

## How did the Wizard Learning AF5 Expected Solution compared with the CII Model Answer for the February 2022 exam?

Candidates are provided with a factfind on a fictitious client or clients two weeks prior to the AF5 exam. The factfind contains details of the clients' personal and financial situation.

No information is provided as to the clients' financial objectives; these are only made available on the day of the exam. Typically, clients will have between five and seven objectives, split between immediate and longer-term financial wants and needs.

The exam paper sets EIGHT tasks related to the client's objectives, and some of these tasks may be broken down into parts requiring separate responses. The marks available for each task or part of a task are indicated next to the question.

The total marks available for AF5 are 160 and the nominal pass mark is 55% (the actual pass mark may vary from one session to another to ensure consistency in pass standards).

Based on the information contained within the pre-released factfind, and on a comprehensive breakdown and analysis of what has appeared in past AF5 exam papers, professionals at Wizard Learning use their vast knowledge, experience and skills to predict the content and style of the eight tasks that will be set and provide model answers for them, including any calculations that we believe may be useful.

We cover a wide range of possible options in relation to the predicted objectives to give you the best chance of a pass at the first attempt.

### HOW DID WE DO?

This is an invaluable resource for students preparing for this examination, but the proof of the pudding is in the eating, so let's look at how accurate our predictions were for the February 2022 AF5 exam. First, let's look at the case study scenario given to students.

### Case study

- Alan and Lydia Potter, both aged 35 are in good health, and have a daughter Amy (7) and a son Jacob (5), who are both at school.
- They set up a new limited company in November 2021- AQ Pack Ltd – both are directors, and have appointed you to provide financial planning advice to ensure a secure financial future for the family.
- They have not yet drawn any salaries from the new company and do not intend to take any for another few months, as they intend to rely on their savings to fund their monthly expenditure, which is currently almost £3,500pm including everything.
- They have not set up any company benefits or pension scheme for the new company yet.

- The company has received orders, and profits are forecast to be £80,000 for the first year and around £200,000 pa within 3-4 year. They don't intend taking on employees yet.
- Alan and Lydia rent their office space for £1,000 pm, with the option to purchase the premises for £220,000.
- Their home, which they own jointly, is worth £425,000, with a repayment mortgage of £200,000 outstanding - 18 years remaining. Their two-year fixed rate expired in July 2021 and they are currently on the lender's standard variable rate of 3.5% variable. They are keen to switch to another fixed rate with the same lender. They have no other loans or liabilities.
- They have a joint life first death decreasing term assurance policy taken out with their mortgage, also with 18 years remaining. This costs £28pm and has no Critical Illness cover included. They have no other health policies
- They have £15,000 in a joint current account and £120,000 in a joint deposit account, which is money Alan inherited from his late uncle last year. This money was kept on deposit with a view to funding the set-up of their new company, but as they already have contracts, some of this money will be available to invest, once the company has a stable positive cashflow.
- They each have £20,000 in cash ISAs, and they both have Stocks and Shares ISA investments – Alan's is worth £45,000 invested in UK sustainable funds (accumulation units), and Lydia's is worth £60,000 invested in Global Growth funds (accumulation units). Their ISAs are held with a range of individual fund managers and they are happy with their performance, although they are keen to invest in a wider range of funds in the future.
- Prior to setting up their new company, Alan worked for 12 years as a senior designer, leaving on a salary of £70,000pa gross. He was a member of his ex-employer's group personal pension, invested in a UK Cautious Managed Fund (60%) and a Sterling Bond Fund (40%). His fund is worth £95,000.
- Lydia's was with her previous employer for 10 years, leaving on a salary of £65,000pa gross. She was a member of her ex-employer's group personal pension, invested in a Global Fixed-Interest Fund (70%) and a UK Gilt Fund (30%). Her pension is worth £80,000.
- Neither Alan nor Lydia are happy with the performance of their existing pension funds and are keen to look at other investment options.
- Neither Alan nor Lydia has checked their State pension entitlement.
- Alan and Lydia recently set up Mirror Wills leaving their assets to the survivor on first death, with all remaining assets on second death going into trust for Amy and Jacob if they die before the children reach 18. They have appointed Lydia's sister as guardian for the children in the event of both deaths.
- Both Alan and Lydia's parents are in good health and they do not expect to receive any further inheritances for many years.
- They have each completed a risk profiling assessment and have been identified as adventurous investors, but they do not have a high capacity for loss at present.
- They are interested in including some ethical investments in their portfolios.

We thoroughly considered the given scenario and the financial planning process and identified a wide range of possible tasks and questions that could be asked. For each of the possible questions within each area we also provided detailed answers. Not only does this indicate the areas you should be considering for the couple and their expected objectives, but also areas where you may need to carry out focused revision or extend your knowledge.

Now let's look at how our predicted questions and answers compared to those in the actual exam.

### **Task 1**

- (a) Identify the additional information that you would require in order to advise Alan and Lydia on the suitability and tax-efficiency of their current financial arrangements (12 marks)*
- (b) Explain to Alan and Lydia the reasons why their current employment position may pose a risk to their future financial objectives (10 marks)*

We correctly predicted the first part of this question and provided responses capable of earning full marks. We did not predict the second part of Task 1.

### **Task 2**

- (a) Identify the key issues that should be addressed by Alan and Lydia to ensure that their protection needs are met both now and in the future (10 marks)*
- (b) Recommend and justify suitable individual protection policies that Alan and Lydia could set up in a tax-efficient manner through their new company to provide life cover for the surviving spouse in the event of either death (12 marks)*

We predicted the first part of this task, and although we worded the question differently, we provided enough relevant responses to attain full marks.

We also provided a 'recommend and justify' question that included advice to take a Relevant Life Policy, and a further question asking students to explain the benefits of setting up protection policies via their new company instead of on a personal basis. In all, our responses were possibly capable of earning all 12 marks for this part of task 2.

### **Task 3**

- (a) Explain to Alan and Lydia four key benefits and four key drawbacks of switching their current mortgage to a new five year fixed-rate mortgage (8 marks)*
- (b) Explain to Alan and Lydia how they could use their pension funds to purchase the commercial property and the benefits of this course of action (12 marks)*

We asked students to explain why Alan and Lydia should consider fixing their mortgage rate for a further period of years with the same lender, so the response we provided was mostly benefits. Therefore, it would have been possible to score 4 of the 8 marks available.

With regard to the second part of this task, we asked students to identify the benefits and drawbacks for Alan and Lydia of using a SIPP/SSAS to purchase the commercial property

rented by AQ Pack Ltd. Our response provided around 10 of the 12 points needed to score full marks.

#### **Task 4**

*(a) Explain to Alan and Lydia the benefits of using a Discretionary Fund Manager and how this could assist them in making future Environmental, Social and Governance (ESG) investments (10 marks)*

*(b) Explain to Alan and Lydia the key reasons why they should consider making regular monthly investments, rather than a lump sum investment, based on their current situation (10 marks)*

Unfortunately, we did not predict either part of task 4.

#### **Task 5**

*(a) Identify the key aspects of Alan and Lydia's financial circumstances that should be taken into consideration when carrying out a stress-test of their current position (12 marks)*

*(b) Recommend and justify a range of suitable actions that Alan and Lydia can take in respect of their existing pensions, savings and investments to improve the prospects of meeting their objective of retiring at age 60 (14 marks)*

We did not predict part (a) of this task, but we provided questions that required analysis of various aspects of this couple's current situation, and there were responses within our solution that may have provided inspiration for this question.

We accurately predicted part (b) of this question and provided answers capable of earning full marks.

#### **Task 6**

*(a) Recommend and justify how Alan and Lydia could draw a tax-efficient income from their company to meet their family's ongoing expenditure requirements (12 marks)*

*(b) Explain to Alan and Lydia how the shares in their company would be treated for tax purposes in the event of their deaths (7 marks)*

*We provided a similar question to part (a) of this task, with responses worthy of 9 of the 12 marks available.*

*With regard to the second part of this task, our question asked students what would happen to Alan and Lydia's shares in the new company if both of them died. Our response to this was sufficient to score 4 to 5 of the 7 marks available.*

#### **Task 7**

*(a) Explain to Alan and Lydia why their existing range of investment funds within their pension policies may be unsuitable for their objectives (10 marks)*

*(b) Outline the key issues that Alan and Lydia should consider before making any changes to their existing pension arrangements from their former employers (7 marks)*

We correctly predicted part (a) of this question, and along with our analysis of the different risks Alan and Lydia may face, we provided enough points to score all 10 marks. For part (b) we asked students to outline the factors they would consider when recommending fund switch within Alan/Lydia's group personal pensions/ISAs. Our responses to this question would have been enough to score around half (3 or 4) of the 7 marks available.

### **Task 8**

*(a) Outline the key reasons why Alan and Lydia could consider investing a portion of their cash savings, rather than using this to pay off some of their mortgage (8 marks)*

*(b) Identify six key issues that you would discuss with Alan and Lydia in respect of their protection arrangements at your next annual review meeting (6 marks)*

We asked students to provide benefits and drawbacks of using some of Alan's inheritance to repay some of their mortgage, and so the drawbacks provided in the response would have matched perhaps 3 or 4 of the 8 points expected for part (a).

Our review question was more than adequate to score full marks for part (b).

### **Conclusion**

Here at Wizard Learning, we acknowledge that we will never be able to predict the exact questions the CII will ask in the exam, but we anticipate that by using our Expected Solution a student would have scored sufficient marks to pass.

We provided enough relevant points for the February 2022 sitting to score around 100 marks out of 160, but this is comparing our solution with only the stated answers in the CII Exam Guide. It is possible that some of the other points we made would have earned marks, so we estimate this this solution could have helped student score around **63%**

The overall aim of the Wizard Learning AF5 Expected Solution is to:

- Highlight the most likely areas that questions will be derived from
- As far as possible predict the questions that are likely to be asked plus a range of possible alternative questions covering different aspects of financial planning
- Provide a range of possible additional generic questions relating to the provision of financial advice
- Give detailed answers in a format that will allow you to score highly to make you confident of achieving a pass at the first attempt.

However well we predict the content of your AF5 exam, there is no substitute for adequate preparation. Our advice is to use our Expected Solution, review the CII past papers and model answers, revise your knowledge and understanding in areas of weakness and keep up to date with developments in the industry and announcements in the media.

Also remember that the published CII model answers are not the only answers that would score highly, there are often alternatives. In the exam, if you have additional information above the number of points being awarded for the question, and it is **still relevant** to the question being asked, include them – there is no negative marking. In this way, you are giving yourself the best possible chance of a high score for the question and constantly moving closer to a pass.