THE CHARTERED INSURANCE INSTITUTE

R06 — FINANCIAL PLANNING PRACTICE

CASE STUDIES – OCTOBER 2013

Case study 1

Graham, aged 45, is married to Mary, aged 39. They have a daughter, Jane, aged 14. As a result of a serious car accident six months ago, Jane is severely physically disabled, but retains full mental capacity. Jane is in need of full time care which is expected to be the case for the rest of her life. Until Jane's accident, Mary was a teacher at a private school, but now cares for Jane on a full-time basis and is investigating if she will be entitled to any State support.

Graham works full time as an aerospace engineer for a multinational company and receives a basic salary of £90,000 gross per annum. He has worked for this employer since he left university. He is a member of his employer's non-contributory defined benefit pension scheme and receives a regular bonus of approximately £12,000 gross per annum. Graham has nominated the death benefits that may be payable on his death to a spousal bypass trust for the eventual benefit of Jane.

As a result of Jane's accident, Graham and Mary have been taking legal action against the insurance company of the driver of the other car involved in the accident, and the insurer has now admitted full liability for Jane's injuries. Jane is to be awarded substantial damages by the court for her continuing care and this will allow Mary to continue looking after her full-time and provide for Jane's welfare both now and in the future. It is expected that the award will be in the region of £4,000,000 in total.

Graham and Mary have never taken significant risks with their money, but are now willing to consider other options. Their home is currently valued at £700,000. They have just completed the repayment of their mortgage following a legacy received by Graham, the balance of which is currently held in their joint deposit account.

Graham and Mary made Wills soon after Jane's accident, leaving everything to each other on first death, and into a disabled person's trust for Jane on second death. Graham's younger sister, Esther, has been named as Jane's guardian and trustee in the event of anything happening to Graham and Mary. Esther has agreed that she would look after Jane full time for as long as necessary.

Graham and Mary's total assets are currently:

Owner	Asset	Amount (£)
Joint	Deposit Account	212,000
Graham	Options	18,000
Mary	Cash ISA	22,000
Graham	Cash ISA	22,000

The options were granted when Graham's employer was bought by a multinational company.

Graham and Mary's financial aims are to:

- make sure Jane is cared for both now and in the future;
- arrange their finances as tax efficiently as possible;
- ensure their investments are in line with their attitude to risk;
- seek to mitigate any potential Inheritance Tax liability.

Case study 2

Emma, aged 38, is married to Jim, aged 42. They have two children, Noah, aged 12, and Hamish, aged 16.

Emma has been running a successful children's clothing company for the past 15 years. Emma owns 75% of the company with Jim owning the other 25% of the shares. The company pays her a salary of £120,000 gross per annum and they both receive dividends when the company's performance allows. In the 2012/2013 tax year the gross dividend paid by the company was £100,000. Emma expects the dividend in the 2013/2014 tax year to be the same.

For the past eight years, Jim has worked for a local charity on a part-time basis, after returning to work when the children started school. He receives a salary of £12,000 gross per annum. In addition, he is also a member of his employer's defined benefit pension scheme. His intended retirement age is 65.

Emma has a self-invested personal pension scheme into which the company has made contributions of £20,000 per year, on her behalf, for the previous eight years. With the accumulated fund, Emma has recently completed the purchase of a commercial property, which has been leased to her company as their headquarters for the next ten years at a rent of £25,000 per annum. The property is worth £450,000 on which there is a mortgage of £150,000.

Jim inherited £400,000 from his parents' estate in March 2005 and immediately invested £120,000 into an onshore life assurance bond which is currently worth £218,000. With the balance, they repaid the mortgage on their jointly owned home, which is now worth £425,000. The bond is held jointly in a distribution fund and no withdrawals have been made. They currently hold £50,000 in their joint current account and would like to consider investing this for growth.

Jim has stated that he would like to review their investments and savings and also to consider some form of savings for their children. Prior to the 2013/2014 tax year they had been saving £100 per month in a savings account from the child benefit Jim receives. The savings account pays 3% gross interest per annum and is in Jim's sole name, for the benefit of their children. The savings account is currently worth £12,000 which Emma and Jim intend to split equally for the benefit of Noah and Hamish when they start University at age 18. In January 2013, Jim elected to no longer receive any further child benefit due to the level of Emma's earnings.

Emma and Jim's financial aims are to:

- review their pension planning arrangements to enable them to maintain their standard of living in retirement;
- review the suitability of their investments;
- ensure their arrangements are as tax efficient as possible.