June 2019 Examination

Advanced Financial Planning

Date of exam 19 June 2019

3 hours 09.30 am – 12.30 pm

Rubric
Section A – answer all questions in this section
Section B – answer one question in this section
Section C – answer all parts of the question in this section

Notes to candidates

1. Please insert your candidate number on the cover of your answer book. Do not insert your name.

2. Show all workings in your answer book.

3. Candidates may attempt the sections in any order. Please indicate clearly in your answer book which questions you are answering.

4. Please insert in the box provided on the cover of your answer book the numbers of the questions you have attempted in the order in which they appear in the answer book.

5. You may use the calculator provided or a model approved by the CISI.

6. You must hand your answer book to an invigilator before you leave the examination hall. Failure to do so will result in disqualification.

7. Once submitted, the examination scripts become the property of the CISI and will not be returned to candidates.
Section A

Total 40 Marks

Answer all questions in this section.

1. Explain the difference between financial planning and financial advice. (2 marks)

2. State two purposes of a financial plan. (2 marks)

3. Explain the purpose of a net worth statement and an income and expenditure statement. (2 marks)

4. List EIGHT key assumptions commonly used in a financial plan. (8 marks)

5. David is married and resident in the UK. In the 2019 / 2020 tax year his salary is £50,000 and he also receives £15,000 in taxable UK dividends. He has a 2-year-old daughter and receives child benefit. He has no other income. Calculate his potential income tax liability for the 2019 / 2020 tax year and explain what he can do to avoid the Higher Income Child Benefit Tax Charge. Show all your workings. (6 marks)

6. List THREE ways to deal with a conflict of interest. (3 marks)

7. Sam, aged 30, would like to retire at age 60 with a pension pot of £500,000. Assuming 6% investment growth rate and 1% AMC, calculate the gross monthly contribution he needs to make to achieve this goal. (2 marks)

8. Briefly explain the following:
   a) the purpose of an Annual Review (1 mark)
   b) items on the agenda of an Annual Review (2 mark)

9. List FOUR perceived and real impediments to the achievement of a client’s objectives. (4 marks)
Bill and Ellie are married. They are employed earning £55,000 and £50,000 per annum, respectively. Their death in service is 4 times their annual salary. In addition, they have the following assets:

- **Main residence (joint):** £750,000
- **Cash in bank accounts (joint):** £30,000
- **Cash ISAs:** £45,000 (Bill £20,000, Ellie £25,000)
- **Cars:** £25,000 (Bill £15,000, Ellie £10,000)
- **Unit trusts:** £20,000 (Bill)
- **SIPP:** Bill £250,000 and Ellie £200,000
- **Mortgage:** £100,000 (joint)
- **Joint life Insurance policy payable on 1st death:** £350,000

Prepare a net worth statement assuming Bill had died yesterday and Ellie is alive.

(8 marks)
Answer one question in this section.

Question 11

Critically discuss the benefits and drawbacks of using lifetime cashflow modelling tools.  
(20 marks)

Question 12

Identify FIVE key behavioural biases and explain, using examples, how they affect the financial decision making of an individual.  
(20 marks)
Tony and Anne are married and are in good health. They are aged 56 and 52 respectively and are looking for help with retirement planning. They are entitled to a full state pension at age 67. They have up-to-date wills and leave assets to each other.

Tony spent 20 years working in a defence company. However, he was made redundant on 6th April 2019 and was offered a redundancy package worth one year's salary (£55,000 gross per annum). He does not intend to look for another job. Tony has a SIPP with a fund value of £265,000 and wants to use these funds to supplement Anne’s earned income.

Anne was employed as an NHS dentist for 25 years but recently left to join a dental practice as a partner. Her previous salary was £105,000 per annum and she belonged to a 1/80 final salary pension scheme with a retirement age of 65. She will not opt for early retirement from the scheme. Her current salary is £110,000 gross per annum. She is not currently contributing to a pension scheme.

They have two adult sons – Dan and Victor. Victor is a newly qualified dentist and Anne plans to transfer her business to him when she reaches age 60.

Tony and Anne own a house worth £900,000 with an outstanding mortgage of £100,000. They intend to downsize when Tony is 70 years old, at which time, they will fully settle any remaining mortgage liability. Anne also owns a house worth £350,000, with a monthly mortgage payment of £500 based on a £200,000 interest-only mortgage. Anne receives a rental income of £1,100 gross per month.

They have recently gifted a total of £50,000 to their sons for their house deposits.

Having spent a lot of money educating their sons privately, they would like now to focus on their own retirement planning. Anne plans to retire at age 65. They need £50,000 per annum gross in retirement and would like to spend more time travelling. However, they are worried about their finances and not sure whether they have sufficient resources. They would like to get help with holistic financial planning.

a) Tony and Anne have never used a financial planner before and do not know the process of financial planning. Explain to them the FPSB’s 6-step process of financial planning. (6 marks)

b) Tony is worried about the income tax implication of his redundancy package. Briefly explain the taxation of redundancy payments. (2 marks)
c) They would like to know if they have done the right thing by gifting money to their sons. Explain the advantages and disadvantages of making the gift and how the gift will be treated for the purposes of inheritance tax planning. (10 marks)

d) Tony and Anne are worried that they might not have enough income in retirement. Based on the information given, and assuming an annuity rate of 4%, investment growth of 6% per annum, AMC 1% per annum, and SPA of 67, calculate how much gross income they are each likely to get in retirement. Show all your workings. (8 marks)

e) Briefly explain THREE retirement income options for Tony. (6 marks)

f) List FOUR considerations that should be given to the transfer of Anne’s business from her to Victor at age 60. (8 marks)

(Total 40 marks)