How did the Wizard Learning AF5 Expected Solution compare with the CII Model Answer for the October 2021 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 October 2021 AF5 exam. First, let's look at the case study scenario given to students.

Case study

- Jim and Sandra Harris are married, both aged 63 and in good health. They have one daughter, Anna (41) who is married with three children (aged 7, 11 and 13)
- Jim has worked for his current employer for 20 years as an engineer, and currently earns a salary of £62,000pa gross
- He is a member of his employer's group personal pension scheme, contributing 5% of his salary/his employer contributing 9%. The fund is worth £720,000 and is split equally between UK growth funds and European growth funds
- Jim was also a member of his former employer's defined benefit scheme, from which he expects to receive £15,200pa gross from age 65. This plan is contracted in, indexed in payment and provides a 50% spouse's pension. He does not wish to transfer this pension, but wants to know the risks and benefits of this type of pension fund

- Jim's State pension entitlement is forecast to be £11,500pa at his SRA
- Sandra has been employed as a medical researcher for 10 years, currently earning a salary of £43,000pa gross
- Sandra is a member of her employer's group personal pension scheme, contributing 5% of her salary/her employer contributing 6%. The fund is worth £280,000 and 60% is invested in UK FTSE-All Share tracker and 40% in global REITs. Sandra transferred funds from a former GPP scheme and has no other pension arrangements
- Sandra's State pension entitlement is forecast to be £10,200pa at her SRA
- Jim and Sandra plan to retire in two years time, but both of their employers are willing to continue to employ them on a part-time basis
- Jim's DIS benefit is £186,000/Sandra's £129,000, both nominated to each other
- Other than their salaries, their only other income is £3,250pa dividend income for Jim and £3,625 dividend income for Sandra from their respective unit trust holdings. Jim has £130,000 invested in UK equity income funds and Sandra has £145,000 invested in UK FTSE tracker funds
- They each have stocks and shares ISAs and have used this year's allowance. Jim has £170,000 invested in European and Asian equity funds, and Sandra has £155,000 invested in UK Growth fund and US equity tracker fund. Their dividends are reinvested and they are happy with the capital growth on their ISAs
- They both have Premium Bonds – Jim has £50,000 and Sandra has £30,000 – and they wish to keep these investments
- Jim and Sandra have £3,000 and £5,000 respectively in current accounts, and £80,000 in a joint 1-year fixed rate deposit savings account
- They have a further £250,000 in an NS&I Direct saver account which is the sale proceeds of their holiday home in Spain. There is no further tax liability on this money, and Jim and Sandra want to use this to help achieve their retirement objective and to fund their grandchildren's university education They have stated they want to make a gift of £120,000 for this purpose
- Their house is worth £650,000, held as tenants in common and mortgage-free. They are considering down-sizing to something smaller
- Jim and Sandra have completed risk-profiling and have a medium attitude to risk, with a high capacity for loss. They do not have any strong ethical concerns
- They have mirror wills, to each other then to Anna, and they already utilise their IHT annual gift allowance to Anna each year. No inheritances are expected

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 Jim and Sandra on the suitability and tax-efficiency of their retirement planning arrangements. (12)
(b) Explain the factors that should be taken into consideration when identifying a suitable level of emergency fund for Jim and Sandra. (12)

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) Outline the key issues that Jim and Sandra should consider when making a decision to downsize their current property in order to provide additional funds in retirement. (10)
(b) Explain to Jim and Sandra how their entitlement to the Residence Nil Rate Band (RNRB) would be treated after downsizing their property. (6)

We predicted there would be questions on downsizing but we focused on the effect on the RNRB, including if the property passed into trust. Nonetheless, we provide sufficient information on this issue for students to earn perhaps 8 of the total 16 marks available for Task 2.

Task 3

Jim and Sandra wish to explore their investment options for their surplus cash funds.
(a) Recommend and justify why Jim and Sandra might consider using a range of Multi-Asset funds to invest some of their current cash holdings. (10)
(b) Explain the drawbacks for tax purposes if Jim and Sandra make additional investments into a range of collective investment funds. (9)

We provided a number of questions relating to funds, not specially multi-asset funds, although we did ask students to evaluate the suitability and tax efficiency of Jim and Sandra's current savings and investments, and how they could be improved. The responses we provided to this question included reference to their surplus cash funds and would have been adequate for students to give a decent response to part (a) of this task. There was also enough information in the responses to the fund-related questions we provided for students to capture probably half of the marks available for part (b).

Task 4

(a) Explain to Jim and Sandra why retaining the risk-based assets within their pension and investment portfolios throughout retirement may be suitable. (10)
(b) Explain to Sandra why her investment in the Global Real Estate Investment Trust (REIT) fund within her pension is likely to be more suitable for her needs than a traditional UK commercial property fund. (7)

We expected the exam to ask students about the couple's pension funds so we provided commentary on their suitability in the context of their retirement aim, but we did not predict the questions posed in Task 4. Students may still be been able to score a handful of marks from the information/hints given about funds and fund choices in general in this solution.

Task 5

Jim and Sandra are aware that their pension arrangements offer multiple tax benefits. Jim is concerned that he could be potentially subject to lifetime allowance tax charges on his pension benefits.
(a) Explain in detail to Jim why he may be subject to a lifetime allowance charge and outline the reasons why he may not be eligible for any protection. (10)
(b) Explain to Jim and Sandra how each of their pension arrangements will be treated in the event of their deaths after retirement at age 65. (12)

We correctly predicted a question like part (a) of Task 5 and provided a response capable of earning all 10 marks.
We also predicted that students would be questioned on the death benefits from their respective pensions and provided more than enough responses to score full marks for part (b).

Task 6

(a) Explain to Jim and Sandra the key issues they should consider when identifying an appropriate level of withdrawals from their personal pension plans and investments. (12)
(b) Identify the factors that Jim and Sandra should consider when assessing the suitability of Jim's Defined Benefit pension scheme in their long-term retirement planning. (12)

We provided a question asking students to detail the process and adviser would follow to establish if Jim and Sandra's pension and investments are likely to be sustainable throughout retirement, and our responses to this question provided sufficient information for a student to have scored 9 or 10 of the 12 marks available for part (a) of Task 6.
We asked students to outline the key drawbacks for Jim of transferring his deferred defined benefit scheme to a personal pension arrangement, and again our responses to this question were similar to those expected for part (b), scoring around 9 of the 12 marks available.

Task 7

(a) Recommend and justify a suitable protection policy that Jim and Sandra should consider setting up for Inheritance Tax purposes if they decide to make the gift of £120,000 to their grandchildren. (12)
(b) Identify the key reasons why Jim and Sandra might consider using an onshore investment bond to meet their own capital and income needs, as well as enabling them to make tax-efficient gifts to their grandchildren in the future. (12)

We correctly predicted part (a) of this question, asking students to explain why setting up a whole of life policy with reviewable premiums may be a suitable option to assist Jim and Sandra in their inheritance tax planning objective, with a full answer. We also provided a similar question to part (b) with more than enough points to score full marks.

We also correctly predicted part (b) of this task, providing a 9 point response.

<u>Task 8</u>

(a) Explain to Jim and Sandra why they should consider updating their pension nominations as soon as possible. (8)
(b) Identify six key issues that you would discuss with Jim and Sandra in respect of their retirement planning at your next annual review meeting. (6)

We did not predict part (a) of Task 8, but we correctly predicted part (b) of this question and provided a full response.

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 October 2021 sitting to score around 106 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 **67%**

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
- Most importantly 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.