Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

April 2023 Examination Guide

SPECIAL NOTICES

Candidates entered for the July 2023 examination should study this examination guide carefully in order to prepare themselves for the examination.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

R06 – Financial planning practice

Contents

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you demonstrate to the Examiners that you meet the required levels of knowledge and skill to merit a pass in this unit. During your preparation for the examination, it should be your aim not only to ensure that you are technically able to answer the questions but also that you can do justice to your abilities under examination conditions.

Before the examination

Study the syllabus carefully
It is crucial that you study the relevant syllabus carefully, which is available online at www.cii.co.uk. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone,* so it is vital that you are familiar with it.

Read widely
It is vital that your knowledge is widened beyond the scope of one book. *It is quite unrealistic to expect that the study of a single coursebook will be sufficient to meet all your requirements.* While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic, or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide
This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks. *However, you should note that there are alternative answers to some question parts which would also gain high marks.* For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible and then comparing your answers to the model ones should be seen as an essential part of your examination preparation. The Examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

Know the layout of the tax tables
Familiarise yourself with the tax tables printed at the back of the Examination Guide. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to use your own tax tables in the examination, these are provided in the portal as you sit the exam (see page 6).*

Know the structure of the examination

- The paper is made up of two written case studies.
- The paper will carry a total of 150 marks.
- Each question clearly shows the maximum marks which can be earned.

Two weeks before the examination

The case studies

The case studies, containing client information which will form the basis of the examination questions, will be available on the CII website and in RevisionMate.

How should I use my time over the two-week period?

It is too late at this stage to start your general revision. The two weeks will need to be devoted to familiarising yourself with the client details from the case studies.

How should I use the case studies to help me prepare?

- Study the client circumstances presented in the case study.
- Consider the financial objectives of the clients and look for other possible areas of need.
- Look for technical areas that you may wish to revise, e.g. investment portfolios, pensions.

Practice some key calculations, e.g. Income Tax and Inheritance Tax liabilities, which might inform the client's final financial plan.

Preparing the groundwork – considering possible solutions

Once you have identified the clients' likely needs you should start to consider possible solutions to meet those needs and how the financial planning process would be properly applied to the client(s). You may need to research some details of the solutions you are considering. You may want to go back to your revision notes.

You may need to read about particular products; try product providers for technical information, tax offices, Directgov website, National Savings and Investments liaison office.

For each of the possible solutions, consider how appropriate it might be to the client.

Understand the skills the examination seeks to test

The examination is based on two case studies for fictional clients whose details you will have received two weeks prior to the examination day. The case studies will enable you to familiarise yourself with the clients' circumstances.

Test yourself under timed conditions

To gain most benefit from this exercise you should:

- Study the details in the case studies over the two-week period as you would for the real examination.
- Set yourself three clear hours to complete the question paper, taking into account the financial objectives provided.
- Compare your answers against the model answers once the three hours have elapsed. The model answers will not give every acceptable answer, but it will give you a clear indication of whether your responses were sufficiently detailed and if the technical knowledge was correct.
- Go back and revise further any technical weaknesses revealed in your responses.

If you use your time wisely, focusing on improving your technical knowledge and understanding of the financial planning process, you will have the time when the case studies are available to focus on the client details and prepare yourself for the examination day.

On-screen written exam familiarisation (Demo 1)

The familiarisation test allows you to experience using the assessment platform before your exam. Please note that while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality. This test is for the purpose of familiarisation with the assessment platform only. You can also access past exam papers here: https://www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/exam-papers-and-test-specifications/

You can access the familiarisation test at any time.

https://www.cii.co.uk/learning/qualifications/assessment-information/on-screen-written-exams-by-remote-invigilation/exam-familiarisation/

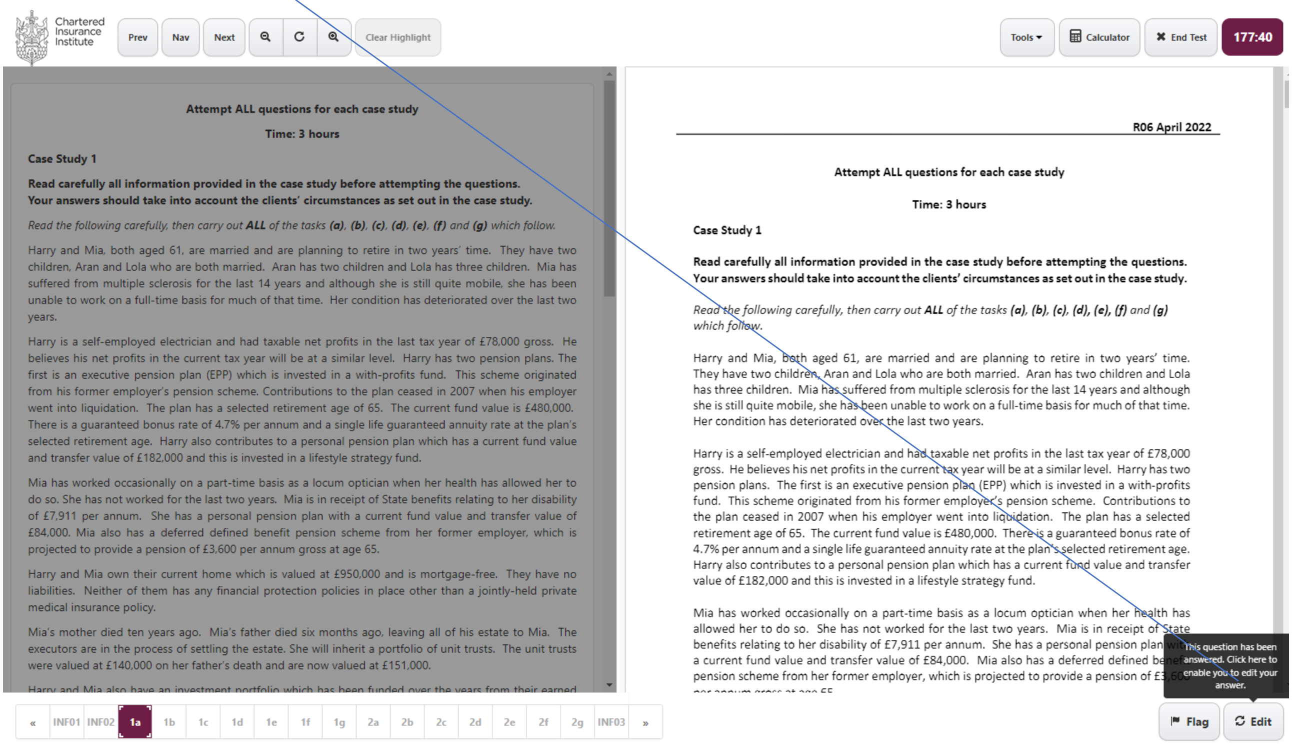
Although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

The familiarisation test is designed to allow you to go through the end-to-end process from logging in to answering test questions, before the day of your exam. **We strongly advise that you try the familiarisation test once you have received your login details and well in advance of the actual exam day to help pre-empt any potential exam day technical issues.**

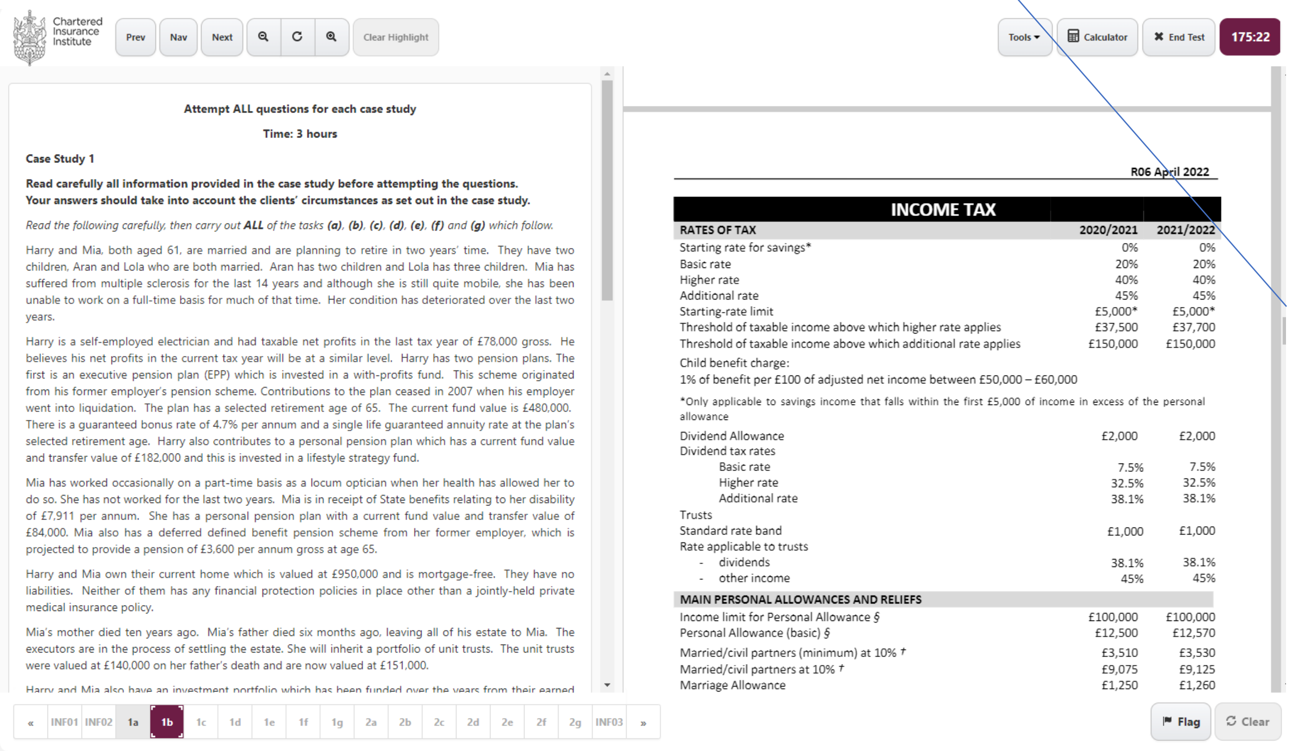
Please note you are strongly advised not to use a laptop provided by your employer.

Laptops and IT equipment provided by your employer typically include security protocols that conflict with any remote invigilation software. You should also avoid using a corporate Wi-Fi or any other internet connection that may include firewalls that you cannot personally control.

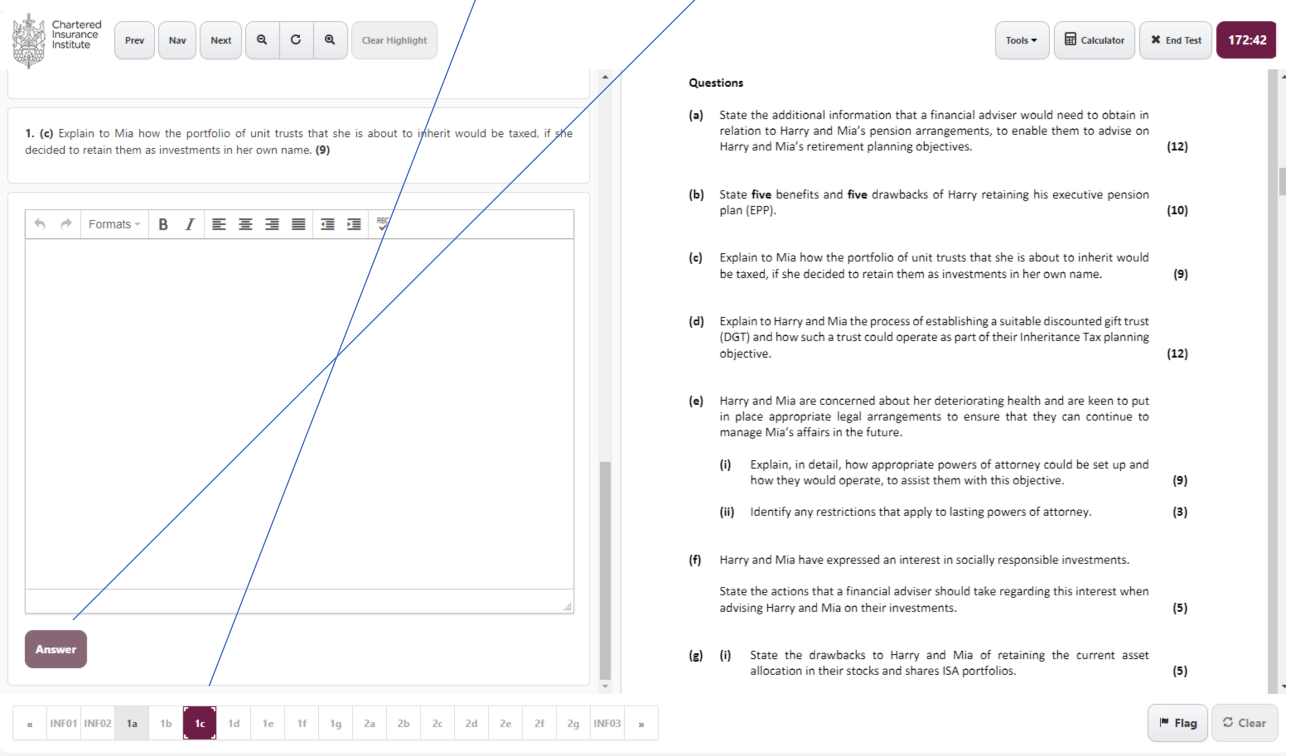
1. From the familiarisation test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press 'Answer' for the question you are already in otherwise it will not let you select a previous question you have answered to edit.



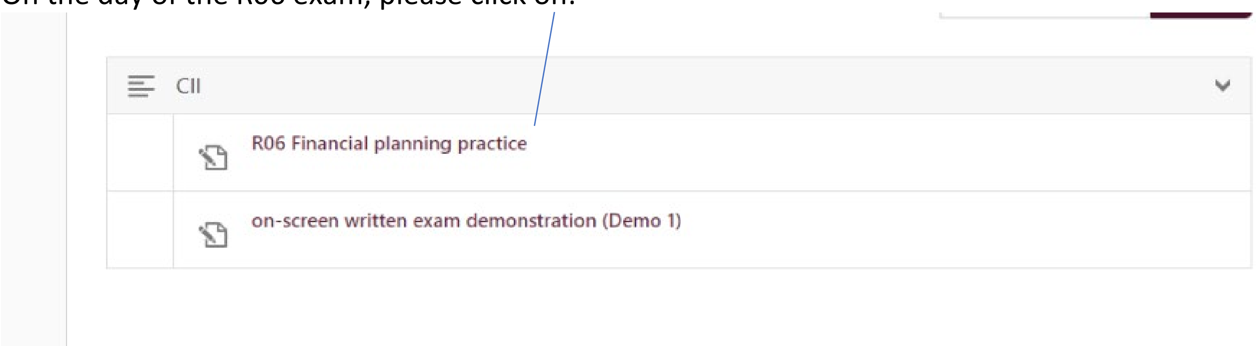
2. Tax tables and the Case Studies are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam. Scroll up and down using the navigation bar.



3. Once you have typed in your answer ensure you click the red '**Answer**' box, this will save your answer and move you onto the next question. Unless you press 'Answer', you will not be permitted to move onto other questions. Furthermore, please do not type all of your answers for every question into the answer space for Q1a. You should familiarise yourself with all questions prior to starting the exam.



4. On the day of the R06 exam, please click on:



5. The above screenshot shows the point before the exam has started; you may wish to take a moment at this screen to jot down any notes on paper that may assist you during the exam. Please note the exam timer will not start until you click the exam titled: **R06 Financial planning practice**.

In the examination

The case studies
You will not be able to take your pre-released copy of the case studies into the examination with you. The case studies will be provided on screen in the examination. There will not be any new or different information contained within the case studies. The instructions are focused on the client objectives identified from the case studies.

Assuming you have prepared adequately, you will only do justice to yourself in the examination if you follow two crucial common-sense rules:

1. **Spend your time in accordance with the number of marks given next to each question.** The number of marks allocated is the best indication of how much time you should spend on each question. If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking, so a long answer is a waste of time. Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the examination is not completed, your chances of passing will be reduced considerably. Do not spend excessive time on any one question; if the time allocation for that question has elapsed, go on to the next question and return to the incomplete question, if you have time.

2. **Take great care to answer the precise question set.**
   The model answers provided in this Examination Guide are quite focused and precise; alternative answers will only be acceptable if they still answer the question. *However well a candidate writes on a particular topic, if it does not provide a satisfactory answer to the precise question as set, the candidate will not achieve the marks allocated*.

Order of answering questions
Answer the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which are felt to be challenging until the more familiar questions have been attempted but *remember not to spend excessive time on the questions you are most confident about.* You are able to flag questions and then go back to them.

Answering different question parts
Always read all parts of a question before starting to answer it otherwise, you may find that after answering part (a), the answer you have given is more appropriate to part (b) and it may be necessary to duplicate some of the answer.

Answer format
Unless the question requires you to produce an answer in a particular format, such as a letter or a report, you should use 'bullet points' or short paragraphs. The model answers indicate what is acceptable for the different types of question.

Marks are not lost due to poor spelling or grammar.

Calculators
The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation in your answer, even if you have used a calculator. You are permitted to use your own calculator.

EXAMINERS' COMMENTS

Candidates' overall performance:

General performance across the paper was very good.

Most candidates had prepared well for the paper but there were some areas with limited responses where candidates failed to achieve high marks. Some areas of weakness were in evidence, notably in candidate understanding of State Benefits. Some candidates had difficulty with the more application-based questions where candidates were asked to apply their knowledge to the information provided in the case study.

Question 1

In part (a) candidates were asked to state the additional information that a financial adviser would require to enable them to advise Ken and Mary on the suitability of their current financial arrangements Most candidates performed well and were able to provide detailed answers that covered a range of issues.

Part (b) required candidates to explain to Ken why he may wish to stop taking the withdrawals from his Flexi-Access Drawdown (FAD) arrangement. General performance was good although there was some evidence of weakness with candidates failing to recognise the Income Tax liability on the self-invested personal pension plan (SIPP) income.

In part (c) candidates were asked to explain to Ken why he should make further pension contributions when he returns to part-time work. Most candidates performed well although some candidates failed to appreciate that Ken would not be given automatic membership of his employer's auto-enrolment pension scheme. Ken must opt in due to his age. This indicated a lack of detailed preparation on the part of some candidates.

Part (d) required candidates to recommend and justify the actions that Ken and Mary can take to improve the tax-efficiency of their existing financial arrangements when Ken returns to part-time employment. Overall performance was good and it was pleasing to note that many candidates recognised the potential option to defer the State Pension and the potential benefit that this would offer Ken once he returned to employment.

In part (e) candidates were asked to identify the key information that a financial adviser should take into consideration before making any changes to the underlying investments in his SIPP. Many candidates did well but only a limited number of candidates recognised the need to benchmark the performance of the funds to attempt to identify the relative performance of the fund and potentially identify the reason for the underlying 'poor' performance.

In part (f) candidates were asked to identify the key information that a financial adviser should take into consideration when preparing a cashflow model to assist Ken and Mary with their financial planning. Excellent performance from most candidates here which was very pleasing.

In part (g) candidates were asked to state the reasons why Ken should include his two children as part of the death benefit nomination on his SIPP. Overall performance was slightly disappointing. Very few candidates understood that without the nomination, flexi access drawdown (FAD) would be unlikely to be available to the children, resulting in potentially reduced tax-efficiency for the children in future years.

Question 2

In part (a) candidates were asked to outline to Nick and Shirin the key factors that may result in them failing to meet their plan to retire when Nick is 60, based on their current circumstances. Mixed performance as many candidates provided generic answers and did not focus sufficiently on Nick and Shirin's current position. This is an application-based question and poor performance was in evidence from some candidates.

Part (b) required candidates to recommend and justify a range of actions that Nick and Shirin could take to improve their ability to retire with an adequate level of income when Nick attains age 60. Some good performance with many candidates recognising the potential use of a Lifetime ISA and explaining clearly why this would be of benefit. It was also pleasing to note that a number of candidates also identified the merits of using Income Protection insurance which would be a suitable course of action, based on the information provided in the Case Study.

Part (c) asked candidates to explain why it might be of benefit to Nick and Shirin to use a range of different asset classes within their pension and ISA holdings. Some good performance was in evidence with most candidates being able to explain the benefits of using different asset classes.

In part (d) candidates were asked to explain to Nick and Shirin their potential entitlement to Statutory Sick Pay and the conditions that must be met for this to be paid to them. Overall performance was disappointing as only a limited number of candidates had looked in detail at this particular State Benefit, resulting in a lack of comprehensive answers to this question. Nick and Shirin have expressed their concerns about their lack of protection and the fact that they would be relying on Statutory Sick Pay in the Case Study so this should have been an area of research for candidates.

In part (e)(i) candidates were asked to outline to Nick and Shirin the key differences between a Critical Illness policy (CIC) and an Income Protection policy. Most candidates had no difficulties with this question and provided detailed answers.

Part (e)(ii) asked candidates to explain to Nick and Shirin the reasons why they might consider replacing their existing level term assurance policy with a more suitable policy to protect their mortgage. Most candidates achieved reasonable marks and recognised the fact that a repayment mortgage was in place so the level term policy may not be suitable.

In part (f) candidates were asked to identify five advantages and five disadvantages for Nick and Shirin if they choose to continue to invest their excess income in ISAs, rather than making overpayments to their mortgage. Disappointing performance overall. Most candidates provided limited answers and only a few recognised the fact that current returns on 'risk-free' cash deposits would exceed the rate of mortgage interest.

Part (g) was a standard review question which asked candidates to state eight issues that an adviser should discuss with Nick and Shirin at the next annual review. Performance was generally very good.

Unit R06 – Financial planning practice

Instructions to candidates

Read the instructions below before answering any questions.

All questions in this examination are based on English law and practice applicable in the tax year 2022/2023, unless stated otherwise in the question, and should be answered accordingly. It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

If you are sitting via remote invigilation please

- **Write down the following number +44 (0)80 8273 9244. This is the number to use if your system freezes or you get forced out of your exam. It is fine to phone it if you have these issues.**
- Show your ID to the camera now, if you did not do so during the ID checks.
- Show the edge of your screen with a mirror, if you did not do this during the room scan.
- Show any blank sheets of paper for notes, if you did not show both sides to the camera during the room scan.

If you are sitting in a test centre and encounter a problem, please alert the invigilator.

For candidates sitting via remote invigilation or at a test centre

- This paper consists of **two** case studies and carries a total of 150 marks.
- You are advised to spend approximately 90 minutes on the questions for each case study. You are strongly advised to attempt **all** parts of each question in order to gain maximum possible marks for each question. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation in your answer, even if you have used a calculator.
- **Tax tables are provided at the right-hand side of the interface after the question paper, this is different to the multiple choice exams**.
- For each answer, please type in the full question number you are answering e.g. **1a**
- **Please note each answer must be typed in the correct corresponding answer box.**
- If you are wearing a headset, earphones, smart watch please take them off. No watches are allowed.
- Please familiarise yourself with **all** questions before starting the exam.

Subject to providing sufficient detail you are advised to be as brief and concise as possible, using note format and short sentences.

Attempt ALL questions for each case study

Time: 3 hours

Case Study 1

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients' circumstances as set out in the case study.

*Read the following carefully, then carry out **ALL** of the tasks **(a), (b), (c), (d), (e), (f)** and **(g)** which follow.*

Ken and Mary, both aged 68, are married and have been retired for the past three years. They have two adult children and five grandchildren. Ken and Mary are both in good health. They have been enjoying their retirement but have recently become concerned at the increases in the cost of living and are worried that they may run into financial difficulties later in their retirement.

Ken and Mary are both in receipt of their State Pensions. Mary also receives a pension from the NHS Pension Scheme. Mary's total pension income is currently £22,000 per annum gross.

Ken receives a State Pension of £9,400 per annum gross and also draws an income of £15,000 per annum gross from his self-invested personal pension (SIPP), using flexi-access drawdown (FAD). The pension plan has a current value of £250,000. The pension fund has decreased in value over the past year due to difficult market conditions. Ken consolidated all of his pension arrangements into his SIPP on retirement.

Ken's SIPP is invested in a range of UK and global equity funds. He has always chosen these funds himself but he is now concerned that the current investment strategy may be the cause of the recent decline in his pension fund value. He has asked for your advice in respect of the future management of the investment holdings within his SIPP.

Ken and Mary own their home and it is mortgage-free. Ken took the maximum pension commencement lump sum (PCLS) from his SIPP to repay the mortgage. The property is valued at £420,000.

Ken has been offered the opportunity to return to part-time employment with his former employer. This would provide an income of £20,000 per annum gross. Due to Ken and Mary's concerns about their longer-term financial security, Ken has decided to accept this job offer and will start his new job next month. Ken's employer offers a workplace auto-enrolment pension scheme.

Ken and Mary have a range of stocks & shares ISA holdings which have performed poorly over the past few months. They do not draw any income or capital from these holdings and intend to retain them for the long term. They have asked for your views on the suitability of the investment holdings within these ISAs.

Ken and Mary have a medium to high attitude to risk and neither of them has any particular interest in Environmental, Social and Governance (ESG) investments.

Ken and Mary have up-to-date Wills which leave all assets to the survivor on first death and then in equal shares to their two children on second death.

Ken and Mary have the following assets:

Assets	Ownership	Value (£)
Home	Joint	420,000
Current account	Joint	60,000
Deposit savings account	Mary	100,000
NS&I Premium Bonds	Ken	30,000
NS&I Premium Bonds	Mary	30,000
Stocks & Shares ISA – UK Growth funds	Ken	140,000
Stocks & Shares ISA – Multi-Asset Distribution funds	Mary	125,000
OEIC – FTSE-100 Tracker fund	Ken	70,000

Their financial aims are to:

- ensure that they have sufficient income throughout retirement;
- review the ongoing suitability of Ken's personal pension arrangements;
- improve the tax-efficiency of their financial arrangements following Ken's return to work.

PLEASE ENSURE YOU TYPE EACH ANSWER PER QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) State the additional information that a financial adviser would require in order to advise Ken and Mary on the suitability of their current financial arrangements. **(14)**

(b) Explain to Ken why he may wish to stop taking the withdrawals from his flexi-access drawdown (FAD) arrangement. **(10)**

(c) Explain to Ken why he should make further pension contributions when he returns to part-time employment. **(13)**

(d) Recommend and justify a range of actions that Ken and Mary can take to improve the overall tax-efficiency of their financial arrangements when Ken returns to part-time employment. **(14)**

(e) Identify the key factors that Ken should take into consideration before making any changes to the underlying investments in his self-invested personal pension (SIPP). **(10)**

(f) Identify the key information that a financial adviser should take into consideration when preparing a cashflow model to assist Ken and Mary with their financial planning. **(10)**

(g) State the reasons why Ken should include his two children as part of the death benefit nomination on his SIPP. **(5)**

Total marks available for this question: 76

Case Study 2

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients' circumstances as set out in the case study.

*Read the following carefully, and then carry out **ALL** of the tasks **(a), (b), (c), (d), (e), (f)** and **(g)** which follow.*

Nick and Shirin, aged 34 and 32 respectively, are married with two children, Sonia, aged five and Khalid, aged three. Nick and Shirin are both in good health.

Nick is employed as a marketing director and receives a gross salary of £70,000 per annum. He is a member of his employer's workplace pension scheme and contributes 8% of his gross salary to the scheme. His employer matches this contribution. Nick's pension fund has a current value of £130,000 and is invested in a UK equity fund. Nick is also a member of his employer's death-in-service scheme which will pay out four times his basic salary on death whilst in service.

Shirin is employed as a communications manager and receives a gross salary of £80,000 per annum. She is a member of her employer's workplace pension scheme and contributes 5% of her gross salary to the scheme. Her employer matches this contribution and would match an employee contribution of up to 8% of basic salary. Shirin's pension fund has a current value of £96,000 and this is invested in the default cautious managed fund. She is also a member of her employer's death-in-service scheme which will pay out three times her basic salary on death whilst in service.

Nick is very concerned about the potential impact of a serious illness on their future income and retirement plans. Nick and Shirin are aware that they may have insufficient financial protection in the event of either of them suffering a serious illness, as neither of their employers offers any form of cover for long-term sickness other than Statutory Sick Pay.

Nick and Shirin's home is currently valued at £380,000. They have a repayment mortgage which has a current outstanding balance of £260,000. There are 20 years remaining on this mortgage. The mortgage is on a fixed interest rate of 1.9% until October 2025. They are able to make overpayments of 10% of the outstanding capital each year without penalty. The mortgage is protected by a level term assurance policy.

Nick and Shirin are planning to retire when Nick attains age 60, with a view to spending several years travelling overseas. They appreciate that this may not be achievable and have asked you to advise them on the affordability of this objective.

Nick and Shirin use their current surplus income of £1,500 per month each, to invest in Individual Savings Accounts. They are both high risk investors and are investing in a range of actively-managed UK equity funds.

Nick and Shirin have no strong views on Environmental, Social and Governance (ESG) investments.

Nick and Shirin have up-to-date Wills which leave all assets to the survivor on first death and then into a discretionary trust for their two children on second death. They have appointed family members as both trustees and guardians for the children in the event of both Nick and Shirin's deaths before the children reach age 18.

Nick and Shirin have the following assets:

Assets	Ownership	Value (£)
Home	Joint	380,000
Current account	Joint	10,000
Deposit savings account	Joint	25,000
Stocks & Shares ISA – UK Equity funds	Nick	45,000
Stocks & Shares ISA – UK Equity funds	Shirin	48,000

Their financial aims are to:

- improve the suitability and tax-efficiency of their current financial arrangements;
- ensure that they can retire when Nick reaches age 60;
- ensure that their financial protection arrangements are adequate for their needs.

PLEASE ENSURE YOU TYPE EACH ANSWER PER QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) Outline to Nick and Shirin the key factors that may result in them failing to meet their plan to retire when Nick is 60, based on their current circumstances. **(10)**

(b) Recommend and justify a range of actions that Nick and Shirin could take to improve their ability to retire with an adequate level of income, when Nick attains age 60. **(14)**

(c) Explain why it might be of benefit to Nick and Shirin to use a range of different asset classes within their pension and ISA holdings. **(8)**

(d) Explain to Nick and Shirin their potential entitlement to Statutory Sick Pay and the conditions that must be met for this to be paid to them. **(7)**

(e) **(i)** Outline to Nick and Shirin the key differences between a critical illness policy and an income protection policy. **(12)**

(ii) Explain to Nick and Shirin the reasons why they might consider replacing their existing level term assurance policy with a more suitable policy to protect their mortgage. **(5)**

(f) Identify **five** advantages and **five** disadvantages for Nick and Shirin if they choose to continue to invest their excess income in Individual Savings Accounts (ISAs), rather than making overpayments to their mortgage. **(10)**

(g) Identify **eight** key issues that a financial adviser should discuss with Nick and Shirin at the next annual review. **(8)**

Total marks available for this question: 74

NOTE ON MODEL ANSWERS
The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

Model answer for Question 1

(a)

- Current expenditure/capital needs/budget (is pension income enough to meet needs?)/liabilities.
- Employer pension contributions for Ken in new job/employer matching /salary sacrifice.
- Employer benefits for Ken (death in service (DIS)/Private Medical Insurance (PMI)).
- How long does Ken intend to work for?
- Charges.
- Asset allocation of self-invested personal pension plan (SIPP)/fund choice within SIPP.
- Performance of SIPP/ISAs (quantify poor performance).
- Use of ISA allowances/Capital Gains Tax (CGT) allowances/CGT position on OEIC/Interest Rate on cash savings/base cost on Open ended investment company (OEIC)/use of dividend allowance.
- Is deferral available on Ken's State Pension (SP)?
- Downsizing/willing to use other assets/inheritances expected.
- What is spouse's benefit on National Health Service (NHS) pension scheme?
- What is escalation level on NHS pension scheme?
- Nominations up to date.
- Capacity for loss (CFL)/vulnerability issues.

(b)

- Salary from new job/can replace SIPP income/he does not need the income
- Income exceeds his Personal Allowance (PA)/saves basic rate tax on withdrawals/SIPP income is taxable/reduces tax.
- Exceeds Safe Withdrawal Rate (SWR)(6%)/pound-cost-ravaging/sequencing risk.
- Protects tax-free wrapper (CGT and Income Tax).
- SIPP value decreasing/poor performance.
- Can adjust investment strategy within SIPP/fund switches/range of funds.
- Tax efficient income available from ISA's/other sources of income available
- Greater tax efficient benefit to pass to Mary/children (death pre-75).
- SIPP retains IHT-free benefit.
- Potential for growth/improves prospects for future retirement income.

(c)

- Could contribute up to £4,000/£10,000 per year/subject to money purchase annual allowance (MPAA).
- Can opt to join employer auto-enrolment scheme.
- Employer must pay minimum contribution (3%).
- Employer matching.
- 20% tax relief on contributions.
- Potential for growth/improves future retirement income/improves pension provision.
- Pound cost averaging.
- Low cost/employer subsidises charges/no admin for Ken.
- Flexible access on retirement/can transfer to SIPP on full retirement.
- Pension commencement lump sum (PCLS) available.
- Can nominate for Mary/further death benefits/Inheritance Tax (IHT) free.
- May offer linked death in service (DIS).
- Fund choice to match ATR.

(d) *Candidates would have gained full marks for any fourteen of the following:*

- Pension contributions.
- 20% tax relief.
- Employer matching/salary sacrifice/employer contribution (3%).
- Increases IHT-free fund/additional PCLS in future.
- Use ISAs/Bed & ISA.
- Tax-free growth (ISA and pension).
- Stop withdrawals from SIPP.
- Reduce 20% tax on withdrawals/protects tax-free pension wrapper for future income.
- Consider deferral of State Pension for Ken.
- Annual uplift in State Pension income of 5.8%/reduces 20% tax on State Pension.
- Transfer deposit account to joint names.
- Use Ken's Personal Savings Allowance (PSA)/reduces tax on savings income.
- Transfer OEIC to joint names.
- Interspousal transfer/no CGT.
- Use CGT exemption/use Mary's CGT exemption/use Mary's dividend allowance (DA).

(e)

- Do funds match attitude to risk (ATR)?
- Market conditions/current volatility.
- Identify 'poor' performance.
- Benchmark performance against suitable index.
- Asset allocation/breakdown of funds/global diversification.
- Tracker/passive/management style of funds/Discretionary Fund Manager (DFM).
- Fund range available within SIPP.
- Costs/charges/cost of switches.
- Liquidity of holdings/any gated funds?
- How long does he plan to work?/when is he planning to fully retire?/ how much income does he need?/plans to purchase annuity.

(f) *Candidates would have gained full marks for any ten of the following:*

- Current income needs/current expenditure.
- Future income needs/future capital expenditure (new car/holidays/long term care needs).
- Inflation assumptions.
- Growth assumptions.
- Timeframe/longevity.
- ATR/CFL.
- Current assets/income from all sources/guaranteed income from State Pension/NHS.
- Downsizing/inheritances.
- Charges.
- Use of tax wrappers (ISA and pension).
- Income changes on first death (reduction in NHS pension)/stress test.

(g)

- Fund passes to intended beneficiaries/protects pension fund in the event of both deaths/simplifies process on death.
- Ensures children can use flexi access drawdown (FAD).
- Improves tax-efficiency for children/tax free growth/protects tax free pension wrapper.
- Can retain IHT-free wrapper/can pass IHT free to children.
- Can withdraw in tax-efficient manner if Ken dies after age 75 (taxed at their marginal rate)/Income Tax free if Ken dies before 75.

Case Study 2

(a) *Candidates would have gained full marks for any ten of the following:*

- No entitlement to State Pension at age 60/7 years to State Pension.
- Low levels of pension funding/contributions/higher employer matching for Shirin/low levels of non-pension assets.
- Mortgage impacts affordability/high mortgage costs.
- Higher mortgage costs in 3 years' time (2025).
- Unexpected costs.
- Loss of employment/long-term illness/change in family situation/ lack of protection.
- They currently have 2 young children/they have dependants.
- Limited surplus income at present.
- Poor market conditions/poor investment returns.
- High travel costs in retirement/increased expenditure in retirement.
- Legislation changes (changes to minimum pension age).

(b)

- Increase pension contributions.
- 40% tax relief.
- Maximise employer matching for Shirin (8%)/salary sacrifice.
- Salary sacrifice saves NI/employer may share NI saving.
- Maximise ISA savings.
- Use of Lifetime ISA (LISA).
- 25% tax-free uplift on £4,000 per annum on LISA/tax-efficient investment (ISA/Pension).
- Bonus paid on LISA up to age 50/can access at age 60.
- Switch funds in ISA/pension.
- Could improve performance/potential for improved growth with new funds.
- Overpay mortgage/reduce mortgage balance.
- Mitigate potential interest rate rise in 2025/saves interest on mortgage.
- Put in place Income Protection Insurance policy.
- Enables continued pension saving/protects lifestyle.

(c)

- Potential for higher growth/Alpha/they need growth.
- Lack of diversification at present.
- Improve correlation/non-correlation of assets/no asset class outperforms every year.
- Exposure to different global markets/currencies/(all UK currently).
- Reduces risk/reduces volatility/reduces market risk.
- Long time frame for investment (26 years).
- Different management styles/passive/active.
- Shirin’s pension does not match her ATR/to ensure holdings match ATR.

(d) *Candidates would have gained full marks for any seven of the following:*

- Must be employed/must pay Class 1 National Insurance (NI).
- Must earn at least £123 per week.
- Payment commences after 4 days absence.
- Must be absent from normal place of work/any time worked in a day counts as a working day/days of illness can be non-working days/must provide evidence of illness/inability to work.
- Payment of £99.35 per week.
- Paid for up to 28 weeks.
- Paid as normal salary/taxable to Income Tax (IT) and NI.
- Not means tested.

(e) **(i)**
- Critical Illness Cover (CIC) provides lump sum.
- Whole of life (WOL) available for CIC/ Income Protection Insurance (IPI) ceases on retirement.
- Pays out on diagnosis on listed critical illness (unrelated to income/job).
- Survival period of up to 30 days.
- Income Protection pays regular income (no lump sum).
- IPI replaces earned income up to 65%/CIC sum assured is unlimited.
- Deferred period can be set to meet need/can reduce premiums.
- IPI linked to employment/inability to work.
- Critical illness usually cancelled on claim/can have buy-back option.
- IPI can claim more than once/insurer cannot cancel.
- Waiver of Premium (WOP) on CIC/WOP is automatic on IPI.
- Childrens cover available on CI/house persons cover is available on IPI.

(e) **(ii)** *Candidates would have gained full marks for any five of the following:*
- Cheaper premiums may be available/greater affordability.
- They need decreasing term (mortgage protection) due to repayment mortgage.
- They may be over insured/to ensure correct term/sum assured (SA)/current term or SA may be unsuitable.
- Simple underwriting/existing policy could be loaded/both in good health.
- Could have waiver of premium (WOP).
- Could add Critical Illness Cover (CIC)/currently do not have CIC/at lower cost than standalone policy.

(f) **Advantages**
- Low fixed rate on mortgage/not paying high interest at present.
- Higher risk-free return from cash is available.
- Retain flexibility/liquidity.
- Improves prospect of retiring at 60/tax free growth within ISA.
- Can invest to match ATR/retaining debt matches ATR.

Disadvantages
- Poor investment returns/volatility.
- Interest Rate risk/rates may exceed investment returns.
- Costs/charges on investments.
- Would pay more interest over term of mortgage/could improve loan to value (LTV) to reduce future costs.
- Increased insurance/protection costs (retaining debt).

(g)
- Change in personal circumstances/health.
- Change in income/expenditure/tax status/salary increases.
- ATR/ CFL.
- Rebalance/asset allocation/performance.
- Have they made overpayments to the mortgage?/protection needs?
- Use of allowances/ISA/Pension/has Shirin increased pension for higher matching?
- Charges.
- Change in legislation/taxation/new products/economic conditions/ Interest Rates.

Glossary of terms

Some abbreviations candidates can you use in financial planning online exams:

- ATR – Attitude to risk
- APS – Additional Permitted Subscription
- BRT – Basic rate taxpayer
- BIK – Benefit in kind
- CETV – Cash equivalent transfer value
- CLT – Chargeable Lifetime Transfer
- CFL – Capacity for loss
- CGT – Capital Gains Tax
- DOV – Deed of variation
- DIS – Death-in-Service
- DFM – Discretionary Fund Manager
- EIS – Enterprise Investment Scheme
- ESG – Environmental, Social and Governance
- EPT – Excluded Property Trust
- EPA – Enduring Power of Attorney
- ERC – Early repayment charges
- EPP - Executive pension plan
- FAD – Flexi access drawdown
- FSCS – Financial Services Compensation Scheme
- FOS – Financial Ombudsman Service
- GAR – Guaranteed annuity rate
- HRT – Higher rate taxpayer
- IHT – Inheritance Tax
- IVA – Individual Voluntary Arrangement
- IPI – Income Protection Insurance
- LPOA – Lasting Power of Attorney
- LTC – Long term care
- LTA – Lifetime allowance
- MVR – Market value reduction
- MPAA – Money purchase annual allowance
- NICs – National Insurance contributions
- NPA – Normal pension age
- NRA – Normal retirement age
- NRB – Nil rate band
- OPG – Office of the Public Guardian
- OEIC – Open ended investment company
- PAYE – Pay As you Earn
- PPP – Personal pension plan
- PCLS – Pension commencement lump sum
- PA – Personal Allowance
- PSA – Personal Savings Allowance
- RAC – Retirement annuity contract
- RNRB – Residence nil rate band
- SIPP – Self-invested personal pension plan
- SEIS – Seed Enterprise Investment Scheme
- TPD – Total Permanent Disability
- UFPLS – Uncrystallised fund pension lump sum
- VCT – Venture Capital Trust
- WOP – Waiver of Premium

April 2023 Examination - R06 Financial Planning Practice	
Question No.	**Syllabus learning outcomes being examined**
1.	1. Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process. 2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions. 3. Analyse a client's situation and the advantages and disadvantages of the appropriate options. 4. Formulate suitable financial plans for action and explain and justify recommendations. 5. Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.
2.	1. Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process. 2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions. 3. Analyse a client's situation and the advantages and disadvantages of the appropriate options. 4. Formulate suitable financial plans for action and explain and justify recommendations. 5. Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.

All questions in the July 2023 papers will be based on English law and practice applicable in the tax year 2022/2023, unless stated otherwise and should be answered accordingly.

INCOME TAX

RATES OF TAX	2021/2022	2022/2023
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£150,000

Child benefit charge:
1% of benefit per £100 of adjusted net income between £50,000 – £60,000

**Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance*

Dividend Allowance	£2,000	£2,000
Dividend tax rates		
Basic rate	7.5%	8.75%
Higher rate	32.5%	33.75%
Additional rate	38.1%	39.35%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	38.1%	39.35%
- other income	45%	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance *§*	£100,000	£100,000
Personal Allowance (basic) *§*	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£3,530	£3,640
Married/civil partners at 10% †	£9,125	£9,415
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance†	£30,400	£31,400
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,520	£2,600
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £100,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).
† where at least one spouse/civil partner was born before 6 April 1935.
*** Investment above £1,000,000 must be in knowledge-intensive companies.*

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,845	£2,935
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,480	£17,005

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£123
Primary threshold	£242
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 242.00*	Nil
242.00* – 967.00	12%
Above 967.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £123 per week. This £123 to £242* band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below 175.00**	Nil
175.00 – 967.00	13.8%
Excess over 967.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.15 where profits exceed £6,725 per annum.
Class 3 (voluntary)	Flat rate per week £15.85.
Class 4 (self-employed)	9.73% on profits between £11,908 and up to £50,270. 2.73% on profits above £50,270.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 – 2022/2023	£1,073,100

LIFETIME ALLOWANCE CHARGE

55% of excess over lifetime allowance if taken as a lump sum.
25% of excess over lifetime allowance if taken in the form of income.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*

**Reducing by £1 for every £2 of 'adjusted income' over £240,000 to a minimum of £4,000 if 'threshold income'is also over £200,000.*

MONEY PURCHASE ANNUAL ALLOWANCE	2021/2022	2022/2023
	£4,000	£4,000

ANNUAL ALLOWANCE CHARGE

20% – 45% determined by the member's taxable income and the amount of total pension input in excess of the annual allowance or money purchase annual allowance.

CAPITAL GAINS TAX

EXEMPTIONS	2021/2022	2022/2023
Individuals, estates etc	£12,300	£12,300
Trusts generally	£6,150	£6,150
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000
TAX RATES		
Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives	20%	20%
Business Asset Disposal Relief* – Gains taxed at:	10%	10%
Lifetime limit	£1,000,000	£1,000,000

**For trading businesses and companies (minimum 5% employee or director shareholding) if held for at least two years.*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2021/2022	2022/2023
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

A lower rate of 36% applies where at least 10% of deceased's net estate is left to a registered charity.

MAIN EXEMPTION		
Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£175,000	£175,000
- UK-registered charities	No limit	No limit

**Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished.*

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- Small gifts exemption	£250	£250
Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building
50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:

- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

Quick succession relief:

- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	100%	80%	60%	40%	20%

PRIVATE VEHICLES USED FOR WORK

	2021/2022 Rates	2022/2023 Rates
Cars		
On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile
Motorcycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2021/2022	2022/2023
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000
Plant & machinery* first year allowance for companies to 31/3/2023: Super-deduction		130%
Special rate		50%
Plant & machinery (reducing balance) per annum	18%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	6%	6%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Electric charging points	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

Motor cars: Expenditure on or after 1 April 2016 (Corporation Tax) or 6 April 2016 (Income Tax)

CO_2 emissions of g/km:	0*	1-50	Over 50
Capital allowance:	100% first year	18% reducing balance	6% reducing balance

**If new and unused*

MAIN SOCIAL SECURITY BENEFITS

		2021/2022	2022/2023
		£	£
Child Benefit	First child	21.15	21.80
	Subsequent children	14.00	14.45
	Guardian's allowance	18.00	18.55
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 59.20	Up to £61.05
	Aged 25 or over	Up to 74.70	Up to £77.00
	Main Phase		
	Work Related Activity Group	Up to 104.40	Up to 107.60
	Support Group	Up to 114.10	Up to 117.60
Attendance Allowance	Lower rate	60.00	61.85
	Higher rate	89.60	92.40
Basic State Pension	Single	137.60	141.85
	Married	275.20	283.70
New State Pension	Single	179.60	185.15
Pension Credit	Single person standard minimum guarantee	177.10	182.60
	Married couple standard minimum guarantee	270.30	278.70
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	59.20	61.05
	Age 25 or over	74.70	77.00
Statutory Maternity, Paternity and Adoption Pay		151.97	156.66

CORPORATION TAX

	2021/2022	2022/2023
Standard rate	19%	19%

VALUE ADDED TAX

	2021/2022	2022/2023
Standard rate	20%	20%
Annual registration threshold	£85,000	£85,000
Deregistration threshold	£83,000	£83,000

STAMP DUTY LAND TAX

	Residential
Value up to £250,000	0%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

Additional Stamp Duty Land Tax (SDLT) rules apply as below:

- *First-time buyers benefit from SDLT relief on purchases up to £625,000 when purchasing their mainresidence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,000 and £625,000, a flat rate of 5% is charged on the balance above £425,000.*

- *Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*

- *SDLT may be charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.*

- *SDLT is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. Therates for LTT and LBTT are different to the rates shown above.*

	Non residential
Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%