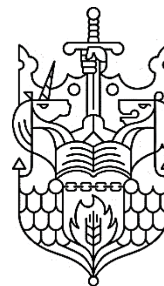

Chartered Insurance Institute

R06 — FINANCIAL PLANNING PRACTICE

CASE STUDIES – SEPTEMBER 2021

Case Study 1

John, aged 38, and Karen, aged 36, are married. They have two young children, Sophie, aged six, and Jack, aged three. They are in the process of moving home and are hoping to complete the purchase of their new property in the next six weeks.

John is a self-employed computer contractor who has worked on a single contract for one client, which is a large UK bank, for the last two years. He has taxable net profits drawings of £40,000 per annum gross, after expenses. John's current client has offered him a full-time salaried position on a salary of £48,000 per annum gross, and the company will provide a range of employee benefits. John is currently considering the merits of accepting this offer.

Karen has not worked since their children were born but is considering returning to part-time work when Jack starts school in two years' time.

John and Karen are taking out a capital repayment mortgage on the new property for £150,000 which will replace their existing interest-only mortgage of £100,000. They have a joint-life first death level term assurance policy for £100,000 and are considering the suitability of this policy for their new property. The purchase price of their new property is £300,000.

John has a deferred benefit in his former employer's defined benefit occupational pension scheme, although this scheme is currently in deficit. John also has a personal pension which he set up when he became self-employed. This personal pension has a current value of £45,000 and is invested in a cautious lifestyle fund and has a normal retirement age of 65. John makes single contributions to his personal pension when his profits allow. Karen has a personal pension which she set up when she first started work. This personal pension has a value of £10,000 and is invested in a fixed-interest fund. Karen has not made any pension contributions for five years.

John and Karen are both in good health. They have an adventurous attitude to risk and are willing to invest in a wide range of investments. John and Karen do not have any ethical views in respect of their investments. They have set up mirror Wills with appropriate trust arrangements for the children in the event of their deaths before the children reach age 18.

John and Karen wish to maximise the tax-efficiency of their current income and assets and have asked for your recommendations on how this could be best achieved.

John and Karen have the following savings and investments:

Assets	**Ownership**	**Value (£)**
Current Account	Joint	8,000
Deposit Savings Account – Instant Access	Joint	15,000
Stocks & Shares ISA – Global Equity Tracker fund	John	19,000
Stocks & Shares ISA – UK Equity Tracker fund	Karen	15,000

John and Karen’s financial aims are to:

- arrange for adequate protection to be in place for their new mortgage;
- ensure John’s income is structured in an appropriate manner;
- ensure that they have sufficient assets to enable them to retire when John reaches age 60.

Case Study 2

Steve and Trish, aged 65 and 62 respectively, are married. They have two children, Harry, aged 34, and Sophie, aged 30. Sophie is married and is financially independent. Harry has serious learning difficulties and lives with his parents.

Steve will semi-retire shortly and has two personal pension arrangements which are valued at £450,000 and £80,000. He would like to consolidate these pensions and whilst he feels that he does not need to take a pension commencement lump sum, he will need a tax-efficient income. Both of Steve's pension funds are invested in low to medium risk funds including a holding in a with-profits fund within the smaller personal pension.

Steve is a higher rate taxpayer and expects to remain so for the foreseeable future. He currently earns a salary of £85,000 gross per annum. Steve expects his salary to fall to £55,000 gross per annum when he semi-retires.

Trish works as a receptionist at a local engineering firm. Her earnings have been £16,000 per annum gross for the last five years. Trish is a member of her employer's qualifying workplace pension scheme. Her plan has a current value of £20,000 and it is invested in the default cash fund in her employer's scheme.

Steve and Trish live in a house worth £700,000 which is mortgage-free and owned as joint tenants. They have no debts. Steve and Trish do not expect to receive any inheritances in the future, and they wish to leave as much of their estate as possible to their children on second death.

Both Steve and Trish feel they have a medium attitude to risk. They have not made any Wills.

Their savings and investments are as follows:

Assets	Ownership	Value (£)
Current Account	Joint	55,000
Deposit Account	Joint	200,000
OEIC – UK Equity funds	Steve	225,000
Unit Trust – Emerging Markets fund	Steve	80,000
Cash ISA	Trish	46,000

Steve and Trish's financial objectives are to:

- ensure that their financial arrangements are tax-efficient;
- maximise the value of their estate for their beneficiaries;
- maintain their standard of living in retirement.