

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

Case study 1

- Tom and Sara, both aged 64, are married and are planning to retire on Tom's 65th birthday next year. They have three children and five grandchildren and while in good health at present, are aware of the risk of potential health problems in the future.
- Tom is employed as an architect earning a gross salary of £85,000pa. He is a member of his employer's workplace pension scheme, contributing 5% of his salary with his employer contributing a further 8%. The plan is worth £60,000 and is invested in a range of equity tracker funds. Tom also has deferred benefits in a former employer's defined benefit scheme.
- Sara is employed as a customer services manager, earning £70,000pa gross. She is also a member of her employer's workplace pension scheme and contributes 10% of her salary, which is matched by her employer. Her pension is worth £290,000 and is invested in a balanced managed fund.
- The couple own their home, worth £500,000 as joint tenants with no mortgage.
- They have a joint current account with a balance of £32,000, and each have £40,000 in cash ISAs.
- They also each have stocks and shares ISAs – Tom's is worth £160,000 and is invested in a UK commercial property unit trust, and Sara's is worth £140,000 and is invested in a UK managed unit trust. They have both used their ISA allowances for the current tax year.
- In addition, they each hold OEIC investments – Tom's is worth £90,000 and is invested in a UK smaller companies fund, and Sara's is worth £150,000 and is invested in a global equity fund. These funds originated from a redundancy payment Tom received from a former employer and have performed well.
- Tom and Sara do not have wills or LPAs, but plan to address this in the next few months.
- They are planning to gift lump sums to assist their grandchildren with the purchase of their first homes in future years.
- Tom and Sara consider themselves to be low-to-medium-risk investors, and have no particular concerns about socially responsible investments.

Their financial aims are to:

- ensure that they have a sustainable income in retirement
- review their investments to ensure that they are suitable for their retirement
- consider an appropriate method of gifting lump sums to their grandchildren

Questions

(a) State the additional information that a financial adviser would require regarding Tom's pension benefits in his former employer's defined benefit pension scheme, in order to advise him and Sara on their retirement objectives. (12 marks)

We accurately predicted this question and provided an answer response capable of earning 11 of the 12 marks.

(b) Explain to Tom and Sara the main issues that they should consider when deciding if they should use flexi-access drawdown (FAD) in retirement, rather than purchasing an annuity. (12 marks)

We asked students to explain briefly to Sara why she should consider using (some of) her personal pension plan to purchase a lifetime annuity to provide income in retirement, and also included a question asking students to state the advantages and disadvantages of Sara using flexi-access drawdown, rather than an annuity, to arrange her retirement income when she crystallises her personal pension. The responses we provided to these two questions – essentially covering the same issue – were enough to score 11 of the 12 marks available.

(c) Tom and Sara are planning to assist their grandchildren with the purchase of their first homes in future years. Explain, in detail, the actions that Tom and Sara should take to ensure that they can use their OEIC holdings to provide tax-efficient lump sums for this purpose. (10 marks)

Our question asked students to comment on the suitability and tax efficiency of their investments covered the potential to use ISA OEICs and use inter-spousal transfers on no-loss, no gain basis. We also asked for the drawbacks of making any additional investment into their OEICs. From the information we provided, it was possible to score possible 5 of the 10 marks available for this question.

(d) Comment on the suitability of Tom continuing to hold the UK Commercial Property unit trust in his ISA. (8 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 investment in commercial property. It is reasonable to assume 3 of the 8 would have been scored.

(e) Tom and Sara are concerned about the treatment of their estate in the event of their deaths before they draw up their Wills.

(i) Explain, in detail, how their assets would be treated in the event of the death of either Tom or Sara, if they died tomorrow. (12 marks)

(ii) Identify the key instructions that Tom and Sara should include in their Wills. (7 marks)

We did not predict this question, unfortunately. We asked about the benefits of them making wills, and the role of a trustee. Just from the information we provided alone, students would have scored 3 or 4 marks.

(f) Recommend and justify the actions that Tom and Sara could take to improve the tax efficiency of their existing financial arrangements. (12 marks)

We asked students to comment on the suitability and tax-efficiency of their investments, and among the responses to this, and other questions we provided would have given students enough to score over half of the available marks for this question.

[Approximately 40 out of 73 predicted points. 54%]

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Case study 2

- Leo and Karin (both 37) are married with one daughter, Hannah (7) and are both in good health.
- Leo is a self-employed landscape gardener with taxable profits of £52,000pa.
- He does not have any pension arrangements and is considering buying a small buy-to-let as an investment instead.
- Karin assists Leo with the accounts for his business, and also works part-time as a support assistant at a local community centre, earning £17,000pa gross.
- Karin is a member of her employer's workplace pension scheme, contributing 5% of her salary, her employer contributing 4%. Her pension is invested in the scheme's default managed fund – Karin has never checked its performance and she does not know about any alternative fund options. It has a current value of £15,000.
- Karin is also entitled to 4 x salary DIS benefit.
- Their home is worth £200,000 with a £95,000 interest-only mortgage outstanding.
- They have a joint level term assurance policy covering the mortgage amount.
- Leo has an income protection policy set up with his bank when he first started his business many years ago. Leo would like advice on the merits of keeping this policy.
- Both Leo and Karin are concerned about their lack of protection in the event of Leo's death as the main breadwinner.
- Leo is also concerned about his potential personal liabilities as a self-employed gardener. He has asked you to explain any alternative options for the business, which could offer him greater protection and improved tax efficiency.
- Both Leo and Karin are high risk investors, and do not wish to invest in any funds or companies that damage the environment, but have no other strong ethical views.
- They have a joint current account with a balance of £3,000, and a joint deposit savings account with a balance of £15,000. Leo has a personal current account which he uses as a business account with a balance of £7,500.

- They each have stocks and shares ISAs – Leo’s is invested in a global sustainable equities OEIC and is worth £48,000, Karin’s is invested in a UK ethical equities OEIC and is worth £43,000.

Their financial aims are to:

- Ensure their protection arrangements are adequate for their needs
- Arrange suitable retirement funding for Leo
- Improve the tax-efficiency of their current arrangements

Questions

(a) State the additional information a financial adviser would require, in order to advise Leo and Karin on ensuring that the family is financially secure in the event of Leo’s death. (12 marks)

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

(b) Identify the key factors that a financial adviser should consider when reviewing the suitability of Leo’s existing income protection insurance policy. (13 marks)

We did not predict this question, but the responses expected from the examiner for this task were covered in numerous other questions about income protection insurance. We believe that students could have scored around 6 or 7 of the 13 marks available for this question from the information we provided.

(c) Leo is concerned about the suitability of his current working arrangements as a self-employed landscape gardener. Explain, in detail, why setting up a limited company might be a more appropriate option for Leo, rather than remaining self-employed. (12 marks)

We accurately predicted this question and provided enough to score about 10 of the 12 marks available.

(d) Explain to Leo why he should set up a pension plan as soon as possible. (12 marks)

We accurately predicted this question also. We also asked students to recommend and justify the actions that Leo and Karin could take to improve the tax-efficiency of their existing savings and investments, and there was sufficient information provided across the responses to these two questions to score around 8 or 9 of the 12 available marks.

(e) Outline the factors that Leo should consider before deciding whether to invest in a buy-to-let property as part of his retirement planning. (14 marks)

We asked numerous questions about investing in a buy to let, but we did not predict this question. By adapting the responses to we provided to the other BTL questions, it was possible to earn around 6 or 7 or the 14 available marks for this task.

(f) Explain to Leo and Karin why it is important for them to review the investment funds held in their stocks & shares ISAs on a regular basis. (6 marks)

We accurately predicted a very similar question, but our question mentioned their pension funds, not their ISA funds. In any event, we provided 10 responses, 6 of which would have been relevant to this question to earn the full 6 marks.

(g) Identify eight issues that a financial adviser should discuss with Leo and Karin at the next annual review. (8 marks)

We provided a number of question on the subject of reviews, and there was sufficient relevant information from those to answer this question with full marks.

[Approximately 56 out of 77 predicted points. 73%]

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.