THE CHARTERED INSURANCE INSTITUTE

CII

CF5

Certificate in Financial Planning

Unit 5 – Integrated financial planning

October 2014 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2014/2015, unless stated otherwise and should be answered accordingly.

It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

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. 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 18 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:

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

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

INFORMATION

Matthew, aged 47, is married to Alison, aged 42. They have two children, Oliver, aged 12 and Daisy, aged 10.

Matthew is employed as a chartered secretary for a national restaurant chain, with a gross salary of £85,000 per annum. He is a member of his employer's money purchase pension scheme, to which he contributes 5% of gross salary, with his employer also contributing 10% of gross salary. The current value of his pension scheme is £49,000, which is invested in a balanced managed fund. The company also provides four times gross salary as a death-in-service benefit.

Alison is a self-employed beautician and owns a local beauty salon. She had a taxable net profit of £32,000 in the tax year 2013/2014 and is expected to have a similar net profit in the current tax year. Alison currently employs six staff members and plans to expand the business later this year by acquiring a second beauty salon. She has a personal pension plan invested in a UK Corporate Bond fund, with a value of £18,000. She contributes £300 per month net.

Matthew and Alison own their home, which is valued at £350,000. There is a repayment mortgage of £185,000 outstanding, with 15 years remaining. They have no insurance protection arrangements in place, other than Matthew's death-in-service benefit.

Matthew and Alison have a joint savings account with a balance of £21,000. Matthew has a stocks and shares NISA with a fund value of £23,000, invested in a UK equity fund. Alison has a cash NISA with a value of £12,000.

Matthew and Alison would like to begin saving for their children's university education. They are also reviewing their investments and considering the use of alternative investment funds. They are concerned as to what would happen to them financially, if either one of them should die or lose their incomes through illness or redundancy.

Questions

(a) **(i)** State the documentation you are required to provide to Matthew and Alison at the start of your first meeting with them. **(3)**

(ii) Write down a list of questions that you would need to ask Matthew and Alison, to obtain all of the information required, to enable you to advise them on their investment planning. *In order to gain marks, these questions should be written in question form in such a way that Matthew and Alison will understand them.* **(10)**

(b) State **four** benefits and **four** drawbacks of using an accident sickness and unemployment insurance policy to protect Matthew's income when compared to an income protection insurance policy. **(8)**

(c) Describe the main features of **two** additional protection policies that Matthew and Alison should consider, to protect them in the event of death or serious illness. *Do not include Accident, Sickness and Unemployment Insurance or Income Protection Insurance.* **(9)**

(d) **(i)** Outline to Matthew and Alison the **benefits** of using a regular savings stocks and shares NISA to save for university costs. **(8)**

(ii) State **four** advantages of Matthew using an equity tracker fund for his stocks and shares NISA when compared to his current fund. **(4)**

(e) Describe to Matthew the basic features of a money purchase pension scheme. **(4)**

(f) Explain briefly to Alison, as an employer, the factors she must consider in respect of the auto-enrolment responsibilities for her business. **(4)**

Total marks available for this question: 50

QUESTIONS CONTINUE OVER THE PAGE

Question 2

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

INFORMATION

Frank and Denise, both aged 51, are married. They have two children, Ben, aged 13 and Kate, aged 11. They own their home outright.

Frank is employed as a sales administrator at a local printing firm earning a salary of £18,000 gross per annum. He is a member of his employer's group personal pension scheme and contributes 10% of gross salary. There is no employer contribution.

Denise had not worked for a number of years, but returned to work two years ago as a receptionist, on a part-time basis. She earns £4,800 gross per annum. Denise has no pension provision, but is interested in joining her employer's stakeholder pension scheme. Frank and Denise both realise that their pension funding is inadequate, as they both hope to retire when they reach 65 years of age.

Frank and Denise have built up some savings and investments, and have a recent inheritance of £320,000 net of taxes from Denise's late mother, who died last year. Their current savings are held in individual cash NISAs, totalling £10,000 each, and they have £22,000 in a joint deposit account. They require advice on investing for the long term.

Frank and Denise have stated that they are willing to consider a maximum of 60% of their total investment portfolio in medium risk investments, with the remainder in low risk investments. They want their portfolio to be diverse and tax-efficient.

They would like to retain an emergency fund of £30,000 in deposit accounts at a competitive rate of interest, and also retain £5,000 to buy a new car in six months' time. Frank and Denise also require additional income from their investments of £2,750 per annum, net, to pay for private music tuition for their children. They want this income to come from at least three different product types. Neither of them have invested in NISAs in the tax year 2014/2015.

Questions

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

(a) Calculate, **showing all your workings**, the maximum single net tax-relievable pension contribution that Frank and Denise could each pay in the tax year 2014/2015. *Assume Frank will continue to pay his regular contributions. Ignore any carry forward of unused allowances.* **(4)**

(b) State the charging structure for a stakeholder pension scheme. **(5)**

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

(ii) Show how the portfolio recommended in part **(c)(i)** above, will generate the income that will meet Frank and Denise's requirements, stating 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 part **(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 for the product type. **(18)**

(e) List **five** areas that you would discuss with Frank and Denise when you meet them in 12 months' time to review their financial arrangements. **(5)**

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)	0.50%
AnyBank Deposit Account (min £10)	1.00%
Shires Building Society Postal Account (min £5,000)	1.90%
Shires Building Society 90 Day Notice (min £10,000)	1.95%
AnyBank 60 Day Account (min £15,000)	1.50%
Other Bank 1 Year Account (min £10,000)	2.85%
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)	2.10% (paid gross)
AnyBank Island Account (min £5,000)	1.90% (paid gross)

3. NISAs Cash Component

	Term	Gross yield/AER	Investment Minimum £
AnyBank	No notice	2.50%	1
A & G	No notice	2.65%	1
Axis Insurance	No notice	3.30%	1,000
NS NISA	No notice	2.50%	100
Shires Building Society	30 Day	2.62%	1,000

4. Unit trusts and OEICs – for NISA Stocks and Shares Components and for Direct Investment outside NISAs

		Gross yield
AnyBank	UK Equity Income	1.8%
	UK Gilts	2.0%
	International Equity	1.0%
A & G	UK Equity Income	4.8%
	UK Corporate Bond	4.6%
	UK Gilts	3.3%
	UK Equity Environment	1.0%
Eagle	UK Equity Growth	0.8%
	UK Smaller Companies	0.6%
	UK Gilts	3.7%
	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	4.0%
	International Equity	0.6%
Professional	UK Index Tracker	1.8%
	UK Recovery	1.0%
	UK Gilts	3.5%
	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
Income Bond (£500 to £1,000,000)	1.25%
* Children's Bond (£25 to £3,000)	2.50%
NISA *Note (i)*	1.50%
Premium Bond *Note (ii)*	1.30%
Direct Saver	1.10%

Note (i) Minimum investment £100.
Note (ii) 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	2013/2014	2014/2015
Starting rate for savings*	10%	10%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£2,790*	£2,880*
Threshold of taxable income above which higher rate applies	£32,010	£31,865
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge from 7 January 2013:		
1% of benefit for every £100 of income over	£50,000	£50,000

**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 if born after 5 April 1948) §	£9,440	£10,000
Personal Allowance (if born between 6 April 1938 and 5 April 1948) §	£10,500	£10,500
Personal Allowance (if born before 6 April 1938) §	£10,660	£10,660
Married/civil partners (minimum) (if born before 6 April 1935) at 10% †	£3,040	£3,140
Married/civil partners (if born before 6 April 1935) at 10% †	£7,915	£8,165
Income limit for age-related allowances	£26,100	£27,000
Blind Person's Allowance	£2,160	£2,230
Enterprise Investment Scheme relief limit on £1,000,000 max	30%	30%
Seed Enterprise Investment relief limit on £100,000	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.*

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,720	£2,750
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£15,910	£16,010

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£111	£481	£5,772
Primary threshold	£153	£663	£7,956
Upper Accrual Point	£770	£3,337	£40,040
Upper Earnings Limit (UEL)	£805	£3,489	£41,865

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate	**Contracted-out rate (final salary)**
Up to 153.00*	Nil	Nil
153.01 – 770.00	12%	10.6%
770.01 – 805.00	12%	12%
Above 805.00	2%	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £111 per week. This £111 to £153 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 153.00**	Nil	Nil	Nil
153.01 – 770.00	13.8%	10.4%	13.8%
770.01 – 805.00	13.8%	13.8%	13.8%
Excess over 805.00	13.8%	13.8%	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.75 where earnings exceed £5,885 per annum.
Class 3 (voluntary)	Flat rate per week £13.90.
Class 4 (self-employed)	9% on profits between £7,956 - £41,865 2% on profits above £41,865.

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
2012/2013	£1,500,000	£50,000
2013/2014	£1,500,000	£50,000
2014/2015	£1,250,000	£40,000

ANNUAL ALLOWANCE CHARGE

20% - 45% 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.

CAPITAL GAINS TAX

EXEMPTIONS	2013/2014	2014/2015
Individuals, estates etc	£10,900	£11,000
Trusts generally	£5,450	£5,500
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	28%	28%
Trustees and Personal Representatives	28%	28%
Entrepreneurs' Relief* – Gains taxed at:	10%	10%
Lifetime limit	£10,000,000	£10,000,000

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

INHERITANCE TAX

RATES OF TAX ON DEATH TRANSFERS	2013/2014	2014/2015
Transfers made after 5 April 2014		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Lifetime transfers to and from certain trusts	20%	20%

**For deaths after 5 April 2014, a lower rate of 36% applies where at least 10% of deceased's net estate is left to charity.*

MAIN EXEMPTIONS		
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
- 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%

CAR BENEFIT FOR EMPLOYEES

The charge for company car benefits is based on the carbon dioxide (CO_2) emissions. There is no reduction for high business mileage users.

For 2014/2015:

- Cars that cannot emit CO_2 have a 0% charge.
- The percentage charge is 5% of the car's list price for CO_2 emissions of 75g/km or less.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 11%.
- For cars with CO_2 emissions of 95g/km to 99g/km the percentage is 12%.
- Cars with CO_2 emissions of 100g/km have a percentage charge of 13% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 35% (emissions of 210g/km and above).

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards. However, the maximum charge remains 35% of the car's list price.

Car fuel The benefit is calculated as the CO_2 emissions % relevant to the car and that % applied to a set figure (£21,700 for 2014/2015) e.g. car emission 100g/km = 13% on car benefit scale. 13% of £21,700 = £2,821.

1. **Accessories** are, in most cases, included in the list price on which the benefit is calculated.
2. **List price** is reduced for capital contributions made by the employee up to £5,000.
3. **Car benefit** is reduced by the amount of employee's contributions towards running costs.
4. **Fuel scale** is reduced only if the employee makes good **all** the fuel used for private journeys.
5. **All car and fuel benefits** are subject to employers National Insurance Contributions (Class 1A) of 13.8%.

PRIVATE VEHICLES USED FOR WORK

	2013/2014 Rates	2014/2015 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
Motor Cycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2013/2014	2014/2015
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£250,000	£500,000
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	8%	8%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

Motor cars: Expenditure on or after 01 April 2014 (Corporation Tax) or 06 April 2014 (Income Tax)

CO_2 emissions of g/km:	95 or less*	96-130	131 or more
Capital allowance:	100% first year	18% reducing balance	8% reducing balance

*If new

CORPORATION TAX

	2013/2014	2014/2015
Full rate	23%	21%
Small companies rate	20%	20%
Small companies limit	£300,000	£300,000
Effective marginal rate	23.75%	21.25%
Upper marginal limit	£1,500,000	£1,500,000

VALUE ADDED TAX

	2013/2014	2014/2015
Standard rate	20%	20%
Annual registration threshold	£79,000	£81,000
Deregistration threshold	£77,000	£79,000

MAIN SOCIAL SECURITY BENEFITS

		2013/2014	2014/2015
		£	£
Child Benefit	First child	20.30	20.50
	Subsequent children	13.40	13.55
	Guardian's allowance	15.90	16.35
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 56.80	Up to 57.35
	Aged 25 or over	Up to 71.70	Up to 72.40
	Main Phase		
	Work Related Activity Group	Up to 100.15	Up to 101.15
	Support Group	Up to 106.50	Up to 108.15
Attendance Allowance	Lower rate	53.00	54.45
	Higher rate	79.15	81.30
Retirement Pension	Single	110.15	113.10
	Married	176.15	180.90
Pension Credit	Single person standard minimum guarantee	145.40	148.35
	Married couple standard minimum guarantee	222.05	226.50
	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		108.30	111.20
Jobseekers Allowance	Age 16 - 24	56.80	57.35
	Age 25 or over	71.70	72.40
Statutory Maternity, Paternity and Adoption Pay		136.78	138.18