THE CHARTERED INSURANCE INSTITUTE

CF5

Certificate in Financial Planning

Unit 5 – Integrated financial planning

October 2013 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2013/2014, 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 16 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

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

Ann and Peter are married and are both aged 49. They have one daughter, Grace, aged 11.

Ann and Peter have a low-cost endowment policy covering an interest only mortgage for £120,000. Both the mortgage and the endowment policy have ten years left to run. Their house is valued at £280,000. Apart from the endowment policy they have no other protection products.

Peter works for the Civil Service earning £32,000, gross, per annum. He is a member of his employer's defined benefit pension scheme.

Ann is a self-employed recruitment consultant. Her business is successful, and she will have taxable net profits of £50,000 in the tax year 2013/2014. She takes all of the net profits of the business as drawings. Prior to becoming self-employed, Ann worked for a national recruitment firm and was a member of their defined benefit pension scheme. They would like advice on saving for retirement.

Ann and Peter have a traditional with profits bond, in joint names, which they took out seven years ago with a lump sum of £10,000. They want your advice on whether to surrender it now, as they have been told that it may no longer be appropriate for them.

Despite running a successful business, Ann's income fluctuates and she is concerned that a serious illness or accident could prevent her working, resulting in a loss of income and their ability to pay the mortgage. Her bank manager has suggested that she takes out an accident, sickness and unemployment policy. However, she has read about income protection policies and wants your advice on which would be the best for her.

Questions

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

(b) State the typical pension related benefits Ann would have been entitled to when she was an active member of her previous employer's defined benefit pension scheme. **(6)**

(c) Compare accident, sickness and unemployment cover (ASU), with an income protection policy (PHI) as a way of protecting Ann's income, by stating **four** benefits and **four** drawbacks of each product. **(16)**

(d) Describe the main features of **three** other protection policies that you would recommend Ann considers taking out. *Do not include ASU or PHI.* **(12)**

(e) State the information you would require from the product provider to give advice on whether Ann and Peter should surrender the with-profits bond. **(6)**

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 an qualified to provide financial advice. The information provided is accurate and adequate for the purpose these questions.

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

INFORMATION

Jacob and Sophie, aged 44 and 39 respectively, are married. They have two children Emily, aged seven, and Harry, aged two.

Jacob currently earns £38,000 per annum gross working for a small company as their IT consultant. He receives no employee benefits. He pays £120 per month net of basic rate tax into a stakeholder pension. Sophie has no earnings and has not been in paid employment since Emily was born. Sophie is not currently paying into a pension scheme.

They both have limited pension provision and would both like to pay single contributions in the tax year 2013/2014.

They have no savings but have recently inherited £350,000 net of all taxes, following the death of Jacob's father, that they would like to invest. They require additional income of £3,500 per annum net to help fund nursery fees. They also require £25,000 as an emergency fund and a further £15,000 for a new car in six months' time.

Jacob and Sophie have a medium attitude to risk and would like 50% of their funds to be invested in medium risk investments, with the remainder in low risk investments. Any deposits should be held in accounts that provide competitive rates of interest. They would like the income to come from at least three different product types. They want their portfolio to be diverse and tax efficient. Jacob and Sophie have not paid into ISAs in the tax year 2013/2014.

Jacob and Sophie's house is valued at £250,000 and they have no mortgage or loans. They have heard about National Savings & Investments' Direct Saver accounts and would like more information on them.

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 Jacob and Sophie could each pay into personal pensions in the tax year 2013/2014. *Assume Jacob will continue to pay his regular contributions. Ignore any carry forward allowances.* **(5)**

(b) State the main features of a National Savings & Investments' Direct Saver account. **(5)**

(c) **(i)** Recommend from the product list on pages 8 to 11, a portfolio of products that would meet Jacob and Sophie'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 will meet Jacob and Sophie's requirements, stating clearly 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 non-income producing products, justify your recommendations under the following headings;

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

(e) List **four** events that could immediately trigger a financial review with Jacob and Sophie. **(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)	0.50%
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. ISAs 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 ISA	No notice	2.50%	100
Shires Building Society	30 Day	2.62%	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	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)	1.75
* Children's Bond (£25 to £3,000)	2.50%
ISA *Note (i)*	2.25%
Premium Bond *Note (ii)*	1.50%
Direct Saver	1.50%

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	2012/2013	2013/
Starting rate for savings*	10%	10%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	50%	45%
Starting-rate limit	£2,710*	£2,790*
Threshold of taxable income above which higher rate applies	£34,370	£32,010
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) §	£8,105	£9,440
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) at 10% †	£2,960	£3,040
Married/civil partners (if born before 6 April 1938) at 10%	£7,705	£7,915
Income limit for age-related allowances	£25,400	£26,100
Blind Person's Allowance	£2,100	£2,160
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)	£2,690	£2,720
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£15,860	£15,910

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£109	£473	£5,668
Primary threshold	£149	£646	£7,755
Upper Accrual Point	£770	£3,337	£40,040
Upper Earnings Limit (UEL)	£797	£3,454	£41,450

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate/contracted-out (money purchase)	Contracted-out rate (final salary)
Up to 149.00*	Nil	Nil
149.01 – 770.00	12%	10.6%
770.01 – 797.00	12%	12%
Above 797.00	2%	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £109 per week. This £109 to £149 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 148.00**	Nil	Nil	Nil
148.01 – 770.00	13.8%	10.4%	13.8%
770.01 – 797.00	13.8%	13.8%	13.8%
Excess over 797.00	13.8%	13.8%	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.70 where earnings exceed £5,725 per annum.
Class 3 (voluntary)	Flat rate per week £13.55.
Class 4 (self-employed)	9% on profits between £7,755 - £41,450 2% on profits above £41,450.

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

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.

INHERITANCE TAX

RATES OF TAX ON DEATH TRANSFERS	2012/2013	2013/
Transfers made after 5 April 2013		
- 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 2013, 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)	£55,000	£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 2013/2014:

- 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 10%.
- For cars with CO_2 emissions of 95g/km to 99g/km the percentage is 11%.
- Cars with CO_2 emissions of 100g/km have a percentage charge of 12% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 35% (emissions of 215g/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 (£21,100 for 2013/2014) e.g. car emission 100g/km = 12% on car benefit scale. 12% of £21,100 = £2,532.

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

	2012/2013 Rates	2013/2014 R
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

	2012/2013	2013/2014
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£25,000	£250,000
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 2013 (Corporation Tax) or 06 April 2013 (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

Research & Development:	Capital expenditure	100%

MAIN SOCIAL SECURITY BENEFITS

		2012/2013	2013/2014
		£	£
Child Benefit	First child	20.30	20.30
	Subsequent children	13.40	13.40
	Guardian's allowance	15.55	15.90
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 56.25	Up to 56.80
	Aged 25 or over	Up to 71.00	Up to 71.70
	Main Phase		
	Work Related Activity Group	Up to 99.15	Up to 100.15
	Support Group	Up to 105.05	Up to 106.50
Attendance Allowance	Lower rate	51.85	53.00
	Higher rate	77.45	79.15
Retirement Pension	Single	107.45	110.15
	Married	171.85	176.15
Pension Credit	Single person standard minimum guarantee	142.70	145.40
	Married couple standard minimum guarantee	217.90	222.05
	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		105.95	108.30
Jobseekers Allowance	Age 16 - 24	56.25	56.80
	Age 25 or over	71.00	71.70

Statutory Maternity, Paternity and

CAPITAL GAINS TAX

EXEMPTIONS	2012/2013	2013/2014
Individuals, estates etc	£10,600	£10,900
Trusts generally	£5,300	£5,450
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.

CORPORATION TAX

	2012/2013	2013/2014
Full rate	24%	23%
Small companies rate	20%	20%
Small companies limit	£300,000	£300,000
Effective marginal rate	25%	23.75%
Upper marginal limit	£1,500,000	£1,500,000

VALUE ADDED TAX

	2012/2013	2013/2014
Standard rate	20%	20%
Annual registration threshold	£77,000	£79,000
Deregistration threshold	£75,000	£77,000

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