



Chartered
Insurance
Institute

AF8-RETIREMENT INCOME PLANNING

ASSIGNMENT 1 COURSEWORK EXEMPLAR

Summary of current circumstances

Patrick is aged 62 was recently diagnosed with a heart condition which will require ongoing long-term treatment and will retire in the next few months so that he and Jane can spend some time travelling to visit family members overseas over the next few years. Jane is aged 60 and may continue to work part-time as a physiotherapist for the next five years earning a reduced salary of £10,000 per annum (gross).

Patrick and Jane are planning to sell their current home to release funds of approximately £200,000 to provide additional income in retirement. Their home is on the market and they expect to sell this and purchase a new property with a value of £400,000 in the next few years. Patrick and Jane have always had an adventurous attitude to risk but they now believe that an investment approach in line with a low to medium risk level is necessary and would like to review their current investments, taking into consideration their change of position following Patrick's early retirement.

They estimate that their travel plans will cost £70,000 in total over the course of the next three years and will require £45,000 per annum of income throughout retirement.

Summary of current income position

Patrick currently earns £52,000 per annum (gross) and receives £900 ISA income per annum. Jane currently earns £18,000 per annum (gross) and receives £1,200 per annum from her ISA. They also receive £1,225 joint per annum in deposit interest and £710 per annum from jointly held Unit Trusts. When Patrick retires and Jane reduces her hours, their income will drop by £60,000 per annum.

Summary of Total Assets

Asset	Client 1 £	Client 2 £	Joint £
Main residence			650,000
Contents/car			55,000
Current account – Assure Bank	3,000	1,500	
Savings Account – Assure Bank			35,000
OEIC/Unit Trust holdings – UK Recovery Funds			42,000
OEIC/Unit Trust holdings – Emerging Markets Growth Fund			33,000
Stocks & Shares ISAs –US Equity Tracker Fund	45,000		
Stocks & Shares ISAs – UK FTSE-100 Tracker fund		40,000	
Investment Bond (onshore) – Managed fund			85,000
Money purchase pension plans	210,000	85,000	
Total illiquid assets			705,000
Total liquid assets	258,000	126,500	195,000
Total	258,000	126,500	900,000

Patrick and Jane's immediate objectives are as follows

- To ensure that Patrick and Jane have sufficient capital for the next three years to accommodate their travel plans.
- To ensure their existing investments and pension arrangements are suitable following their recent change in circumstances.

Strengths of their current financial position

- They have a substantial wealth of approximately £1,479,500 of which £579,500 is held in liquid assets.
- They have no outstanding liabilities.
- They don't appear to have any protection needs.
- Their children are no longer financially dependent on them.
- Both have sufficient NI record for State Pensions which will become payable from age 67 and will provide a guaranteed income along with some inflation-proofing.
- Patrick has a Defined Benefit pension which comes into payment from age 65. This will also provide a guaranteed inflation-linked income and also includes a 50% spouse's pension.
- Savings interest received from their joint deposit holdings is within Jane's personal savings allowance of £1,000 and will not therefore be subject to tax. As Patrick is a higher rate taxpayer his half of the deposit interest will go over his personal savings allowance of £500 as it currently stands. However, depending on when he retires, he may be a basic rate taxpayer for the 2025/2026 tax year which would provide a personal savings allowance of £1,000

- They each hold monies in ISAs which are tax-efficient as the gains are free from CGT. The dividends received from their Unit Trusts are joint and each half falls within their £500 dividend allowances.
- They don't appear to have utilised their CGT or ISA allowances for this tax year
- Both are currently contributing to pensions which will provide basic rate tax relief for Jane and higher rate tax relief for Patrick. Pensions are tax-efficient as the growth within the pensions will be free of CGT and Income Tax. The pension will also provide the option to take tax-free cash of 25%.
- Due to their future spending plans, both for the next 3 years and also during retirement, it is unlikely they will have an IHT liability going forward although they will have a liability of £191,800 at present. This is on the basis that the death benefits from their personal pension plan will be subject to IHT in line with the proposed legislative changes which are due to come into force in future years.
- They don't appear to have accessed benefits flexibly so are not constrained by the Money Purchase Annual Allowance (MPAA), so both can maximise pension contributions for this tax year
- In future tax years Patrick can contribute £3,600 gross and Jane can contribute £10,000 gross to a pension.

Weaknesses of their current financial position

- The house sale may not proceed, which would reduce their liquid capital or they may have to consider alternatives such as equity release
- They have limited guaranteed income in retirement, both State Pensions and pension from Patrick's Defined Benefit pensions will only provide approximately £28,646 which is less than their desired £45,000 per annum.
- Both State Pensions will commence at age 67 which doesn't match either of their selected retirement ages.
- They do not expect to receive any further inheritances.
- Patrick may not have earned enough to receive higher rate tax relief on pension contributions for the 2025/2026 tax year depending on when he retires.
- They currently have an IHT liability as their estate value is £1,479,500, which is in excess of their combined nil rate bands and residence nil rate bands that total £1,000,000.
- Their overall ISA & Unit Trust asset allocation does not meet their attitude to risk.
- Their overall ISA & Unit Trust asset allocation does not offer sufficient diversification

Objectives

1. Fund travel plans for next 3 years

Annual Income for next 3 years:

Patrick will have no salary once he retires. He will start to receive his pension from this Defined Benefit pension plan within three years when he is aged 65.

Assuming Patrick's required retirement expenditure of £45,000 net per annum starts in October 2025, they 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 funds retained in cash as it is a short-term need.

From the start of the 2026/2027 tax year, we need to consider their income shortfall and planned holiday expenditure for the next 3 years.

Jane's earnings:	£10,000 x 3 years = £30,000
Income from Savings and Investments:	£4,035 x 3 years = £12,105
Total income:	£42,105

Their total expenditure over the next three years will be as follows:

Travel costs over the next three years:	£70,000
Retirement expenditure over the next three years	£45,000 x 3 years = £135,000
Total expenditure:	£205,000

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

Pensions

Patrick currently earns £4,333.33 per month. These payments will utilise his personal allowance and therefore any flexible pension amounts taken in excess of 25% will be liable to tax under PAYE.

At the start of the 2026/2027 tax year Patrick will be a non-taxpayer and his full personal allowance will be available for approximately the next three tax years until his Defined Benefit pension comes into payment. It would be beneficial to withdraw monies from his pension to utilise his available personal allowance of £12,570. Withdrawals from pensions are typically 25% tax free and the remaining 75% is taxable under PAYE. I would recommend this is done via UFPLS to ensure he crystallises less of his overall benefits. In order to achieve an amount equal to his personal allowance he would require a lump sum of £12,570. He would need to crystallise approximately £16,760 each year, which would provide £50,280 of their required shortfall for the next three tax years.

As Patrick is currently planning to retire, he would do this from next tax year. A disadvantage to taking UFPLS payments for Patrick is that the Money Purchase Annual Allowance will be triggered, so he will be restricted to an annual allowance of £10,000 per annum gross going forward, subject to earned income.

Patrick would also need to check with his pension provider to ensure they allow benefits to be accessed flexibly. Any amount above this should be left in his pension for future years.

As Jane will continue to have earnings of £10,000 per annum for the next 5 years, she has limited scope to do this but could do the same for the £2,570 remaining of her personal allowance by utilizing a UFPLS payment of £3,426.67. However, as Jane is still contributing to the workplace scheme though, it is unlikely to be an option available for her so pension should be left in situ for the moment.

Investment Bond

As the Investment Bond is less tax-efficient than their pensions, ISAs & unit trusts it should be surrendered and the £85,000 can be used towards their shortfall. There will be no further tax to pay on surrender as covered in the second objective section. It could be used for 5% tax-deferred withdrawals which would equate to £4,250 per annum. However, the funds are required now to meet their shortfall over the next three years.

Patrick is a higher rate taxpayer, but he may be a basic rate taxpayer depending on when he actually retires for the 2025/2026 tax year. If he does remain a higher rate taxpayer for the 2025/2026 tax year the investment bond should be assigned into Jane's sole name prior to surrender. This means there will be no tax charge on surrender of the investment bond after accounting for top-slicing.

The small element of life assurance usually associated with Bonds is not a valuable form of life cover and would have no impact on the decision to surrender the bond.

Unit Trusts

Their unit trusts are less tax-efficient than their ISAs, so they should consider these funds next to meet this shortfall. These funds were purchased with a lump sum of £18,000 in the case of the UK Recovery Fund and £15,000 in the case of the Emerging Market Growth Fund. This leaves a gain of £24,000 and £18,000 on each OEIC. They each have a £3,000 CGT allowance they can utilize against these holdings.

For the OEIC/Unit Trust holdings – UK Recovery funds they could surrender 25% within their CGT exemptions, which would provide £10,500.

For the OEIC/Unit Trust holdings – Emerging Markets Growth fund they could surrender 33.34% within their CGT exemptions, which would provide £11,000.

These withdrawals will utilise both of their CGT exemptions for the 2025/2026 tax year.

Patrick Pension:	£50,280
Investment Bond	£85,000
Unit Trust withdrawal	£21,500
Total:	£156,780

There will be short by £6,115 to meet the £162,895 shortfall, but assuming they can release £200,000 from the property downsize, they will have cash assets in excess of their emergency fund requirements to meet the full shortfall.

This course of action would reduce their liquid assets to approximately £416,605 to use towards future retirement income planning. Assuming the house sale went ahead, it would free up an additional £200,000, which would increase their liquid assets again to £616,605. Patrick should still access his pension to ensure he maximises his personal allowance when taking withdrawals as he will lose this opportunity in the future when his Defined Benefit and State Pension come into payment. The remaining shortfall could be then taken from their ISA funds, and remaining pensions.

I'm not sure whether inflation has already been factored into Jane's salary or their £70,000 travel plan funds. Equally I am unsure if their annual income requirements will need to increase with inflation. I have not increased the figures by inflation but any excess due to inflation could be taken from their cash deposit accounts.

Their liquid assets could provide a relatively safe rate of return of 3.5% per annum to generate an annual income of just under £21,581.18 before tax, but this does not account for investment growth of these assets, which may ensure a higher level of income is provided.

2. Ensure existing investments remain appropriate following change in circumstances

Due to Patrick's health condition and planned retirement, they feel it is no longer appropriate to take an adventurous risk approach with their portfolio. They now believe that a more cautious investment approach is necessary. With this in mind, I would make the following comments:

Patrick

- The US Equity Tracker ISA does not offer sufficient asset diversification. This fund is high risk and does not match his revised attitude to risk. This fund should be switched to an appropriate fund with the correct risk and asset allocation.
- The Group Personal Pension UK Equity Tracker fund that comprises 50% of the pension, does not offer sufficient asset diversification. This is too high risk and does not match his revised attitude to risk. This fund should be switched to an appropriate fund with the correct risk and asset allocation.
- The Group Personal Pension UK Gilt & Fixed interest that comprises 50% of the pension also does not offer sufficient asset diversification. This is probably too low risk even for his revised low to medium attitude to risk. This fund should be switched to an appropriate fund with the correct risk and asset allocation.

Jane

- The UK FTSE 100 Tracker ISA does not offer sufficient asset diversification. This fund is high risk and does not match her revised attitude to risk. This fund should be switched to an appropriate fund with the correct risk and asset allocation.
- The Group Personal Pension Cautious Managed Lifestyle fund is sufficiently diversified and matches her attitude to risk. The investment approach is appropriate regardless of whether she purchases an annuity or takes flexible benefits from her pension. However, this fund should be

considered in more detail in respect of the correct level of risk and asset allocation.

Joint holdings

- UK Recovery Unit Trust does not offer sufficient asset diversification. This fund is high risk and does not match their revised attitude to risk. This fund should be switched to an appropriate fund with the correct risk and asset allocation.
- The Emerging Markets Unit Trust does not offer sufficient asset diversification. This fund is too high risk and does not match their revised attitude to risk. This fund should be switched to an appropriate fund with the correct risk and asset allocation.
- Investment Bond Managed fund is sufficiently diversified, but it may not match their revised attitude to risk. They should consider switching to an appropriate fund with the correct risk and asset allocation.

Tax considerations

- Fund switches within their ISAs and pensions will be tax-free.
- They can apply their CGT exemptions to any capital gains on their joint OEIC/Unit Trusts if they dispose of funds or make fund switches.
- As Jane is currently a basic rate taxpayer, she will pay 18% on any gains made in excess of their CGT exemption on encashment of the Unit Trusts. Patrick as a higher rate taxpayer, will pay 24% as it currently stands.
- The investment bond has tax deducted at source and therefore is not as tax-efficient as the pensions, ISA or Unit Trusts.
- Any gains on the Investment Bond would be split between them.
- Jane would not have any tax liability on encashment of the Investment Bond due to the level of gains and the availability of top-slicing as she is a basic rate taxpayer.
- As Patrick is currently a higher rate taxpayer, he will pay 20% on any gains and will not have top-slicing available, but he may be a basic rate taxpayer overall, for the 2025/2026 tax year depending on exactly when he retires.
- Otherwise, it is possible to assign the Bond to Jane prior to encashment which would remove the tax liability on Patrick.
- The pension contributions that Patrick and Jane are currently making will extend their basic rate tax threshold and potentially reduce the tax liability when considering encashment of the Investment Bond or Unit Trusts

Overall summary

On balance, I feel Patrick and Jane have adequate provisions to meet their immediate objectives without jeopardizing their longer-term objectives. They could achieve their immediate objectives even if the house sale doesn't go ahead in the next few years and still have sufficient assets to provide for their longer-term retirement objectives. This assumes that the house sale happens at a later date or they use equity release. Obviously, their income requirements both now and in retirement would reduce the amount of assets that are available for their beneficiaries to inherit.

Examiner Comments

The assignments cover the retirement income planning process and take into consideration all assets to achieve the income goals of the clients throughout retirement.

This particular assignment is focused on the initial assessment of the client's current arrangements to meet their immediate needs and objectives and asks candidates to analyse any strengths and weaknesses in Patrick and Jane's current arrangements.

The mark given to this assignment is 58.

Areas where the assignment scored highly include the following:

- There is a clear and concise review of their current financial position including their income from all sources and identification of liquid and non-liquid assets
- There is a detailed exploration of the strengths and weaknesses in their current arrangements.
- Consideration has been given to tax-efficiency and interaction with tax allowances e.g. the Money Purchase Annual Allowance.
- Consideration has been given to the suitability of their individual pension and investment funds following their change in circumstances.
- Attention has been given to Patrick and Jane's other objectives and the interaction of these various objectives in their longer-term planning strategy.

Areas for further improvement include the following:

- A cashflow illustration or more detailed calculations could have been included to demonstrate the adequacy of their current arrangements to meet their objectives.
- The technical information could be better explained, supported by appropriate calculations.
- Some references or suitable examples should have been included to demonstrate further reading, e.g. HMRC regulations on the Money Purchase Annual Allowance.
- Structure could have been enhanced through use of tables and visual representations, i.e. graphs, pie charts.