2013:

- Cars that cannot emit CO₂ have a 0% charge.
- The percentage charge is 5% of the car's list price for CO₂ emissions of 75g/km or less.
- For cars with CO₂ emissions of 76g/km to 99g/km the percentage is 10%.
- Cars with CO₂ emissions of 100g/km have a percentage charge of 11% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 35% (emissions of 220g/km and above).

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards. However, the maximum charge remains 35% of the car's list price.

Car fuel The benefit is calculated as the CO₂ emissions % relevant to the car and that % applied to a set figure (£20,200 for 2012/2013) e.g. car emission 100g/km = 11% on car benefit scale. 11% of £20,200 = £2,222.

1. **Accessories** are, in most cases, included in the list price on which the benefit is calculated.
2. **List price** is reduced for capital contributions made by the employee up to £5,000.
3. **Car benefit** is reduced by the amount of employee's contributions towards running costs.
4. **Fuel scale** is reduced only if the employee makes good **all** the fuel used for private journeys.
5. **All car and fuel benefits** are subject to employers National Insurance Contributions (Class 1A) of 13.8%.

PRIVATE VEHICLES USED FOR WORK

	2011/2012 Rates	2012/2013 Rates
Cars		
On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile
Motor Cycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2011/2012	2012/2013
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£100,000	£25,000
Plant & machinery (reducing balance) per annum	20%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	10%	8%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%
Motor cars: Expenditure on or after 01/04/09 (Corporation Tax) or 06/04/09 (Income Tax)		
CO ₂ emissions of g/km:	110 or less*	111-160
		161 or more
Capital allowance:	100%	18%
	first year	reducing balance
		reducing balance
*If new		
Research & Development:	Capital expenditure	100%

MAIN SOCIAL SECURITY BENEFITS

	2011/2012	2012/2013
	£	£
Child Benefit	First child	20.30
	Subsequent children	13.40
	Guardian's allowance	15.55
Employment and Support Allowance	Assessment Phase	
	Age 16 – 24	Up to 53.45
	Aged 25 or over	Up to 67.50
	Main Phase	
Work Related Activity Group	Up to 94.25	
Support Group	Up to 99.85	
Attendance Allowance	Lower rate	49.30
	Higher rate	73.60
Retirement Pension	Single	102.15
	Married	163.35
Pension Credit	Single person standard minimum guarantee	137.35
	Married couple standard minimum guarantee	209.70
	Maximum savings ignored in calculating income	10,000.00
Bereavement Payment (lump sum)	2,000.00	2,000.00
Widowed Parent's allowance	100.70	105.95
Jobseekers Allowance	Age 16 - 24	53.45
	Age 25 or over	67.50
Statutory Maternity, Paternity and Adoption Pay	128.73	135.45

CAPITAL GAINS TAX

EXEMPTIONS	2011/2012	2012/2013
Individuals, estates etc	£10,600	£10,600
Trusts generally	£5,300	£5,300
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

TAX RATES		
Individuals:		
Up to basic rate limit	18%	18%
Above basic rate limit	28%	28%
Trustees and Personal Representatives	28%	28%
Entrepreneurs' Relief* – Gains taxed at:	10%	10%
Lifetime limit	£10,000,000	£10,000,000

*For trading businesses and companies (minimum 5% employee or director shareholding) held for at least one year.

CORPORATION TAX

	2011/2012	2012/2013
Full rate	26%	24%
Small companies rate	20%	20%
Small companies limit	£300,000	£300,000
Effective marginal rate	27.5%	25.0%
Upper marginal limit	£1,500,000	£1,500,000

VALUE ADDED TAX

	2011/2012	2012/2013
Standard rate	20%	20%
Annual Registration limit	£73,000	£77,000

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