Chartered Insurance Institute

R06 — FINANCIAL PLANNING PRACTICE

CASE STUDIES – APRIL 2018

Case study 1

John and Kate, both aged 42, are married with one daughter, Lucy, who is 7 years old. John and Kate own their home as joint tenants. This is valued at £350,000 and they have an outstanding repayment mortgage of £150,000 which is on a standard variable rate of 3.5% per annum. The term remaining on the mortgage is 20 years. This mortgage is covered by a joint life first death mortgage protection policy with a sum assured of £150,000. This policy provides life cover only.

Lucy has been recently diagnosed with learning difficulties, which will require additional educational support. As a result of this, John and Kate are planning to send her to a private school where specialist help will be available. John's parents have gifted a sum of £50,000 to John and Kate to assist them in meeting the first five years of Lucy's private school fees. This is held in a deposit account. John and Kate are keen to put in place a suitable investment strategy to enable them to pay Lucy's school fees due in future years.

John works as a self-employed electrician and Kate is employed as a teacher. John has taxable net profits of £50,000 per annum which he takes wholly as drawings and Kate has a salary of £28,000 gross per annum. Kate is a member of the Teachers' Pension Scheme, which is a defined benefit scheme. John has a paid-up personal pension plan. He has not made any pension contributions to this pension plan since he became self-employed four years ago. This personal pension is valued at £35,000 and is invested in a UK fixed interest fund.

John and Kate are concerned about their financial security in the event of death or serious illness. Kate's employer's pension scheme provides a death-in-service benefit of three times her basic salary. John and Kate have no further protection policies. Neither John nor Kate have made a Will.

John would like to consider the option of setting up a limited company for his electrical business as he believes this may offer greater security for his family.

John has an unsecured loan with an outstanding balance of £25,000 which was taken out when he first became self-employed. John and Kate are keen to pay off this loan as quickly as possible as the interest rate is 16.8% per annum. The remaining term on the loan is four years. They are considering remortgaging their home to consolidate this loan into their mortgage.

John and Kate have a low to medium attitude to risk and have little experience of investing. They have the following assets:

Type	Ownership	Current Value (£)
Current Account	Joint	10,000
Deposit Account	Joint	50,000
House	Joint	350,000
Cash ISA	Kate	3,000
Cash ISA	John	2,000

John and Kate's financial aims are to:

- put in place suitable financial protection in the event of death or long-term serious illness;
- put in place a suitable investment strategy to meet Lucy's school fees;
- ensure John's unsecured loan is repaid as soon as possible.

Case study 2

Felix and Sally, both aged 64, are married. They have two children who are both married and financially independent. Felix and Sally are both in good health. Felix is employed as a financial director and earns a salary of £70,000 gross per annum and has worked for his employer for 24 years. He is a member of his employer's defined benefit pension scheme. Felix's employer is introducing a Share Incentive Plan (SIP) for all of its employees.

Sally is a self-employed podiatrist and takes all of her taxable net profits of £30,000 per annum as drawings. She has a personal pension with a fund value of £300,000. Sally is about to retire and wants to know her retirement options. Sally understands that she will soon become eligible to receive the State Pension.

They own their own home as joint tenants which is mortgage free and valued at £420,000. They would like to leave as much of their estate as possible to their children on second death. They have recently established mirror Wills.

Both Felix and Sally believe that they have medium attitudes to risk.

They have the following assets:

Assets	Ownership	Amount (£)
Deposit account	Felix	120,000
Units trusts UK equity fund	Felix	80,000
Onshore investment bond traditional with profit	Felix	100,000
Stocks and Shares ISA – UK smaller companies	Felix	24,000
Cash ISA	Sally	18,000
House	Joint	420,000

Their financial aims are to:

- ensure they have sufficient income in retirement;
- improve the tax efficiency of their savings and investments;
- ensure that their savings and investments meet their needs.