Chartered Insurance Institute

# R06 — FINANCIAL PLANNING PRACTICE

## CASE STUDIES – APRIL 2021

**Case Study 1**

Jim and Helen, both aged 62, are living together and planning to get married in the next few years. Helen is in the process of getting divorced from her husband, Bob. Jim is a widower with two adult children. Helen has no children. Helen has moved into Jim's home which is worth £800,000 and is unencumbered. Helen and Bob rented their former home. Bob has taken over the rental agreement although Helen continues to pay him a monthly maintenance payment of £800, as he has not worked for the past ten years. The financial arrangements in respect of their divorce are currently being discussed through their respective solicitors.

Jim and Helen are both planning to retire at age 65 and are hoping to maintain their current lifestyle in retirement. Both Jim and Helen are in good health.

Jim inherited all of his late wife's assets with the exception of her 50% share of the family home, which was placed into an Immediate Post-Death Interest Trust (IPDI), via her Will. This is held in trust for Jim's children but Jim can remain in the property throughout his lifetime. Jim's share of the property is worth £400,000. Jim is receiving the spouse's pension from his late wife's defined benefit pension scheme.

Jim is the managing director and sole shareholder of his own company and he draws a salary of £30,000 per annum gross. He also receives dividends which vary depending on the company's performance. His dividends for the last tax year were £45,000 gross and it is expected that the dividends will continue at a similar level this tax year. Helen is also the sole director and shareholder of her own company and she draws a salary of £30,000 per annum gross. Her company has not performed well over the past few years due to difficult trading conditions, so Helen has not taken any dividends for some time.

Jim has a small self-administered pension scheme (SSAS) with a current value of £650,000. This is invested in a range of collective funds and individual equities. He is unsure whether this scheme currently meets his retirement planning objectives.

Helen has a personal pension with a current fund value of £500,000. This has a guaranteed annuity rate of 8.6% per annum on a joint-life basis when she reaches age 65. Helen's husband, Bob, wishes to claim a portion of Helen's pension as part of the divorce settlement. Helen is considering both a pension attachment order and a pension sharing order and has asked for your advice on this matter.

Neither Jim nor Helen have reviewed their Wills for over ten years. Both of them are planning to do so in the near future and have asked for your advice on the most appropriate way of ensuring that Jim's children will be protected in the event of their future marriage. They also wish to ensure that Helen will have sufficient funds to maintain her lifestyle, should Jim predecease her.

Jim and Helen both have a high attitude to risk and are happy to invest in a wide range of assets. They have stated that they do not require any socially responsible investments.

Jim and Helen have the following assets:

| **Assets** | **Ownership** | **Value (£)** |
|---|---|---|
| Current account | Joint | 8,000 |
| AIM ISA – UK Equities | Jim | 50,000 |
| Stocks and shares ISA – UK equity and global equity funds | Jim | 180,000 |
| Stocks and shares ISA – Emerging markets equity funds | Helen | 230,000 |
| Individual equities – UK banks and UK insurance companies | Helen | 40,000 |
| Deposit account – fixed-term savings account | Helen | 200,000 |

Jim and Helen's financial aims are to:

- ensure that they can generate an adequate income in retirement;
- mitigate Jim's future Inheritance Tax liability;
- ensure that the surviving partner is financially secure in the event of death.

**Case Study 2**

Dante and Cara, both aged 53, are married and have two children, Paolo, aged 14 and Laura, aged 13. All of the family are in good health.

Dante is employed as the group chief executive for a multi-school academy trust and receives a basic salary of £205,000 per annum gross. He is a member of his employer's death-in-service scheme which provides a benefit of three times his basic salary. He has been a continuous member of his employer's defined benefit pension scheme since he was aged 21. Dante is entitled to sick pay of 100 days' full salary followed by 100 days' half salary.

Cara is employed as an accounts manager and receives a basic salary of £40,000 per annum gross. Cara is a member of her employer's workplace pension scheme. She contributes 7% of her basic salary to the scheme and her employer contributes 5% of her basic salary. Her employer also provides a death-in-service benefit of £100,000. In the event of illness, Cara will receive four weeks' basic salary as sick pay then statutory sick pay only.

The trustees of Dante's employer's defined benefit scheme have just provided an annual pension statement showing that in the 2020/2021 tax year, Dante's total pension input amount was £71,000. The statement also confirms that his annual pension at age 67, which is the scheme's normal retirement age, is currently projected to be £52,736 gross per annum, plus a pension commencement lump sum of £124,750.

Cara's current workplace pension fund value is £110,000 and it is invested in a balanced managed fund. Cara also has a deferred pension entitlement in her former employer's group personal pension scheme. This scheme was established in 1990 when she was employed by her family's small engineering company. The fund value is £240,000 and it is invested in an emerging markets equity fund and a traditional with-profits fund.

Dante and Cara live in a detached house valued at £750,000. This house is owned jointly and has an outstanding mortgage of £250,000. The mortgage is held on an interest-only basis with 15 years remaining on the mortgage term. They intend to repay this mortgage at the end of its term by using some of the proceeds of their investment portfolio. They also jointly own a mortgage-free rental property which is valued at £200,000. They receive £750 per month, gross, as rental income.

Dante and Cara have a joint-life first event life and critical illness policy with a sum assured of £100,000. This policy was arranged to protect the mortgage on their former home. Dante has an income protection insurance policy in place, which was arranged ten years ago.

Cara's mother gave Cara £300,000 five years ago following the sale of her home. Her mother, aged 85, now lives with Dante and Cara as she suffered a stroke last year. She still has mental capacity although she has mobility issues. Cara is considering arranging for her mother to move permanently into a local care home. Cara is keen to ensure that her mother's interests are appropriately protected. At present no formal legal arrangements are in place.

Dante and Cara consider themselves to be medium to high-risk investors.

Dante and Cara have the following assets:

| **Assets** | **Ownership** | **Value (£)** |
|---|---|---|
| Current account | Joint | 3,500 |
| Deposit account | Joint | 42,500 |
| Rental property | Joint | 200,000 |
| Stocks and shares ISA – Commercial property fund | Dante | 54,000 |
| Stocks and shares ISA – Strategic bond fund | Cara | 70,000 |
| Unit Trusts – Global bond fund and corporate bond fund | Cara | 120,000 |

Dante and Cara's financial aims are to:

- ensure that they have adequate financial protection arrangements in place;
- arrange a suitable strategy to repay their interest-only mortgage;
- ensure that their pensions and investments are appropriate to their needs.