THE CHARTERED INSURANCE INSTITUTE

R06 — FINANCIAL PLANNING PRACTICE

CASE STUDIES – JULY 2014

Case study 1

David, aged 36, is married to Lyn, aged 35. They have two children, Emma, aged seven, and Sam, aged four. David is a self-employed electrician with taxable net profits of £25,000 gross for the previous tax year. Lyn is employed as a management consultant on a salary of £95,000 per annum gross. Lyn has recently been promoted and her gross salary will increase to £115,000 per annum in August 2014.

Lyn's employer has recently introduced an approved partnership Share Incentive Plan for all senior employees. Lyn has not yet joined this arrangement.

David and Lyn have a joint interest-only mortgage on their home with a current balance of £200,000 outstanding, and a remaining term of 19 years. Their home was recently valued at £250,000. They have an existing level term assurance policy, on a joint life first death basis, with a sum assured of £150,000, for the term of the mortgage. Neither David nor Lyn have any further protection policies.

David and Lyn would like to move to a larger house within the next two years. They jointly own shares in a UK equity open ended investment company (OEIC) into which they pay £250 per month, with the aim of using this to repay their mortgage. The current value of their OEIC investment is £26,000.

Lyn holds a number of individual shareholdings in UK companies, currently valued at £40,000 in total. These shares generated annual dividend income of £1,200 gross in the last tax year. Lyn also holds £25,000 in a deposit account, which receives interest of 1.5% per annum gross.

David holds £15,000 in National Savings & Investments Premium Bonds.

They would like their children to attend private school from the age of 11 to 18.

David and Lyn are both in good health and have a medium attitude to risk.

Their financial aims are to:

- provide financial security in the event of death, long-term illness or disability;
- make provision to move house in two years time;
- ensure that their investments are held as tax-efficiently as possible;
- make provision to fund their children's future private school fees.

Case study 2

Paul, aged 61, has just married Anna, aged 60. Anna finalised her divorce a few months ago. Paul has been divorced for two years. He has two children from his previous marriage, Chelsea, aged 19, and Tom, aged 15. Both children live with Paul and Anna and are financially dependent on them.

Paul is employed as Managing Director of a limited company and owns 100% of its shares which are valued at £500,000. He receives a basic salary of £75,000 per annum gross, and received gross dividends in the last two tax years of £20,000. He anticipates the same dividend in the current tax year. Anna is employed by Paul's company as a part-time secretary and has a basic salary of £12,000 per annum gross.

Paul and Anna recently purchased a new home for £400,000. This home is owned outright on a joint tenancy basis. Anna's mother has recently suffered a fall, and has moved in with the family for the foreseeable long term future.

Paul has a self-invested personal pension scheme (SIPP) with a total asset value of £1,350,000. The plan assets include the yard, from which his company operates. The yard is valued at £500,000 and all remaining funds are held in a trustee bank account.

Anna has a personal pension plan with a fund value of £340,000. She is also in receipt of a scheme pension of £18,000 per annum. Anna has agreed to accept 50% of her ex-husband's funded defined benefit pension scheme under a pension sharing order, as part of her financial settlement on divorce. Her ex-husband's Cash Equivalent Transfer Value (CETV) is £200,000.

Both Paul and Anna are considering their pension crystallisation options. Their total investments are as follows:

Type	Investor	Value	Initial investment
Deposit Account	Joint	£60,000	£59,000
Stocks and Shares ISA	Paul	£127,000	£59,000
Unit Trusts	Paul	£155,000	£37,000
Offshore Life Assurance bond	Paul	£220,000	£150,000

Neither Paul nor Anna have contributed to ISAs in the current tax year and both have stated that they have a medium to high attitude to risk. No withdrawals have been made from any of their investments. Neither Paul nor Anna have made a will.

Their financial aims are to:

- maintain their standard of living in retirement;
- mitigate potential inheritance tax liabilities;
- maximise tax efficiency on their investments;
- make provision for the two children in the event of their deaths.