

R06 — FINANCIAL PLANNING PRACTICE

CASE STUDIES – JULY 2016

Case study 1

John, aged 45, is married to Ann, aged 42. They have two children, Emily, aged 10 and Sam, aged eight.

John and Ann have agreed to have an amicable divorce and have recently contacted solicitors to begin the process of legal separation. They will both remain in their house whilst they arrange their financial affairs. The house is mortgage-free, currently valued at £190,000 and held on a joint tenancy basis. Ann would like to remain in the house until the children finish full-time education. John is happy with this arrangement. Following the completion of their divorce, John plans to live with his retired parents for the next few years.

John works for a large retailer and earns a salary of £50,000 per annum gross. Ann works part-time as a marketing consultant for a local company and earns a salary of £14,000 per annum gross. Ann plans to return to work full-time in three years' time.

John has been a member of his employer's defined benefit pension scheme for 20 years and currently contributes 6% of his gross annual salary. John's employer offers a death-in-service benefit of four times gross salary as well as a group private medical insurance scheme which currently covers the whole family. John also has a personal pension plan to which he no longer contributes. This is invested in a with-profits fund. John has not reviewed this personal pension plan in a number of years. Ann is a member of her employer's group personal pension scheme and both Ann and her employer contribute 6% of her gross salary. This is invested in a multi-asset managed fund.

They have the following assets:

Investments	Ownership	Amount (£)
Stocks and Shares ISA – UK tracker fund	John	60,000
OEIC – UK equity fund	John	80,000
OEIC – Global equity fund	John	45,000
Stocks and Shares ISA – UK corporate bond fund	Ann	60,000
Bank deposit account	Joint	35,000

Emily and Sam have Child Trust Funds with a current value of £3,000 each. These funds are held with a provider who can offer only cash accounts. John and Ann have saved regular small sums into these accounts with a view to funding future university education for Emily and Sam.

John and Ann are in very good health, do not smoke and both have a medium to high attitude to risk. They have recently updated their Wills in anticipation of their divorce which detail any future guardianship arrangements for Emily and Sam. The children will live with Ann but John will have unrestricted access rights to the children. John will pay monthly maintenance to Ann and the amount of this is to be agreed in the near future.

John and Ann's financial aims are to:

- ensure adequate financial protection for their children until Emily and Sam complete their education;
- ensure their assets are invested in line with their attitude to risk;
- arrange for a suitable and tax-efficient division of assets on divorce;
- ensure sufficient funding is in place to meet future university fees.

Case study 2

Joe, aged 62, and Pam, aged 65, are married and have two adult children, both of whom are married and financially independent. They also have three young grandchildren. Joe and Pam are in good health, and do not currently have a financial adviser. Both Joe and Pam plan to retire in three years' time.

Joe is employed as an engineer on a salary of £60,000 per annum gross, and has worked for his current employer for 40 years. Joe is a member of his employer's defined benefits pension scheme which has a 60ths accrual rate. At a recent actuarial valuation, it was confirmed that the scheme is in deficit. The scheme's normal retirement age is 65.

Pam is in part-time employment on a salary of £15,000 per annum gross and is also in receipt of her Basic State Pension of £98 per week. She has heard that she could increase her Basic State Pension by making additional National Insurance contributions. Pam is a member of her employer's group personal pension scheme, valued recently at £24,000.

Joe and Pam own their home as joint tenants. This is mortgage-free and valued at £600,000. They plan to leave as much of their estate as possible to their two children and have both made mirror Wills leaving their assets to each other and thereafter to their children in equal shares. Joe and Pam are considering setting up a trust for their grandchildren with a payment of £100,000.

Joe has a medium to high attitude to risk and Pam has a low to medium attitude to risk.

They have the following assets:

Investments	Ownership	Amount (£)
Stocks and Shares ISA – Corporate bond fund	Joe	80,000
OEIC – UK smaller companies fund	Joe	150,000
Stocks and Shares ISA – Corporate bond fund	Pam	65,000
Bank current account	Joint	35,000
Bank deposit account	Joint	220,000

Joe and Pam's financial aims are to:

- ensure they have a secure income in retirement;
- improve the tax-efficiency of their savings and investments;
- mitigate any potential Inheritance Tax liability for the benefit of their children.