

THE CHARTERED INSURANCE INSTITUTE

R06 — FINANCIAL PLANNING PRACTICE

CASE STUDIES – OCTOBER 2015



Case study 1

Kate, aged 46, has recently divorced and has two children, Sam, aged 16, and Julie, aged 14, who live with her.

Under the terms of the divorce settlement, Kate has recently received a lump sum of £400,000 which is all held in a deposit account with her bank. Kate is not receiving any maintenance payments for the children from her ex-husband. The children are in State schools and, as part of the divorce settlement, Kate is expected to fund the children's university education from the lump sum payment she received.

Kate owns the house that she and her children live in and it is valued at £200,000. There is no mortgage attached to the property. She would like to invest in a buy-to-let property as she has heard that this type of investment can provide good returns.

Kate has a stakeholder pension plan with a current value of £110,000. This is invested in a lifestyle fund. The stakeholder pension has a normal retirement age of 65, offers limited investment choices and has an annual management charge of 1.5%. Kate does not make any pension contributions at present and has no other pension schemes.

In addition to the lump sum of £400,000, under the terms of the divorce, Kate has been awarded a sum of £150,000 from her ex-husband's defined contribution pension plan. The pension provider has stated that this must be transferred to an alternative pension plan within the next three months.

Kate is employed part-time by a small company and earns £15,000 per annum gross. Her employer does not provide any employee benefits at present. She has no life cover or any other protection arrangements in place and is unsure whether she is entitled to any State benefits to support her income.

A mirror Will and a Lasting Power of Attorney were made a few years ago with her ex-husband as attorney but she has not updated either of these documents since they were set up.

Kate is a medium-risk investor and is not expecting to receive any inheritances.

Kate's financial aims are to:

- provide adequate financial protection until her children finish university;
- arrange for the transfer of her ex-husband's pension benefits;
- purchase a buy-to-let property;
- ensure she has an adequate income throughout her lifetime.

Case study 2

Donald, aged 58, and Jackie, aged 55, are married and have two adult children, who are both married and financially independent. They also have four young grandchildren. Donald has recently suffered a heart attack and now takes daily medication. Donald has returned to work, although he is planning to retire in the near future and would like to consider the various options available to him for providing an income for himself and Jackie in retirement.

Donald is employed by a large retailer and receives a salary of £65,000 per annum gross. Jackie is an accounts manager and receives a salary of £25,000 per annum gross.

Donald has a personal pension plan with a fund value of £450,000 which is invested in three funds: a UK equity fund, an emerging markets fund and a with-profits fund. Donald and his employer both contribute 5% of his gross basic salary to this plan. Jackie has a stakeholder pension plan with a fund value of £47,000 and she contributes £50 per month net. Jackie's employer does not currently offer a pension or any other benefits.

Donald and Jackie own their home as joint tenants. This is mortgage-free and valued at £350,000. They plan to leave as much of their estate as possible to their two children and have both made mirror Wills, which leave their assets to each other and thereafter to their children in equal shares. Donald and Jackie are keen to ensure that their assets can be managed on their behalf, should either of them suffer from further illness.

Donald has a medium attitude to risk and Jackie has a low to medium attitude to risk. They have both stated that they are interested in socially responsible investments.

They have the following assets:

Investments	Ownership	Amount
Stocks and shares ISA – UK property fund	Donald	£49,000
Investment trust – Global equity income fund	Donald	£54,000
Unit Trust – European equity fund	Donald	£47,000
OEIC – UK smaller companies fund	Donald	£34,000
Stocks and shares ISA – Corporate bond fund	Jackie	£65,000
Onshore investment bond (unitised with-profits fund)	Joint	£80,000
Bank current account	Joint	£5,000
Bank deposit account	Joint	£60,000

Their financial aims are to:

- ensure that they have sufficient income in retirement;
- improve their tax-efficiency;
- preserve the value of their estate for their children;
- invest in a socially responsible manner.