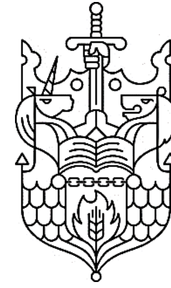

Chartered Insurance Institute

R06 — FINANCIAL PLANNING PRACTICE

CASE STUDIES – JULY 2020

Case Study 1

Seth, aged 64 and Kaitlyn, aged 68, married recently and have just moved into their new home. The house, which is mortgage free, is valued at £950,000 and was purchased by Seth and Kaitlyn as tenants in common. Both of them own equal shares in the house. Kaitlyn's late husband died five years ago at the age of 76. She has two financially independent daughters and two grandchildren. Seth's late wife died seven years ago, and he has two financially independent sons and no grandchildren. Both Seth and Kaitlyn inherited all of their respective spouse's estates, including their share of their respective family homes which were subsequently sold to fund the purchase of their current home. Both Seth and Kaitlyn are in good health.

Kaitlyn's late husband had a crystallised pension scheme which was held in a capped drawdown arrangement when he died. The fund is now held in a flexi-access drawdown scheme and is invested in UK and US equity funds. The current fund value is £417,000. Kaitlyn draws an income of £1,500 per month gross from this plan. Kaitlyn deferred her state pension when she attained state pension age in 2014. Kaitlyn was entitled to a full basic State Pension at that time and has not started to draw this pension yet.

Seth is a self-employed accountant working as a sole trader. He has net profits of £145,000 per annum gross in the current tax year. His earnings have been very similar for the last few years. Seth has a personal pension plan with a fund value of £1,220,000. The plan is invested in both UK and global equity funds. Seth has not made any pension contributions for the last five years.

Seth plans to retire in a few months' time at the age of 65 and has never applied for any form of transitional protection in respect of his Lifetime Allowance for pension purposes.

Seth arranged an offshore bond six years ago following his wife's death, when he invested £200,000. His intention was to look at assigning the bond into a trust as part of his Inheritance Tax planning but he has not assigned the bond or arranged a trust at this stage. He has wondered recently if this investment was appropriate for his needs, as the investment performance has been quite volatile. The current fund value is £237,000 and the bond is invested in emerging markets and Asian equity funds. No withdrawals have been made from the bond.

Seth and Kaitlyn both wish to ensure that their respective estates can pass as tax-efficiently as possible to their children on their deaths. They wish to ensure that all of their individual assets pass to their respective children and that their home is left for their children under trust on second death. Both Seth and Kaitlyn made Wills three years ago to confirm these intentions.

Seth and Kaitlyn both believe that they have medium to high risk profiles.

Seth and Kaitlyn have the following assets:

Assets	**Owner**	**Value (£)**
Main residence	Tenants in common	950,000
Current account	Joint	8,000
Deposit account	Seth	140,000
Stocks & shares ISA – UK fixed interest fund	Seth	127,000
Offshore bond – Emerging markets and Asian equity funds	Seth	237,000
Deposit account	Kaitlyn	120,000
Stocks & shares ISA – Global property fund	Kaitlyn	60,000

Seth and Kaitlyn's financial aims are to:

- obtain an adequate income in retirement;
- ensure that their current investment holdings are suitable and tax-efficient;
- ensure that their estate can be passed as tax-efficiently as possible to their children.

Case Study 2

Mita, aged 52 and her husband Harish, aged 54, have two children, aged 14 and 16. They own their own home as joint tenants and have an outstanding repayment mortgage of £160,000. The property has a current value of £400,000. Harish also owns a buy-to-let property with an interest-only mortgage of £80,000 outstanding. This property was his former home and has a current value of £125,000. Both Mita and Harish are in good health.

Harish is the sole director of a small printing company. He draws a salary of £60,000 gross per annum and has received dividends of £70,000 per annum for the last two years. He has a self-invested personal pension (SIPP) which was established in 2002, which has a current value of £600,000. Harish has not made any contributions to this pension scheme for several years. The SIPP is partly invested in a range of fixed interest, corporate bond and high yield bond collective investment funds. Also, Harish has used this scheme to purchase a commercial property from which his company operates.

Mita is employed as an office manager and is a member of her employer's qualifying workplace pension scheme. She earns £62,000 gross per annum and her employer pays 5% of her basic salary into the pension scheme. Mita also contributes 5% of her basic salary gross. Her employer will match her contributions up to a maximum of 7% of her basic salary. Her pension fund is invested in a target date retirement fund and she has a current fund value of £40,000. Mita is also a deferred member of her former employer's defined benefit pension scheme and has recently received a cash equivalent transfer value (CETV) of £190,000 from the scheme trustees. The pension from this scheme is projected to pay £8,000 per annum gross at age 65.

Mita has been contributing to her current employer's Share Incentive Plan (SIP) for almost five years. The cash value of the investment in this plan is currently £16,000. This plan is due to mature in the next two months.

Harish's mother has recently moved into a care home. She is in poor health and Harish holds an Enduring Power of Attorney for her, although this has not yet been registered. Harish's father died some years ago. Harish is keen to ensure that he can manage his mother's assets in future, should she lose mental capacity.

Mita and Harish wish to set up a new monthly savings plan to repay their children's student loans in the future, should they choose to go to university. The children have not yet decided if they will take up university places, so Mita and Harish wish to retain flexibility in respect of this new savings plan.

Mita and Harish are medium-risk investors and both plan to retire in ten years' time.

Mita and Harish have the following assets:

Assets	Ownership	Value (£)
Main residence	Joint tenants	400,000
Current account	Joint	12,000
Deposit account	Joint	120,000
Buy-to-let property	Harish	125,000
Stocks & shares ISA – UK fixed-interest fund	Harish	40,000
Stocks & shares ISA – Multi-asset managed fund	Mita	60,000

Mita and Harish's financial aims are to:

- ensure their existing pension arrangements are on target to meet their retirement aims;
- repay Harish's buy-to-let mortgage before he retires;
- build up funds to assist the children with future university fees and to repay any student loans;
- ensure Harish can manage his mother's financial affairs.