AF5 February 2024

These notes aim to cover all the key points arising from the February fact find. I have aimed to be as accurate as possible but the odd error may have crept through. So please don't rely on this as your only guide, read other sources and carry out your own research.

Good luck

Neil and Helen Winters are 54 and 52 respectively. They have a son and a daughter who are 17 and 16. Both are in private education with fees of £30,000 a year although Sam will leave in July 2024 saving £15K and Anna in July 2025 saving another £15,000. Their parents do not intend to pay university fees but will provide financial support.

They have been working overseas for the past six years but returned to the UK in August 2023. They are therefore UK resident from that date as they are working in the UK. They are both UK domicile.

Neil is employed and has a salary of £120,000. He is a member of the employer's WPS. In addition he gets £360,000 Death in Service. He is eligible to join their Group Income Protection and Private Medical Insurance plan. He can also join the employers Share Incentive Plan.

Helen is also employed with a salary of £40,000 and is also a member of the employer's WPS. There is no mention of any other benefits other than £120,000 DIS.

In terms of assets their house is worth £850,000 and is mortgage free

- They have £160,000 held in a joint savings account producing £7,200 in interest.
- Neil has a S/S ISA invested in an Asia emerging markets fund with a current value of £95,000.
- Helen has a S/S ISA Invested in a Global Sustainable Equity funds with a value of £65,000. Neil inherited a share portfolio from his father with a probate value of £240,000. Its current value is £180,000.
- They invested £195,000 into an offshore Investment Bond (Global Equity Fund). Its current value is £250,000.
- Total Assets are £1,690,000

They are considering downsizing in 5 to 6 years time.

They have no liabilities.

- Neil's WPS has an employee contribution of 6% that is matched by the employer. The current value is £1,200 and is in the default managed fund.
- He also has £175,000 in a previous employer's GPP.

- Helen also pays in 6% of her salary with an employer match of 3%. The value is £800 and is in the default managed fund.
- She also has £65,000 in a former employer's GPP.

- They have not checked their State Pension entitlement.

- They have a high attitude to risk and a high capacity for loss.
- Helen has an interest in ESG investing.

Possible Objectives

- Ensure they have sufficient income to fully retire in 10 year's time.
- Review the advisability of Neil joining the various employee benefits
- Review their suitability and tax efficiency of their current investments with particular reference to:
    - The offshore bond
    - The inherited share portfolio
- Mitigating future IHT liabilities

Impact of working overseas

- They would be **non UK resident but domicile** whilst they were working overseas
- They would have acquired this status when they left as they were working full time overseas.
- But would have retained their UK domicile as they had not severed ties with the UK, e.g. they owned a house here.
- They became UK resident in August 2023 as they would be present in the UK for more than 183 days and were working full time in the UK.

In terms of tax:

- Whilst non resident they would not be liable for income tax on their overseas earnings.
- They would be liable for UK income tax on the rental income from letting their house.
- They could use their Personal Allowance
- They would also be liable for income on the deposit savings income.
- They could each use their savings allowance
- Neil would be liable for UK tax on the share dividends but he could use his dividend allowance.

- There would be no income tax liability on their ISAs
- When there is a chargeable event on their Investment Bond they could use Time Apportionment Relief (TAR) to reduce their liability for the time they were non-resident.
- Although they did not occupy their house for 6 years, when it is sold they can claim 100% Principle Private Residence Relief (PPR) as immediately before and after their absence they were working outside the UK. (The period is unlimited).

Retirement Planning

Current position

This could be the basis of an *"Identify the factors you would take into account in helping them to achieve their goal of fully retiring in 10 years"*

A factor is something we know already that we would take into account when drawing up a plan to meet their financial objectives.

- They plan to fully retire on 10 years when Neil will be 64 and Helen 62.
- Their state pension ages will be 67.
- Helen will receive hers on 5/11/39
- Neil 12/12/37
- Neil's ANI is in excess of £100,000 so he has lost some of his PA
- They are both in good health.
- Their current pension funds £176,200 and £65,800 respectively
- Neil's pension input into his WPS is £7,200 which is matched by the employer (£14,400)
- Helens input is £2,400 with an employer input of £1,200 (£3,600)
- In 12 months time they will have a further £15,000 as they will stop paying Sam's private education costs and a further £15,000 a year later when Anna leaves private education.
- Their current pension funds do not match their attitude to risk.
- And less likely to achieve the growth they need.
- They have a high ATR and high CFL
- They have £500,000 in non pension investments
- They may have additional cash once they downsize

What factors could prevent them meeting their objectives?

- Investment period of 10 years is short, insufficient to guard against volatility
- Required investment growth may not be achieved
- If they take a high risk investment strategy to get higher returns there is a risk that a fall close to retirement could result in them having insufficient funds.

- Long term illness/redundancy would prevent them maximising their pensions as they would have no NRE

State the additional information would you require to give advice.

An additional information question is asking you to give hard facts you need to find out to give advice. In other words, information that isn't given on the fact find.

- Do you have any flexibility in your wish to retire fully in 10 years time?
- Do you plan to cut down your work/hours before retiring fully?
- When do you think this will be?
- What income would you require once you stop working?
- Views on future inflation?
- What size allowance do you plan to give the children when they start university?
- What size of fund are you aiming to build up?
- Would you want to take a capital sum/PCLS?/additional funds for travelling?
- Amount likely to be released by downsizing?
- What other funds does your employers and your preserved pensions offer?
- Will they allow you to increase your contributions/what is the maximum?
- Will they match these/what is the maximum?
- Charges
- Projections/past performance for preserved pensions
- When did you start work? (when was your first employment)
- How many years have you worked in the UK (to establish NIC position)
- Did you pay voluntary NIC when you were working overseas?
- Would you wish to use your other assets to help fund your retirement?
- Importance of passing capital from your pension to your children.
- Affordability for making regular contributions.

State Pension

- Under current rules they will both get their State Pension at 67.
- They require 35 years NIC to get the full pension
- We know their employment history since 1997 where they had 20 years paying NIC
- They would not be paying NIC whilst working overseas.
- They probably have a further 10 years employment giving then 30 years NIC.
- Helen would get a credit whilst she was on a career break as she would have been receiving Child Benefit.
- They may have an NIC contributions before 1997 sufficient to give then 35 years.

Possible action

- They should each request their NIC record to get the number of years they have contributed prior to the start of the 23/24 tax year.
- Provided this plus the anticipated 10 years of employment gives them 35 years they need take no further action.
- If it is insufficient they could pay Class 3 for six of the years they were outside the UK.
- Alternatively there will be three years (Neil) and five years (Helen) between their planned retirement age and State Pension Age and they could pay Class 3 then.

Retirement Planning Strategy

Questions here could cover a wide range of topics and should be considered in conjunction with their non-pension investments. This is one possible approach.

- Establish income needs in today's money.
- Adjust for inflation in 10 years time.
- Convert to a lump sum using assumed annuity rate.
- Calculate annual contribution to achieve this using an assumed growth rate.

- Maximise contributions to WPS
- To get benefit of employer contributions.
- And low charges.
- Switch funds to get a wider diversification
- And in a higher risk category to get potential higher growth

- The case study states their WPS offers a range of passive and active funds.
- This could justify using a core and satellite approach
- The core a re a number of tracker funds (FTSE 100/S&P 500)
- These give the market return
- Around them a number of specialist funds to give above market return

- Transfer their existing preserved GPP to a SIPP held on a platform
- Switch to different funds to ensure diversification and closer to their ATR.
- Start to make monthly contributions.

Why monthly rather than single contributions?

- The Fact Find states they are keen to start a regular savings plan.
- It would benefit from Pound Cost Averaging
- They could build in waiver of premium
- As this would allow these to continue if unable to work.
- Without it they would have no NRE and would be restricted to £3,600 a year

- The disadvantage of regular contributions is that the contribution is invested for a shorter time and doesn't get the full compounding effect.
- They have other assets that could be used and an initial contribution.

Technical note Carry Forward

- Helen cannot use carry forward as her NRE are below the annual allowance of £60,000 as the current year's AA must be used first.
- Neil can as his NRE is more than £60,000
- However NRE in 23/24 will be less than £60,000
- So he cannot use c/f until 24/25 when the earliest year go back to will be 21/22
- Being non resident until this year doesn't prevent him using c/f because he is a deferred member of the Maritime SVS GPP
- But his input must not exceed his NRE

Neils Adjusted Net Income

- In 23/24 will work for 4 months therefore earnings £40,000 so ANI below £100,000 and would get full PA
- In 24/25 his ANI will be £120,000 + £3,600 +£5,400 = £129,000
- Less £7,200 (Pension contribution) = £121,800
- £21,800 in excess of £100,000
- PA reduced by £21,800/2 = £10,900
- PA £12,570 less £10,900 = £1,670
- If he increases his pension contributions by £21,800 he would get back his PA effectively getting tax relief at 60%

At this stage their main aim should be to maximise their pension contributions but we also need to take into account their other savings and investments. Before doing that we'll cover the various options that Neil has been offered.

Neil's employment options

Group Income Protection

- Not a benefit in kind
- If a claim is paid then income received is taxable.

- Need to find out:
- Deferred period/sick pay period
- Amount of cover/percentage of salary
- Escalation
- Expiry date
- Will employer pension contributions continue?

- **He should join because:**
- No immediate cost.
- Underwriting may be less strict than an individual IP
- Provides a seamless transition between sick pay and receiving this benefit.
- Would count as NRE so he could continue to make pension contributions.

Group Private Medical Insurance

- This is a taxable benefit in kind.
- So will increase his ANI

Some more info required

- Cost
- Can Helen/children be included?
- Underwriting criteria/Pre-existing conditions
- Expiry date
- Could it be paid by salary sacrifice?
- Would this affect his DIS and Group IP?

Benefits of joining

- Gets quicker treatment
- Underwriting less stringent than individual policy
- Cost is lower than an individual plan

Share Incentive Plan

Some Technical background

The employer can offer four options

- Free shares
- Partnership shares
- Matching shares
- Dividend shares

The taxation is the same for all options.

- Not a benefit in kind.
- Shares held in trust
- Provided they are kept in the trust for five years Neil will not pay income tax or National Insurance on their value
- They can be placed into an ISA when taken out of the trust
- If withdrawn in three years from the start, tax and NI will be due on the market value of the shares. There is an exception for “good leavers”, retirement or redundancy.
- Withdrawn between 3 and 5 years income tax and NIC are payable on the lower of the market value of the shares withdrawn and the salary used to buy the shares.
- If Neil takes them out of the plan after 5 years and sells them later on he might have to pay CGT if the value has increased

Free shares

- Neil’s employer could give him £3,600 of free shares a year
- Something of a no-brainer as there is no cost to him.

Partnership shares

- Neil could buy shares out of his salary before deduction of tax and NI
- This is limited to £1,800 a tax year.

Matching shares

- The employer could give up to two matching shares for each partnership share purchased

Dividend Shares

- If the employer allows it Neil can buy more shares with dividends from free, partnership or matching shares.

The key question is whether Neil should join the partnership scheme. The factors he should consider are:

- It is very tax efficient as he is getting tax relief at the rate of 40% (and possibly 60% if it decreases his ANI)
- The future prospects of the business. If its prospects are poor the share price is not going to increase.
- Are the shares readily tradeable on the stock market? /can the shares be easibly sold>
- There is an element of concentration in that if Neil's firm goes under he would lose his job and the value of his shares would be nil.

Based on a question from May 2022

Explain to Neil why joining the company's Share Incentive Plan might be suitable for him and explain how this will operate.

- Tax efficient method of saving/affordable
- Contribution taken from gross salary and NI
- Can invest £1,800 per tax year
- Employer could give free shares up to £3,600 per tax year
- 2 for 1 matching shares from employer.
- May purchase further shares with dividends
- No income tax if dividend shares are retained for three years
- To retain income tax benefits must hold for 5 years
- CGT applies if retained outside plan after maturity.
- Can transfer to ISA on maturity within 30 days
- Matches his ATR/he knows the company.
- Shares are held in trust

Their Savings and Investments.

This is likely to give the question writer lots of scope and topics to question.

Current position

- They have £160,000 in a joint deposit account producing £7,200 a year in interest or 4.5%
- This is too high for their needs
- This will be split 50/50 and both can use their PSA (£500 for Neil. £1,000 for Helen)
- Their ISA funds match their ATR.
- They lack sufficient diversification.
- Neil's fund is too concentrated in one geographical sector
- The shares were inherited and are showing a loss of £60,000.
- This produces a dividend yield of 3%
- The offshore bond is showing a gain of £55,000.

Possible overall strategy

- Establish and agree an emergency fund.
- Reduce the amount held on deposit.
- Put majority into Helen's name so any interest above her PSA will be taxed at 20% rather than 40%.
- Look for a guaranteed fixed rate to protect against falling interest rates
- Diversify their ISA holdings and hold on the same platform as their SIPP
- Use some of the assets to fund a single payment into a SIPP.
- Use their ISA allowances each year

Turning to each asset in turn

Deposit account

Would need to establish if this is earmarked for any purpose
Is subject to the following risks:

- Inflation risk-real value will fall
- Interest rate risk- income may fall and reduce income

Asia Pacific Emerging Market Equity Fund

Would need to establish geographical mis of the fund and underlying investments.
Is subject to:

- Currency risk: value of home currency could fall reducing real value
- Regulatory Risk: may not be an adequate regulatory regime in home country
- Political risk: Risk of change of government changing the rules.
- Liquidity Risk: may not be a large market in smaller emerging companies/May be difficult to sell within the fund/difficult to evaluate the price.

Global Sustainable Equity fund

- Would need to establish the underlying assets in the fund.
- What is the definition/criteria for sustainability?
- Subject to the same risks as the Asia emerging companies fund

Helen's interest in ESG

- No clear definition.
- Negative investing cuts out potential profitable areas, e.g. tobacco
- Positive may means dealing with smaller start up companies

Dealing with the inherited share portfolio

In order to give advice:

- Identify full details of the portfolio.
- Establish whether these match his ATR
- Establish whether they have sufficient diversification.
- Identify the ones which are showing a loss.
- Consider selling these to crystallise a loss.
- This can be used to offset any gains made in the current year.
- Or if no gains are made then this loss can be carried forward to future years.
- Make use of the current CGT exemption of £6,000 before the end of the tax year
- Transfer some holdings to Anne (inter spousal exemption) who can then use her CGT exemption.
- Use a share swap arrangement to buy collective funds.

From March 21

(a) Explain, in detail, to Neil why his portfolio of individual shares may no longer be suitable for him. **(6)**

(b) Identify the key reasons why a range of collective investment funds might be more suitable for Neil and Helen. **(11)**

March 2021

- Regular monitoring/ongoing administration/need for simplification/need for tax reporting/certificated/harder to sell.
- Recent reduction in dividend payments (UK economy)/current economic conditions/dividends are not guaranteed.
- Lack of asset diversification/single companies/equities.
- Exceeds Dividend Allowance/taxable at 33.75%.
- Cost of selling/liquidity of small company shares.

- Diversification.
- Reduces risk/volatility.
- Professional management/expertise.
- No CGT on internal fund changes (within OEIC).
- Cost effective.
- Funds can match attitude to risk.
- Wide choice of funds/passives/active/Discretionary Fund Management/multi-asset.
- More predictable income stream – can choose monthly/quarterly withdrawals.
- Simple tax reporting/can calculate gains/use CGT exemption.
- Less administration/can be held on platform/easier to sell/fund
- switch/rebalancing/easier to reinvest dividends.
- Easier to use ISA/Bed & ISA.

Offshore Investment Bond

Again we would need to establish:

- A breakdown of the underlying assets particularly the geographical and sector split. Knowing which country it is based in.
- Whether any withdrawals have been made
- Is it segmented, if so how many?

It may test your understanding and application of **Time Apportionment Relief**.

- They took out the Bond in June 2020 when they were non-resident.
- No UK tax would have been levied on the Bond.

- Now they are UK resident UK income tax will be applied to the gain when there is a chargeable event.
- AS it is in joint names it will be split 50/50.
- As no UK tax has been applied, they must pay the tax in full with no credit for tax levied in the fund as there would be be in a UK based Bond.
- But they can use **Time Apportionment Relief (TAR)**

- This reduces the taxable gain by taking the number of days they owned the Bond while they were non-resident compared to the number of days they owned the policy and express this as a percentage.
- The percentage reduces the chargeable gain.

- The Bond was purchased in August 2020, and they returned to the UK in August 2023. That is approximately 1,095 days. Assuming it was surrendered in February 2024, exactly six months after they returned to the UK they would have owned it for 1,278 days.
- TAR would be £55,000 x 1095/1278 = £47,124
- The chargeable gain would be £55,000 less £47,124 = £7,876.

- It could be advisable to surrender the Bond now to make maximum use of the TAR.
- The time the Bond was owned whilst they were non resident will be fixed but the number of days they owned the Bond will increase,
- If it is kept for a further 10 years the discount would reduce to 1095/4,928, or 22.20% so 77.8% of the gain would be taxable.
- Neil should assign his share to Helen so her tax liability would be £7,876 @ 20% = £1,575.20 giving a further £248,424.60 to invest.

The case for retaining the bond could be:

- They have no immediate need for the money.
- They would have to find a new investment.
- They give up potential growth without any tax being taken within the bond.
- If they retain it until retirement, they may both be basic rate tax payers so the overall tax liability will be lower.
- They could still use TAR.
- Once retired they could use the 5% (of £195,000 £9,750) to supplement their income or surrender segments.
- As the plan is in its fourth plan year they could withdraw 20% of £195,000 (£39,000) on a tax deferred basis.

Their pension and non-pension assets should not be considered separately but as one in helping them achieve their retirement plans.

This first step they should take is to consolidate all their investments non WPS pensions on to a platform.

- Online access/easier to monitor
- Data available 24/7
- Lower cost/large fund discount
- Simplified tax reporting/consolidated reports/access to research
- Wide fund choice
- Can mix pension and non pension s
- Can re-register ISAs
- So retains tax efficiency
- May be possible to do share swap some of the individual share portfolio.

There have been a number of questions that have tested using both pension and non pension assets. Here are two from past papers that have been amended to take account of Neil and Helen's situation:

From May 22

Recommend and justify a range of suitable actions that Neil and Helen can take in respect of their pensions and investments to improve their financial position in advance of their proposed retirement in ten years' time.

Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.

- Increase pension contributions for 40%/20% tax relief.
- Check for employer matching/salary sacrifice for NI saving.
- Use annual £20,000 ISA allowance every year/Bed & ISA.
- Tax free growth (Pension or ISA).
- Base cost of Unit trust/calculate gain.
- Use CGT exemption.
- Review existing funds/fund options/fund charges/diversify.

- Make regular investments/pound cost averaging.
- Neil to benefit from volatility/enable investment into higher risk funds/improve returns.
- Mike to join company Share Incentive Plan.
- Benefit from reduced Income Tax/NI/ Capital Gains Tax free in 5 years/free shares from employer.

Neil and Helen are planning to retire in ten years time but are aware that her current financial arrangements are likely to be inadequate.

(a) Recommend and justify a range of suitable actions that they could take with her pensions, savings, and investments, to improve the prospect of achieving her target of retiring at age 60. **(14)**

Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.

(b) State the process that you would follow to enable you to establish the shortfall in their current pension arrangements

(a)

- Increased pension contributions for tax relief/tax free growth.
- Pound-cost-averaging to reduce volatility/increase returns.
- Ensure maximum employer matching for contributions.
- Use salary sacrifice to increase pension contributions/reduce National Insurance (NI).
- State Pension/BR19.

- greater diversification needed.
- Equities tend to outperform other assets over medium to longer-term/greater potential for capital growth.
- Reduce cash balances
- Inflation risk on cash/poor returns from cash.
- Maximise ISA contributions each yeat

- Consider CGT issues on sale of share portfolio.

(b)

- Desired level of income/need for capital.
- Current expenditure/affordability.
- Cashflow modelling.
- BR19/State Pension at 67.
- Growth assumptions based on attitude to risk/stress test/projections from existing provider to age 64.
- Inflation assumptions.
- Current or planned contributions/monthly/lump sum.
- .
- Costs/pension costs/charges.
- Current/future tax status.
- Other sources of income/use of other assets.
- Calculate fund value/contributions needed to provide income.
- Based on annuity rates/safe withdrawal rate (SWR)/longevity.

- Compare projections with capital value required/establish shortfall.

Regular Saving Plans

- The fact find states that they are interested in starting one.
- Already covered why some of their pension contributions should be done on a regular basis
- Use of pound cost averaging and to make use of WOP
- Note that they cannot take out a JISA for the children as they would have qualified for Child Trust Funds
- As they are both over 16 they children have control
- It becomes their property when they become 18.
- Neil and Helen could still contribute up to £9,000 a year and this should be in a cash fund should in view of the short term.

Downsizing

- If they were to remain in the property, the house would pass to the survivor and the deceased would not have used their RNRB.
- On second death as the house is being passed to a direct descendent then their estate would have an RNRB of £350,000.
- If they downsize and on second death the new house has a value of more than £350,000 there will be no issues.
- However, if the value is less than that (or whatever the future figure is), RNRB is limited to the value of the house but the executors could claim **Downsizing relief.**

- Assuming the value of the new house was £250,000 the lost RNRB would be:

£250,000/£350,000 = 71.43%
100% less 71.43% = 28.57%.
This applied to £350,000
£350,000 x 28.57% = £99,995

This is added to the value of the of the house (£250,000)
Assets other than the house could be passed to direct descendants without being chargeable.

Adapted from October 21

(a) Outline the key issues that Neil and Helen should consider when making a decision to downsize their current property in order to provide additional funds in retirement. **(10)**

(b) Explain to Neil and Helen how their entitlement to the Residence Nil Rate Band (RNRB) would be treated after downsizing their property. **(6)**

- Costs of sale/solicitor/estate agent.
- Stamp Duty on purchase/no Capital Gains Tax (CGT) on house sale.
- How much capital will they release?/cost of new property.
- How much of proceeds of sale will they invest?
- Consider equity release/lifetime mortgage.
- They can retain Residence Nil Rate Band (RNRB)/downsizing addition available.
- Property cannot be sold if long-term care needed.
- Inconvenience/stress/suitable properties available.
- Ongoing cost should reduce/maintenance.

(b) Candidates would have scored full marks for any six of the following:

- Residence Nil Rate band (RNRB) still applies.
- Estate/property left to children.
- Downsizing addition is available to protect RNRB.
- RNRB is not automatically applied when calculating the IHT liability/Personal representatives must make claim for RNRB.
- Unused RNRB can be transferred to survivor.
- Can only consider one property move/take disposal of one former home into account/If more than one – Personal Representative can choose which to use to calculate downsizing addition.
- RNRB is currently £350,000/£175,000 each.

Their Mutual Wills

- Whilst they are both alive either can rewrite a new will.
- However, on first death a trust is created and Sam and Anna cannot be disinherited nor the survivor write a new will.
- This meets their children get the residual assets after second death.
- However it means that if the survivor falls out with either child they will still get the assets.
- Also there is nothing to stop the survivor spending all the money whilst they are alive.

- The alternative would be to write wills that set up an IPDI trust with the survivor as the life tenant and the children as remaindermen.
- On first death the survivor could have the income from the capital and continue to live in the property and on their death the remaining assets revert to the children.
- She would not have control over the deceased's assets.
- As It is an IPDI trust the survivor would still be able to use RNRB.
- This would not be possible if a discretionary trust.

Protection needs.

- Although not stated as a concern they do have vulnerabilities.
- They must find £45,000 in school fees until Summer of 26.
- If they lose one income their ability to fund their pensions will be restricted and they may have insufficient to give a reasonable income in retirement.

If Neil dies:

- Sam will receive £360,000 DIS
- In addition she will inherit his equity portfolio plus his ISA
- This gives her an APS of £95,000
- The deposit account would automatically become her sole property
- She would have £595K in assets plus the Offshore Investment Bond
- In total £1,205,00 of assets.
- In addition she would have access to £175 K in his preserved pension plus £1,200 in his current pension.
- She could probably maintain her standard of living including paying for school fees but she misses out on Neil's ability to fund the pension so her pension income would be lower than if he hadn't died.
- Similar situation if Helen dies although her DIS is only £120,000 but Neil is the major earner.

In terms of being unable to work due to accident and sickness, we would recommend that Neil joins his employer's Group Income Protection Plan which may maintain the employer contributions.

Helen is vulnerable to being unable to work due to long term sickness/disability so we could recommend:

- An income protection policy taken out by Helen
- With a monthly benefit of £2,000 (marking scheme would be flexible so any reasonable figure between 50% to 70% would get the mark
- Deferred period to match sick pay
- To maintain standard of living
- With escalation
- To protect against inflation
- Own job basis to give widest cover
- With guaranteed premiums
- To ensure cost remains affordable.

Estate Planning

- They do have a current liability but they have got a total NRB of £1 million on second death.
- If they downsize they could use Downsizing Relief.
- The strategy of maximising their pension contributions will take more money out of the estate
- The allowance they propose to give to the children whilst at university will be an exempt transfer.
- They could use their annual exemptions (£3.000) each
- Possible use of spousal by pass trusts for their DIS to keep them out of the estate

- A SBT would request the trustees of the DIS to pay the money into the trust rather than directly to the survivor.
- A letter of intent could say how the trust money should be used for example paying a regular income to the survivor.
- The benefit is that the survivor doesn't own the property for IHT purposes so is not included in their estate on their death

Review question

Basic template

- Change in personal circumstances
- Change in financial circumstances
- Change in ATR/CFL
- Review performance
- Rebalance funds
- Any new money to invest
- Using annual allowances
- Economic conditions. Legislation changes
- New products

I think the most likely review question will focus on their retirement planning needs,

Go over all past review questions, usually Q8

In the exam

- read each question carefully.
- Take account of the number of marks available
- Make sure you understand the key command.

Identify additional information to …….You must state hard facts that aren't in the fact find.
State the factors that you would take into consideration……. You must state facts given in the fact find or that you reasonably infer from it.
Comment on…….Similar to a factors question but you need to expand a little. For example, "They wants to retire in 10 years time This means they must either make maximum contributions each year or take greater risks with her investments"
Explain……Think what you would tell them if they sat opposite you and asked you that question.
State the benefits/drawbacks…….Again think what you would say to them
Recommend and Justify….. Remember the marking scheme will give one mark for the recommendation and one mark for your rationale.

Some Odds and Ends

Cash flow modelling

Neil and Helen have heard about cash flow modelling and would like to use this to plan their financial future.

Identify the main factors and assumptions you should discuss with them when formulating a cash flow model

- Future expenditure
- Expected longevity
- Level of capital invested
- ATR
- CFL
- Expected growth rates
- Assumptions on charges
- Inflation rates
- When pension savings can be taken
- Date when State Pension will be paid
- You will not be required to construct a portfolio so questions may focus on general strategy

Explain briefly to them the risks of relying solely on cashflow modelling to help them meet their financial objectives

- Assumptions can be incorrect
- Requires regular reviews
- Circumstances can change
- Returns are linear/assumes returns are the same each year/sequencing risk
- Market risk
- Does not consider liquidity of assets

Explain to them how a lifetime cashflow model could be used to assist then in meeting their objectives

- Identifies probability of their funds being exhausted before they die
- Based on existing portfolio
- Returns required
- Stress testing
- Apply range of growth rates
- Shows impact of inflation

- Impact of withdrawals/sequencing risk
- Can be adjusted as circumstances change

Stress Tests

- Inflation higher than expected
- Returns lower than assumed
- Unforeseen capital withdrawal
- Living longer than expected
- Market crash
- Income assumptions too low

Benefits of making pension contributions compared to ISA

- Tax relief at 20% (Helen) 40% or 60% for Neil
- No tax relief on ISA
- Pension contributions limited by NRE which is higher than £20,000 in an ISA
- Carry back can be used in a pension but not an ISA
- More flexible death benefits with a pension
- Children can benefit from a pension but only a spouse can use the deceased’s ISA
- A pension fund is not included in the deceased’s estate but an ISA will be