How did the Wizard Learning **R06** Expected Solution compare with the CII Model Answer for the January 2023 exam?

Candidates are provided with **two** different, totally unrelated case studies about fictitious clients two weeks prior to the R06 exam. You are not given full fact finds on these clients, but instead a summary of their current circumstances and a list of their financial objectives – usually three objectives for each case study, although it is sometimes two and sometimes four.

The questions you can expect to be asked in the exam will largely be centred around the stated objectives, although there will be other information in the case study that the Examiner may ask a question about, such as their current fund choices, or the tax treatment of an investment they hold.

Based on the information contained within the pre-released case studies, and on a comprehensive breakdown and analysis of what has appeared in past R06 exam papers, professionals at Wizard Learning use their vast knowledge and experience to try and predict the content and style of the questions that will be set for each case study.

The R06 Expected Solution provides you with - for both case studies - a wide range of possible questions that may be asked in the exam covering all aspects of the client's circumstances, along with possible responses to those questions and any calculations that we believe may be useful.

We don't always predict the exam questions that are presented on the day, but we often predict *similar* questions with responses close enough to earn the available marks, or some of them. Some questions require a little thinking outside the box, so we try to do the same and provide some not so obvious questions and answers for you to consider. Overall, from the selection of questions we include in our R06 Expected Solution, we regularly predict a good proportion of the topics around which the actual exam questions are based.

The total marks available for R06 are 150 over the two case studies (not always 75 marks per case study – sometimes the marks are split 74/76, or 73/77). The nominal pass mark is 55% (the actual pass mark may vary from one session to another to ensure consistency in pass standards), and the latest CII figures show that the pass *rate* (the % of those sitting who pass) is 78%.

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 January 2023 R06 exam.

Case study 1

- Jim and Carol, both aged 62, are married and are planning to retire in six months' time. They have two adult children aged 35 and 32 and one grandchild. Jim and Carol do not mention their health, but have both recently stopped smoking.
- Jim is employed as a staff manager earning a gross salary of £62,000pa. He is a member of his employer's workplace pension scheme, contributing 7% of his gross salary with his employer contributing a further 7%. Jim is expecting a bonus of £6,000 before he retires and is considering investing this into his workplace pension. His plan is worth £340,000 and is invested in a UK equity fund and global equity fund.
- Carol is employed as a recruitment officer, earning £75,000pa gross. She is also a member of her employer's workplace pension scheme and contributes 5% of her gross salary, and her employer contributes a further 7%. Her pension is worth £280,000 and is invested in a fixed interest fund.
- The couple own their home, worth £650,000 as joint tenants with no mortgage.
- Carol's father died recently and as sole beneficiary she is due to receive an inheritance of £200,000.
- Jim and Carol set up a joint life, last survivor whole of life policy a few years ago as they were concerned about their potential IHT liability, and this policy is due for its first review later this year.
- They have a joint current account with a balance of £10,000, and each have cash ISAs – Jim has £30,000 in his, and Carol has £70,000 in hers.
- They also each have stocks and shares ISAs – Jim's is worth £220,000 and is invested in a UK smaller companies funds, and Carol's is worth £170,000 and is invested in a money market fund. They have not used their ISA allowances for the current tax year.
- In addition, Jim holds an OEIC investment worth £100,000 invested in a UK fixed interest fund, and Carol holds individual bank shares worth £75,000 inherited from her mother a number of years ago. They believe these investments may not be suitable for them once they have retired.
- Jim and Carol have up to date wills and LPAs, and want as much of their estate as possible to be passed to their children on second death.
- Jim and Carol consider themselves to be medium to adventurous risk investors, and believe they have sufficient capacity for loss to invest in risk-based assets throughout retirement. They have no immediate desire to invest in ESG investment.

Their financial aims are to:

- ensure that they have an adequate income in retirement
- review the suitability of their investments in advance of their retirement
- consider a range of options in respect of Carol's inheritance and to review their potential inheritance tax liability

Questions

(a) State the additional information that a financial adviser would require to enable them to advise Jim and Carol on how they could generate an adequate income in retirement. (14 marks)

We accurately predicted this question and provided an answer response capable of earning 11 of the 14 marks.

(b) Identify the key factors that Carol should consider before deciding whether to encash or retain her inherited portfolio of UK Bank shares. (12 marks)

We asked students to comment on the tax-efficiency and suitability of Jim and Carol's current investments and the responses we provided included some statements about the suitability of the bank shares. We did not ask students to identify the key factors to consider before deciding whether to encash or retain the shares, but students could have earned approximately 6 marks for this question from the information given.

(c) Explain in detail to Jim and Carol why they might wish to consider investing some of Carol's inheritance into each of their workplace pension schemes. (12 marks)

We did not predict a question about using the inheritance to boost workplace pensions, but we did ask students to state the benefits for Jim of investing his £6,000 bonus into his workplace pension before he retires, the answers to which were similar. Our question would have helped a student to score around 9 of the 12 marks for this question,

(d) Explain to Jim and Carol why the UK fixed interest funds held by Jim's OEIC may not be suitable in helping to meet their retirement objectives. (10 marks)

We did not predict this question, but elsewhere in the solution we commented on the lack of diversification / concentration risk and incompatibility with ATR with regard to the fixed interest OEIC holding. It is reasonable to assume 3 of the 8 would have been scored.

(e) Recommend and justify a range of actions that Jim and Carol could take to assist in reducing their potential Inheritance Tax (IHT) liability on second death, if they choose to cancel their existing Whole of Life (WOL) policy. (14 marks)

We asked a very similar question to this and provided a very comprehensive response, possible capable of helping a student to score possibly 12 of the 14 marks available.

(f) Recommend and justify the actions that Jim and Carol could take to improve the tax-efficiency for Income Tax and Capital Gains Tax purposes, of their existing financial arrangements. (10 marks)

We asked students to recommend and justify the actions that Jim and Carol could take to ensure that they will be able to generate a tax-efficient and sustainable income from all of their pensions and investments throughout retirement. The answers we provided relating specifically to income tax and capital gains tax were sufficient to enable a student to score almost full marks, taken together with the question we supplied on the suitability for them of Enterprise Investment Schemes.

[Approximately 50 out of 72 available points. 69%]

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Case study 2

- Jenny is 48 and recently divorced from Faizal with an agreed financial settlement. Jenny and Faisal have one daughter, Sasha, aged 17. Sasha and Jenny live in the family home which Jenny received mortgage-free as part of the divorce.
- In addition to the home, which is worth £400,000, Jenny received a lump sum of £175,000 – her share of marital assets – but she is to receive no maintenance from Faizal.
- Jenny was also awarded a pension-sharing order in respect of Faizal's defined contribution pension scheme. She is entitled to 50%, which is worth £180,000.
- Jenny recently returned to full time employment, on a salary of £46,000pa gross.
- She is a member of her employer's workplace pension contributing 5% of her gross salary to the scheme, matched by her employer. This pension is worth £115,000 and is invested in a cautious managed fund. There are no other workplace benefits.
- Sasha is planning to go to university next year and Jenny is considering the merits of funding a portion of her tuition fees and living expenses to avoid student loans.
- Jenny is reviewing her protection needs. Prior to the divorce she was covered under Faizal's employer's group PMI policy but this only continues to cover Sasha until she leaves university.
- Jenny is a cautious to medium risk investor with a moderate capacity for loss, with no concerns in respect of ESG investments
- She has £15,000 in her current account, £175,000 (divorce settlement) in her deposit account, a cash ISA with a balance of £45,000, a stocks and shares ISA worth £48,000 (UK tracker fund), and £25,000 in NS&I premium bonds.

Jenny's financial aims are to:

- Ensure her protection arrangements are adequate for her needs;
- Consider investment options following the divorce settlement;
- Execute the pension sharing order.

Questions

(a) Explain to Jenny the reasons why her current level of cash holdings may be unsuitable to meet her longer-term needs. (12 marks)

We accurately predicted this question provided the information in our solution was capable of scoring 10 of the 12 marks.

(b)
(i) Identify the key areas of weakness in Jenny's current financial protection arrangements. (8 marks)
(ii) Recommend and justify a suitable financial protection policy that will pay a lump sum to support Sasha with her university costs in the event of Jenny's death. (14 marks)

We accurately predicted the first part of this question, with responses capable of earning at least 7 of the 8 marks available. We also predicted a similar question to part (ii) and our response included around 9 points expected from the examiner.

(c) Explain to Jenny why it is important for her to check her National Insurance contribution record following her recent change in circumstances. (6 marks)

Unfortunately we did not predict this question.

(d) Explain to Jenny the key benefits of investing a portion of the cash proceeds of her divorce settlement in to a portfolio of equity funds (10 marks)

Unfortunately we did not predict this question.

(e) Jenny is unsure about the options available to her in respect of her pension sharing order. Outline the options she has in respect of the pension sharing order and state the factors that a financial adviser should take into account when making a recommendation. (10 marks)

Our questions about the pension sharing order were to explain how it works and state the benefits, and also to state the disadvantages of a pension sharing order compared with an earmarking order. From the information we provided across the responses to these three questions alone, students could have scored 5 of the 10 available marks.

(f) Jenny is considering using some of the lump sum from her divorce to pay her daughter's university costs. Outline the factors that Jenny should consider before deciding whether to fund her daughter's university costs using some of the lump sum. (10 marks)

We predicted a question of this nature – we asked for the factors to consider before deciding whether she should fund Sasha's tuition or allow her to borrow using a student loan, and the benefits of choosing the latter option, with the student finance potentially being repaid later by Jenny. There was possibly 7 marks out of the 10 available that could be used from our suggestions.

(g) *Identify eight issues that a financial adviser should discuss with Jenny at the next annual review (8 marks)*

We accurately predicted this questions and other similar ones, with responses capable of earning all 8 marks.

[Approximately 46 out of 78 available marks. 59%]

Conclusion

Here at Wizard Learning, we acknowledge that we will never be able to predict the exact questions the CII will ask in the R06 exam, but we anticipate that by using our R06 Expected Solution students should score sufficient marks to pass.

For this sitting we did quite well, providing a solution containing enough relevant points for a mark up to around **64%.**

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.