Chartered Insurance Institute

R06 — FINANCIAL PLANNING PRACTICE

CASE STUDIES – JULY 2021

Case Study 1

Dan and Sara, both aged 48, are married and have two children, Finn, aged 11 and Emily, aged 10. All of the family are in good health.

Dan is employed as a pharmacist and receives a basic salary of £102,000 per annum gross. He will receive a bonus of £10,000 gross in the current tax year. Dan is a member of his employer's death-in-service scheme which provides a benefit of two times his basic salary in the event of his death. Dan is entitled to sick pay of 90 days' full salary with Statutory Sick Pay only, thereafter. Dan is a member of his employer's group personal pension scheme. He contributes 7% of his basic salary to the scheme and his employer contributes 11% of his basic salary.

Sara is employed as a solicitor on a part-time basis and receives a basic salary of £40,000 per annum gross. She has agreed to work on a full-time basis from January 2022 and will receive an additional £20,000 per annum gross in basic salary. Sara is a member of her employer's qualifying workplace pension scheme. She contributes 5% of her basic salary and her employer contributes 3% of her basic salary to the scheme. Her employer also provides a death-in-service benefit of £200,000 which is payable in the event of her death. In the event of illness, she will receive six weeks' basic salary as sick pay with Statutory Sick Pay only, thereafter.

Dan's group personal pension fund in his employer's scheme is invested in a range of global and UK equity funds. The current fund and transfer value is £242,000. Sara's workplace pension has a current value and transfer value of £55,000 and is invested in a cautious managed fund. Sara also has a pension fund value in a former employer's workplace pension scheme. This has a current value and transfer value of £97,000 and is invested in a UK equity index tracker fund.

Sara has been offered membership of her employer's group private medical insurance (PMI) scheme from September 2021. She is considering whether this will be of benefit to the family.

Dan and Sara live in a house which is valued at £600,000. This house is owned as joint tenants and has a mortgage of £350,000 outstanding. The mortgage is on a capital and interest basis. The mortgage interest rate is fixed at 3% until 31 March 2023, with early repayment charges applying until the same date. It is an offset mortgage.

Dan and Sara have a joint-life first event life and critical illness policy with a decreasing sum assured. This policy was arranged to protect the mortgage fully when they bought their current home. Dan has a budget private medical insurance policy in place that he set up a number of years ago.

Dan and Sara each established a stocks and shares ISA a few years ago which are invested in a UK smaller companies fund for Dan and a UK corporate bond fund for Sara. Sara inherited a portfolio of unit trusts from her father when he died last year. These holdings have remained unchanged since she received them.

Dan and Sara have decided to start to save for their children's potential university costs by using the additional salary that Sara is about to receive.

Dan and Sara consider themselves to be medium-risk investors.

Dan and Sara have the following assets:

Assets	**Ownership**	**Value (£)**
Family home	Joint	600,000
Current account	Joint	6,500
Deposit account (linked to offset mortgage)	Joint	7,500
Stocks and shares ISA – UK smaller companies fund	Dan	14,000
Stocks and shares ISA – UK corporate bond fund	Sara	13,000
Unit Trusts – UK, European and global equity funds	Sara	60,000

Dan and Sara's financial aims are to:

- ensure that their financial protection arrangements are adequate for their needs;
- arrange a suitable savings strategy to pay for their children's university costs;
- ensure that their savings and investments are appropriate for their needs.

Case Study 2

June is aged 71. Her husband, Colin, aged 72, died recently following a sudden heart attack. June has a long-term heart condition which requires ongoing treatment. June has two children and four grandchildren. Her children Emily and Andrew are both married. Colin's estate is being transferred into June's name by their solicitor and this should be completed within the next two months. June will inherit all of Colin's assets.

June is aware that she may need long-term care in the future and is considering selling the family home and moving into a retirement village where she could rent a suitable property at a cost of £1,000 per month. Her current home is valued at £450,000 and is mortgage-free.

June's income consists of her own State Pension, and 50% spouse's pension from a pension annuity which was previously held by Colin. This income is not sufficient to meet her needs. She is spending capital from her deposit account and is concerned that she will run out of cash funds in the near future.

Colin had a self-invested personal pension (SIPP) which is invested in a range of individual equities and collective investment funds. It has a current value of £320,000. The SIPP was fully crystallised and was held in a flexi-access drawdown arrangement at the time of Colin's death.

Colin held a range of AIM shares and open-ended investment companies (OEICs), valued at £250,000 in total. These are still held in Colin's name. Colin also held an ISA portfolio valued at £300,000. June holds a range of cash ISAs which are all on fixed rates with varying terms of between two and five years. She also has a stocks and shares ISA.

June is keen to ensure that she mitigates any future Inheritance Tax liability so that she can maximise her estate for the benefit of her children and grandchildren.

Colin and June had been looking into the possibility of setting up a discounted gift trust. June is keen to understand if such an arrangement would be suitable for her now that Colin has died.

June is a medium-risk investor and is happy to consider a wide range of investments, but she does not want to spend a great deal of time monitoring these investments in the future.

June has entitlement to the following assets:

Assets	**Current holder**	**Value (£)**
Family home	June	450,000
Current account	June	2,000
Deposit account	June	15,000
Cash ISAs – various fixed terms	June	80,000
Stocks and shares ISA – UK corporate bond fund	June	120,000
Stocks and shares ISA – emerging markets fund	Colin (deceased)	300,000
OEICs – UK mid-cap and UK fixed interest funds	Colin (deceased)	150,000
AIM shares	Colin (deceased)	100,000
Self-invested personal pension (SIPP)	Colin (deceased)	320,000

June‘s financial aims are to ensure that:

- she has sufficient income throughout retirement;
- her investments meet her ongoing needs;
- her estate is passed to her children in an Inheritance Tax efficient manner.