Chartered Insurance Institute

R06 — FINANCIAL PLANNING PRACTICE

CASE STUDIES – OCTOBER 2018

Case study 1

Tamir and Nahla, both aged 49, are married with two children. Their son, Nadim, aged 21, is in his final year at university and their daughter, Lila, aged 17, is due to start university next year. Tamir and Nahla are both in good health.

Tamir is employed as a marketing director and receives a basic salary of £70,000 per annum gross. He is a member of his employer's death-in-service scheme which provides three times his basic salary in the event of his death and he is a member of his employer's qualifying workplace pension scheme, to which both he and his employer contribute 5% of his basic salary. This pension plan is invested in the default investment fund, which is a target date fund, based on a planned retirement age of 60.

Nahla is employed as a production manager and receives a basic salary of £58,000 per annum gross. Nahla is a member of her employer's qualifying workplace pension scheme. She contributes 8% of her basic salary to the scheme and this contribution level is matched by her employer. Nahla's pension fund is invested in a global equity fund. Her employer does not provide any other benefits.

Tamir and Nahla own their home, valued at £400,000, and they have an outstanding interest-only mortgage of £350,000. They plan to repay this mortgage using their cash Individual Savings Accounts (ISAs), into which they save £500 per month each. Tamir and Nahla are concerned that these cash ISAs may not be a suitable vehicle to repay their mortgage before their planned retirement age of 60. They have a joint life mortgage protection policy in place to cover their mortgage, with a current sum assured of £220,000. This policy was originally set up to cover the mortgage on their previous home and expires on Tamir's 55 birthday.

Tamir has a personal income protection insurance policy which was set up a number of years ago. He is concerned that this policy may no longer be suitable for his needs.

Nadim is keen to start saving for a deposit to purchase a property and Tamir and Nahla intend to help both of their children with deposits to buy their first homes. They are considering using the proceeds of Tamir's unit trust as a source of funds for these deposits. Tamir and Nahla are keen to ensure that they can access the unit trust as tax efficiently as possible in future years. The unit trust was purchased in 2009, with a lump sum contribution of £40,000.

Tamir and Nahla consider themselves to be medium to high risk investors. They have not received financial advice previously and wish to understand the benefits of doing so.

Tamir and Nahla have the following assets:

Assets	Ownership	Value (£)
Main residence	Joint Tenants	400,000
Current account	Joint	30,000
Cash ISA	Tamir	60,000
Unit Trust – UK smaller companies fund	Tamir	75,000
Cash ISA	Nahla	60,000

Tamir and Nahla's financial aims are to:

- ensure that they have adequate financial protection arrangements;
- put in place a suitable investment strategy to fund their retirement;
- assist their children with deposits for their first homes.

Case study 2

Rick, aged 57, is engaged to Sarah, aged 58. Sarah is currently in the process of finalising a divorce and Rick and Sarah plan to marry early next year. Rick was widowed five years ago. He inherited all of his late wife's estate. Rick has one adult son, Tom, who is married with two young children. Sarah does not have any children. Both Rick and Sarah are in good health.

Rick is employed as a finance manager and receives a salary of £40,000 per annum gross. He is a member of his employer's defined benefit pension scheme and receives no other employee benefits.

Sarah is a director in a small limited company. She owns 50% of the company's shares and her sister owns the other 50%. Sarah receives a salary of £1,000 per month gross and has received dividends in the 2018/19 tax year of £180,000. She will not receive any further dividends. Sarah and her sister have agreed to sell the business and this sale will complete in December 2018. Sarah plans to retire once the business is sold.

Rick and Sarah live in a house which is owned solely by Rick. The house is mortgage-free. Sarah owns a buy to let investment property in her sole name, which she purchased fifteen years ago for £150,000. She receives rental income of £1,450 per month gross, before agent's fees are deducted. There is an interest-only mortgage outstanding of £100,000 on the property which has 10 years remaining.

Sarah is a member of a small self-administered pension scheme (SSAS) which was established in 1998. Sarah and her sister are the only members. The scheme is invested in a range of collective investments and Sarah's transfer value is £600,000. They plan to wind-up the scheme once the business is sold.

As a result of her divorce, Sarah will become entitled to receive 50% of her ex-husband's defined benefit pension scheme. Her ex-husband's cash equivalent transfer value is currently valued at £1 million. She is considering her options in respect of this pension entitlement.

Rick and Sarah have the following assets:

Assets	**Ownership**	**Amount (£)**
Main residence	Rick	500,000
Unit Trust – UK high yield bond fund	Rick	40,000
Stocks and Shares ISA – Global fixed interest	Rick	55,000
Buy to let: investment property	Sarah	350,000
Savings account	Sarah	55,000
OEIC – UK long dated gilt fund	Sarah	95,000
Stocks and Shares ISA – UK corporate bond fund	Sarah	60,000
Current account	Joint	20,000

Rick and Sarah have a medium to high attitude to investment risk and they are keen to preserve as much of their capital as possible for Rick's son and grandchildren.

Rick and Sarah both made Wills a few years ago, before they met.

Their financial aims are to:

- generate a sustainable retirement income;
- preserve capital for their intended beneficiaries;
- minimise their potential liability to Inheritance Tax;
- improve the suitability and tax-efficiency of their current pensions and investments.