

THE CHARTERED INSURANCE INSTITUTE

AF8 - RETIREMENT INCOME PLANNING



EXEMPLAR - FACT-FIND 2017/2018

You are a financial adviser authorised under the Financial Services and Markets (FSMA) Act 2000. You completed the following fact-find when you met Patrick and Jane Evans recently.

PART 1: BASIC DETAILS		
	Client 1	Client 2
Surname	Evans	Evans
First name(s)	Patrick	Jane
Address	1 Linden Way, Mansfield	1, Linden Way, Mansfield
Date of birth	1.2.1955	3.4.1957
Domicile	UK	UK
Residence	UK	UK
Place of birth	Nottingham	London
Marital status	Married	Married
State of health	Deteriorating	Good
Family health	Good	Good
Smoker	No	No
Hobbies/Interests	Golf	Walking, badminton
Notes:		
Patrick was recently diagnosed with a heart condition which will require ongoing long-term treatment but this will not affect his life expectancy. Patrick will retire in the next few months so that he and Jane can spend some time travelling, visiting family members overseas over the next three years.		

PART 2: FAMILY DETAILS					
Children and other dependants					
Name	Relationship	D.O.B	Health	Occupation	Financially dependent?
Sally	Daughter	02.03.1979	Good	Engineer	No
Ian	Son	10.04.1982	Good	Teacher	No
Notes:					
Sally is married and has two children, aged 5 and 7. Sally moved to Australia with her husband and children and they do not intend to return to the UK in the future.					
Ian lives in the UK and is planning to get married next year. Ian has no children.					

PART 3: EMPLOYMENT DETAILS		
	Client 1	Client 2
Employment		
Occupation	Sales Manager	Physiotherapist
Job title	Manager	
Business name	Tresham Industries	Oakhill Sports Clinic
Business address	Mansfield	Mansfield
Year business started	Not known	Not known
Remuneration		
Salary (gross)	£48,000 per annum	£18,000 per annum
State Pensions	N/A	N/A
Overtime	N/A	N/A
Benefits		
Benefits-in-kind	N/A	N/A
Pension scheme	see Part 11	see Part 11
Life cover	N/A	N/A
Private Medical Insurance	N/A	N/A
Income Protection	N/A	N/A
Self-Employment		
Net relevant earnings	N/A	N/A
Accounting date	N/A	N/A
Partnership/Sole trader	N/A	N/A
Other Earned Income		
	N/A	N/A
Notes:		
	Client 1	Client 2
Previous Employment		
Previous employer	Mansfield UK	N/A
Job title	Sales Administrator	N/A
Length of service	1976-1990	N/A
Pension benefits	see Part 11	N/A

Notes:

Patrick has preserved pension benefits from his first employer.

Jane does not have any previous benefits from any employers and has worked part-time for Oakhill Sports Clinic since she qualified as a physiotherapist in 1990.

PART 4: OTHER PROFESSIONAL ADVISERS

	Client 1	Client 2
Bank	Assure Bank	Assure Bank
Building Society	Midlands Provident	Midlands Provident
Doctor	Dr King	Dr King
Solicitor	Walker Phipps LLP	Walker Phipps LLP
Notes:		

PART 5: INCOME AND EXPENDITURE**Income**

	Client 1		Client 2		Joint	
	Monthly £	Annually £	Monthly £	Annually £	Monthly £	Annually £
State Pensions						
Private Pensions						
Salary (gross)		48,000		18,000		
Benefits-in-kind						
Bank interest (gross)						350
Investment income (gross)						
ISA income		450		900		
Dividend income						710
Notes:						

Expenditure

Household Expenditure	Monthly £			Annually £		
	Client 1	Client 2	Joint	Client 1	Client 2	Joint
Mortgage/Rent						
Council tax						1,600
Buildings and contents insurance				680		
Gas, water and electricity				1,500		
Telephone				700		
TV licence and satellite				600		
Property maintenance				2,500		
Regular Outgoings						
Life assurance (see Part 8)						
Health insurance (see Part 9)						
Savings Plans (see Part 10)						
Car tax, insurance and maintenance				1,000	850	
Petrol and fares				950	700	
Loans (see note below)						
Hire purchase						
School fees						
Childcare						
Further education						
Subscriptions	60	30				
Food, drink, general housekeeping			800			
Pension contributions (see Part 11)	160	24				
Other Expenditure						
Magazines and newspapers						120
Entertainment						2,500
Clubs and sport						2,000
Spending money						2,800
Clothes						1,500
Maintenance						
Other (Holidays)						4,000
Total Monthly Expenditure	220	54	800			
Total Annual Expenditure	2,640	648	9,600	7,930	1,550	14,520
Total Outgoings						36,888

Notes:

Patrick and Jane are unsure of what their expenditure will be in retirement.

Do you foresee any major/lump sum expenditure in the next two years?**Notes:**

Patrick and Jane are planning to travel extensively over the next few years as they are concerned that Patrick's health will deteriorate in the future and prevent them travelling outside the UK. They estimate that their travel plans will cost £70,000 in total over the course of the next three years.

PART 6: ASSETS

	Asset	Client 1 £	Client 2 £	Joint £	Income (Gross) £
1.	Main residence			650,000	
2.	Contents/car			55,000	
3.	Current account – Assure Bank	3,000	1,500		
4.	Savings Account – Assure Bank			35,000	350
5.	OEIC/Unit Trust holdings – UK Recovery funds			42,000	545
6	OEIC/Unit Trust holdings – Emerging Markets Growth fund			33,000	165
7.	Stocks & Shares ISAs – US Equity Tracker fund	30,000			450
	Stocks & Shares ISAs – UK FTSE-100 Tracker fund		30,000		900
8.	Investment Bond (onshore) – Managed fund			85,000	

Investment Funds

Fund	Value £	UK Equity	Global Equity	Property	Fixed Interest	Cash	Total Expense Ratio
UK Recovery (Joint)	42,000	95%				5%	1.64%
Emerging Markets Growth (Joint)	33,000		90%			10%	1.96%
Investment Bond (Joint)	85,000	40%	40%	20%			1.2%
US Equity Tracker (ISA - Patrick)	30,000		98%			2%	0.8%
UK FTSE-100 Tracker (ISA – Jane)	30,000	98%				2%	0.5%

Notes:

Patrick and Jane hold two investment funds in joint names which were purchased many years ago with lump sums of £18,000 in the case of the UK Recovery fund and £15,000 in the case of the Emerging Markets Growth fund. They have not reviewed these funds in recent years.

They have not used their ISA allowances for several years as they have used any excess net income each year to repay their mortgage and make gifts to their children.

Patrick and Jane took out their investment bond with the proceeds of an inheritance from Jane's mother. They have not taken any withdrawals from this bond, nor have they made any additional investments into the bond since it was purchased with an initial investment of £55,000 in June 2010.

Patrick and Jane currently draw the income from their various investment funds and ISAs and have used most of this to make gifts to their children and grandchildren within the annual gift exemptions.

PART 7: LIABILITIES

Mortgage Details	Client 1	Client 2	Joint
Lender			
Type of mortgage			
Amount outstanding			
Start date			
Term/maturity			
Monthly payment			
Interest rate			
Life policies (see Part 8)			

Notes:

Patrick and Jane have recently repaid their mortgage in full.

Other Loans	Client 1	Client 2	Joint
Lender			
Type of loan			
Amount outstanding			
Start date			
Term/maturity			
Monthly payment			
Interest rate			
Payment protection			

Notes:

Patrick and Jane have no outstanding loans.

Other Liabilities (e.g. tax)**Notes:**

Patrick and Jane have no outstanding liabilities.

PART 8: LIFE ASSURANCE POLICIES

	Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust?	Surrender Values £

Notes:

Patrick and Jane do not currently hold any life assurance policies.

PART 9: HEALTH INSURANCE POLICIES

Type	Life Covered	Current Sum Assured £	Start Date	Term/ Review	Deferred Period	Premium £

Notes:

Patrick and Jane do not have any health insurance policies.

PART 10: REGULAR SAVINGS

Type	Company	Ownership	Fund	Amount Saved £	Sum Assured	Maturity Date	Current Value £

Notes:

Patrick and Jane do not currently make any regular savings.

PART 11: PENSION DETAILS**Occupational pension scheme**

	Client 1	Client 2
Member of employer's scheme		
Type of scheme		
Date joined		
Retirement age		
Pension benefits		
Death benefits		
Dependant's benefits		
Contracted-in/out		
Contribution Level (employee)		
Contribution Level (employer)		
Fund type		
Fund value		
Notes:		
Patrick and Jane do not have any occupational pension scheme entitlements.		

Additional Voluntary Contributions (including free standing additional voluntary contributions)

	Client 1	Client 2
Type		
Company		
Fund		
Contribution		
Retirement date		
Current value		
Date started		
Notes:		
Patrick and Jane do not have any additional voluntary contribution schemes.		

Personal Pensions

	Client 1	Client 2
Type of scheme	Group Personal Pension	Group Personal Pension
Company	UK Life Ltd	Midlands Life Ltd
Fund	UK Equity tracker (50%) UK Gilt & Fixed Interest (50%)	Cautious Managed Lifestyle (100%)
Gross Contributions	5% employee/5% employer	2% employee/2% employer
Scheme Retirement date	February 2020	April 2022
Fund value	£162,000	£33,000
Year started	1990	1990

Notes:

Patrick and Jane are both members of their employer's Group Personal Pension schemes to which both they and their employers currently contribute.

Previous pension arrangements

	Client 1	Client 2
Employer	Mansfield UK	
Type of scheme	Defined benefit	
Date joined scheme	1976	
Date left	1990	
Preserved benefits	£4,700 per annum (gross)	

Notes:

Patrick's defined benefit scheme became insolvent a few years ago and his benefits will be provided by the Pension Protection Fund.

This pension comes into payment at age 65.

It also provides a spouse's pension of 50% of Patrick's entitlement on death.

State Pension

	Client 1	Client 2
State Pension	See below	See below
Total	See below	See below

Notes

Patrick and Jane have received a State Pension forecast and both are entitled to the full flat-rate State Pension on their State Pension ages.

PART 12: INHERITANCES

Wills	Client 1	Client 2
Do you have a current Will?	Yes	Yes

Notes:

Patrick and Jane made their Wills several years ago leaving all of their assets to each other and then to their children in equal shares on second death.

Trusts	Client 1	Client 2
Are you a beneficiary under a trust?	No	No
If yes, give details		
Are you a trustee?	No	No
If yes, give details		

Notes:

Gifts	Client 1	Client 2
Give details of gifts made	£1,000 per year	£1,000 per year

Notes:

Patrick and Jane have gifted monies to their children and grandchildren for the past few years to use some of their annual gift exemptions. These gifts have been funded from the income generated by their various investments.

Inheritances	Client 1	Client 2
Give details of any inheritances received or expected	See notes below	See notes below

Notes:

Patrick and Jane have already received various small inheritances from family members over the past ten years. They do not expect to receive any further inheritances.

PART 13: ATTITUDE TO RISK

What level of risk are you prepared to take to achieve your financial objectives?

Notes:

Patrick and Jane have always had an adventurous attitude to risk but both feel that this level of risk is no longer appropriate. They believe that a low to medium risk level is now necessary and would like to review their current investments, taking into consideration their change of position following Patrick's early retirement.

PART 14: BUSINESS RECORDS**Compliance**

Date fact-find completed	31.07.17	
Client agreement issued	31.07.17	
Data Protection Act	31.07.17	
Money laundering	31.07.17	

Consultations

Dates of meetings	31.07.17	
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Marketing

Client source		
Referrals		

Documents

Client documents held		
Date returned		
Letters of authority requested		

Notes:**PART 15: OTHER INFORMATION**

Jane may continue to work part-time as a physiotherapist for the next five years. Her employer is willing to provide continuing employment to Jane on a flexible basis to fit in with her travel arrangements. Jane expects to earn a salary of £10,000 per annum (gross) from this continuing employment due to her reduced working hours.

Patrick and Jane are planning to sell their current home to release funds of approximately £200,000 after all fees and charges to provide additional income in retirement. They expect to sell their home and purchase a new property for approximately £400,000 in the next two or three years.

Clients' Financial Objectives:**Immediate objectives:**

- To ensure that Patrick and Jane have sufficient capital for the next three years to accommodate their travel plans.
- To ensure their existing investments and pension arrangements are suitable following their recent change in circumstances.

Longer-term objectives:

- To ensure that Patrick and Jane can generate adequate joint income of £45,000 per annum (gross) in today's terms throughout their retirement.
- To arrange a suitable investment strategy for the residual proceeds of the sale of their home.

Assignment 1 (2500 words)

Assess the adequacy of Patrick and Jane's current financial arrangements to meet their immediate needs and objectives. You should analyse any strengths or weaknesses in their current financial position.

(Student Guidance: No recommendation is required. Any calculations that you use to support your assessment will not form part of the word count).

Assignment 2 (2500 words)

Patrick and Jane's attitude to risk has recently changed to low to medium due to their recent change in circumstances. Recommend and justify how their investment portfolio's asset allocation and product selection should be adjusted.

(Student Guidance: Candidates should take into consideration any tax implications for each of their recommendations).

Assignment 3 (3000 words)

Recommend and justify a suitable and tax-efficient investment strategy for Patrick and Jane to enable them to generate a sustainable income, from the date of Patrick's retirement, to fund their longer-term needs and objectives.

(Student Guidance: Candidates should assume that Patrick and Jane have released the sum of £200,000 from the sale of their property. Candidates should take into consideration all of Patrick and Jane's assets and pensions in formulating recommendations).

AF8 – Assignment 1

Summary of current circumstances

Patrick is aged 62 and was recently diagnosed with a heart condition which will require ongoing long-term treatment. Patrick will retire in the next few months so that he and Jane can spend some time travelling to visit family members overseas over the next few years. Jane is aged 60 and may continue to work part-time as a physiotherapist for the next five years. Her employer is willing to provide continuing employment to Jane on a flexible basis to fit in with her travel arrangements. Jane expects to earn a salary of £10,000 per annum (gross) from this continuing employment due to her reduced working hours.

Patrick and Jane are planning to sell their current home to release funds of approximately £200,000 to provide additional income in retirement. Their home is on the market and they expect to sell this and purchase a new property with a value of £400,000 in the next few years. Patrick and Jane have always had an adventurous attitude to risk but now feel that this level of risk is no longer appropriate. They believe that a more cautious investment approach is now necessary and would like to review their current investments, taking into consideration their change of position following Patrick's early retirement.

They estimate that their travel plans will cost £70,000 in total over the course of the next three years and once they are fully retired they estimate that they will require £45,000 per annum.

Summary of current income position

Patrick currently earns £48,000 per annum (gross) and receives £450 ISA income per annum. Jane currently earns £18,000 per annum (gross) and receives £900 per annum from her ISA. They also receive £350 per annum in deposit interest and £710 per annum from jointly-held Unit Trusts. When Patrick retires and Jane reduces her hours, their income will drop by £56,000 per annum.

Summary of Total Assets

Asset	Client 1 £	Client 2 £	Joint £
Main residence	650,000		
Contents/car			55,000
Current account – Assure Bank	3,000	1,500	
Savings Account – Assure Bank			35,000
OEIC/Unit Trust holdings – UK Recovery funds			42,000
OEIC/Unit Trust holdings – Emerging Markets Growth fund			33,000
Stocks & Shares ISAs –US Equity Tracker fund	30,000		
Stocks & Shares ISAs – UK FTSE-100 Tracker fund		30,000	
Investment Bond (onshore) – Managed fund			85,000
Money purchase pension plans	162,000	33,000	
Total illiquid assets	650,000		55,000
Total liquid assets	195,000	64,500	195,000
Total	845,000	64,500	250,000

Patrick and Jane's immediate objectives are as follows:

- To ensure that Patrick and Jane have sufficient capital for the next few years to accommodate their travel plans.
- To ensure their existing investments and pension arrangements are suitable following their recent change in circumstances.

Strengths of their current financial position

- They have a substantial wealth of approximately £1.16 million, of which £454,500 is held in liquid assets.
- They are prepared to take some risk with their capital in order to achieve their objectives although they now wish to reduce the level of risk within their pension and investment portfolios.
- They have no outstanding liabilities.
- They don't appear to have any protection needs.
- Their children are no longer financially dependent on them.
- Both have sufficient NI record for State Pensions which will become payable from age 66 and will provide a guaranteed income along with some inflation-proofing.
- Patrick has a pension payable by the Pension Protection Fund which comes into payment from age 65. This will also provide a guaranteed inflation-linked income and also includes a 50% spouse's pension.
- Savings interest received from deposit holdings is within their personal savings allowance and will not therefore be subject to tax
- They each hold monies in ISAs which are tax-efficient as the gains are free from CGT and the dividends received from their Unit Trusts are within their £5,000 dividend allowance and therefore also not subject to tax.
- They don't appear to have utilised their CGT allowance for this tax year
- Both are currently contributing to pensions which will provide basic rate tax relief for Jane and higher rate tax relief for Patrick. Pensions are also tax-efficient as the growth within the pensions will be free of CGT and Income Tax. The pension will also provide the option to take a PCLS of up to 25% which will also be tax-free.
- Due to their future spending plans, both for the next 3 years and also during retirement, it is unlikely they will have an IHT liability going forward although they will have a small liability at present.
- They don't appear to have accessed benefits flexibly so are not constrained by the Money Purchase Annual Allowance (MPAA), so both can maximise pension contributions for this tax year
- In future tax years Patrick can contribute £3,600 gross and Jane can contribute £10,000 gross to a pension
- Neither are likely to breach the Lifetime Allowance with pensions so no tax charges will apply on benefit crystallisation
- They currently have IHT nil rate bands of £325,000 each and a residence nil rate band of £100,000, so a total of £850,000 in allowances. The main residence nil rate band will continue to increase by £25,000 per annum up until 2020 which will provide them with an overall allowance of £1,000,000. The value of their property would allow them to fully benefit from the main residence allowance, even after they have downsized.

Weaknesses of their current financial position

- The house sale may not proceed which would reduce their liquid capital or they may have to consider alternatives such as equity release
- They have limited guaranteed income in retirement, both State Pensions and pension from the Pension Protection Fund will only provide approximately £25,000 which is less than their desired £45,000 per annum
- Both State Pensions will commence at age 66 which doesn't match either of their selected retirement ages
- They do not expect to receive any further inheritances
- Patrick may not have earned enough to receive higher rate tax relief on pension contributions, depending on when he retires
- Neither of them fully fund pensions each tax year, and have therefore missed out on the valuable tax benefits associated with a pension
- They also haven't fully funded ISA's each tax year, and have therefore missed out on the valuable tax benefits associated with an ISA
- They currently have an IHT liability of £45,800 as their estate value is £964,500, which exceeds their total allowance of £850,000.
- Their overall ISA & Unit Trust asset allocation does not meet their attitude to risk.
- Their overall ISA & Unit Trust asset allocation does not offer sufficient diversification

Objectives

1. Fund travel plans for next 3 years

Annual Income for next 3 years:

Patrick will have no salary once he retires. He will start to receive his pension from the Pension Protection Fund within the next 3 years. I have assumed this will only be a minimal amount as it will only be a part-year payment within their 3 year plan.

Jane: £30,000 (£10,000 x 3 years)

Income from Savings and Investments: £7,230 (£2,410 x 3 years)

Regular expenditure: £110,664 (£36,888 x 3 years)

Additional lump sum expenditure: £70,000 (for travel)

Shortfall: £180,664 - £37,905 = £142,759.

If the house sale didn't proceed then Patrick and Jane would need to use existing assets to fund the shortfall.

Pensions

From a taxation perspective, as Patrick will be a non-taxpayer for the next two tax years, it would be beneficial to withdraw monies from his pension to utilise his available personal allowance of £11,500. Withdrawals from pensions are typically 25% tax free and the remaining 75% is taxable under PAYE. I would recommend this is done via UFPLS to ensure he crystallises less of his overall benefits. In order to achieve an amount equal to his personal allowance he would require a lump sum of £11,500. He would need to crystallise approx £15,333.32 each year which would provide £30,667 of their required shortfall.

Patrick currently earns £4,000 per month, so he wouldn't be able to do this for the current tax year or once his State Pension and pension from the Pension Protection Fund commence. These payments will utilise his personal allowance and therefore any amounts taken in excess of 25% will be liable to tax under PAYE.

As Patrick is currently planning to retire, he would do this from next tax year. Whilst it will count as benefit crystallisation and therefore trigger the Money Purchase Annual Allowance, this won't affect him because he will have no ability to contribute more than £3,600 per annum to a pension and therefore the Money Purchase Annual Allowance cap is not an issue. Based on their IHT position it is likely that they will require approximately £20,000 per annum from their savings and investments once fully retired, this is likely to remove any IHT liability therefore withdrawing monies from a pension instead of an ISA shouldn't have any impact from an IHT perspective.

Patrick would also need to check with his pension provider to ensure they allow benefits to be accessed flexibly. Any amount above this should be left in his pension for future years.

As Jane will continue to have earnings of £10,000, she has limited scope to do this but could do the same for the £1,500 remaining of her personal allowance. As Jane is still contributing to the workplace scheme though, it is unlikely to be an option available for her. Her pension should be left in situ for the moment.

Investment Bond

As the Investment Bond is less tax-efficient than their Pensions, ISAs & Unit Trusts it should be surrendered and the £85,000 can be used towards their shortfall. There will be no further tax to pay on surrender as covered in the second objective section. Whilst it could be used for 5% tax-deferred withdrawals, it is unlikely these will be required as Patrick will no longer be a higher rate tax-payer so won't need any withdrawals to be tax-deferred. The small element of life assurance usually associated with Bonds is not a valuable form of life cover and would have no impact on the decision to surrender the bond.

Unit Trusts

As these are less tax-efficient than their ISAs, they should take the remaining shortfall from these holdings. They could each use their £11,300 CGT allowance which when added to their original investment amounts, they could easily take £27,092 without incurring a tax liability.

Summary of withdrawals:

Patrick Pension:	£30,667
Investment Bond:	£85,000
Unit Trusts:	£27,092
Total:	£142,759

I'm not sure whether inflation has already been factored into Jane's salary or their £70,000 travel plan funds. Equally I am unsure if their annual income requirements will need to increase with inflation. I have not increased the figures by inflation but it would take an extra £10,000 on top of what they already require and this could be taken from deposits or their Unit Trusts.

I would not look to use any of their existing deposits as they already have a large amount of their liquid assets invested. The deposits should be retained for emergency purposes and to add further diversification to their overall portfolio.

This course of action would reduce their liquid assets to approximately £300,000 to use towards future retirement income planning.

Assuming the house sale went ahead, it would free up an additional £200,000 which could easily provide for the shortfall over the next 3 years. Patrick should still access his pension to ensure he maximises his personal allowance when taking withdrawals as he will lose this opportunity in the future when his Pension Protection Fund pension and State Pension come into payment. The remaining shortfall could be then taken from deposits and all their investments and pensions could be left intact.

2. Ensure existing investments remain appropriate following change in circumstances

Due to Patrick's health condition and planned retirement, they feel it is no longer appropriate to take an adventurous risk approach with their portfolio. They now believe that a more cautious investment approach is necessary and would like to review their current investments. With this in mind, I would make the following comments:

Patrick

- US Equity Tracker ISA does not offer sufficient asset diversification. This fund is high risk and does not match his revised attitude to risk. This fund should be switched to an appropriate fund with the correct risk and asset allocation.
- Group Personal Pension UK Equity Tracker fund does not offer sufficient asset diversification. This is too high risk and does not match his revised attitude to risk. This fund should be switched to an appropriate fund with the correct risk and asset allocation.
- Group Personal Pension Balanced Managed fund is sufficiently diversified but does not match his revised attitude to risk. This fund should be switched to an appropriate fund with the correct risk and asset allocation.

Jane

- UK FTSE 100 Tracker ISA does not offer sufficient asset diversification. This fund is high risk and does not match her revised attitude to risk. This fund should be switched to an appropriate fund with the correct risk and asset allocation.
- Group Personal Pension Cautious Managed Lifestyle fund is sufficiently diversified and matches her attitude to risk. The investment approach is not appropriate as they don't appear to be planning to purchase an annuity. This fund should be switched to an appropriate fund with the correct risk and asset allocation.

Joint holdings

- UK Recovery Unit Trust does not offer sufficient asset diversification. This fund is high risk and does not match their revised attitude to risk. This fund should be switched to an appropriate fund with the correct risk and asset allocation.
- Emerging Markets Unit Trust does not offer sufficient asset diversification. This fund is too high risk and does not match their revised attitude to risk. This fund should be switched to an appropriate fund with the correct risk and asset allocation.
- Investment Bond Managed fund is sufficiently diversified but it may not match their revised attitude to risk. They should consider switching to an appropriate fund with the correct risk and asset allocation.

Tax considerations

- Fund switches within their ISAs will be tax-free
- Fund switches within their Pensions will also be tax-free
- Any capital gains on the Unit Trusts would be split between them
- Switches within their Unit Trusts would be liable to CGT but they could each offset their annual exemption of £11,300 against any gains.
- As Patrick is currently a higher rate taxpayer he will pay 20% on any gains made in excess of their CGT exemption on encashment of the Unit Trusts
- Jane is currently a basic rate taxpayer and she will pay 10% on any gains made in excess of their CGT exemption on encashment of the Unit Trusts
- The Unit Trusts can be transferred to Jane prior to encashment so gains will be subject to 10% rather than 20% Capital Gains Tax.
- The investment bond has tax deducted at source and therefore is not as tax-efficient as the pensions, ISA or Unit Trusts
- Any gains on the Investment Bond would be split between them
- Jane would not have any tax liability on encashment of the Investment Bond due to the level of gains and the availability of top-slicing as she is a basic rate taxpayer.
- As Patrick is currently a higher rate tax payer he will pay 20% on any gains and will not have top-slicing available
- It is possible to assign the Bond to Jane prior to encashment which would remove the tax liability on Patrick.
- The pension contributions that Patrick and Jane are currently making will extend their basic rate tax threshold and therefore reduce the tax liability when considering encashment of the Investment Bond or Unit Trusts

Overall summary

On balance, I feel Patrick and Jane have adequate provisions to meet their immediate objectives without jeopardising their longer-term objectives. They could achieve their immediate objectives even if the house sale doesn't go ahead in the next few years and still have sufficient assets to provide for their longer-term retirement objectives. This assumes that the house sale happens at a later date or they use equity release. Obviously, their income requirements both now and in retirement would reduce the amount of assets that are available for their beneficiaries to inherit.

Examiner Comments

The assignments cover the retirement income planning process and take into consideration all assets to achieve the income goals of the clients throughout retirement.

This particular assignment is focused on the initial assessment of the client's current arrangements to meet their immediate needs and objectives and asks candidates to analyse any strengths and weaknesses in Patrick and Jane's current arrangements.

The mark given to this assignment is 60.

Areas where the assignment scored highly include the following:

- There is a clear and concise review of their current financial position including their income from all sources and identification of liquid and non-liquid assets
- There is a detailed exploration of the strengths and weaknesses in their current arrangements.
- Consideration has been given to tax-efficiency and interaction with tax allowances e.g. the Money Purchase Annual Allowance.
- Consideration has been given to the suitability of their individual pension and investment funds following their change in circumstances.
- Attention has been given to Patrick and Jane's other objectives and the interaction of these various objectives in their longer-term planning strategy.

Areas for further improvement include the following:

- A cashflow illustration could have been included to demonstrate the adequacy of their current arrangements.
- Some references or suitable examples should have been included to demonstrate further reading, e.g. HMRC regulations on the Money Purchase Annual Allowance.
- Structure could have been enhanced through use of tables and visual representations, i.e. graphs, pie charts.

AF8 – Assignment 2

Scope of Advice

Review all of Patrick and Jane's assets to see how they are positioned following the recent changes in circumstances, notably Patrick's health and impending retirement.

We have established that Patrick and Jane have an approximate shortfall of £180,000 of capital over the next three years although some of this can be met from existing income sources.

Annual Income for next three years:

Patrick - Depending on when he retires, Patrick may receive a limited salary for the current tax year. His pension from the Pension Protection Fund will commence payment within the next three years but I have assumed zero income for this as it will only be a minimal amount and it will only be a part-year payment within their three-year plan.

Jane - £30,000: (£10,000 x 3 years)

Income from Savings and Investments: £7,230 (£2,410 x 3)

Regular expenditure - £110,664 (£36,888 x 3)

Additional lump sum expenditure - £70,000 (for travel plans)

Shortfall = £180,664 - £37,230 = £143,434

Following the review and recommendations to be made later in this assignment, their income from existing and new investments will increase to approximately £8,000 per annum. This will reduce the overall shortfall to £125,000. I have assumed that the ISAs and Collectives, currently valued at £275,000 will produce a yield of 3% per annum.

Assumptions

- I have assumed Patrick will retire in September and therefore he will have earned income of £24,000 (gross) for the current tax year ($£48,000 / 12 = £4,000$ per month, therefore 6 months x £4,000 = £24,000).
- I have assumed Jane will reduce her hours with effect from September and will therefore have earned income of £14,000 for this tax year based on the assumption that her earnings drop to £10,000 (gross) per annum after September as follows: Up to September - £18,000 / 12 = £1,500 per month. After September - £10,000 / 12 = £833.33 per month.
- Therefore, Jane will have the following earnings: 6 months earning £1,500 ($£1,500 \times 6 = £9,000$) + 6 months earning £833.33 ($£833.33 \times 6 = £5,000$) = £14,000
- I have assumed that the Patrick and Jane have downsized their property and included the £200,000 surplus capital within their overall assets.
- Patrick and Jane require an emergency fund and accessible deposits monies totalling £40,000.
- Maximum tax relievable pension contributions available to them are as follows:

Patrick £24,000 (gross) earned income
 Monthly contribution £4,000 x 5% = £200
 £200 x 6 = £1,200
 £24,000 - £1,200 = £22,800 gross
 £22,800 x 0.8 = £18,240 net contribution

Jane £14,000 earned income
 Monthly contribution (£1,500 x 2% = £30 x 6 = £180) + (£833.33 x 2% = £16.66 x 6 = £100) = £280
 £14,000 - £280 = £13,720 gross
 £13,720 x 0.8 = £10,976 net contribution

Review of Existing Assets

As part of my analysis I have reviewed Patrick and Jane's assets and recommend the following actions:

Patrick				
Provider	Policy Type	Funds Held	Value	Action
S&S ISA	ISA	US Equity Tracker	£30,000	Switch all funds
UK Life Ltd	Pension	UK Equity Tracker (50%)	£81,000	Switch all funds
		Balanced Managed (50%)	£81,000	
Assure Bank	Cash Deposit	N/A	£3,000	Retain

Jane				
Provider	Policy Type	Funds Held	Value	Action
S&S ISA	ISA	US FTSE 100 Tracker	£30,000	Switch all fund
Midlands Life Ltd	Pension	Cautious Managed Lifestyle	£33,000	Switch all fund
Assure Bank	Cash Deposit	N/A	£1,500	Retain

Joint Assets				
Provider	Policy Type	Funds Held	Value	Action
Assure Bank	Cash Deposit	N/A	£35,000	Retain
Assure Bank	Cash Deposit	N/A	£200,000	Invest £100,000 and retain £100,000
OEIC/Unit Trust	OEIC/Unit Trust	UK Recovery Emerging Markets Growth	£42,000 £33,000	Switch £55,600 and retain all remaining funds
Investment Bond	Investment Bond	Managed	£85,000	Surrender all funds

My Recommendations

Having reviewed your existing plans, the reasons for my recommended actions are detailed below:

- Patrick and Jane should retain £164,500 currently held with Assure Bank. This will provide sufficient capital of £125,000 to provide for regular spending and shortfall in funding for their travel plans as well as providing £40,000 as an emergency fund. This overall amount is also within the £85,000 per person FSCS limit so I am happy to hold it all with one provider. The interest generated will also be within each of their personal savings allowance.
- £100,000 of this deposit fund will come from the proceeds of the house sale. They already hold £40,000 on deposit and approximately £30,000 will come from an UFPLS payment from Patrick's pension of £15,000 per annum for the following two tax years to make full use of his Personal Allowance.
- They should retain £10,860 of the UK Recovery Fund and £8,540 of the Emerging Markets funds within their Unit Trusts/OEIC. Whilst both these funds are unsuitable as they are deemed higher risk than their assessed low to medium approach, they should be retained until next tax year so that no CGT liability is triggered by a fund disposal. Disposals from the Unit Trust will be taken in proportion to the current fund holdings: 56% from the UK Recovery fund and 44% from the Emerging Markets Growth fund as there is no preference for encashing either of the holdings in terms of priority over the other fund.

- Given the high-risk nature of the funds, I have considered whether it is more appropriate to encash and incur the liability. It is possible that the monies left in these funds could fall by more than the CGT liability (£1,940) and if this were to be the case, Patrick and Jane would be worse off. Given the size of the funds in relation to their overall portfolio, I would leave the funds invested and take the risk that the funds do not fall by 10% or more before the start of the new tax year which would leave them in a worse financial position.
- The following funds should all be switched as they are deemed higher risk than their revised attitude to risk of low to medium:
 - Patrick:** US Equity Tracker (ISA)
UK Equity Tracker (Pension)
Balanced Managed (Pension)
 - Jane:** US FTSE 100 Tracker (ISA)
 - Joint:** UK Recovery (£31,140 – UT/OEIC)
Emerging Markets Growth (£24,460 – UT/OEIC)
Managed (Investment Bond)
- Jane should also switch the Cautious Managed Lifestyle fund within her Pension. Whilst this may currently match her attitude to risk, it should still be switched due to the investment strategy adopted by the fund. The fund mix automatically alters as Jane approaches her selected retirement age to reduce the risk and match the asset mix required to purchase an annuity. As she is not planning on purchasing an annuity at her retirement age, I recommend this is switched to ensure the asset allocation remains appropriate for her longer-term investment horizon. I have assumed that no annuity purchase is required as they have £20,000 guaranteed income which covers essential expenditure and therefore can afford to take a risk in accepting a fluctuating income with the remainder of their income requirements.
- I have not considered any specific IHT-mitigation products such as Trusts as I believe their withdrawal plans will reduce the value of their assets over time. This will remove any potential IHT liability. I also believe the introduction of the residence nil rate band and increasing nil rate band from 2020 will also remove any possibility of them incurring an IHT liability on second death in future years.

Changes to existing assets

Following the review of existing investments, other than those to be retained, I recommend that they are invested into the following products:

Patrick	
Product	Investment Amount
Workplace Pension internal switch	£162,000
Workplace Pension top-up (net)	£18,240
Stocks and Shares ISA fund switch	£30,000
Stocks and Shares ISA top up	£20,000

Jane	
Product	Investment Amount
Workplace Pension internal switch	£33,000
Workplace Pension top-up (net)	£10,976
Stocks and Shares ISA fund switch	£30,000
Stocks and Shares ISA top up	£20,000

Joint	
Product	Investment Amount
OEIC / Unit Trust fund switch	£55,600
OEIC / Unit Trust fund top up	£115,784

Product Rationale

Pension

Patrick should invest £18,240 into a personal pension plan. His contribution will benefit from basic rate tax relief of 20% which is received at source. This means his net contribution will be grossed up to £22,800 by his pension provider.

Jane should invest £10,976 into a personal pension plan. Her contribution will benefit from basic rate tax relief of 20% which is received at source. This means her net contribution will be grossed up to £13,720 by her pension provider.

Pensions allow their monies to grow free of income tax and capital gains tax. When it comes to withdrawing the monies, 25% of the fund can be taken as a pension commencement lump sum (PCLS) and will be free of income tax. Withdrawals in excess of the PCLS will be liable to income tax at their marginal rates however, due to the tax relief received at outset and tax-efficient growth, this is still likely to be most favourable for their circumstances as they are likely to only pay basic rate tax on any taxable withdrawals.

Stocks and Shares ISA

Patrick and Jane should each invest £20,000 within a Stocks & Shares ISA.

ISAs are a tax-efficient investment vehicle as they are not subject to Income Tax or Capital Gains Tax on withdrawals from the investment.

Joint Unit Trust / OEIC

A further £115,784 should be invested within a UT/OEIC.

Based on the amounts any dividends produced will be within each of their £5,000 annual dividend allowance and therefore will not be liable to tax. Any gains in excess of their annual CGT exemption will be liable to tax at 10% if you are a basic rate tax payer or 20% if it pushes you into higher rate tax.

With further planning, it is possible to utilise future year's Pension & ISA allowances with monies currently held in Unit Trusts and OEICs.

Stakeholder Pension Plan

I have considered a Stakeholder Pension however the ongoing costs associated with this product are more expensive than the products I have recommended within both of your Workplace pension schemes and therefore I have discounted a Stakeholder.

Your Attitude to Risk

Following detailed discussions, it was established that Patrick and Jane's attitude to risk should be revised from 'adventurous' to low to medium risk. This takes into consideration their change in circumstances with Patrick's recent health issues as well as their impending retirement.

Investment Strategy & Fund Recommendations

My preferred investment strategy is a Multi-Asset approach as it is important for individuals to invest in a range of different asset classes (for example cash, gilts, corporate bonds, property and stock market based investments). Asset classes tend to have different correlation to each other and therefore it is difficult to predict which will be the best performing asset class each year. By investing in multi-asset funds, you are not reliant on the performance of one asset class and where one asset class performs well, it will reduce the impact of an asset class that hasn't performed as well over the same time-period. By investing in a range of asset classes it will provide diversification which should reduce the overall risk of their portfolio whilst providing the potential for the target level of growth.

Whilst Patrick and Jane could adopt a single asset allocation investment approach and rebalance these funds on an ongoing basis, it would be difficult to take account of any changes in the markets as quickly as a professional fund manager. Equally, Patrick and Jane have plans to travel extensively over the next few years and may be unable or unwilling to review their investment portfolio sufficiently to take into account economic and market changes. On this basis, I have decided that the multi-asset approach is more appropriate as the fund manager is able to make an immediate decision dependent upon market conditions.

The funds I have recommended have all been assessed and are considered appropriate for their objectives. When considering whether a fund is appropriate, it is important to consider a range of factors including the fund management group, manager ability/tenure, investment processes and overall charges (Total Expense Ratio). I also recommend a number of Multi-Asset funds to offer diversification across fund manager and fund manager group.

Overall, the funds I have used meet Patrick and Jane's risk profile and are well placed to help meet their objectives of providing an income and growing capital for use in retirement. I have recommended that all the investments are invested in a range of Cautious Managed Multi-Asset funds with the exception of £30,000 within Patrick's Pension, as this money will be withdrawn over the next two tax years and will be required to fund their spending and travel plans. I recommend that this amount is held within a Cash fund within the Pension.

The Cautious Managed funds will hold an element of cash within the funds and the fund manager will control the overall asset allocation. As Patrick and Jane will already hold £40,000 on deposit I do not feel that it is necessary to hold any further monies on deposit. This cash buffer will be reviewed at future annual reviews.

Once fully retired, they will be withdrawing £25,000 per annum from their investment portfolio of approximately £500,000, this equates to roughly 5% which the chosen funds have historically produced and have the potential to produce in the future.

Tax implications of surrenders and fund switches

Stocks & Shares ISAs

- Fund switches within their ISAs will be tax-free

Pensions

- Fund switches within their Pensions will be tax-free

Unit Trusts / OEIC

Capital Gains:

UK Recovery Fund: Value £42,000 - Invested £18,000 = £24,000 gains

Emerging Markets Growth fund: Value £33,000 - Invested £15,000 = £18,000 gains

Total: £24,000 + £18,000 = £42,000 / 2 = £21,000 each.

Maximum tax-free disposal this tax year: £22,600 (CGT allowance x 2) + £18,000 + £15,000 = £55,600

Overall tax liability: £75,000 - £55,600 = £19,400 x 10% = £1,940 / 2 = £970 each.

- Any gains on the Unit Trusts would be split between them as they are jointly held.
- Switches within their Unit Trusts would be liable to CGT but they could each offset their annual allowance of £11,300 against any gains.
- £55,600 can be switched tax-free
- Gains in excess of £55,600 would result in a further tax liability.
- Jane is currently a basic rate tax payer and she will pay 10% on any gains made in excess of their CGT exemption on encashment of the Unit Trusts. This would be a tax charge of £970 on her share.
- Patrick will pay the same rate as Jane unless the gains would take him into higher rate tax. If that were to happen he will pay 20% on any gains made in excess of their CGT allowance rather than 10%.
- Based on his expected earnings for the tax year it is unlikely Patrick will be a higher rate tax payer.
- If Patrick was a higher rate tax payer the Unit Trusts can be transferred to Jane prior to encashment so gains will be subject to 10% rather than 20%. This transfer would not trigger a disposal against Patrick as it would be deemed a spousal transfer and therefore be classed as a 'no gain no loss' transaction. Any future gains would then be assessed against Jane.

Investment Bond

Gain: Value £85,000 - £55,000 = £30,000

Gain each: £30,000 / 2 = £15,000

Top slicing: £30,000 / 7 = £4,285.71

Top sliced gain each: £4,285.71 / 2 = £2,142.85

Jane Income: £14,000 + £2,142.85 = £16,142.85

Patrick Income: £24,000 + £2,142.85 = £26,142.85

- Any gains on the bond would be split between them as it is jointly held
- The pension contributions that Patrick and Jane are currently making will extend their basic rate tax threshold and therefore reduce the tax liability when considering encashment of the Investment Bond or Unit Trusts
- The top-sliced gain would be added to Patrick and Jane's income
- Jane would not have any further tax liability on encashment of the investment bond due to the level of gains and the availability of top-slicing as she would remain within the basic rate threshold.
- Depending on Patrick's retirement date, he may have a further liability if the gain pushes his income into higher rate tax. If that were to happen, he would pay an additional 20% on any gains. He would not have top-slicing available, however based on his pension contribution and his anticipated income for this tax year it is unlikely the gains will result in a higher rate tax liability.
- In order to avoid any tax liability for Patrick, they could assign the bond to Jane prior to encashment which would remove the tax liability on Patrick and still not result in a further tax liability for Jane. If this were to happen, the resulting monies could only be invested in Jane's name to avoid an associated transaction occurring and Patrick subsequently incurring a tax liability as if the assignment had never taken place.

Summary

I believe the above changes will leave Patrick and Jane suitably positioned to achieve their retirement objectives for travelling over the next few years and to generate £45,000 per annum in retirement.

Examiner Comments

This assignment requires candidates to recommend and justify how Patrick and Jane's investment portfolio should be adjusted to reflect the change in their attitude to risk. This should cover both the asset allocation and the product selection. Candidates are expected to justify their recommendations and to take into consideration the tax implications of their suggested course of action.

The mark given to this assignment is 55.

Areas where the assignment scored highly include the following:

- Detailed consideration has been given to the tax implications that would result from the recommended courses of action and calculations have been included to illustrate this.
- Assumptions have been clearly stated to justify potential levels of pension contributions and the required levels of emergency funds to meet their short-term needs.
- Good explanation and justification of recommended investment strategy.
Candidates should note that a wide range of investment options would be suitable for Patrick and Jane and provided these are justified in detail, this will be rewarded.

Areas for further improvement include the following:

- More detailed explanation of the risk associated with their existing investments and a clearer assessment of why these are unsuitable.
- Structure could be improved to aid understanding and clarity.
- Calculations could be set out in a more logical structure.
- Summary is very limited and could be improved.
- References should be included to illustrate further reading or sources of information.

AF8 – Assignment 3

Scope of Advice

Patrick is aged 62 and was recently diagnosed with a heart condition which will require ongoing long-term treatment. Patrick will retire in the next few months so that he and Jane can spend some time travelling to visit family members overseas over the next few years. Patrick's pension with the Pension Protection fund will commence in 2020 and his State Pension will commence in 2021.

Jane is aged 60 and will continue to work part-time as a physiotherapist for the next five years and will retire in 2022. Her State Pension commences in 2023. Her employer is willing to provide continuing employment to Jane on a flexible basis to fit in with her travel arrangements. Jane expects to earn a salary of £10,000 per annum (gross) from this continuing employment due to her reduced working hours.

They estimate that their travel plans will cost £70,000 in total over the course of the next three years which is on top of their regular expenditure of £36,888 per annum.

Once they are both fully retired, they estimate that they will require an income of £45,000 per annum.

Annual income for the next three years:

Patrick: I have assumed no salary.

Jane: £30,000 (£10,000 x 3 years)

Income from savings and investments: £24,000 (£8,000 x 3 years)

Regular expenditure: £110,664 (£36,888 x 3)

Additional Lump Sum expenditure: £70,000 (for travel plans)

Shortfall: £180,664 - £54,000 = £126,664

After this initial three year period, their regular expenditure will remain at £36,888 per annum until Jane fully retires two years later. At which point, it will increase to £45,000 per annum.

Following the review and recommendations made in the second assignment, their existing assets will be as follows:

Description	Value	Assumed future Net Annual Investment Return	Assumed future Real Return Rate	Default Tax Rate on withdrawal
Current account	£0	0.5%	-1.5%	0%
House sale proceeds – not invested	£100,000	0.5%	-1.5%	0%
ISAs	£100,000	Variable	Variable	0%
Unit Trusts	£171,384	Variable	Variable	0%
Patrick’s Pension	£184,800	Variable	Variable	20%
Jane’s Pension	£46,720	Variable	Variable	20%
Savings account – emergency fund	£39,500	0.5%	-1.5%	0%
Property	£400,000	2%	0%	0%

Variable returns have been modelled based on the returns from the IMA 20%-60% sector over the last 25 years.

Future Income

Starting Age	End Age	Description	Annual Amount	Inflation Rate
2017	2020	Jane’s Income	£10,000	2%
2017	2020	Investment Income	£8,000	2%
2020	n/a	Patrick’s Pension from PPF	£4,700	2%
2021	n/a	Patrick’s State Pension	£8,320	2%
2023	n/a	Jane’s State Pension	£8,320	2%

Future Expenditure

Starting Age	End Age	Description	Annual Amount	Inflation Rate
2017	2022	Regular expenditure	£36,888	2%
2017	2020	Travel Plans (£70,000 total)	£23,333	0%
2022	n/a	Retirement Expenditure	£45,000	2%

Income Shortfall Summary (figures in today's terms)

Year	Total Annual Income	Total Annual Expenditure	Annual Shortfall
2017	£18,000	£60,221	£42,221
2018	£18,000	£60,221	£42,221
2019	£18,000	£60,221	£42,221
2020	£14,700*	£36,888	£22,118
2021	£23,020*	£36,888	£13,868
2022	£13,020*	£45,000	£31,980
2023	£21,340	£45,000	£23,660

***Investment income has not been included in the annual income figures from 2020 as the overall returns from their investments will be used to fund the annual shortfall which will be a combination of income and capital from the Collectives and ISAs and ultimately pensions.**

Income withdrawal priority

In terms of structuring withdrawals to support their retirement income plans, I would use the £100,000 on deposits, £8,000 annual income from the Unit Trusts and ISAs for the next three years as well as 2 x £15,000 UFPLS withdrawals to fund the shortfall over the next three years.

From 2020, the overall returns from their investments will be used to fund the annual shortfall which will be made up of a combination of income and capital from their Unit Trusts and ISAs. Unit Trusts and ISAs will continue to fund the shortfall until both of these elements of their portfolio are exhausted. I would ensure the shortfall is taken from a combination of their Unit Trusts and ISAs to ensure there is no CGT liability. This should be achievable as they will each have their annual CGT exemption (currently £11,300) as well as ISA holdings to draw on if they are in danger of breaching their CGT exemptions. I would ensure that the first withdrawals come from the high-risk funds that remain within the Unit Trusts, due to the need to avoid a CGT liability this tax year.

Once the Unit Trusts and ISAs have been exhausted, I would look to use the pensions to fund the annual shortfall. Jane will only be in receipt of State Pension, so can use UFPLS to ensure she fully uses her personal allowances. Based on current allowances, she will have income of approximately £8,300 and the personal allowance is likely to be £12,500. This will allow her to take £4,200 per annum tax-free from her pension. If she makes a withdrawal of £5,600 via UFPLS it will provide her with £1,400 tax free PCLS and £4,200 tax free income within her personal allowance. As she has less money in her pension pot and can utilise this exemption each tax year, I would recommend any further monies to cover the shortfall is taken from Patrick's pension.

Patrick's income from the State Pension and Pension Protection Fund will use up his personal allowance therefore he should take any withdrawals via phased flexi-access drawdown. He does not have a requirement for the lump sum therefore he can take a combination of taxable income and tax-free cash each year to limit the tax payable. They will require £23,660 per annum, less the £5,600 from Jane's pension. This leaves a balance of £18,060 (net) required from Patrick's pension. Patrick would need to withdraw £21,500 gross. Of this sum, 25% would be tax-free (£5,375) and 75% would be taxable (£16,125 less 20% = £12,900. This leaves a net figure of £18,275 (£5,375 + £12,900).

In considering the sequence of withdrawals, I would use their pensions last. Pensions are as tax-efficient as the Unit Trusts and ISAs however they would not form part of Patrick and Jane's estate for IHT and are tax-free for the beneficiaries should either Patrick or Jane die before age 75. Given Patrick's health conditions, this is especially important as his beneficiaries could avoid paying any tax on withdrawals should he pass away before age 75. Whilst they may not have an IHT liability based on their proposed withdrawals from their investments, they may have an IHT liability in the future depending on future growth of assets. Even if they have no future IHT liability, the pension is no less tax-efficient than the ISA and Unit Trust so it is better to hold it outside their estates - just in case.

Future tax planning

Start Age	End Age	Additional Investments/Contributions	Annual Amount	Inflation Rate
62	67	Jane – Pension	£160	2%
62	67	Jane – Employer Pension Contribution	£200	2%
63	67	Jane – Pension	£7,840	2%
63	75	Patrick – Pension	£2,880	2%
67	75	Jane – Pension	£2,880	2%

In order to improve the future tax-efficiency of Patrick and Jane's portfolio, I recommend that they make further pension contributions.

The above pension contributions will also be funded from ISAs and Unit Trusts each year. All withdrawals will be within annual CGT allowances and therefore will not be liable to any tax. Pension have been chosen as the preferred product as these provide tax relief on contributions, tax-free growth whilst invested as well as a tax-free pension commencement lump sums. Jane should invest 100% of her £10,000 net relevant earnings into a pension whilst she continues to work. This will provide her with tax relief of £2,000 per annum. She will also receive employer matching contributions on her 2% regular premiums. Once she fully retires she can still contribute up to £3,600 per annum which is £2,880 (net) and obtain £720 tax relief. Patrick can also do the same. They should both do this until they are 75 to benefit from the tax relief. Due to the regularity of future contributions and the modest amounts, it is highly unlikely this will be caught by pension recycling rules.

Future asset values

To help assess how my product selection and withdrawal strategy will provide the income required throughout retirement, I have considered that the assets must support an income until the age of 100 (unlikely they will live to that age but used as worst-case scenario).

Based upon my solution, I anticipate that they will be able to receive an income for the remainder of their lifetime. I have carried out a cashflow analysis using a proprietary tool. This shows that their assets will comfortably support their income throughout retirement and it could build up a legacy of approximately £830,000 for their children in the future.

Future asset values – Stress Testing

I have considered what the impact of an immediate market drop of 20% (typically of a low to medium risk area but usually over a longer period) at age 67. This considers the impact on Patrick and Jane's assets over time.

I have calculated this using a proprietary tool.

Even with this market crash, their income and assets are anticipated to support them throughout retirement. There is a period when Patrick reaches 90 and Jane reaches age 88 where their liquid assets would be exhausted and they would have to consider raising further funds from the house to cover any income shortfall. Based on the fact that £25,000 of their overall £45,000 income required is for discretionary spending, it is likely Patrick and Jane can tailor their spending plans throughout retirement to reduce the impact of any significant market falls. It is also important to note that spending patterns are likely to reduce as they get older. As a result, they may require less income which would again reduce the risk of a significant market drop. This would also reduce the amount their children could inherit from their estate.

Need for Annual Reviews

I would ensure annual reviews take place to arrange for the future changes to be made to products and particularly to ensure full use of their available tax allowance such as pension allowances. I would also look to update their cash flow forecast each year to ensure that any changes in circumstances are taken into account.

I would emphasise the importance of potentially taking lower withdrawals in poor market conditions to reduce the impact of sequencing risk. It would also be advisable to discuss perhaps taking higher withdrawals in times of good market performance. They could leave the surplus on deposit to fund future spending requirements in times where markets are poor again. This would be largely dependent on their income requirements and circumstances at that time. This would also reduce any likelihood of them having to take any large pension withdrawals and potentially incurring higher rate tax.

As the impact of Patrick's health becomes clearer and their spending patterns stabilise in retirement, I would tailor withdrawals to suit their needs and circumstances. I would also consider whether an annuity would become more appropriate for their needs, especially with the likelihood of enhanced rates available to Patrick. This would be considered in relation to their attitude to risk and their desire to leave capital to their children on their deaths. Based on current annuity rates, their approximate portfolio of £500,000 would only generate an index-linked annuity of £15,000 per annum which wouldn't be sufficient for their current needs. This may change as they get older or if rates improve and new products come to market.

It is also important to assess the impact of any legislative changes to determine whether this have had any effect on their circumstances and this should be reviewed each year.

Summary

Taking all the above into account, I feel that Patrick and Jane can achieve their objective of generating an income of £45,000 per annum in retirement. Their current assets are sufficient to provide the income and also provide them with flexibility for adjusting withdrawals if required in the future. The invested portion of their portfolio will provide the potential required returns in future to also combat the effects of inflation.

Examiner Comments

This assignment required candidates to recommend and justify a suitable and tax-efficient strategy to enable Patrick and Jane to generate a sustainable income to fund their longer-term needs and objectives. Candidates were asked to take into consideration all their personal and pension assets and to assume that they had released the sum of £200,000 from the sale of their property.

Candidates should note that a wide range of strategies would be suitable for Patrick and Jane and provided these are justified in detail, this will be rewarded.

This assignment was awarded a mark of 45 and hence did not meet the pass standard.

Areas where the assignment scored highly include the following:

- Careful consideration was given of the timing of both expenditure and withdrawals. This candidate carried out an assessment of the sustainability of Patrick and Jane's income levels against their expenditure.
- The candidate took into consideration the impact of inflation on the various income sources as well as the tax implications of withdrawals from various pension and investment holdings.
- The importance of annual reviews was taken into consideration and explained in detail.

Areas for further improvement include the following:

- The assignment does not meet the word count required of 3,000 words. As a result of this, the candidate failed to explain and justify some elements of their recommendation in sufficient detail e.g. the benefits of investing further into pensions, rather than making full use of ISA allowances.
- Although this candidate carried out an assessment of the sustainability of income over Patrick and Jane's lifetime, they did not provide any evidence for this in the form of tables, charts or references.
- This assignment lacked a coherent structure and provided only a very limited summary of the recommendations.
- References could be included to demonstrate the sources of information or any wider reading.