THE CHARTERED INSURANCE INSTITUTE

CII

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

January 2015 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2014/2015, unless stated otherwise and should be answered accordingly.

It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

Instructions

- Three 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 R06 – Financial planning practice

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper.

- This paper consists of **two** case studies and carries a total of 150 marks.

- 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 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 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.

- Tax tables are provided at the back of this question paper.

- 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 for each case study

Time: 3 hours

Case study 1

*Read the following carefully, then carry out **ALL** of the tasks **(a), (b), (c), (d), (e)** and **(f)** which follow.*

Dennis, aged 45 and Alice, aged 37, have been married for 11 years. They have two children, Paul, aged 10, and Sue, aged 7.

Dennis is employed as a department manager at a large retail store on a basic salary of £48,000 gross per annum. He is also eligible for a performance-related bonus. The company's sick pay scheme will pay 75% of basic salary for the first three months' sickness, reducing to 50% for the next three months. Dennis has been a member of his employer's defined benefit pension scheme for the 15 years that he has worked for the company. The scheme has a death-in-service benefit of two times basic salary and a retirement age of 65.

Alice was not employed until the children went to school but is now working part-time as a receptionist on a basic salary of £12,000 gross per annum. There are no employee benefits provided by her employer. Alice has made no pension provision but has savings of £170,000. This includes an inheritance she received from her late father in January 2013. This money is all held in a two year fixed-term building society deposit account, paying interest of 3% gross per annum, and matures shortly.

Dennis and Alice bought their house for £260,000 when they got married. It is now worth £490,000 and is owned on a tenants in common basis. They have a repayment mortgage with £190,000 outstanding and a term of 14 years remaining. Dennis and Alice have a mortgage protection policy to cover the outstanding mortgage and a joint life level term assurance policy for £100,000, with 18 years remaining. Both policies are payable in the event of first death.

Dennis and Alice have a joint current account with a current balance of £12,000. They do not receive any interest on this account. Dennis has a building society savings account with a current balance of £25,000, paying 1% gross per annum interest. Dennis also has a unit trust, invested in a UK equity growth fund that is currently worth £70,000.

Dennis and Alice are both cautious investors and would like to retain the majority of their money in cash deposits. They do not expect to receive any further inheritances and have not made Wills.

Their financial aims are to:

- provide financial security for the family in the event of serious illness and death;
- receive advice regarding Alice's maturing building society account;
- provide sufficient income for their retirement.

Questions

(a) State the additional information you would need in order to advise Dennis and Alice on how to provide financial security for their family if either of them were to suffer a critical illness. **(10)**

(b) Recommend and justify a suitable protection policy to provide benefits if either Dennis or Alice were to suffer a critical illness. **(12)**

(c) **(i)** State the additional information that you would need in order to advise Alice on the future investment of her maturing fixed-term building society deposit account. **(10)**

(ii) Identify and describe **four** investment risks that Alice will be subject to if she reinvests this money into another fixed-term deposit account. **(8)**

(d) Explain how Dennis can use his UK equity growth unit trust to fully fund NISAs for himself and Alice whilst minimising any potential Capital Gains Tax liability. **(8)**

(e) In order to advise Dennis and Alice on their objective to provide sufficient income for their retirement, state:

(i) the additional information you would need regarding Dennis' employer's defined benefit pension scheme; **(9)**

(ii) the factors that must apply for Alice to be an eligible jobholder when her employer reaches their staging date for auto-enrolment and the minimum contribution that must be payable initially. **(8)**

(f) Explain how Alice's estate would be distributed if she died tomorrow. (*No calculation required).* **(10)**

Total marks available for this question: 75

QUESTIONS CONTINUE OVER THE PAGE

Case study 2

Read the following carefully, then carry out ***ALL*** *of the tasks* ***(a), (b), (c), (d), (e)*** *and* ***(f)*** *which follow.*

Martin, aged 54, and Julie, aged 60, have been married for 32 years, and have three adult children who are financially independent of them. Martin and Julie have two grandchildren, aged one and two.

Martin is employed as a factory line manager and has worked there since leaving school at the age of 17. His basic salary is currently £52,000 gross per annum. The company's sick pay scheme will pay him 50% of his salary for up to three months if he is unable to work. Martin is a member of his employer's group personal pension plan (GPP) to which he contributes 5% gross of his basic salary and his employer also contributes 5%. Martin's normal retirement age is 65 and the policy is invested in a cautious managed fund with a current value of £242,000. There are no other employee benefits provided by Martin's employer.

Julie works as an accounts administrator and her salary is £21,000 gross per annum. If she is unable to work due to illness, her employer will pay her full salary for one month and 50% for the next three months.

Julie has a personal pension plan invested in a fixed interest fund which has a current value of £62,500. She contributes £100 net per month to the plan and her normal retirement age is 65.

Their main assets are:

Asset	Ownership	Current Value
Cash NISA	Martin	£54,450
UK Equity unit trust	Martin	£85,150
Instant access building society account	Martin	£100,000
Cash NISA	Julie	£23,600
Premium bonds	Julie	£2,750
Bank current account	Joint	£3,000
Bank deposit account	Joint	£34,750

Martin and Julie's house, currently valued at £245,000, is owned in their joint names and there is eight years left to run on their capital and repayment mortgage. The outstanding balance is £20,000, and the monthly payment is £250. They have a mortgage protection policy that will pay off the outstanding mortgage if either of them dies.

Martin has recently inherited £100,000, following the death of his grandmother. This has been placed into the instant access building society account shown above. Martin and Julie both have cautious attitudes to risk. They have mirror Wills, leaving everything to each other on first death.

Their financial aims are to:

- provide financial security if Martin suffers a long-term illness;
- improve the tax efficiency of their investments;
- invest money for their grandchildren's future benefit.

Questions

(a) State the **six** main steps of the financial planning process that Martin and Julie's financial adviser should take them through. **(6)**

(b) Martin and Julie would like to know how the financial advice they are being given will be paid for.

State **four** benefits and **four** drawbacks if their financial adviser charges them for the ongoing investment advice:

(i) as a fund based fee; **(8)**

(ii) on an hourly cost basis. **(8)**

(c) Martin is concerned that he and Julie would not be able to maintain their lifestyle if he was unable to work for a long period of time due to sickness or accident.

(i) State the benefits and eligibility rules that apply to Statutory Sick Pay (SSP). **(6)**

(ii) Explain, giving your reasons, why an income protection policy could be a suitable plan for Martin to cover against this eventuality. **(12)**

(d) Explain the actions Martin and Julie could take to improve the tax efficiency of their existing savings and investment portfolio. **(13)**

(e) Martin and Julie would like to provide each of their grandchildren with a lump sum on their 21st birthday.

State **four** benefits and **four** drawbacks of investing under a:

(i) Junior Individual Savings Account (JISA); **(8)**

(ii) discretionary trust. **(8)**

(f) Assuming Martin establishes an income protection policy, state **six** factors to discuss regarding the policy at future review meetings. **(6)**

Total marks available for this question: 75

The tax tables can be found on pages 9 - 15

INCOME TAX

RATES OF TAX	2013/2014	2014/2015
Starting rate for savings*	10%	10%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£2,790*	£2,880*
Threshold of taxable income above which higher rate applies	£32,010	£31,865
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	£50,000	£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 if born after 5 April 1948) §	£9,440	£10,000
Personal Allowance (if born between 6 April 1938 and 5 April 1948) §	£10,500	£10,500
Personal Allowance (if born before 6 April 1938) §	£10,660	£10,660
Married/civil partners (minimum) (if born before 6 April 1935) at 10% †	£3,040	£3,140
Married/civil partners (if born before 6 April 1935) at 10% †	£7,915	£8,165
Income limit for age-related allowances	£26,100	£27,000
Blind Person's Allowance	£2,160	£2,230
Enterprise Investment Scheme relief limit on £1,000,000 max	30%	30%
Seed Enterprise Investment relief limit on £100,000	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

§ *the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).*
† *where at least one spouse/civil partner was born before 6 April 1935.*

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,720	£2,750
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£15,910	£16,010

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£111	£481	£5,772
Primary threshold	£153	£663	£7,956
Upper Accrual Point	£770	£3,337	£40,040
Upper Earnings Limit (UEL)	£805	£3,489	£41,865

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate	**Contracted-out rate (final salary)**
Up to 153.00*	Nil	Nil
153.01 – 770.00	12%	10.6%
770.01 – 805.00	12%	12%
Above 805.00	2%	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £111 per week. This £111 to £153 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 153.00**	Nil	Nil	Nil
153.01 – 770.00	13.8%	10.4%	13.8%
770.01 – 805.00	13.8%	13.8%	13.8%
Excess over 805.00	13.8%	13.8%	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.75 where earnings exceed £5,885 per annum.
Class 3 (voluntary)	Flat rate per week £13.90.
Class 4 (self-employed)	9% on profits between £7,956 - £41,865 2% on profits above £41,865.

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
2013/2014	£1,500,000	£50,000
2014/2015	£1,250,000	£40,000

ANNUAL ALLOWANCE CHARGE

20% - 45% 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.

CAPITAL GAINS TAX

EXEMPTIONS	2013/2014	2014/2015
Individuals, estates etc	£10,900	£11,000
Trusts generally	£5,450	£5,500
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.*

INHERITANCE TAX

RATES OF TAX ON DEATH TRANSFERS	2013/2014	2014/2015
Transfers made after 5 April 2014		
- 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 2014, 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)	£325,000	£325,000
- 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 (CO_2) emissions. There is no reduction for high business mileage users.

For 2014/2015:

- Cars that cannot emit CO_2 have a 0% charge.
- The percentage charge is 5% of the car's list price for CO_2 emissions of 75g/km or less.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 11%.
- For cars with CO_2 emissions of 95g/km to 99g/km the percentage is 12%.
- Cars with CO_2 emissions of 100g/km have a percentage charge of 13% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 35% (emissions of 210g/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 CO_2 emissions % relevant to the car and that % applied to a set figure (£21,700 for 2014/2015) e.g. car emission 100g/km = 13% on car benefit scale. 13% of £21,700 = £2,821.

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

	2013/2014 Rates	2014/2015 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

	2013/2014	2014/2015
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£250,000	£500,000
Plant & machinery (reducing balance) per annum	18%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	8%	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 April 2014 (Corporation Tax) or 06 April 2014 (Income Tax)

CO_2 emissions of g/km:	95 or less*	96-130	131 or more
Capital allowance:	100%	18%	8%
	first year	reducing balance	reducing balance

*If new

CORPORATION TAX

	2013/2014	2014/2015
Full rate	23%	21%
Small companies rate	20%	20%
Small companies limit	£300,000	£300,000
Effective marginal rate	23.75%	21.25%
Upper marginal limit	£1,500,000	£1,500,000

VALUE ADDED TAX

	2013/2014	2014/2015
Standard rate	20%	20%
Annual registration threshold	£79,000	£81,000
Deregistration threshold	£77,000	£79,000

MAIN SOCIAL SECURITY BENEFITS

		2013/2014	2014/2015
		£	£
Child Benefit	First child	20.30	20.50
	Subsequent children	13.40	13.55
	Guardian's allowance	15.90	16.35
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 56.80	Up to 57.35
	Aged 25 or over	Up to 71.70	Up to 72.40
	Main Phase		
	Work Related Activity Group	Up to 100.15	Up to 101.15
	Support Group	Up to 106.50	Up to 108.15
Attendance Allowance	Lower rate	53.00	54.45
	Higher rate	79.15	81.30
Retirement Pension	Single	110.15	113.10
	Married	176.15	180.90
Pension Credit	Single person standard minimum guarantee	145.40	148.35
	Married couple standard minimum guarantee	222.05	226.50
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment (lump sum)		2,000.00	2,000.00
Widowed Parent's Allowance		108.30	111.20
Jobseekers Allowance	Age 16 - 24	56.80	57.35
	Age 25 or over	71.70	72.40
Statutory Maternity, Paternity and Adoption Pay		136.78	138.18