THE CHARTERED INSURANCE INSTITUTE

CF5

Certificate in Financial Planning

Unit 5 – Integrated financial planning

April 2012 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2011/2012, unless stated otherwise and should be answered accordingly.

Assume all individuals are domiciled, resident and ordinarily resident in the UK unless stated otherwise.

Candidates should answer based on the legislative position immediately BEFORE the 2012 budget.

Instructions

- Two hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

Unit CF5 – Integrated financial planning

Instructions to candidates

Read the instructions below before answering any questions

- **Two hours** are allowed for this paper which carries a total of 100 marks.

- You are advised to spend approximately 60 minutes on each question. 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.

- You have been provided with a **product list** on pages 8 to 11 which you should use when answering **question 2**. You may also find it helpful to use the **tax tables** on pages 12 to 15 when answering both questions.

- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.

- It is important to show all steps in a calculation, even if you have used a calculator.

- If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.

- Answer each question on a new page and leave six lines blank after each question part.

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

Attempt ALL questions

Time: 2 hours

You are advised to spend no more than approximately:

60 minutes on question 1
60 minutes on question 2

You are advised to take into account the number of marks allocated to each question part when deciding how long to spend on each part.

Question 1

You are authorised to conduct business under the Financial Services and Markets Act (FSMA) 2000 and are qualified to provide financial advice. The information provided is accurate and adequate for the purpose of these questions.

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

INFORMATION

Margaret, aged 46, is divorced with one daughter, Angela, aged 12. From previous jobs she has two paid-up pension benefits, one in a final salary 1/60th company pension scheme where she accrued 12 years service. Her salary when she left was £48,000 per annum. Margaret then started a personal pension plan (PPP) as her next employer did not offer any pension arrangements. The current fund value with that arrangement is £10,000.

For the last three years, Margaret has contributed £200 per month, net, to a separate PPP as she is now working as an employee in a consultancy business. Her employer makes no contribution to her pension arrangements. Margaret continues to make this contribution but would like to consider a single premium. Her income for the last three years has been £40,000 per annum.

Margaret says that whilst she thinks she understands the general principles of pension arrangements, she would like a clear explanation of the difference between her final salary pension benefits and her other pension arrangements.

Margaret has a capital and interest repayment mortgage of £50,000 which has a remaining term of 13 years. She has a life assurance and Critical Illness policy covering her mortgage. She has no other outstanding debts. Margaret is concerned that a serious illness or accident would prevent her from working, which would result in a loss of income and would have an immediate effect on her ability to maintain payment of her mortgage.

She has asked for your advice on how to protect her income. Margaret is also concerned that she should provide for Angela in the event of premature death. She requires life cover until Angela's 21st birthday but is unsure as to which type of policy would be suitable.

Questions

To gain maximum marks for calculations you ***must*** *show* ***all*** *your workings and express your answers to* ***two*** *decimal places.*

(a) Write down a list of questions you would want to ask Margaret to obtain all the information required to enable you to advise her on her retirement planning. *In order to gain marks, these questions should be written in question form in such a way that Margaret will understand them.* **(10)**

(b) Calculate, **showing all your workings**, the maximum, net, tax relievable single contribution that Margaret could pay into her personal pension plan in the tax year 2011/2012 excluding any carry forward of unused allowances. *Assume that Margaret will continue to pay her regular contributions.* **(4)**

(c) Identify the **similarities** and **differences** between final salary and money purchase pension arrangements. **(10)**

(d) State why Margaret might take the maximum pension commencement lump sum (tax-free cash) from her pension funds. **(4)**

(e) Compare a whole of life policy and a level term policy by stating **three** advantages and **three** disadvantages of each product. **(12)**

(f) Compare an accident, sickness and unemployment policy with an income protection policy as a way of protecting Margaret's income by stating the **benefits** and **drawbacks** of each product. **(10)**

Total marks available for this question: 50

Questions continue over the page

Question 2

You are authorised to conduct business under the Financial Services and Markets Act (FSMA) 2000 and are qualified to provide financial advice. The information provided is accurate and adequate for the purpose of these questions.

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

INFORMATION

Claire and Brian, both aged 37, are married with two children, Jenny, aged 14, and Paul, aged 12.

Claire is employed as a part-time teacher in a local school on a salary of £12,000 per annum and has been a member of the Teachers' Pension Scheme since starting work.

Brian works as a self-employed writer and has earnings of £50,000 per annum for the last three years. He contributes £500 per month, net, into a personal pension plan and usually tops this up with a net single contribution of £4,000 each year.

Claire and Brian currently have £350,000 in a joint bank account following a lottery win and need your advice on investing this amount for growth and income. They plan to extend their home with a conservatory in 12 months' time which will cost £30,000. They would like an emergency fund of at least £25,000 with a competitive rate of interest.

Claire and Brian wish to invest the £350,000 between low and medium risk products and they have stated that they do not want any high risk investments. They require a net income of £4,000 per annum from their portfolio to start a separate account to save for university fees for both children. They are also considering the possibility of putting this amount into Junior ISAs for the children and would like to know more about these.

They are looking for diversification and tax efficiency. They would also like your advice regarding in whose name the investments should be held. They have specifically stated that they would like income to come from at least three different product types.

Claire and Brian have no mortgage or debts. They have no other savings or investments.

A friend has told Claire and Brian that the Financial Services Compensation Scheme only protects money held on deposit and not if invested elsewhere. They would like your clarification with regard to all that the scheme covers.

Questions

To gain maximum marks for calculations you ***must*** *show* ***all*** *your workings and express your answers to* ***two*** *decimal places.*

(a) Detail the limits set by the Financial Services Compensation Scheme and explain briefly to Claire and Brian how the scheme operates. **(6)**

(b) State the basic features of a Junior ISA. **(4)**

(c) **(i)** Recommend from the product list on pages 8 to 11, a portfolio of products that will meet Claire and Brian's requirements, showing the amount to be invested in each product. State clearly in whose name each product is to be held. **(9)**

(ii) Show how the portfolio recommended in **(c)(i)** above, will generate the income that Claire and Brian require and state clearly, in words, the tax treatment of each product you have used to provide the income. **(9)**

(d) For each of the product types you have selected in **(c)(i)** above, including the non-income producing products, justify your recommendations under the following headings:

- the amount of the investment;
- the risk profile;
- the justification of the product type. **(18)**

(e) Other than an annual review, state **four** other events that would trigger a review with a client. **(4)**

Total marks available for this question: 50

PRODUCT LIST

This list to be used in answering question 2.

The products included in this list are to be used when recommending lump sum/single premium products to meet assessed client needs. Although the list is not exhaustive, it does provide the candidate with considerable choice and should be considered adequate for the task in hand. The details provided are either factual, e.g. National Savings and Investments Products, or fictitious products based on real examples, e.g. the list of unit trust/OEIC funds and their yields. AER means annual equivalent rate.

1. Bank and Building Society Accounts – UK

	Gross yield/AER
AnyBank High Interest Cheque Account (min £1)	0.20%
AnyBank Deposit Account (min £10)	0.90%
Shires Building Society Postal Account (Min £5,000)	2.20%
Shires Building Society 90 Day Notice (min £10,000)	1.95%
AnyBank 60 Day Account (min £15,000)	1.90%
Other Bank 1 Year Account (min £10,000)	3.50%
Other Bank Internet Account (min £1,000)	2.50%

2. Bank and Building Society Offshore Accounts – Jersey based

	Gross yield/AER
Other Bank Super Deposit Account (min £15,000)	2.50% (paid gross)
Shires Building Society Offshore Deposit (min £20,000)	2.25% (paid gross)
AnyBank Island Account (min £5,000)	2.00% (paid gross)

3. ISAs Cash Component

	Term	Gross yield/AER	Investment Minimum £
AnyBank	No notice	3.00%	1
A & G	No notice	3.05%	1
Axis Insurance	No notice	3.30%	1,000
NS ISA	No notice	2.50%	100
Shires Building Society	30 Day	3.25%	1,000

4. Unit trusts and OEICs – for ISA Stocks and Shares Components and for Direct Investment outside ISAs

		Gross yield
AnyBank	UK Equity Income	1.8%
	UK Gilts	2.0%
	International Equity	1.0%
A & G	UK Equity Income	5.2%
	UK Corporate Bond	5.0%
	UK Gilts	3.3%
	UK Equity Environment	1.0%
Eagle	UK Equity Growth	0.8%
	UK Smaller Companies	0.6%
	UK Gilts	4.9%
	Europe Equity	0.3%
	US Equity	0.1%
	Far East Equity	0.0%
	Technology	0.0%
Trust Insurance	UK Equity Income	2.8%
	UK Index Tracker	1.6%
	Europe Equity	0.3%
	International Equity	0.5%
	Fund of Funds	1.5%
	Property	1.0%
Axis Insurance	UK Equity Income	1.4%
	UK Equity Growth	0.7%
	UK Corporate Bonds	4.8%
	International Equity	0.6%
Professional	UK Index Tracker	1.8%
	UK Recovery	1.0%
	UK Gilts	4.0%
	International	0.0%

Note: Share exchange facilities are available.
Both INCOME AND ACCUMULATION units are available.

5. National Savings and Investments (NS&I)

	Gross yield
Investment Account (£20 to £1,000,000)	*Note (i)*
Income Bond (£500 to £1,000,000)	*Note (ii)*
* Children's Bonus Bond (£25 to £3,000)	2.50%
ISA *Note (iii)*	2.50%
Premium Bond *Note (iv)*	1.50%
* 5 year NSC 97th Issue	2.25%
* 5 year NSC 48th Index- linked	+0.50%

Note (i) 0.20% gross paid on holdings under £25,000
0.30% gross paid on holdings of £25,000 or more
Note (ii) 1.45% gross paid on holdings under £25,000
1.75% gross paid on holdings of £25,000 or more
Note (iii) Minimum investment £100
Note (iv) Monthly tax-free prizes.
(*Tax free)

6. Insurance guaranteed income bonds

Note to candidates: these are insurance-based products, rather than derivatives-based or so-called "precipice bonds."

	Yield net of basic rate tax
Trust Insurance 1 year income bond	1.90% (rate guaranteed)
Invicta Insurance 3 year income bond	2.50% (rate guaranteed)
Trust Insurance 4 year income bond	2.75% (rate guaranteed)
Axis Insurance 5 year income bond	2.85% (rate guaranteed)

7. UK Insurance bonds – Unit linked

Invicta Insurance Managed
Invicta Distribution Fund
Axis Insurance UK Equity Growth
Axis UK fixed interest
Axis Insurance Property
Sea Life Pacific
Sea Life North American
Arrow Life European
Arrow International Equity

8. With-profits bonds

Arrow Life With-profits Bond
Celtic Mutual With-profits Bond
Axis Provident With-profits Bond

9. Pension Funds

	Stakeholder
Trust Pensions UK Tracker Fund	✓
Trust Pensions Managed Fund	✓
Invicta Pensions UK Equity Fund	-
Celtic Mutual UK Fixed Interest Fund	✓
Celtic Mutual Emerging Markets Fund	-
Axis With-Profits Fund	-

INCOME TAX

RATES OF TAX	2010/2011	2011/2012
Starting rate for savings*	10%	10%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	50%	50%
Starting-rate limit	£2,440*	£2,560*
Threshold of taxable income above which higher rate applies	£37,400	£35,000
Threshold of taxable income above which additional rate applies	£150,000	£150,000

**restricted to savings income only and not available if taxable non-savings income exceeds starting rate band.*

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£6,475	£7,475
Personal Allowance (age 65-74) §	£9,490	£9,940
Personal Allowance (aged 75 and over) §	£9,640	£10,090
Married/civil partners (minimum) at 10% †	£2,670	£2,800
Married/civil partners (age 75 and over) at 10%	£6,965	£7,295
Income limit for age-related allowances	£22,900	£24,000
Blind Person's Allowance	£1,890	£1,980
Enterprise Investment Scheme relief limit on £500,000 max	20%	30%
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.
† where at least one spouse/civil partner was born before 6 April 1935.

Child Tax Credit (CTC)		
- family element	£545	£545
- family element baby addition	£545	Withdrawn
CTC usually reduced by 41% of joint income (6.67% for 2010/2011) over	£50,000	£40,000

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£102	£442	£5,304
Primary threshold	£139	£602	£7,225
Upper Accrual Point	£770	£3,337	£40,040
Upper Earnings Limit (UEL)	£817	£3,540	£42,475

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate	Contracted-out rate
Up to 139.00*	Nil	Nil
139.01 – 770.00	12%	10.4%
770.01 – 817.00	12%	12%
Above 817.00	2%	2%

** This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £102 per week. This £102 to £139 band is a zero rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. Basic State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS		
	Contracted-in rate	Contracted-out rate	
		Final salary	*Money purchase*
Below 136.00**	Nil	Nil	Nil
136.01 – 770.00	13.8%	10.1%	12.4%
770.01 – 817.00	13.8%	13.8%	13.8%
Excess over 817.00	13.8%	13.8%	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.50 where earnings exceed £5,315 per annum.
Class 3 (voluntary)	Flat rate per week £12.60.
Class 4 (self-employed)	9% on profits between £7,225 - £42,475 plus 2% on profits above £42,475.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE	ANNUAL ALLOWANCE
2006/2007	£1,500,000	£215,000
2007/2008	£1,600,000	£225,000
2008/2009	£1,650,000	£235,000
2009/2010	£1,750,000	£245,000
2010/2011	£1,800,000	£255,000
2011/2012	£1,800,000	£50,000

ANNUAL ALLOWANCE CHARGE
20% - 50% member's tax charge on the amount of total pension input in excess of the annual allowance.

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, which is subsequently taxed under PAYE.

INHERITANCE TAX

RATES OF TAX ON DEATH TRANSFERS	2010/2011	2011/2012
Transfers made after 5 April 2011		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Lifetime transfers to and from certain trusts	20%	20%

MAIN EXEMPTIONS		
Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£55,000	£55,000
- UK-registered charities	No limit	No limit
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	£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%

MAIN SOCIAL SECURITY BENEFITS

		2010/2011	2011/2012
		£	£
Child Benefit	first child	20.30	20.30
	subsequent children	13.40	13.40
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	N/A	Up to 53.45
	Aged 25 or over	N/A	Up to 67.50
	Main Phase		
	Work Related Activity Group	N/A	Up to 94.25
	Support Group	N/A	Up to 99.85
Attendance Allowance	lower rate	47.80	49.30
	higher rate	71.40	73.60
Retirement Pension	single	97.65	102.15
	married	156.15	163.35
Pension Credit	single person standard minimum guarantee	132.60	137.35
	married couple standard minimum guarantee	202.40	209.70
	maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment (lump sum)		2,000.00	2,000.00
Widowed Parent's allowance		97.65	100.70
Jobseekers Allowance	Age 16 - 24		53.45
	Age 25 or over	65.45	67.50

CAPITAL GAINS TAX

EXEMPTIONS	2010/2011	2011/2012
Individuals, estates etc	£10,100	£10,600
Trusts generally	£5,050	£5,300
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

TAX RATES		
Individuals:		
Up to basic rate limit	18%	18%
Above basic rate limit	18%/28%*	28%
Trustees and Personal Representatives	18%/28%*	28%
Entrepreneurs' Relief – Gains taxed at:	10%	10%
Lifetime limit	£5,000,000 / £2,000,000**	£10,000,000

For trading businesses and companies (minimum 5% employee or director shareholding) held for at least one year.

** 18% rate applies to disposals on or before 22/06/10. 28% thereafter.*
*** For disposals 06/04/10 to 22/06/10: £2,000,000. £5,000,000 until 05/04/11*

CORPORATION TAX

	2010/2011	2011/2012
Full rate	28%	26%
Small companies rate	21%	20%
Small companies limit	£300,000	£300,000
Effective marginal rate	29.75%	27.5%
Upper marginal limit	£1,500,000	£1,500,000

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