Chartered Insurance Institute

AF8-RETIREMENT INCOME PLANNING

ASSIGNMENT 2 COURSEWORK EXEMPLAR

Scope of Advice

Patrick and Jane's attitude to risk has recently changed due to their change in circumstances following Patrick's heart diagnosis. This assignment evaluates a range of suitable options to enable Patrick and Jane to adjust their current financial arrangements to better match their revised attitude to risk.

For the 2025/2026 tax year Patrick will receive a partial salary, Jane will receive her full salary for part of the year and then her lower salary. Their income over the next three tax years starting in April 2026 will be as follows:

Jane's salary	£10,000 x 3 = £30,000
Income from Savings and Investments:	£4,045 x 3 = £12,105
Total:	**£42,105**

Patrick and Jane would like to generate a minimum income of £45,000 per annum (net) throughout retirement. Their expenditure over the next three years will be as follows:

Regular expenditure	£45,000 x 3 = £135,000
Cost of travel plans over the next three years	£70,000
Total:	**£205,000**

The shortfall is £205,000 - £42,105 = £162,895

Assumptions

- Patrick plans to retire over the next few months and therefore will only work for approximately six months of the 2025/2026 tax year. Therefore, he will have earned income of £26,000 (gross) for the current tax year (£52,000 / 12 = £4,000 per month, therefore 6 months x £4,000 = £26,000).
- Jane plans to reduce her working hours over the next few months so will only receive a full salary for approximately six months of the 2025/2026 tax year. Therefore, Jane will have the following earnings for the 2025/2026 tax year: 6 months earning £1,500 (£1,500 x 6 = £9,000) + 6 months earning £833.33 (£833.33 x 6) = £5,000 = £14,000.
- Patrick and Jane have an income requirement of £45,000 per annum in retirement. It was agreed that an emergency fund would be retained on accessible deposits so monies totaling £39,500 should be retained, which equates to 10 to 11 months of expenditure.
- Maximum tax relievable pension contributions available to them for the 2025/2026 tax year will be as follows:

Patrick

2025/2026 earned income	£26,000 (Gross)
Monthly pension contribution	£4,333.33 x 5% = £216.67 £216.67 x 6 = £1,300.02 £26,000 - £1,300.02 = £24,699.98 gross £24,699.98 x 0.8 = £19,759.98 net contribution

Jane

2025/2026 earned income	£14,000 (Gross)
Monthly pension contribution	£1,500 x 5% = £75 £75 x 6 = £450 £833.33 x 5% = £41.67 £41.67 x 6 = £250.02 £14,000 - £450 - £280 = £13,270 gross £13,270 x 0.8 = £10,616 net contribution

Review of Existing Assets

I recommend the following actions:

Patrick				
Provider	**Policy Type**	**Funds Held**	**Value**	**Action**
S&S ISA	ISA	US Equity Tracker	£45,000	Switch all funds
UK Life Ltd	Pension	UK Equity Tracker (50%) UK Gilt & Fixed Interest (50%)	£105,000 £105,000	Switch all funds
Assure Bank	Cash Deposit	N/A	£3,000	Retain

Jane				
Provider	**Policy Type**	**Funds Held**	**Value**	**Action**
S&S ISA	ISA	UK FTSE 100 Tracker	£40,000	Switch all Funds
Midlands Life Ltd	Pension	Cautious Managed Lifestyle	£85,000	Switch all funds
Assure Bank	Cash Deposit	N/A	£1,500	Retain

Joint Assets				
Provider	**Policy Type**	**Funds Held**	**Value**	**Action**
Assure Bank	Cash Deposit	N/A	£35,000	Retain
Assure Bank	Cash Deposit (released from the house downsize)	N/A	£200,000	Various recommendations that will be detailed later in this assignment
				Withdraw £21,500 in total

OEIC/Unit Trust	OEIC/Unit Trust	UK Recovery Emerging Markets Growth	£42,000 £33,000	from the two funds and retain all remaining funds until the 2026/2027 tax year. Then switch all funds.
Investment Bond	Investment Bond	Managed	£85,000	Surrender all funds

My Recommendations

Having reviewed your existing plans, the reasons for my recommended actions are detailed below:

- Assuming your required retirement expenditure of £45,000 net per annum starts in October 2025, you will require £22,500 to cover your expenditure for the rest of the 2025/2026 tax year. Of this, £5,000 will be covered by Jane's reduced earnings. The remaining £17,500 should come from the £200,000 cash released from the planned property downsize to meet this short-term need.

- We have calculated the shortfall to cover the additional travel costs and expenditure needs equates to £162,895 over for the next three tax years, as detailed in assignment.

- Over the next three tax years, £50,280 will come from a UFPLS payment from Patrick's pension of £16,760 per annum to make full use of his Personal Allowance.

- Regarding their OEIC/Unit Trusts they should only surrender £10,500 of the UK Recovery Fund and £11,000 of the Emerging Markets Growth funds for the 2025/2026 to utilize both their CGT allowances for the 2025/2026 tax years. These funds can then be put towards the £162,895 shortfall.

- The remaining funds in the UK Recovery Fund and Emerging Markets Growth funds are unsuitable as they are deemed at higher risk than their assessed low to medium approach so need to be rebalanced. In order to ensure the disposals from the required fund switch do not cause a CGT charge, this should wait until the start of the 2026/2027 tax year, in order to ensure their CGT allowances can be utilized again for this purpose.

- Given the high-risk nature of the funds, I have considered whether it is more appropriate to encash and incur the tax liability. It is possible that the monies left in these funds could fall by more than the CGT liability and if this were to be the case, Patrick and Jane would be worse off. Given the size of the
funds in relation to their overall portfolio, I would leave the funds invested and take the risk that the funds do not fall by 10% or more before the start of the new 2026/2027 tax year which would leave them in a worse financial

position.

- As the Investment Bond is less tax-efficient than their Pensions, ISAs & Unit Trusts it should be surrendered and the £85,000 can also be used towards the £162,895. They would need to consider the element of life assurance usually associated with Bonds to see if it would have an impact on the decision to surrender the bond.

- A further £6,115 should be retained in cash to meet the full shortfall over the next three tax years. A further £20,000 should also be retained in cash to account for inflation over this period.

- The ISA and pension funds should also be switched as their funds are also too high risk for their low to medium risk profile.

- These are the funds that are recommended in line with your risk profile of low to medium:

  Patrick: US Equity Tracker (ISA)
  UK Equity Tracker (Pension)
  UK Gilt & Fixed Interest
  (Pension)

  Jane: US FTSE 100 Tracker (ISA)

  Joint: UK Recovery (£31,140 – UT/OEIC)
  Emerging Markets Growth (£24,460 –
  UT/OEIC) Managed (Investment Bond)

- Jane should also switch the Cautious Managed Lifestyle fund within her Pension. Whilst this may currently match her attitude to risk, I recommend this is switched to ensure the asset allocation remains appropriate for her longer-term investment horizon.

- I have assumed that no annuity purchase is required as they will have £28,646 of guaranteed income, once their State Pensions and Patrick's Defined Benefit pension comes into payment, so can afford to take a risk in accepting a fluctuating income with the remainder of their income requirements.

- I have not considered any specific IHT-mitigation products such as Trusts as although they currently have a IHT liability and I believe their withdrawal plans will reduce the value of their assets further over time, ensuring their estates remain below the IHT threshold.

Changes to existing assets

Following the review of existing investments, other than those to be retained, I recommend that they are invested into the following products:

Patrick	
Product	**Investment Amount**
Workplace Pension internal switch	£210,000
Workplace Pension top-up (net) funded from cash released from their property downsize	£19,760
Stocks and Shares ISA fund switch	£40,000
Stocks and Shares ISA top up funded from cash released from their property downsize	£20,000

Jane	
Product	**Investment Amount**
Workplace Pension internal switch	£85,000
Workplace Pension top-up (net) funded from cash released from their property downsize	£10,616
Stocks and Shares ISA fund switch	£40,000
Stocks and Shares ISA top up funded from cash released from their property downsize	£20,000

Joint	
Product	**Investment Amount**
OEIC / Unit Trust withdrawal of £21,500 in the 2025/2026 tax year and internal fund switch in the 2026/2027 tax year	£53,500
OEIC / Unit Trust fund top up from the remaining cash funds	£86,009

Product Rationale

Pension

Patrick should invest £19,759.98 into a personal pension plan. His contribution will benefit from basic rate tax relief of 20% which is received at source and will be grossed up to £24,699.98. This will be funded from the £200,000 cash that will be released from the property downsize. If he is a higher-rate taxpayer for the 2025/2026 tax year he would also receive a further 20% tax relief.

Jane should invest £10,616 into a personal pension plan and will benefit from basic rate tax relief of 20% which is received at source and will be grossed up to £13,270. This will be funded from the £200,000 cash that will be released from the property downsize.

Pensions allow their monies to grow free of Income Tax and Capital Gains Tax. When it comes to withdrawing the monies, 25% of the fund can be taken as a pension commencement lump sum (PCLS) and will be free of Income Tax. Withdrawals in excess of the PCLS will be liable to Income Tax at their marginal rates.

Stocks and Shares ISA

Patrick and Jane should each invest £20,000 within their Stocks & Shares ISAs funded from the £200,000 of cash that will be released from the property downsize.

ISAs are a tax-efficient investment vehicle as they are not subject to Income Tax or Capital Gains Tax on withdrawals from the investment.

Joint Unit Trust / OEIC

A further £86,009 should be invested within UT/OEIC funded from the £200,000 of cash that will be released from the property downsize.

They both have an annual divided allowance of £500. Any excess dividend income will be taxable at 8.75%, based on the assumption that they remain basic rate taxpayers in retirement. Any gains in excess of their annual CGT exemption will be liable to tax at 18% if they remain basic rate taxpayers.

With further planning, it is possible to utilise future year's ISA allowances with the monies held within their Unit Trusts and OEICs.

Your Attitude to Risk

Following detailed discussions, it was established that Patrick and Jane's attitude to risk should be revised from 'adventurous' to low to medium risk. This takes into consideration their change in circumstances with Patrick's recent health issues as well as their impending retirement.

Investment Strategy & Fund Recommendations

My preferred investment strategy is a Multi-Asset approach as it is important for individuals to invest in a range of different asset classes (for example cash, gilts, corporate bonds, property and stock market-based investments). Asset classes tend to have different correlations to each other and therefore it is difficult to predict which will be the best performing asset class each year. By investing in multi-asset funds, you are not reliant on the performance of one asset class and where one asset class performs well, it will reduce the impact of an asset class that hasn't performed as well over the same time-period. By investing in a range of asset classes it will provide diversification which should reduce the overall risk of their portfolio whilst providing the potential for the target level of growth.

Whilst Patrick and Jane could adopt a single asset allocation investment approach and rebalance these funds on an ongoing basis, it would be difficult to take account of any changes in the markets as quickly as a professional fund manager. Equally, Patrick and Jane have plans to travel extensively over the next few years and may be unable or unwilling to review their investment portfolio sufficiently to take into account economic and market changes. On this basis, I have decided that the multi-asset approach is more appropriate as the fund manager is able to make an immediate decision dependent upon market conditions.

The funds I have recommended have all been assessed and are considered appropriate for their objectives. When considering whether a fund is appropriate, it is important to consider a range of factors including the fund management group, manager ability/tenure, investment processes and overall charges (Total Expense Ratio). I also recommend a number of Multi-Asset funds to offer diversification across fund manager and fund manager group.

Overall, the funds I have used meet Patrick and Jane's risk profile and are well placed to help meet their objectives of providing an income and growing capital for use in retirement. I have recommended that all the investments are invested in a range of Cautious Managed Multi-Asset funds with the exception of £50,000 within Patrick's Pension, as this money will be withdrawn over the next three tax years so will be required to fund their spending and travel plans. I recommend that this amount is held within a Cash fund within the Pension.

The £200,000 funds released from the property downsize will therefore be allocated as follows:

To meet their expenditure needs for the 2025/2026 tax year	£17,500
To top up their shortfall over 2026/2027, 2027/2028 and 2029/2030 tax years for their expenditure and holiday costs	£6,115
Excess cash to cover inflation on their expenditure and holiday costs over the 2026/2027, 2027/2028 and 2029/2030 tax years	£20,000
Net pension contribution Patrick	£19,760
Net pension contribution Jane	£10,616
ISA contribution Patrick	£20,000

ISA contribution Jane	£20,000
Top up of their unit trust/OEIC funds.	£86,009

Tax implications of surrenders and

fund switches Stocks & Shares ISAs

- Fund switches within their ISAs will be tax-free

Pensions

- Fund switches within their Pensions will be tax-free

Unit Trusts / OEIC

Capital Gains:

UK Recovery Fund	Value £42,000	Invested £18,000	£24,000 gain
Emerging Markets Growth Fund	Value £33,000	Invested £15,000	£18,000 gain

Maximum tax-free disposal this tax year after utilizing both their CGT allowances:

UK Recovery funds	£10,500
Emerging Markets Growth fund	£11,000

- Fund switches would be liable to CGT but they could each offset their annual allowance of £3,000 against any gains. They should undertake the recommended fund switches in the 2026/2027 tax year.
- Based on his expected earnings for the tax year it may be that Patrick will not be a higher rate taxpayer for this tax year depending on when he exactly retires. In this case he would pay 18% on any gain above his exemption, rather than 24%.
- For future disposals the Unit Trusts can be transferred to Jane prior to any encashments so realized gains over the CGT exemption will be subject to 18% rather than 24%.

Investment Bond

Gain	£85,000 - £55,000 = £30,000 £30,000/ 2 = £15,000
Top slicing	£30,000 / 12 = £1,250 £12,250 / 2 = £625
Jane's likely income for the 2026/2027 tax year	£14,000 + £625 = £14,625
Patrick's likely income for the 2026/2027 tax year	£26,000 + £625 = £26,625

- Any gains on the bond would be split between them as it is jointly held
- The pension contributions that Patrick and Jane are currently making will extend their basic rate tax threshold and therefore reduce the tax liability when considering encashment of the Investment Bond or Unit Trusts
- The top-sliced gain would be added to Patrick and Jane's income.
- Jane would not have any further tax liability on encashment of the investment bond due to the availability of top-slicing as she would remain within the basic rate threshold.
- Depending on Patrick's retirement date and his total income for the 2025/2026 tax year, he may have a further liability if the gain pushes his income into higher rate tax at an additional 20% on any gains.
- However, in order to definitely avoid any tax liability for Patrick, they could assign the bond to Jane prior to encashment which would remove the tax liability on Patrick and still not result in further tax liability for Jane. If this were to happen, the resulting monies could only be invested in Jane's name to avoid an associated transaction occurring and Patrick subsequently incurring a tax liability as if the assignment had never taken place.

Summary

I believe the above changes will leave Patrick and Jane suitably positioned to achieve their retirement objectives for travelling over the next few years and to generate £45,000 per annum in retirement.

Examiner Comments

This assignment requires candidates to recommend and justify how Patrick and Jane's investment portfolio should be adjusted to reflect the change in their attitude to risk. This should cover both the asset allocation and the product selection. Candidates are expected to justify their recommendations and to take into consideration of the tax implications of their suggested course of action.

The mark given to this assignment is 55.

Areas where the assignment scored highly include the following:

- Consideration has been given to the tax implications that would result from the recommended courses of action, and some calculations have been included to illustrate this.

- Assumptions have been clearly stated to justify potential levels of pension contributions and the required levels of emergency funds to meet their short-term needs.

- Explanations and justification of recommended investment strategy has been provided. ***Candidates should note that there is a wide range of investment options would be suitable for Patrick and Jane and provided these are justified in detail, this will be rewarded.***

Areas for further improvement include the following:

- More detailed explanation of the risk associated with their existing investments and a clearer assessment of why these are unsuitable.

- More detail to explain why the revised investment strategy would be more suitable would have been of benefit.

- Further technical information was required in some areas regarding taxation detailed calculations would be of benefit to demonstrate clearly how any relevant tax exemptions or allowances could be used.

- Summary is very limited and could be improved.

- References should be included to illustrate further reading or sources of information.