Chartered Insurance Institute

AF5

Advanced Diploma in Financial Planning Practice Test 2

Unit AF5 – Financial planning process

2023-2024 Revision Aid

Based on October 2018 examination

SPECIAL NOTICES

These revision questions have been put together by an experienced trainer to provide a prompt for exam practice. However, please ensure that you bear in mind any changes to law, tax and practice that may have taken place since publication or update.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

AF5 – Financial planning process

Contents

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Useful tips as you prepare for the AF5 exam

1. **Schedule sufficient revision time** to use your notes and learning and support materials to refresh your learning and consider how what you have learned applies to the case studies.

2. **Familiarise** yourself with the format and the navigation options navigation of an onscreen written exam:

   Familiarisation Test

   The familiarisation test:

   - Allows you to experience using the assessment platform before your exam.
   - Is for the purpose of familiarisation with the assessment platform only.
   - Is designed to allow you to go through the end-to-end process from logging in to answering test questions, before the day of your exam.

   Please note, although the familiarisation test is modelled on AF1, the example is relevant for every candidate preparing to sit on-screen written exams by remote invigilation. Whilst there might be slight differences in layout, it will make you familiar with the platform.

   Follow these instructions to take the Familiarisation Test.

   - Click **here** to access the Familiarisation Test.
   - Once the test is open, click ‘start’.
   - Explore the platform to practice navigation and general functionality.

   We strongly advise that you try the familiarisation test once you have received your login details and **well in advance of the actual exam day to help pre-empt any potential exam day technical issues**.

   If completing your exam via remote invigilation, you are strongly advised **NOT** to use a laptop provided by your employer.

   - Laptops and IT equipment provided by your employer typically include security protocols that conflict with any remote invigilation software.
   - You should also **AVOID** using a corporate Wi-Fi or any other internet connection that may include firewalls that you cannot personally control.

3. **Visit the** ***Assessment Information - Before the exam*** area of the CII website, which has important further practical information and support.

4. **Prepare exam technique** using the support of the Exam Guides on the AF5 unit page **https://shop.ciigroup.org/financial-planning-process-af5-af5.html** which include examiner guidance and time-saving tips such as abbreviations.

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AF5 - FINANCIAL PLANNING PROCESS

FACT-FIND – Practice Test 2

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

PART 1: BASIC DETAILS		
	Client 1	**Client 2**
Surname	Johnson	Johnson
First name(s)	Nick	Jane
Address	15, Lark Close, Dudley	15, Lark Close, Dudley
Date of birth	15.06.1960	22.04.1962
Domicile	UK	UK
Residence	UK	UK
Place of birth	Birmingham	Stafford
Marital status	Married	Married
State of health	Good	Good
Family health	Poor	Good
Smoker	Yes	No
Hobbies/Interests	Cricket, Golf	Walking

Notes:

Nick was recently made redundant and is due to start a new part-time job within the next few weeks. Nick and Jane are considering the possibility of retiring when Jane reaches age 60*. Nick has a family history of poor health and both his parents died when they were in their early 60's from heart-related issues.

**This Fact Find was used in the October 2018 examination. For the purposes of revision, candidates should assume that Nick and Jane will retire in 4 years' time.*

PART 2: FAMILY DETAILS

Children and other dependants

Name	Relationship	Age	D.O.B	Health	Occupation	Financially dependent?
Sally	Daughter	32		Good	Doctor	No
Daniel	Son	26		Good	Builder	No

Notes:

Daniel is due to purchase his first home soon and Nick and Jane are considering assisting him with this purchase.

PART 3: EMPLOYMENT DETAILS		
Employment	**Client 1**	**Client 2**
Occupation	Telecoms Engineer	Accountant
Job title	Engineer	Accounts Manager
Business name	Aston Communications	Dudley Allied
Business address		
Year business started		
Remuneration		
Salary	£36,000 (from 01.11.23)	£54,000
State Pensions		
Overtime		
Benefits		
Benefits-in-kind		
Pension Scheme	See Part 11	See Part 11
Life cover	See Part 8	See Part 8
Private Medical Insurance	See Part 9	N/A
Critical Illness cover	See Part 9	N/A
Income Protection Insurance	See Part 9	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		

Notes:

Nick is due to join Aston Communications on a part-time basis on 1 November. He has been offered a range of employee benefits. He is able to join the company Income Protection scheme, as well as the employer Private Medical Insurance scheme. The company also offers group Critical Illness cover of £36,000.

Nick will have automatic membership of the company death-in-service scheme, which offers four times basic salary on death whilst in service when he joins the company qualifying workplace pension scheme.

Previous Employment	Client 1	Client 2
Previous employer	Arden Link	
Job title	Manager	
Length of service	25 years	
Pension Scheme	See Part 11	

Notes:

Nick worked for Arden Link for 25 years on a full-time basis and was made redundant in August. Arden Link offered a defined benefit pension scheme and Nick was a member of this throughout his career with them. Nick received a redundancy payment of £40,000 when he left the company. This was the net payment after tax.

PART 4: OTHER PROFESSIONAL ADVISERS		
	Client 1	**Client 2**
Accountant		
Bank	Securebank	Securebank
Doctor		
Financial Adviser		
Solicitor	Briggs LLP	Briggs LLP
Stockbroker		
Other		
Notes:		

PART 5: INCOME AND EXPENDITURE

Income

	Client 1		**Client 2**		**Joint**	
	Monthly £	**Annually £**	**Monthly £**	**Annually £**	**Monthly £**	**Annually £**
State Pensions						
Private Pensions						
Salary (gross)	3,000		4,500			
Benefits-in-kind						
Investment income (gross)						1,740
Rental (gross)						
Dividend (gross)		2,400				

Notes:

Nick's income is based on his new salary from Aston Communications where he starts his new job on 1 November 2021*.

**Candidates should note that this Fact Find was set for the examination in October 2018 so should assume that Nick has not yet started his new employment. Dates have been revised to provide clarification.*

	Client 1	**Client 2**
Income Tax	**£**	**£**
Personal allowances		
Taxable income		
Tax		
National Insurance		
Net Income		

Notes:

Expenditure

	Monthly £			Annually £		
Household Expenditure	**Client 1**	**Client 2**	**Joint**	**Client 1**	**Client 2**	**Joint**
Mortgage/Rent						
Council tax						2,000
Buildings and contents insurance						480
Gas, water and electricity						1,400
Telephone			40			
TV licence and satellite			60			
Property maintenance						700
Regular Outgoings						
Life assurance (see Part 8)						
Health insurance (see Part 9)						
Savings Plans (see Part 10)						
Car tax, insurance and maintenance				800	750	
Petrol and fares	180	150				
Loans (see Note 1)						
School fees						
Childcare						
Further education						
Subscriptions	20					
Food, drink, general housekeeping			800			
Pension contributions (see Part 11)		108				
Other Expenditure						
Magazines and newspapers			20			
Entertainment			150			
Clubs and sport				1,200		
Spending money						5,000
Clothes				600	2,000	
Maintenance						
Other (Holidays)						7,200
Total Monthly Expenditure	200	258	1,070			
Total Annual Expenditure	2,400	3,096	12,840	2,600	2,750	16,780
Total Outgoings						**40,466**
Notes:						

PART 6: ASSETS

	Asset	Client 1 £	Client 2 £	Joint £	Income (Gross) £
1.	Main residence			450,000	
2.	Contents/car			60,000	
3.	Current account – Securebank			8,000	
4.	Deposit Savings Account – Securebank			145,000	1,740
5.	Individual share portfolio				
6.	National Savings & Investments Premium Bonds	40,000			
7.	Stocks and shares ISAs	220,000	170,000		
8.	Unit Trust – European Equity fund	160,000			2,400
9.	Onshore Investment Bond – With-Profit fund			295,000	

Notes:

Nick and Jane have made full use of their Individual Savings Account allowances each year by making lump sum investments.

Nick's redundancy payment is now held in National Savings & Investments Premium Bonds.

Nick's stocks and shares ISA is invested in a range of US Equity Growth funds and Jane's ISA is invested in several UK Corporate Bond funds. All of these funds are invested in accumulation units. Jane is not very happy with the performance of her ISA holdings and would like to review these funds in the light of their retirement plans.

Nick has a Unit Trust holding in a European Equity fund. Nick is keen to retain this fund as it has performed well although he is slightly concerned as to the longer-term suitability of this fund for both himself and Jane.

Nick and Jane hold an Onshore Investment Bond that was purchased with a lump sum of £130,000. This was funded using part of an inheritance from Nick's father. This Bond is invested in a unitised With-Profit fund and following a recent statement, they have been advised that the Bond is reaching its twenty-year anniversary when they can withdraw from the Bond without penalty. They have not taken any withdrawals from this Bond. The With-Profit fund offers a guaranteed annual bonus of 4% and they are pleased with the performance of this Bond.

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:

Nick and Jane repaid their mortgage some years ago with the inheritance received from Nick's late father.

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

Notes:

Nick and Jane have no outstanding loans.

Other Liabilities (e.g. tax)

Notes:

Nick and Jane have no other liabilities.

PART 8: LIFE ASSURANCE POLICIES

	Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust ?	Surrender Values £
1.	Jane	Jane	162,000	N/A	To retirement			N/A

Notes:

Jane has an employer death-in-service policy offering three times her basic salary on death whilst in service. Jane has completed a nomination form in favour of Nick.

Nick will become a member of his employer's death-in-service scheme which offers a benefit of four times his basic salary when he joins the qualifying workplace pension scheme.

PART 9: HEALTH INSURANCE POLICIES

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

Notes:

Nick will join the Aston Communications' company Income Protection scheme which is provided for all staff.

Nick has been offered membership of Aston Communications' company Private Medical Scheme and Group Critical Illness scheme. Nick has not yet decided if he will join either of these schemes.

PART 10: REGULAR SAVINGS

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

Notes:

Nick and Jane are not making any current 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:
Nick and Jane do not have any current occupational pension schemes.

Additional Voluntary Contributions (including free standing additional voluntary contributions).

	Client 1	Client 2
Type		
Company		
Fund		
Contribution		
Retirement date		
Current value		
Date started		

Notes:
Nick and Jane do not have any Additional Voluntary Contribution schemes.

Personal Pensions

	Client 1	Client 2
Type		Qualifying Workplace Pension scheme
Company		UK Life Ltd
Fund		Balanced Lifestyle fund
Contributions		5% employer/3% employee
Retirement date		65
Current value		£114,000
Date started		August 1998

Notes:

Jane has been a member of her employer's pension scheme since it was set up in August 1998. She has completed a nomination in favour of Nick. Jane's employer will match any employee contributions up to 8% so Jane is considering an increase to her contributions as soon as Nick starts his new job.

Nick will join his new company pension scheme as soon as he starts with Aston Communications. This will offer him matched employer contributions up to 7% of his basic salary. The company scheme is a qualifying workplace scheme and offers a wide range of investment funds including several Target Date funds. The current default fund is a Cautious Lifestyle fund.

Previous pension arrangements

	Client 1	Client 2
Employer	Arden Link	Self-invested personal pension (SIPP)
Type of scheme	Defined Benefit	Midlands Life
Date joined scheme	August 1995	Inherited from late brother
Date left	August 2020	
Preserved benefits	£24,000 per annum from age 65	£280,000

Notes:

Nick was a member of the defined benefit pension scheme until he was made redundant in August 2022. The last pension statement that he received showed an annual pension of £24,000 (gross) per annum from age 65 with a 50% spouse's benefit for Jane. Nick has completed a nomination form in favour of Jane. Nick is aware that the scheme trustees will not permit early retirement other than in cases of ill health. Nick has requested further details along with a Cash Equivalent Transfer Value (CETV) from the Pension Scheme Trustees for the Arden Link scheme.

Jane's brother died last year, aged 59, as a result of an accident. He was unmarried with no dependants and had nominated Jane to receive his benefits under his SIPP. This plan is currently held in cash within the SIPP bank account, but Jane wishes to invest this to provide additional income for herself and Nick in retirement.

State Pension

	Client 1	Client 2
Basic Pension		
SERPS/S2P		
Graduated Pension		
Total		

Notes

Nick and Jane have never checked their State Pension entitlement.

PART 12: INHERITANCES

Wills	Client 1	Client 2
Do you have a current Will?	Yes	Yes
Notes:		
Nick and Jane have up-to-date Wills leaving all of their assets to each other on first death and then to the children in equal shares on second death. They have also recently registered Lasting Powers of Attorney to ensure that their financial affairs can be dealt with by the other in the event of serious illness.		

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 and received		

Notes:

Nick and Jane have not made any gifts.

Inheritances	Client 1	Client 2
Give details of any inheritances (see below)	£250,000	£280,000

Notes:

Jane's mother died several years ago. Her father is currently in a care home and Jane holds sole Lasting Power of Attorney for his finances. Jane does not expect to receive any inheritance from her father as she believes his remaining funds will be exhausted over the next few years in the payment of care fees.

Jane inherited her late brother's self-invested personal pension with a value of £280,000 and this is now held in her name as nominee. Jane has not yet updated the nomination on this plan nor has she drawn any benefits from it.

Nick inherited £250,000 from his late father and £120,000 of this was used to repay their mortgage and the balance of £130,000 was invested into the jointly-owned Investment Bond.

PART 13: ATTITUDE TO RISK

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

Notes:
Nick considers himself to be an adventurous investor. Jane is a cautious investor. Risk assessments have been completed confirming these risk profiles. Neither Nick nor Jane are concerned about investing ethically.

PART 14: BUSINESS RECORDS

Compliance		
Date fact-find completed	01.10.18	
Client agreement issued	01.10.18	
Data Protection Act	01.10.18	
Money laundering	01.10.18	
Consultations		
Dates of meetings		
Marketing		
Client source		
Referrals		
Documents		
Client documents held		
Date returned		
Letters of authority requested		

Notes:

PART 15: OTHER INFORMATION

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SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2023/2024, unless stated otherwise and should be answered accordingly.

It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

Unit AF5 – Financial planning process

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks.

- You are strongly advised to attempt **all** tasks to gain maximum possible marks. The number of marks allocated to each task is given next to the task and you should spend your time in accordance with that allocation.

- **In this examination you should use the fresh copy of the fact-find provided. You are not allowed to bring into the examination the pre-released copy of the fact-find.**

- **Client objectives are provided overleaf, and you should read them carefully before attempting the tasks.**

- Read carefully all tasks and information provided before starting to answer.

- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.

- It is important to show all steps in a calculation, even if you have used a calculator.

- If you use a calculator, it must be a silent, battery or solar-powered, non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.

- Tax tables are permitted to be used.

- Answer each task on a new page and leave six lines blank after each task.

Subject to providing sufficient detail you are advised to be as brief and concise as possible, using note format and short sentences on separate lines wherever possible.

CLIENTS' FINANCIAL OBJECTIVES

You have now been able to determine from the information in the fact-find that your clients have the following financial objectives:

Immediate objectives

- To analyse the benefits offered to Nick through his new employer.
- To assess the suitability of Nick and Jane's current savings and investments.
- To evaluate Nick's options in respect of his deferred pension benefits.
- To provide a lump sum to assist their son in purchasing his first home.

Longer-term objectives

- To ensure that Nick and Jane are able to generate an adequate and tax-efficient income in retirement.
- To maximise their estate for the benefit of Sally and Daniel.
- To establish a suitable strategy to ensure that any long-term care fees can be met.

Attempt ALL tasks

Time: 3 hours

1. Identify and explain in detail the key client-specific factors that you would take into consideration when assessing Nick and Jane's capacity for loss. **(10)**

2. With regards to the benefits on offer from his new employer:

(a) Identify the key additional information you would require to enable you to evaluate the health-related benefits available to Nick. **(12)**

(b) Explain in detail the benefits to Nick of joining his new employer qualifying workplace pension scheme. **(12)**

(c) Explain to Nick how a Target Date fund operates and why this may be a suitable fund choice for him within his new employer qualifying workplace pension scheme. **(7)**

3. In respect of Nick's deferred defined benefit scheme:

(a) Explain to Nick the reasons why he might wish to consider transferring the deferred benefit into a personal pension arrangement. **(10)**

(b) Outline the key drawbacks for Nick and Jane of transferring this benefit to a personal pension arrangement. **(8)**

4. (a) Explain to Nick and Jane how a lifetime cashflow model could be used to assist them in meeting their objectives. **(8)**

(b) Recommend and justify the actions that Nick and Jane could take to ensure that they will be able to generate a tax-efficient and sustainable income from all of their pensions and investments throughout retirement. *Candidates should assume that Nick and Jane do not take out any new investment plans.* **(14)**

(c) Outline the key issues that Nick and Jane should consider when planning a strategy to meet any long-term care costs. **(10)**

Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.

5. Jane is considering her options in respect of her late brother's self-invested personal pension scheme (SIPP).

(a) Recommend and justify why Jane should use a diversified portfolio of collective investment funds within this SIPP. **(8)**

(b) Identify the key factors that you should consider when establishing a reasonable rate of withdrawal from Jane's SIPP plan in the future. **(10)**

Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.

6. (a) Explain in detail to Nick and Jane why their existing choice of investment funds within their non-pension investments may not be suitable to meet their longer-term objectives. **(10)**

(b) Explain in detail to Nick and Jane how investing in Alternative Investment Market (AIM) ISAs could help them to mitigate their future Inheritance Tax liability. **(7)**

(c) Identify the key drawbacks for Nick and Jane of using AIM ISAs. **(7)**

7. Nick and Jane would like to consider using their existing Investment Bond to provide a lump sum to assist their son with the purchase of his first home.

(a) State **five** benefits and **five** drawbacks for Nick and Jane if they choose to fully encash their Investment Bond when it reaches the twenty-year anniversary. **(10)**

(b) (i) Explain in detail to Nick and Jane how an interest-free loan to Daniel would be treated for Inheritance Tax purposes on second death. **(6)**

(ii) State the actions Nick and Jane could take to protect Daniel from a forced repayment of the loan on their deaths. **(5)**

8. State **six** factors you should consider when reviewing Nick and Jane's pension arrangements at your next annual review. *Candidates should assume that there have been no changes in Nick or Jane's personal circumstances since your last review meeting.* **(6)**

NOTE ON MODEL ANSWERS
The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

Model answer for Question 1

- They have significant assets/wealth/adequate emergency fund.
- They can tolerate some loss/volatility.
- They have earned income/Nick starts his new job soon.
- Level of income required.
- Guaranteed income from Defined Benefit scheme/State Pension.
- No potential inheritances.
- No liabilities.
- Loan/gift to Daniel.
- Short time frame to retirement.
- History of poor family health/they are currently in good health.

Model answer for Question 2

(a) Income Protection Insurance
- Level of benefit and term/retirement date.
- Company sick pay policy/period paid/deferred period.
- Is policy indexed in payment?
- Are pension contributions covered.
- Taxable benefit.

Private Medical Cover
- Comprehensive/restricted cover/level of cover.
- Exclusions/pre-existing conditions covered/moratorium.
- Cover for Jane available.

Critical Illness Cover
- Conditions covered/matches Association of British Insurers definitions/exclusions.
- Survival period.

- Underwriting (initially).
- Value for benefit-in-kind charge/tax charge.

(b) *Candidates would have gained full marks for any twelve of the following:*

- Tax relief on contributions at 20%/40%.
- Paid net/deducted from payroll/no administration/no need to reclaim tax.
- Matched employer contribution up to 7%.
- Could use salary sacrifice to save National Insurance contributions.
- Employer may rebate National Insurance saving into plan.
- Benefit from death in service scheme/otherwise unavailable.
- Death-in-service is valuable to Nick as he has poor family health/smoker.
- Inheritance Tax efficient fund for Jane/children.
- Tax-efficient growth within fund.
- Range of income options in retirement/flexible income.
- Can draw benefits at age 62.*
- Wide range of investment funds/to meet attitude to risk.
- Normally lower cost/employer sponsored.
- Increased pension in retirement/pension commencement lump sum (PCLS).

**Candidates should note that this question was based on the Fact Find provided for the October 2018 examination.*

(c)

- Target date matches his normal retirement date.
- Can be used for drawdown/not targeted solely to annuity.
- Growth potential in consolidation phase/ to normal retirement date.
- Actively managed/no forced sales/market timing.
- Can switch retirement date/switch to new target date.
- Asset allocation changes to reduce risk/volatility.
- Nick can select fund to match his attitude to risk.

Model answer for Question 3

(a) *Candidates would have gained full marks for any ten of the following:*

- Defined Benefit scheme may offer enhanced/attractive Cash Equivalent Transfer Value (CETV).
- Financial strength of employer/funding position of Defined Benefit scheme.
- Nick cannot take benefits before 65/he wishes to retire at 62*.
- Personal Pension offers flexible death benefits/personal pension provides death benefits to children/Defined Benefit provides spouses' pension only.
- Inheritance Tax-free/it meets estate planning objectives/larger estate for family/ Income tax-free on death before age 75.
- Nick has poor family health/longevity.
- Nick is a smoker so enhanced annuity rates may be available.
- Potential for growth/can match attitude to risk/adventurous risk.
- Personal Pension can vary income/Defined Benefit income is fixed at outset.
- Personal Pension can manage Income Tax/Defined Benefit inflexible for Income tax.
- Personal Pension may offer higher Pension Commencement Lump Sum.
- They have substantial assets so do not need guaranteed income/can use other assets for income.

**Candidates should note that this question was based on the Fact Find provided for the October 2018 examination.*

(b) *Candidates would have gained full marks for any eight of the following:*

- Loss of guaranteed lifetime income.
- Loss of guaranteed spouse's benefit.
- Loss in index-linking/expensive to replicate.
- Cost of transfer/advice charges/cost of setting up alternative scheme/ongoing costs.
- Administration/time to monitor/complexity.
- Investment risk.
- Loss of Pension Protection Fund (PPF) protection.
- Cash Equivalent Transfer Value (CETV) may improve in future/CETV may not be attractive.
- Does not match Jane's attitude to risk.
- Longevity risk/Nick may live for a long time.

Model answer for Question 4

(a)

- Identify shortfalls.
- Based on existing portfolio/contributions.
- Returns required/increased contributions required.
- Stress-test existing portfolio (losses/market crash).
- Apply range of growth rates/based on attitude to risk.
- Show impact of inflation.
- Impact of withdrawals/sequencing risk.
- Can be adjusted/reviewed as circumstances change.

(b)

- Use ISA allowance for tax efficiency.
- Use Capital Gains Tax exemption/£12,300.
- Transfer some of Nick's unit trust to Jane.
- Uses Jane's dividend allowance/Nick exceeds his dividend allowance.
- Interspousal transfer/base cost transfers to Jane.
- Switch ISA/unit trust holdings to income-generating funds.

- Retain investment bond until both basic rate taxpayers/assign bond to Nick.
- Can take 5% tax-deferred cumulative withdrawals.
- Top-slicing available.

- Draw benefits from Jane's inherited self-invested personal pension (SIPP).
- Tax-free as brother died aged 59/before age 75.
- Use flexi-access drawdown (FAD)/uncrystallised funds pension lump sum (UFPLS) to draw benefits from Jane's defined contribution scheme.
- Can use SIPP for Inheritance Tax efficiency/use SIPP last.
- Maximise pension contributions for tax relief/for employer matching contributions.

(c)
- Family health for Jane/longevity.
- Type of care required/at home/care facility.
- Estimated cost of long-term care.
- Care fee inflation/general inflation.
- Budget/affordability.
- Availability of state benefits e.g. Attendance/Carer's Allowance.
- Willingness to downsize/equity release.
- The use of an immediate needs annuity.
- Investment bond not considered for care fees.
- They have significant assets so must self-fund.

Model answer for Question 5

(a) *Candidates would have gained full marks for any eight of the following:*
- Cash holdings are losing real value/effects of inflation.
- Reduces risk/volatility.
- Non-correlation of assets/negative correlation of assets.
- Invest in real assets/equities provide inflation proofing/growth.
- Can select different management styles/active/passive/can match Jane's attitude to risk.
- SIPP allows wide range of investments.
- Geographic diversification can improve returns/minimise volatility.
- Meets her income needs.
- More potential for a legacy.

(b)
- Income needs in retirement/capital needs.
- Income available from other sources/State Pension amount.
- Future tax position for Jane/use of Jane's Personal Allowance/tax allowances/SIPP income is tax-free.
- SIPP investment strategy.
- Projected SIPP value/growth assumption.
- Economic conditions/inflation rate.
- Sequencing risk/pound cost ravaging.
- SIPP charges/admin charges/cost of advice.
- Longevity/Jane's state of health.
- Death benefits/Nick or children/Inheritance Tax free.

Model answer for Question 6

(a) *Candidates would have gained full marks for any ten of the following:*

Nick:
- US Equity fund/European Equity fund lacks diversification/all equity.
- Currency risk/all overseas.
- Investment risk/potential for significant capital loss.
- Dividend income exceeds his allowance/tax due of 8.75%% on excess.
- Capital gain within Unit trust/potential Capital Gains Tax of 10% on disposal.

- US Equity fund lacks geographical diversification.
- Limited income stream/growth funds/accumulation units.

Jane – UK Corporate Bond:
- May fall in value if interest rates rise/interest rate risk.
- Lack of growth potential/may not keep pace with inflation.

Joint – With-Profit bond:
- With-Profit fund does not match Nick's attitude to risk.
- Opaque/investment strategy unclear/taxed at 20% internally/cannot use Capital Gains Tax exemption.
- No guarantee of final value on encashment /reliant on actuary/market value adjustment.

(b)
- Alternative Investment Market (AIM) shares qualify for Business Relief.
- Inheritance Tax does not apply to qualifying Business Relief assets/saves 40% Inheritance Tax.
- After two years.
- Asset must be held on death to qualify.
- Monitoring required/Business Relief can be lost.
- ISA can be transferred to spouse/use Additional Permitted Subscription on death.
- Holding period transferred to beneficiary/Inheritance Tax efficiency retained.

(c)
- Can be illiquid.
- High annual charges.
- Does not match Jane's attitude to risk.
- Shares may lose qualifying status/legislation may change.
- Limited income potential.
- Limited number of providers/complex investment.
- Very high investment risk/volatility/risk of capital loss/lower reporting standards.

Model answer for Question 7

(a) Benefits

- No market value adjustment guarantee on 20th anniversary.
- Can reinvest in more tax-efficient fund/can reinvest in more diversified portfolio/more in line with attitude to risk/income objective.
- Money available for gift to Daniel.
- Top slicing may be available.
- Market currently high/may offer terminal bonus/crystallises accumulated bonuses.

Drawbacks

- Loss of 4% annual guaranteed bonus.
- Loss of smoothing/reduces volatility.
- Loss of ability to take tax-deferred income in retirement.
- Tax charge/could lead to loss of personal allowance.
- Bond cannot be assigned to children in future.

(b) (i)

- Loan remains part of the estate/debt owed to estate.
- Loan must be reported to HM Revenue & Customs (HMRC).
- Executors can demand repayment of loan.
- Loan can be written off by executors.
- Loan is not a gift/exemptions cannot be used.
- Estate liable to Inheritance Tax at 40% if exceeds Inheritance Tax exemptions on 2nd death/Inheritance Tax still due on debt.

(ii) *Candidates would have gained full marks for any five of the following:*

- Re-write Will to reflect loan details.
- Draw up loan agreement and full details/interest-only.
- Write letter of wishes to be given to executors.
- Request that loan be written off on second death.
- Discuss and gain agreement from Sally.
- Insure against debt/whole of life, joint life last survivor (£50,000).

Model answer for Question 8

- Change in income needs/budget/affordability/tax status/objectives/State Pension forecast.
- Investment performance/attitude to risk/capacity for loss/rebalance/charges/SIPP invested/asset allocation.
- Pension contributions increased for employer matching/contributions.
- Change in market conditions/inflation/economy.
- Change in regulations/legislation/new products.
- Has Nick transferred Defined Benefit scheme/has Jane drawn from SIPP/pension nominations made.

The Tax Tables which follow are applicable to the examinations during September 2023 to August 2024.

INCOME TAX

RATES OF TAX	2022/2023	2023/2024
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£125,140

High income child benefit charge: 1% of benefit per £100 of adjusted net income between £50,000 – £60,000

**Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance.*

Personal savings allowance (for savings income):		
Basic rate taxpayers	£1,000	£1,000
Higher rate taxpayers	£500	£500
Additional rate taxpayers	Nil	Nil
Dividend Allowance	£2,000	£1,000
Dividend tax rates		
Basic rate	8.75%	8.75%
Higher rate	33.75%	33.75%
Additional rate	39.35%	39.35%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	39.35%	39.35%
- other income	45%	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance *§*	£100,000	£100,000
Personal Allowance (basic) *§*	£12,570	£12,570
Married/civil partners (minimum) at 10% *†*	£3,640	£4,010
Married/civil partners at 10% *†*	£9,415	£10,375
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance*†*	£31,400	£34,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,600	£2,870
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £200,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).

† where at least one spouse/civil partner was born before 6 April 1935.

*** Investment above £1,000,000 must be in knowledge-intensive companies.*

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,935	£3,235
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£17,005	£18,725

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£123
Primary threshold	£242
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 242.00*	Nil
242.00 – 967.00	12%
Above 967.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £123 per week. This £123 to £242 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below 175.00**	Nil
Over £175.00	13.8%

*** Secondary threshold.*

CLASS 2 (self-employed)	
Flat rate per week	£3.45
Small profits threshold per year	£6,725
Lower profits limit per year	£12,570

Class 3 (voluntary)	Flat rate per week £17.45.
Class 4 (self-employed)	9% on profits between £12,570 and up to £50,270. 2% on profits above £50,270.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 – 2023/2024*	£1,073,100

**Lifetime allowance charge removed after 5 April 2023. Any excess over the lifetime allowance that would have been subject to a lifetime allowance charge of 55% prior to 2023/2024 will be taxable as the member's pension income via PAYE.*

Maximum tax-free pension commencement lump sum in 2023/2024 is £268,275 unless a higher amount is protected.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*
2023/2024	£60,000**

**From 6 April 2016 the annual allowance is reduced for those with income above a certain level. Between 2020/21 and 2022/23 the annual will be reduced by £1 for every £2 of 'adjusted income' over £240,000 to a minimum of £4,000 if 'threshold income'is also over £200,000.*
***Reducing by £1 for every £2 of 'adjusted income' over £260,000 to a minimum of £10,000 if 'threshold income'is also over £200,000.*

ANNUAL ALLOWANCE CHARGE

20% – 45% determined by the member's taxable income and the amount of total pension input in excess of the annual allowance or money purchase annual allowance.

MONEY PURCHASE ANNUAL ALLOWANCE	2022/2023	2023/2024
	£4,000	£10,000

CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2022/2023	2023/2024
Individuals, estates etc	£12,300	£6,000
Trusts generally	£6,150	£3,000
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000
TAX RATES		
Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives:		
Residential property	28%	28%
Other chargeable assets	20%	20%
Business Asset Disposal Relief*	10%	10%
Lifetime limit	£1,000,000	£1,000,000

**For trading businesses and companies (minimum 5% employee or director shareholding) if held for at least two years.*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2022/2023	2023/2024
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%*	40%*
- Reduced rate (where appropriate charitable contributions are made)	36%	36%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

MAIN EXEMPTION		
Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£175,000	£175,000
- UK-registered charities	No limit	No limit

**Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished.*

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- Annual small gifts exemption per donor	£250	£250
Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building
50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:

- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

Quick succession relief:

- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	100%	80%	60%	40%	20%

MAIN SOCIAL SECURITY BENEFITS

		2022/2023	2023/2024
		£	£
Child Benefit	First child	21.80	24.00
	Subsequent children	14.45	15.90
	Guardian's allowance	18.55	20.40
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 61.05	Up to 67.20
	Aged 25 or over	Up to 77.00	Up to 84.80
	Main Phase		
	Work Related Activity Group	Up to 107.60	Up to 84.80*
	Support Group	Up to 117.60	Up to 129.50
Attendance Allowance	Lower rate	61.85	68.10
	Higher rate	92.40	101.75
Basic State Pension	Category A full rate	141.85	156.20
	Category B full rate	85.00	93.60
New State Pension	Full rate	185.15	203.85
Pension Credit	Standard minimumguarantee - single	182.60	201.05
	Standard minimum guarantee - couple	278.70	306.85
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	61.05	67.20
	Age 25 or over	77.00	84.80
Statutory Maternity, Paternity and Adoption Pay		156.66	172.48

**If a claim has begun before 3rd April 2017 the individual will also be awarded the Work Related Activity Component payment which in 2023/2024 is £33.70, so total awarded for these individuals may be up to £118.50.*

CORPORATION TAX

	2022/2023	2023/2024
Small profit rate - for taxable profits below £50,000	N/A	19%
Marginal rate – for taxable profits between £50,001 - £250,000	N/A	26.5%
Standard rate - for taxable profits above £250,000	19%	25%

VALUE ADDED TAX

	2022/2023	2023/2024
Standard rate	20%	20%
Annual registration threshold	£85,000	£85,000
Deregistration threshold	£83,000	£83,000

STAMP DUTY LAND TAX

	Residential
Value up to £250,000	0%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

Additional Stamp Duty Land Tax (SDLT) rules apply as follows:

- *First-time buyers benefit from SDLT relief on first £425,000 for properties up to £625,000 when purchasing their main residence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,001 and £625,000, a flat rate of 5% is charged on the balance above £425,000.*
- *Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *SDLT may be charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.*
- *SDLT is payable in England and Northern Ireland only. Land Transaction Tax(LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.*

	Non residential
Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%