

THE CHARTERED INSURANCE INSTITUTE

CF5

Certificate in Financial Planning

Unit 5 – Integrated financial planning

April 2014 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.

Candidates should answer based on the legislative position immediately BEFORE the 2014 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**

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)** and **(e)** which follow.

INFORMATION

Tom and Kate, both aged 44, are married and have two children, Jake, aged 12, and Sarah, aged 10. They have a house worth £350,000 and an outstanding repayment mortgage of £55,000.

Tom is employed as a building surveyor and earns a gross salary of £38,000 per annum. He is a member of his employer's group personal pension scheme into which he pays £120 per month net of basic rate tax. The company does not pay into the scheme. Kate works part-time in a local pharmacy, earning a gross salary of £8,000 per annum and she is paying £40 per month net into a personal pension. Kate wishes to know whether her personal pension is with a suitable provider.

Tom has been offered membership of his employer's private medical insurance scheme but knows very little about how these plans work and would like further information before making a decision on whether to join the scheme.

Tom and Kate have £40,000 in a joint savings account. They would like to invest for the long term and would like you to explain how investment trusts and unit trusts operate as they are considering investing in one of these.

Tom's employer provides Death-in-Service benefit of one times salary and sick pay for a period of six months in the event of illness. They have no other protection products. Tom and Kate are worried what may happen to them financially if either of them were to die or suffer a serious long term illness. They want to discuss their protection needs and require a cost effective solution.

Questions

- (a) Write down a list of questions you would need to ask Tom and Kate to obtain all 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 Tom and Kate will understand them.* (10)
- (b) Compare income protection insurance with level term assurance by stating the **advantages** and **disadvantages** of each product. (14)
- (c) List the **similarities** and **differences** between investment trusts and unit trusts. (12)
- (d) Describe the main features of an employer's private medical insurance scheme. (8)
- (e) List **six** factors you should take into account when comparing providers of personal pensions. (6)

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)** and **(d)** which follow.

INFORMATION

Andrew and Heather, both aged 52, are married with one child, Jessica, aged 15.

Andrew is employed by a small engineering company, earning a gross salary of £36,000 per annum. He has no benefits from his employment apart from being a member of their group personal pension scheme. He pays 11% of his gross salary into the pension scheme and there is no employer contribution.

Heather has not been in paid employment since Jessica was born.

Andrew and Heather have £20,000 in a jointly-held current account and a house worth £320,000, which is mortgage free. They have no outstanding debts. Andrew has recently inherited £250,000, net of all taxes, which is available for investment. They require an additional income from their investments of £3,000 per annum net to help fund nursing home fees for Heather's father.

Andrew and Heather wish to have at least 60% of the funds invested in a medium risk environment. They do not wish to invest in any high risk funds. The income is to come from at least three different product types and they want their portfolio to be diverse and tax efficient. They do not have any ISAs.

Andrew and Heather require £8,000 for a cruise in six months' time and would like a further £10,000 to be readily accessible as an emergency fund. They wish to receive competitive rates of interest on any deposits.

Questions

To gain maximum marks you **must** show **all** your workings and express your answers to 2 decimal places.

- (a) (i) Calculate, **showing all your workings**, the maximum single net tax relievable pension contribution that Andrew and Heather could each pay in the 2013/2014 tax year. Assume Andrew will continue to pay his regular contributions. Ignore any carry forward allowances. (5)
- (ii) State the factors that will determine the level of income that Andrew will ultimately receive from his group personal pension scheme. (5)
- (b) (i) Recommend, from the product list on pages 8 to 11, a portfolio of products that will meet Andrew and Heather'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 part (b)(i) above, will generate the income that Andrew and Heather require, and state clearly, in words, the tax treatment for each product type you have used to provide the income. (9)
- (c) For each of the product types you have selected in part (b)(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)
- (d) List **four** main reasons why the portfolio should be reviewed at least annually. (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)

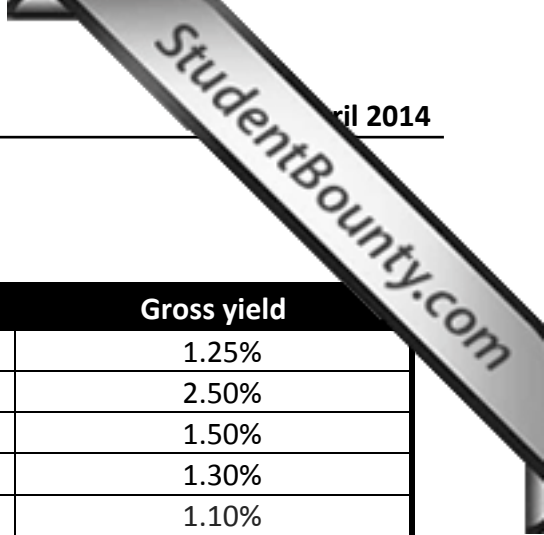
3. ISAs Cash Component

	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)	1.25%
* Children's Bond (£25 to £3,000)	2.50%
ISA 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)

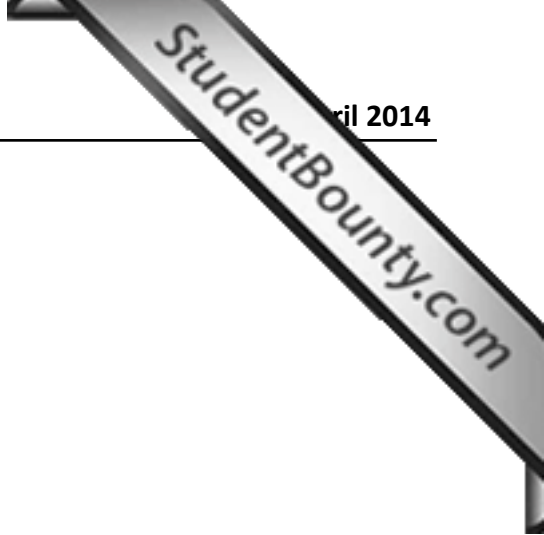
6. Insurance guaranteed income bonds

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	2012/2013	2013/2014
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) (if born before 6 April 1935) at 10% †	£2,960	£3,040
Married/civil partners (if born before 6 April 1935) 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.

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.*

INHERITANCE TAX

RATES OF TAX ON DEATH TRANSFERS

2012/2013 2013/2014

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 (CO₂) emissions. There is no reduction for high business mileage users.

For 2013/2014:

- Cars that cannot emit CO₂ have a 0% charge.
- The percentage charge is 5% of the car's list price for CO₂ emissions of 75g/km or less.
- For cars with CO₂ emissions of 76g/km to 94g/km the percentage is 10%.
- For cars with CO₂ emissions of 95g/km to 99g/km the percentage is 11%.
- Cars with CO₂ 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 CO₂ 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 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

	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%	18%	8%
	first year	reducing balance	reducing balance
*If new			
Research & Development: Capital expenditure		100%	

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

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 Adoption Pay		135.45	136.78

