

THE CHARTERED INSURANCE INSTITUTE

R06 — FINANCIAL PLANNING PRACTICE

CASE STUDIES – JANUARY 2016



Case study 1

James, aged 47, is married to Alex, aged 45. They have two children, Amy, aged 16, and Liam, aged 15. Both children are intending to go to university.

James has recently changed employer, and is now employed as the financial director of a large UK company, with a basic salary of £140,000 gross per annum. He receives three months' basic salary in the event of sickness absence from work and is a member of his employer's group personal pension plan. James is also a member of the company's death-in-service scheme, which provides a benefit of three times his basic salary. James has recently been offered a Save As You Earn (SAYE) Sharesave scheme by his employer.

Alex is employed as a lecturer and receives a basic salary of £28,000 gross per annum. She is a member of her employer's defined benefit pension scheme. Alex has two times salary as a death-in-service benefit and her employer pays one month's salary in the event of sickness absence.

James and Alex own their own home which is valued at £800,000. They have a mortgage of £200,000 outstanding on a capital and interest basis, with 11 years remaining, which is appropriately covered by a joint life first death mortgage protection assurance policy. This policy provides life cover only.

James and Alex are planning to support Amy and Liam through university. They are also keen to try and help them with a deposit for their first homes when they leave university. James and Alex have been considering different investment options to help fund the house deposits.

James has a bank deposit account with a balance of £75,000. Alex has a unit trust invested in a UK Smaller Companies Fund valued at £40,000. Both James and Alex each have a cash ISA, with a balance of £20,000 in each. No ISA investments have been made in the current tax year 2015/2016. James invested £20,000 in an investment trust in 2005 and this is now valued at £76,000.

Both James and Alex believe that they have a medium to high attitude to risk, however neither of them have undergone a risk-profiling exercise. They have both made Wills.

Their financial aims are to:

- provide financial security for the family in the event of death or serious illness;
- review the suitability and tax-efficiency of their investments;
- provide sufficient income for their retirement;
- provide financial support for their children to help them purchase their first homes.

Case study 2

Paul, aged 59, is married to Ann, aged 55. They have one son, Dominic, aged 18, who is financially independent. Ann's mother June, aged 80, moved in with them last year following an accident. It is unlikely that June will be well enough to be able to return to her own home. Paul and Ann's home is mortgage-free and currently valued at £600,000.

Paul works for a large UK company and earns a basic salary of £85,000 gross per annum. Paul's employer operates a defined benefit pension scheme along with a death-in-service benefit of four times his basic salary. Paul's recent pension statement indicates that his pension income, at the scheme's normal retirement age (NRA) of 65, will be £39,000 gross per annum, assuming that he remains in service to NRA. Paul would like to retire from his current employment at age 60, but plans to continue working as a self-employed consultant.

Ann has recently given up her job to care for her mother full-time; she does not intend to return to work in the foreseeable future. Ann has a personal pension plan, with a current value of £163,000, which is invested in a cautious managed fund. Ann is not making any pension contributions at present. Ann would like to use her pension plan to provide an income for her whilst she cares for June.

June's home is due to be sold shortly and has an agreed sale value of £125,000. June has no other assets and her only income is her Basic State Pension.

Paul and Ann have an investment portfolio that they have built up from regular investments and an inheritance from Paul's parents, who both died five years ago. Paul and Ann are not expecting any further inheritances as June is planning to leave her estate to Dominic on her death.

Their current assets are as follows:

Assets	Ownership	Current Value (£)
Home	Joint tenancy	600,000
Bank current account	Joint	14,000
Bank savings account	Joint	90,000
Onshore Investment bond – invested in a unitised with-profits fund	Joint	100,000
National Savings & Investments Premium Bonds	Paul	30,000
ISA - Open-ended investment companies (OEICs)	Paul	115,000
Open-ended investment companies (OEICs)	Paul	82,000
National Savings & Investments Premium bonds	Ann	25,000
ISA - Open-ended investment companies (OEICs)	Ann	72,000

Paul is a medium-risk investor and Ann is a cautious-risk investor. Paul's investment funds are held in a range of UK growth funds and Ann's investment funds are held in a range of UK high-yielding corporate bond funds.

Paul and Ann's financial aims are to:

- seek to mitigate any future potential Inheritance Tax liability for the benefit of their son;
- provide an income for Ann whilst she cares for her mother;
- ensure that they will receive an adequate income in retirement;
- ensure that both Ann and June receive all of the State benefits to which they are entitled.