How did the Wizard Learning **R06** Expected Solution compare with the CII Model Answer for the July 2022 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* 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 July 2022 R06 exam.

Case study 1

- Dave and Carmel aged 50 and 47 respectively are married with two grown up sons, who are both single with no children and financially independent. The couple are in good health.
- Dave is employed as a business analyst on a salary of £130,000 pa gross, but he also receives regular bonuses from his employer, which he uses to reduce their mortgage.
- He is a member of his employer's workplace pension scheme, contributing 10% of his gross salary, matched by his employer. He has been offered the possibility of making pension contributions using salary sacrifice, and wants to explore the benefits of doing so. This pension is worth £235,000 and is invested in a UK equity tracker fund and a UK fixed interest fund.
- Dave also benefits from his employer's death in service scheme, which promises 4x basic salary if he dies whilst in service.
- Carmel recently resigned from her job as a journalist to study for a university degree and does not intend to return to work for three years.
- She contributed to her former employer's workplace pension scheme until May 2022, and her pension is currently worth £126,000, invested in a UK corporate bond fund.
- They own their family home which is worth £700,000 and has a £250,000 interest-only mortgage secured on it.
- They have no personal protection policies having always relied on their death in service benefits, which ceased for Carmel when she left her job. They wish to arrange adequate cover in the event of death or diagnosis of a serious illness.
- Dave has an onshore investment under which he is the sole life assured. He invested £40,000 in June 2007 and it is now worth £150,000 and is invested in UK smaller companies. No withdrawals have been made and Dave is concerned that there may be tax to pay if he encashed the bond in the near future. They are planning to use the proceeds of the bond to purchase a holiday home in the UK for personal use only.
- Dave has a unit trust holding which he inherited from his late grandfather worth £90,000, and which has accrued a large capital gain since he inherited the holding. Dave wants to know how he can reduce the tax liability on this holding. This in invested in global commodities and pays £2,700 dividends per annum gross.
- They both have stocks and shares ISAs – Dave's is worth £125,000 invested in global equity funds and Carmel's is worth £90,000 and is invested in UK fixed-interest funds.
- They have £65,000 in a joint deposit account and £15,000 in a joint current account.
- Dave and Carmel are both high-risk investors, and do not have any specific ethical investment requirements.

Their financial aims are to:

- Improve the tax-efficiency of their financial arrangements.
- Set up appropriate protection arrangements to meet their current and future needs.
- Ensure they can access sufficient funds in a tax-efficient manner to purchase a holiday home in the UK.

Questions

(a) State the additional information that a financial adviser would need to obtain about Dave and Carmel's current pensions and investments to enable them to provide appropriate financial advice. (14 marks)

We asked students to list the information required to advise on improving the tax-efficiency of their current financial arrangements. The question was slightly different, but we still listed 8 of the 14 points expected by the Examiner.

(b) Explain to Dave how a salary sacrifice arrangement would operate and identify the key benefits for him, if he chooses to enter into this arrangement with his employer. (10 marks)

We did not predict this question, although we did predict a question on salary sacrifice. Our solution included a question asking students to list the benefits and drawbacks of entering the salary sacrifice arrangements. Among the answers were enough to score 4 of the10 marks available.

(c) Recommend and justify the actions that Dave and Carmel could take to improve the tax-efficiency of their current financial arrangements. (14 marks)

We accurately predicted this question and provided a response capable of scoring full marks.

(d) Dave and Carmel have decided to fully encash the investment bond to assist with the purchase of a holiday home in the UK.

(i) Explain to Dave and Carmel why they should consider assigning the bond to Carmel prior to encashment. (8 marks)

(ii) Outline the key taxation issues that Dave and Carmel should take into consideration when purchasing and owning a holiday home. (7 marks)

We did not ask part (i) in the same way, but the solution we provided covered taxation of the bond in Dave's name and the benefits of transferring to Carmel. There was sufficient information within the responses we provided to our coverage of this issue to score 5 or 6 of the 8 marks available.
With regard to part (ii), our question on this focused on the capital gains tax angle, but still there were enough points in our answer to score 3 of the 7 marks.

(e) Recommend and justify a suitable protection policy for Carmel to provide a lump sum on her death or serious illness. (14 marks)

We accurately predicted this question, with a response that would score full marks.

(f) Explain to Dave why the global commodities fund might be a suitable long-term holding for his portfolio. (9 marks)

We asked students to identify the key issues that you should discuss when advising him on the ongoing suitability of his unit trust holding (invested in global commodities), and we provided 8 of the 9 points the Examiner was looking for.

[Approximately 56 out of 76 predicted points. 74%]

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Case study 2

- Mike is 63, in good health and a widower - his wife Kate died aged 66 in May 2022.
- Mike has no children but Kate had a daughter, Helen, with her first husband, who she divorced in 2008 and who is still alive. Helen is financially independent.
- Kate made a will leaving all her assets to Mike, and he has appointed a solicitor to deal with probate on his behalf.
- Mike is employed as a graphic designer on a salary of £60,000pa gross, but is considering early retirement. He is a member of his employer's workplace pension, contributing 5% of gross salary, matched by his employer. His pension is worth £190,000 and is invested in UK and global equity funds.
- Kate was in receipt of her State pension of £8,800pa when she died. She was also receiving £15,800pa gross from her former employer's defined benefit pension scheme, from which Mike is entitled to a spouse's pension, although the amount is yet to be confirmed.
- Kate started receiving a £700pa annuity from a personal pension in 2021, which has a 50% spouse's pension and a 5-year guarantee period.
- Kate also held uncrystallised defined contribution funds which are nominated to Mike and are worth £170,000 and are invested in a range of equity funds and high-yield corporate bond funds.
- Kate's ISAs were worth £340,000 on her death, invested in a range of individual shares, although Mike has not yet notified the provider of her death.
- Mike's ISAs, worth £390,000, are also held in individual shares – Kate managed both of their portfolios herself.
- Kate had a fixed rate deposit account with a balance of £85,000 and a one year term.
- Mike has a variable rate deposit account with a balance of £60,000 and a current account also with £60,000 in it.
- The family home is worth £400,000, is mortgage-free and was owned as joint tenants.
- Kate was keen to ensure Helen would receive a portion of her estate in future on the second death of Kate and Mike, but this was not stated in Kate's will. Mike intends to respect this wish. Mike does not have a will or Lasting Power of Attorney.

Their financial aims are to:

- Transfer Kate's remaining assets into his name.
- Obtain a tax-efficient income in his retirement.
- Ensure that Helen can receive a portion of Mike's estate on his death

Questions

(a) State the specific actions that a financial adviser should take when providing advice to Mike, to reflect his current vulnerable status following the recent loss of his wife. (8 marks)

Unfortunately, we did not predict this question.

(b) Explain why Mike is entitled to receive the Bereavement Support Payment from the State and identify the benefits he may receive (6 marks)

We did not predict this question either.

(c)
(i) Outline to Mike the pension benefits that he could receive from Kate's pension arrangements and explain how each of them will be treated for tax purposes. No calculations are required. (12 marks)
(ii) Explain to Mike how he could use Kate's defined contribution pension scheme to provide a future tax-efficient benefit for Helen after his death. (7 marks)

We predicted many questions on the options for Mike to take Kate's pension benefits, and the answers we provided across these would have given enough information to score at least 10 of the 11 available marks. We did not predict the second part.

(d) Explain the tax treatment of Kate's ISA portfolio following her death and the actions that Mike needs to take to maintain its tax-efficiency. (10 marks)

We accurately predicted this question and provided a broad enough response to be able to score full marks for this question.

(e) Explain the key issues that a financial adviser should consider when calculating whether Mike will be able to afford to retire in the near future. (12 marks)

We accurately predicted a very similar question, and our response was enough to score 10 of the 12 marks available.

(f) Explain to Mike why he should write a Will at the earliest opportunity. (11 marks)

We accurately predicted a very similar question, and our response was enough to score 10 of the 11 marks available.

(g) State eight factors that a financial adviser should take into account when reviewing Mike's financial affairs at the next annual review. (8 marks)

We accurately predicted this question in general terms in the Generic Questions document, providing sufficient relevant points to earn all 8 marks available.

[Approximately 48 out of 74 predicted points. 65%]

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 **69%.**

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.