Chartered Insurance Institute

R06 — FINANCIAL PLANNING PRACTICE

CASE STUDIES – JANUARY 2018

Case study 1

Suresh and Anya, both aged 25, have recently married. They have no children. They are both in good health. They have both recently commenced employment in the UK for the first time after an extended period of travelling overseas.

Suresh is employed as a production manager at a large engineering company and earns a salary of £31,000 gross per annum. Anya has taken up a new position with a marketing company as a sales manager and earns a salary of £35,000 gross per annum. Both Suresh and Anya have been automatically enrolled in their respective qualifying workplace pension schemes with an employee contribution of 5% of their gross salary per annum each, with a matching 5% employer contribution. They are considering opting out of their employer qualifying workplace pension schemes as they do not believe that they can currently afford to make these contributions.

Suresh and Anya live with Anya's mother whilst they save up a deposit for their first home together. Suresh and Anya would like to purchase a property within the next three years. They estimate that they will need to save approximately £40,000 to pay for the deposit and the associated purchase costs. At present, they have combined savings of £17,000 which are held in National Savings & Investments Premium Bonds as well as the sum of £1,000 each in their bank accounts.

Suresh and Anya also have a range of credit card debts from their extended period of travel. These debts total £15,000 and are continuing to accrue interest at an annual percentage rate of 18.5%. Suresh and Anya are keen to pay off their credit card debts as quickly as possible.

Anya's father died a number of years ago after suffering a long-term illness. Consequently, both Suresh and Anya are keen to put insurance in place to protect them in the event of long-term sickness or disability.

Suresh and Anya consider themselves to be high risk investors and are keen to explore a wide range of investment options. They are particularly interested in socially responsible investments.

Their financial aims are to:

- save for a deposit for the purchase of their first home;
- ensure that they are financially protected in the event of long-term illness or disability;
- repay their credit card debts;
- put in place a suitable investment strategy for their long-term retirement planning.

Case study 2

Adam, aged 59, is married to Kathryn, aged 55. They have two adult children who are both financially independent and four grandchildren. Adam and Kathryn are considering taking early retirement so they can travel more whilst they are both still in good health.

Adam is currently employed as a computer analyst and earns a salary of £60,000 gross per annum. He is a member of his employer's defined benefit pension scheme. The scheme is not in deficit and has a normal retirement age of 65. Adam has recently received his annual benefit statement which stated that he is currently entitled to a gross pension of £30,000 per annum at the scheme's normal retirement age and that he can commute part of this for a pension commencement lump sum. Adam has no other pension plans.

Kathryn is currently employed part-time as a finance assistant and earns a salary of £18,000 gross per annum. She is a member of her employer's group personal pension scheme (GPP) and both Kathryn and her employer contribute 5% gross of her annual salary to the scheme. Kathryn's GPP entitlement is valued at £57,000 and it is invested in a cautious managed fund. Kathryn has been told that she could increase her State Pension by making additional National Insurance contributions as she has gaps in her contribution record.

Adam and Kathryn own their home as joint tenants. Their house is mortgage-free and valued at £650,000.

Adam is keen to ensure that Kathryn will have sufficient income should he pre-decease her. On second death, they plan to leave as much of their estate as possible to their two children.

They have both recently made mirror Wills which leave their assets to each other and thereafter to their children in equal shares.

They both have a low to medium attitude to risk and have the following savings and investments:

Type	**Ownership**	**Amount (£)**
Current account	Joint	25,000
Deposit account	Joint	50,000
Onshore Investment bond - Managed fund	Joint	125,000
Stocks and Shares ISA – Fixed Interest fund	Adam	105,000
OEIC – UK Equity Income fund	Adam	180,000
Stocks and Shares ISA – Global Equity fund	Kathryn	58,000
Unit Trust – UK Smaller Companies fund	Kathryn	58,000

Their financial aims are to:

- ensure they have sufficient income in retirement;
- ensure that, if Adam pre-deceases Kathryn, she has sufficient income for her needs;
- mitigate any potential Inheritance Tax liability on second death;
- improve the tax efficiency of their income and investments.