



FELLOWSHIP EXAMINATION SYLLABUS 2008

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SYLLABUS STRUCTURE

The syllabus is divided into *elements*. These are broken down into a series of *learning objectives*.

Each learning objective begins with one of the following prefixes: *know, understand, be able to calculate, analyse or apply*. These words indicate the different levels of skill to be tested. Learning objectives prefixed:

Know requires the candidate to recall information such as facts, rules and principles

Understand requires the candidate to demonstrate comprehension of an issue, fact, rule or principle

Be able to calculate requires the candidate to be able to use formulae or tax rates to perform calculations

Be able to analyse requires the candidate to interpret calculations and other information given to assess a financial planning situation accurately and understand the relationships between the various components of a complex argument, statement, situation, etc.

Be able to apply requires the candidate to practically apply the previous learning objectives which may include ideas, concepts, formulae, procedures, methods, principles, theories, etc. to financial planning related problems with a view to making suitable recommendations to meet the needs of clients within the range of strategies available. This will involve evaluating technical information or judging best courses of action in problematic situations. This may include synthesis and evaluation.

The Institute urges candidates who hold examination passes over three years old to undertake the necessary reading to ensure their knowledge is up to date. Attendance at the Fellowship preparation days is recommended to update candidates' knowledge and understanding of both the technical knowledge required along with the level of application for the examination.

Time value of money calculations are another major topic for which limited information is generally available to candidates. This topic is regularly explored in the Fellowship examination. As a result, the Institute has specialist reading material that candidates can purchase to aid their understanding in this area.

SECTION ONE - THE PROCESS OF PERSONAL FINANCIAL PLANNING

STD	OBJECTIVE	KEY-POINT GUIDELINES
1.01	know the purpose of Financial Planning	<p>Broadly:</p> <ul style="list-style-type: none"> - a professional service for clients to assist them in organising their personal or corporate financial affairs to more readily achieve their goals. <p>Include reference to:</p> <ul style="list-style-type: none"> • security against and needs during significant phases of the life cycle
1.02	understand the role of the Financial Planner	<p>Include reference, with expansion, to:</p> <ul style="list-style-type: none"> • distinction between planner and provider • client / planner relationship. “Know your client” principles • “suitable advice” • “Best execution” • planner’s holistic approach • planner’s relationship with other professional services providers • comprehensive solution to client’s problems <ul style="list-style-type: none"> • continuing process
1.03	understand the process involved in Financial Planning	<p>Reference to six main stages, namely :</p> <ul style="list-style-type: none"> • data collection • establishing objectives • processing and analysing information • recommending comprehensive plan • implementing plans • reviewing plans

1.04	<p>know what documents will be required when collecting data about a client</p>	<p>Usually, and as appropriate :</p> <ul style="list-style-type: none"> • current wills - client, spouse, partner • Powers of attorney, enduring powers of attorney and living powers of attorney • life assurance and disability policy documents • revision policy documents or benefit statements <ul style="list-style-type: none"> • details of all investments • latest accounts and tax returns • trust documents • birth, marriage / civil partnership certificates • shareholder & partnership agreements • memorandum and articles of association
1.05	<p>understand and quantify client objectives in terms of needs, preferences, importance and time scale</p>	<p>Should cover needs and priorities in the following areas for both client and spouse :</p> <ul style="list-style-type: none"> • income to continue in the event of <ul style="list-style-type: none"> - death - disability - retirement • repayment of debt in the event of <ul style="list-style-type: none"> - death - disability • repayment of debt before retirement • payment of taxes at death • provision for one-off or on-going expenses e.g wedding, education, specific project • increased income from investments and savings • increased growth from investments and savings • higher level of savings <ul style="list-style-type: none"> - short term, medium term, long term • increasing current net spendable income • reducing current tax liabilities • retirement planning • estate planning

1.06	understand personal information affecting the construction of a financial plan	<p>Information required to ensure advice and recommendations are suitable and appropriate in terms of :</p> <ul style="list-style-type: none"> • personal details - age, health, marital status, nationality, residence • dependants • employment details • budget planning • liquidity • assets / liabilities • future plans - changing needs • attitude to risk • tax position
1.07	understand what is involved in the processing and analysing of information	<p>Descriptions should refer to :</p> <ul style="list-style-type: none"> • evaluation of all investments • recording details of life assurance policies • obtaining surrender values of life assurance policies • recording details of pension policies • obtaining current pension fund values • collecting information from tax returns and accounts • noting details of trusts • noting details of current wills • preparing statements of financial position and Income and expenditure or cashflow statements
1.08	be able to calculate a client's "net worth"	<p>Definition must cover: Net Worth = Total Assets - Total Liabilities i.e. a "Balance Sheet" or Statement of Financial Position</p> <p>Position, dated and calculated in collaboration with client, as follows:</p> <p><u>Total Assets</u></p> <ul style="list-style-type: none"> • Cash / Cash Equivalents (i.e. Liquid Assets for immediate use if required) including: <ul style="list-style-type: none"> - bank current and deposit accounts - building society accounts - national savings accounts - Post Office etc • Invested Assets (i.e. those intended for longer term capital or income) including :

		<ul style="list-style-type: none"> - shares - gilts - unit trusts/OEICs - investment trust companies - PEPs/ISAs/CTFs - insurance bonds - life assurance policies - pension policies - annuities - VCTs - EIS - offshore funds - commodities - assigned or purchased policies - derivatives etc • Used Assets (i.e. not available for other investments) • Business Assets (i.e. sole proprietor) including: <ul style="list-style-type: none"> - property and equipment - interest or shares held - goodwill • Pension Funds • Trust assets <p>Notes:</p> <ol style="list-style-type: none"> 1. Each category of Asset usually expressed as a percentage of the whole 2. For married couples husband and wife's assets shown separately as well as jointly <p><u>Total Liabilities</u> (i.e. all short or long term outstanding debts) including:</p> <ul style="list-style-type: none"> • mortgages • bank loans, overdrafts • credit card balances • outstanding tax liabilities • personal liabilities in a business
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1.09	be able to calculate a clients income and expenditure position	<p><i>Statement should illustrate evidence of attention to client total income and expenditure as follows:</i></p> <p><u>Gross Income</u></p> <ul style="list-style-type: none"> • income from employment including : <ul style="list-style-type: none"> - salary (or drawings when self-employed or partnership) - bonus - dividends - fees - profit share etc • Income from pensions • income from investments • income by means of withdrawals of capital • income by means of new borrowing <p><u>Expenditure</u></p> <ul style="list-style-type: none"> • expenditure on savings and investments • regular expenditure • variable expenditure
1.10	know the main topics which need to be considered when constructing a financial plan	<p><i>The six major topics are:</i></p> <ul style="list-style-type: none"> • Cash and credit management • Personal risk and insurance • Savings, investment and risk management • Retirement planning • Tax planning and management • Estate planning and management
1.11	be able to calculate a client's cash and credit situation against normally accepted criteria	<p><i>Evidence of checks against the following is required</i></p> <ul style="list-style-type: none"> • cushion against undetermined expenditure based on : <ul style="list-style-type: none"> - accumulation or use of capital - increase or reduction in borrowing - cash build up - unidentified expenditure - savings in region of 3-6 months' expenditure • liquidity and emergency fund

		<ul style="list-style-type: none"> • banking arrangements, regarding : <ul style="list-style-type: none"> - current / deposit accounts - return on and access to funds - cost and availability of borrowing facilities • tax advantages • level of borrowing
1.12	<p>analyse existing cover against personal and property risk and recommend changes as appropriate</p> <p>(See also Appendix I)</p> <p>(See also Appendix III)</p>	<p><i>Must include evidence of assessment of the effects of :</i></p> <ul style="list-style-type: none"> • death • critical illness • permanent health deterioration/incapacity • permanent disability from accident and whether these are adequate to cover: <ul style="list-style-type: none"> - existing mortgages, loans and other liabilities - reduced family income - planned commitments - tax liabilities e.g. inheritance tax - variations of need over time - dependants • destruction, damage or loss of property or personal possessions • damages <p><i>Protection products for consideration and recommendation include :</i></p> <ul style="list-style-type: none"> • life assurances • pensions • permanent health insurance • critical illness cover • home and contents insurance • private medical cover • long term care cover
1.13	<p>analyse the client's financial situation in terms of savings, investments and risk, and recommend adjustments as appropriate</p>	<p><i>Reference with expansion to short, medium and long term consideration of :</i></p> <ul style="list-style-type: none"> • availability of capital to meet objectives • growth of capital • effects of inflation • planned and emergency expenditure • attitude to risk

1.14	analyse the client's provision for retirement and recommend adjustment as appropriate	Reference with expansion, and recommendations based on "suitable advice" principles where weaknesses exist, to : (See also Section Five) <ul style="list-style-type: none"> • continuity and security of income
1.15	be able to calculate the client's tax position and recommend changes as appropriate	Recommendations where weaknesses exist and reference, with expansion, to : (See also Section Four) <ul style="list-style-type: none"> • rearranging assets • balance between tax efficiency and other objectives • services of other professional advisers • effect of change on income, capital gains, inheritance taxes and National Insurance
1.16	analyse the position regarding the disposal of a client's estate	Reference with expansion to : (See also Section Six) <ul style="list-style-type: none"> • wills and probate • tax efficiency • trusts, letters, wishes, gifts • executors, trustees, guardians and power of attorney • joint ownership of property
1.17	analyse the strengths and weaknesses of alternative courses of action	Based on data collected throughout the preceding phases of this Section, the plan should include reference, with expansion, to : <ul style="list-style-type: none"> • present position • client's objectives • analyses • recommendations • implementation schedule • appendices
1.18	apply knowledge to recommend a suitable strategy for a comprehensive financial plan	

SECTION TWO - CALCULATIONS INCORPORATING COMPOUND INTEREST AND THE TIME VALUE OF MONEY

STD	OBJECTIVE	KEY-POINT GUIDELINES
2.01	know the principles behind the concept of time value of money	<p>Reference to :</p> <ul style="list-style-type: none"> • an amount of money available now being more valuable than the same amount not being available until some time in the future, because of the interest earning potential and inflation aspects
2.02	be able to calculate problems which require the calculation of compound and other forms of interest	<p>Reference to calculations (based on relevant raw data, appropriate variables and using a financial calculator) relating to the following :</p> <ul style="list-style-type: none"> • present and future values involving <u>discounting</u> including <ul style="list-style-type: none"> - fixed interest rates - changing interest rates • Compound Annual Return (“effective rate”) including <ul style="list-style-type: none"> - effects of changing frequency of interest payments • regular savings for set objectives e.g educational expenses, purchase of an annuity • regular savings in addition to a lump sum invested • escalating regular savings - monthly / annually • required rates of return • effects of inflation using <ul style="list-style-type: none"> - constant prices - actual prices • effects of regular receipts or withdrawals • effects of escalating receipts or withdrawals

SECTION THREE – PERSONAL INVESTMENT PLANNING

STD	OBJECTIVE	KEY-POINT GUIDELINES
3.01	understand in general terms the effects of inflation	<p>Reference with expansion on following main effects :</p> <ul style="list-style-type: none"> • economy unable to meet demand • demands for higher wages • devaluation of money • erosion in value of money • disruption of investment plans
3.02	understand the main points a client should consider to combat the effects of inflation on income and capital	<p>Main points, with expansion, for consideration include :</p> <ul style="list-style-type: none"> • value of investment income and capital growth on savings and investments eroded • requirement for increased investment income • investment rate for capital growth after tax should be equal to the inflation rate • asset backed investment likely to keep pace in medium to long term • deposits and fixed interest investments may suffer • borrowers, particularly on fixed repayments, may benefit • individuals on fixed income may suffer
3.03	know the effects of changes in Bank of England interest rates	<p>Reference with expansion to :</p> <ul style="list-style-type: none"> • Monetary Policy Committee control of inflation • the effects of lower or higher interest rates
3.04	know the difference between real and nominal assets	<p>Reference with expansion to :</p> <ul style="list-style-type: none"> • the extent to which capital value is affected by inflation • position vis a vis long term equity investments
3.05	understand the common types of risk which a client may face	<p>Reference with expansion to :</p> <ul style="list-style-type: none"> • inflationary risk <ul style="list-style-type: none"> - effects of changes in the economy • market/systematic risk <ul style="list-style-type: none"> - general stockmarket valuations • specific/unsystematic risk <ul style="list-style-type: none"> - direct investment

		<ul style="list-style-type: none"> • shortfall/objective risk <ul style="list-style-type: none"> - failure to meet objectives
3.06	understand the principles of portfolio planning and asset allocation	<p>Reference with expansion to :</p> <ul style="list-style-type: none"> • ensuring financial assets are capable of providing for both short and long term needs while minimising risk • position regarding <ul style="list-style-type: none"> - stockmarket risk - inflationary risk - short and long term investments - nominal and real assets - active v passive investments • means of determining broad sectors for investment <ul style="list-style-type: none"> - market, geographic and investment style
3.07	know a client's understanding of, and attitude to, risk	<p>Reference with expansion to :</p> <ul style="list-style-type: none"> • client's views of risk in respect of <ul style="list-style-type: none"> - mortality - morbidity - provider performance - product performance • factors effecting client's view <ul style="list-style-type: none"> - age - product under discussion - overall size of resources for investment and contingency - access - length of time invested

3.08	<p>understand the major characteristics of common investment products in terms of risk</p> <p>(See also Appendix II)</p>	<p>Categories should be divided by low, medium and high risk. Descriptions should refer as appropriate to :</p> <ul style="list-style-type: none"> • potential returns: income and/or capital growth • potential losses: type and source • other benefits • contribution limits • penalties • accessibility and term • charges; buying and selling mechanisms • means of spreading risk • tax treatment <p>Assets:</p> <ul style="list-style-type: none"> • Cash • Gilt-edged securities • Index Linked Gilts • International bonds • Corporate bonds • Guaranteed Income Bonds • Preference shares • Convertibles • Equities • Property Funds • AIM listed equities • Unquoted shares • Property (direct holdings) • Small and Emerging Markets shares • Futures, Options, Warrants etc
3.09	<p>understand the factors which influence the structure of an investment portfolio</p>	<p>Major factors for consideration are :</p> <ul style="list-style-type: none"> • importance of cover for short term needs • market value at outset • income and emergency requirements • balance and rebalance asset allocation to match client's risk profile • changing income and capital requirements

3.10	<p>know what information needs to be available before decisions are made regarding asset allocation</p>	<p>Specific information about the following is required :</p> <ul style="list-style-type: none"> • age • capital available for investment • details of existing investments • degree of risk acceptable • time and access to capital required • current and future tax position • ethical views • income, capital and balance of both required • constraints on particular investments • degree of involvement by client • incoming capital in short term • outgoing liabilities in short term • personal priorities or objectives • arrangements covering <ul style="list-style-type: none"> - pension - life assurance - house/property purchase - wills - inheritance tax - health and other insurance
3.11	<p>understand how a portfolio might be broadly structured</p>	<p>Reference to :</p> <ul style="list-style-type: none"> • dividing assets into three broad categories according to individual circumstances <ul style="list-style-type: none"> - First part invested for <ul style="list-style-type: none"> ◦ security ◦ emergency ◦ immediate access - Second part invested for <ul style="list-style-type: none"> ◦ low risk, guaranteed return ◦ meeting income and liquidity needs from short term nominal assets ◦ short notice access - Third part invested to <ul style="list-style-type: none"> ◦ achieve high rewards ◦ combat inflation ◦ provide for longer term needs ◦ safeguarding value of long term real assets ◦ active v passive investing

3.12	know the basic characteristics of portfolio planning theory, random walk theory and efficient market hypothesis	
3.13	know why assets are allocated to low and medium risk investments	<p>Reference with clear rationale, to :</p> <ul style="list-style-type: none"> • limiting allocation to low risk combats inflationary risk • allocation to low risk combats stockmarket and economic risks • allocation to variety of investments improves efficiency and meets specific objectives • relative allocation to low risk determinants
3.14	be able to calculate an investment portfolio appropriate to a client's requirements	Using portfolio planning techniques, the plan should show detailed breakdown of asset allocations with evidence of having considered the objectives of investment planning.
3.15	apply knowledge to recommend a suitable strategy for a comprehensive financial plan	Apply this knowledge to other areas of financial planning as the client's objectives dictate.

SECTION FOUR – CASH AND CREDIT AND/OR DEBT MANAGEMENT

STD	OBJECTIVE	KEY-POINT GUIDELINES
4.01	know the major financial outgoings facing a family	<p>Major commitments usually include paying for :</p> <ul style="list-style-type: none"> • mortgages • HP and leasing commitments • school fees • household supplies and services • property maintenance • personal loans and overdrafts • credit card debts • personal guarantees
4.02	know methods of releasing equity on property	<p>Main methods with expansion on each as follows :</p> <ul style="list-style-type: none"> • mortgages • re-mortgages • second mortgages • reversionary interest • further advance/ equity release
4.03	know the common methods of mortgage loan repayments	<ul style="list-style-type: none"> • Repayment mortgages • Endowments • Pensions • Unit trust and PEP/ISA mortgage • Safe Home Income Plan mortgages
4.04	know how interest on repayment mortgages can be applied	<p>Reference to following methods of treatment :</p> <ul style="list-style-type: none"> • Capital and interest mortgages • Interest only mortgage • Fixed rate mortgage • Variable rate mortgage • Capped and/or collared mortgage • Deferred interest mortgage • Discounted mortgage

4.05	understand what may threaten mortgage loan repayments and how these threats can be covered	<p>Reference with expansion to :</p> <ul style="list-style-type: none"> • death • incapacity • redundancy • investment performance
4.06	know what factors should be considered when choosing the suitability of provision for school fees	<p>Major factors requiring consideration :</p> <ul style="list-style-type: none"> • length of time before fees commence • who makes provision • degree of risk to be taken • provision from income • provision from capital
4.07	know the main characteristics of making provision for school fees	<p>Reference to the following main methods with expansion on each :</p> <ul style="list-style-type: none"> • Series of “Qualifying” Endowments, Maximum Investment Plan policies etc • Deferred Temporary Annuity • Unit Trusts/Investment Trust Companies/OEICs • PEPs/ISAs/CTFs
4.08	be able to calculate the appropriate means of making provision for school fees out of <u>income</u>	<p>Reference to the following main methods with expansion on each :</p> <ul style="list-style-type: none"> • Compounding <ul style="list-style-type: none"> - lump sum paid in advance against guaranteed level of fees paid by the school - consequences of child not attending designated school • School Fees/Educational Trusts • Single Premium Bonds • Unit Trusts/Investment Trust Companies/OEICs • Gilt edged securities • Pension related loans • National Savings Children’s Bonds • Immediate loans (instant fees schemes)

4.09	<p>be able to calculate the appropriate means of making provision for school fees out of <u>capital</u></p>	<p>Recommendations should be based on the following criteria as appropriate :</p> <ul style="list-style-type: none"> • amount of borrowing required • purpose of borrowing • rates of interest • arrangement fees and charges • repayment terms and times • penalties and restrictions • implications of secured/unsecured loans <p>Potential sources include loans, overdrafts, HP, lease, lease purchase, grants, credit cards from :</p> <ul style="list-style-type: none"> • Financial institutions • Commercial Retail Companies • Local Authority grants
4.10	<p>know the potential sources of loan capital (other than by sale of assets) and recommend a choice based on established criteria</p>	<p>Reference with expansion to three main methods, as follows:</p> <ul style="list-style-type: none"> • Deeds of Covenant • Gift Aid • Payroll Giving <p><u>Deeds of Covenant</u></p> <ul style="list-style-type: none"> • minimum term of covenant • annual payments net of income tax • different methods of contribution • donations to Charities Aid Foundation for distribution • private Charitable Trusts • taxation aspects <p><u>Gift Aid</u></p> <ul style="list-style-type: none"> • gifts by individuals • limits • taxation aspects <p><u>Payroll Giving</u></p> <ul style="list-style-type: none"> • deduction from pay with employer's agreement • specified amounts to specified charity • taxation aspects

4.11	know by type, means of supporting charitable work financially and the main characteristics of each method	<p><i>Broadly two approaches to better utilisation of resources, i.e.</i></p> <ul style="list-style-type: none"> • means of settling debt • rescheduling debt
4.12	understand what approaches can be taken to assist a client who is, or about to be, insolvent	<p><i>Overall outcome from :</i></p> <ul style="list-style-type: none"> • cashflow and net worth analysis and interpretation
4.13	know what data on debt needs to be examined prior to recommending possible courses of remedial action	<p><i>Specifically data on each debt about :</i></p> <ul style="list-style-type: none"> • existing agreements • terms of business • court action • solicitors' letters • correspondence from suppliers • informal agreements • legal commitments carrying contingencies
4.14	understand the Individual Voluntary Arrangement (IVA) - its advantages and process	<p><i>Reference to with expansion to :</i></p> <ul style="list-style-type: none"> • situations where attempts at settlement or rescheduling have failed • definition: concerning an arrangement between debtor and creditors under jurisdiction of the court • purpose : orderly realisation of debtor's assets • advantages • process: (usually with assistance of Licensed Insolvency Practitioner)
4.15	understand what steps a creditor can take to recover a debt	<p><i>Reference with expansion to :</i></p> <ul style="list-style-type: none"> • stop list (if in business) • application to the court • statutory demand • petition for bankruptcy

4.16	<p>know what important personal tax considerations should be taken into account prior to making a financial plan</p>	<p>Reference to the following main considerations :</p> <ul style="list-style-type: none"> • tax implications vital, but secondary to personal, practical and investment considerations • advice based on practical and particular circumstances • contingencies for changes in legislation and family circumstances • separate treatment for capital and income • consideration of all taxes i.e. impact of one on another • appointment of a professional specialist
4.17	<p>understand in broad terms the general principles relating to income and capital gains tax planning</p> <p>Note: See Section six for Inheritance tax</p>	<p>Broadly attention to the following principles :</p> <p><u>Income tax planning</u></p> <ul style="list-style-type: none"> • use of all personal allowances and reliefs • treatment of husband and wife/civil partners independently • transfer of assets between husband and wife/civil partners • advantage of capital settlements in the event of separation or divorce • use of outright gifts • consideration of “accrued income scheme” • use of appropriate and particularly advantageous savings and protection products <p><u>Capital gains tax planning</u></p> <ul style="list-style-type: none"> • timing of disposals to <ul style="list-style-type: none"> - delay payment - spread payment - reduce payment • use of all family exemptions • use of unconditional transfers of shares between spouses • maximising losses against gains • “Bed and Spouse/ISA/SIPP” transactions etc • delaying disposal of assets during lifetime of individuals with short life expectancy • use of irrevocable elections to “rebase” values of assets acquired before March 1982 • gifts to charities in form of chargeable asset • selection of main residence • use of taxation reliefs

4.18	know which taxes arise from the transfer of capital during life and on death	<p>Reference to :</p> <ul style="list-style-type: none"> • capital gains tax • inheritance tax • stamp duty/SDRT
4.19	know who may be liable to capital gains tax, inheritance tax and stamp duty and stamp duty reserve tax	<p>Reference with expansion to :</p> <p><u>Capital gains tax</u></p> <ul style="list-style-type: none"> • individuals • partnerships • estates • trusts • companies • other organisations resident in the UK • non-residents on assets realised in the UK <p><u>Inheritance tax</u></p> <ul style="list-style-type: none"> • individuals • trusts • non-residents on assets in the UK <p><u>Stamp duty/SDRT</u></p> <ul style="list-style-type: none"> • documents - payable by those listed above
4.20	understand the effects of domicile and residence on capital taxes	<p>Reference with expansion to :</p> <ul style="list-style-type: none"> • tax on arising basis • tax on remittance basis
4.21	know when a liability to capital gains tax arises	<p>Reference to :</p> <ul style="list-style-type: none"> • disposal, including sales, gifts • chargeable gain

4.22	be able to calculate a clients income and capital gains tax liabilities	<p><i>Given the relevant information from the client, calculations should incorporate the following :</i></p> <ul style="list-style-type: none"> • total gains minus total losses for the tax year • allowances • losses brought forward, • annual exemption • proportionate taxation at the different rates
4.23	analyse a client's current tax position and liabilities	<ul style="list-style-type: none"> • marginal rate • scope for improving the situation
4.24	apply knowledge to recommend a suitable strategy for a comprehensive financial plan which takes account of the client's tax position	<i>Examination and recommendations should show evidence of all objectives of this Section</i>

SECTION FIVE – PLANNING FOR RETIREMENT

STD	OBJECTIVE	KEY-POINT GUIDELINES
5.01	<p>know the normal sources of income, other than returns on investments, available during retirement</p>	<p>Reference with expansion to :</p> <ul style="list-style-type: none"> • State pension • State benefits • Occupational pensions • Personal pensions
5.02	<p>know the major characteristics of State Pension provision</p>	<p>Reference with expansion to :</p> <ul style="list-style-type: none"> • three elements <ul style="list-style-type: none"> - Basic State pension - State Earnings Related Pension Scheme (SERPS)/Second State Pension (S2P) - Graduated pension <p><u>Basic State Pension</u></p> <ul style="list-style-type: none"> • dependency on NI contributions • rates <ul style="list-style-type: none"> - single - married couple/rcps - married woman basing claim on husband's contributions - reduced • retirement age and transition details • catch up arrangements. DSS form BR19 and Class 3 NIC <p><u>SERPS/S2P</u></p> <ul style="list-style-type: none"> • additional entitlement • calculations determined by date of retirement <p><u>Graduated Pension</u></p> <ul style="list-style-type: none"> • existing holders purchased units, converted to pension benefits

5.03	understand the pension opportunities open to employees and self-employed individuals	<p>Reference with comparisons in treatment regarding :</p> <ul style="list-style-type: none"> • SERPS/S2P • pension schemes
5.04	know who is entitled and not entitled to benefit under an approved occupational scheme	<p>Reference with expansion to :</p> <p><u>Entitled</u></p> <ul style="list-style-type: none"> • employees including <ul style="list-style-type: none"> - directors - part-time employees - employed spouses of professionals and self-employed - salaried partners - UK residents of overseas employees - domestic servants <p><u>Not Entitled</u></p> <ul style="list-style-type: none"> • include <ul style="list-style-type: none"> - self-employed - consultants - director of an investment company

5.05	<p>know the important features of all occupational pension schemes about which information needs to be known when advising and additionally that information as appropriate to the client's need</p> <p>(For Types of scheme see also Appendix I)</p>	<p>Details about the following features as they relate to Groups 1, 2, and 3 need to be included :</p> <ul style="list-style-type: none"> • final remuneration • pension entitlement (n.60th scale) • maximum pension (Lifetime Allowance) • member's contribution • death in service lump sum • widow's / dependant's pension • maximum tax-free cash entitlement • options for early leaver including <ul style="list-style-type: none"> - refund of contributions - deferred pension - S32 Buy Out contracts - portability: personal pension transfers - immediate benefits for over 50/55's • early retirement • early retirement maximum pension • early retirement maximum tax-free cash • late retirement : benefit increase • retirement through ill health
5.06	<p>know the main effects of the legislative changes introduced by the Finance (no 2) Act 1997 (as incorporated in ICTA 1988, Ch III, ss 620) through to Finance Act 2005 in respect of personal pensions and retirement annuities, Small Self-Administered Schemes including implications of pensions simplification</p>	<p>Reference with expansion should be made to the following implications of the change in legislation:-</p> <p><u>General</u></p> <ul style="list-style-type: none"> • main purpose - provision for retirement for self- employed and those not in pensionable employment • contracts defined as <ul style="list-style-type: none"> ◦ RA - ICTA 1988 ss 618 - 629 ◦ PP - ICTA 1988 ss 630 - 655 • Retirement Annuities replaced by Personal Pension schemes • no new RAs after 1 July 1988, but existing contracts allowed to continue until they vest at retirement date • facility for contributing to both types of contract • crystallization; unsecured pension, alternatively secured pension; minimum age for early retirement.

5.07	understand the benefits and major policy options available in a retirement annuity contract	<p>Reference with expansion to :</p> <p><u>Benefits</u></p> <ul style="list-style-type: none"> • an annuity as main objective, but with commutation of part as lump sum • dependant's annuity • life assurance - when sole object is provision of lump sum on death before age 75 <p><u>Options</u></p> <ul style="list-style-type: none"> • with profits, without profits or unit linked • choice on death before retirement
5.08	know the major conditions under which Personal Pension Plans operate	<p>Reference with explanation to :</p> <ul style="list-style-type: none"> • funding - money purchase schemes • benefits at retirement date • annual contribution limits <ul style="list-style-type: none"> - lifetime allowance • eligibility <ul style="list-style-type: none"> - excess premiums • contracting out: Appropriate Personal Pension (APP) including <ul style="list-style-type: none"> - NI rebate - employee's element rebate - employer's element - incentive payment - protected rights benefits • contracting back in <ul style="list-style-type: none"> - DSS cancellation notice • transferability • Stakeholder pensions <ul style="list-style-type: none"> - maximum limits of contributions - eligibility

5.9	know how earnings and eligibility are determined in respect of personal pensions and additionally how these differ for retirement annuities	<p>Reference with expansion to “relevant earnings” including the following :</p> <ul style="list-style-type: none"> • emoluments • income from property as part of emolument • income derived directly from an individual’s trade, profession or vocation • other income treated as earned income • income from certain lettings and accommodation
5.10	know the purpose and the main characteristics of Self-Invested Personal Pension schemes, Income Withdrawal plans, Phased Retirement contracts, alternatively secured pensions and unsecured pensions	<p>Reference with expansion to :</p> <ul style="list-style-type: none"> • provision of more individual choice to personal pension members • extended range of permitted investments, including <ul style="list-style-type: none"> - commercial property (as defined) - securities - overseas securities (bought through recognised channels) - investment trust companies and unit trusts - deposit accounts - units in insurance company unit-linked funds - offshore funds • contributions and benefit levels similar to other personal pension schemes • transfers may be paid in and used as part of the self-invested fund • annual fees and transaction fees charged by the SIPP provider • situations on death
5.11	know the contribution and benefit options normally available in respect of personal pension schemes	<p>Reference to following with expansion :</p> <p><u>Contribution Options</u></p> <ul style="list-style-type: none"> • regular contributions: increased, decreased, temporarily stopped, restarted, omitted • switching facility • waiver of premium: long term disability, treatment <p><u>Benefit Options</u></p> <ul style="list-style-type: none"> • pension at retirement <ul style="list-style-type: none"> - amount and how determined - normal age range and exceptions e.g. <ul style="list-style-type: none"> ◦ special occupational groups

		<ul style="list-style-type: none"> ◦ serious ill health - protected rights benefit: State pension age and as pension only - payable for life • cash sum at retirement <ul style="list-style-type: none"> - take benefits and keep working - proportion of fund value • lump sum on death <ul style="list-style-type: none"> - death before policy benefits are taken - provision through separate term assurance policy - writing death benefit under trust • benefit under trust <ul style="list-style-type: none"> - term assurance - protection against inheritance tax - distribution of death benefits at discretion of trustees • use of flexible trusts <ul style="list-style-type: none"> - provision for <ul style="list-style-type: none"> ◦ specific beneficiary ◦ class of potential beneficiaries • change of recipients by “power of appointment” within trust documentation • payment to trustees, not estate, avoids inheritance tax liability
5.12	understand the limitations of pension products	<p>Reference with expansion to the following restrictions :</p> <ul style="list-style-type: none"> • uses <ul style="list-style-type: none"> - provision of income on retirement only: top up to State pensions - inaccessibility to paid in contributions - problems in pension planning terms when <ul style="list-style-type: none"> ◦ only short time before retirement • eligibility <ul style="list-style-type: none"> - no rate for unemployed, or for those on disability income
5.13	analyse the major factors which need to be considered when choosing a personal pension plan and the broad principles upon which recommendations are based	<p>Reference to the following :</p> <p><u>Major Factors</u></p> <ul style="list-style-type: none"> • age • years to retirement • attitude to risk • possible change in employment status • fluctuation in earnings

		<ul style="list-style-type: none"> • health • plan charging structures <p><u>Broad Principles</u></p> <ul style="list-style-type: none"> • varying amount of payment • more volatile funds for younger people • safe funds nearer retirement • single and/or regular contributions • contributions spread across different life companies/providers • contracts written to earliest retirement age
5.14	<p>understand the major factors which need to be considered when purchasing a life annuity, phased retirement, income withdrawal plans, alternatively secured pensions and unsecured pensions</p>	<p>Major factors include :</p> <ul style="list-style-type: none"> • state of health • family longevity • dependants • other available income • spouse's income • continuing to work • time taken for lower escalating on unit linked pension to overtake level pension in real terms • concern for increasing current or producing future income • fund size • flexibility
5.15	<p>understand how personal pensions plan holders are treated for tax purposes</p>	<p>Points to be considered include :</p> <ul style="list-style-type: none"> • differences of status: employed, self -employed contributions • method and time of assessment or collection • rates of relief • relationship between relevant earnings and election to pay • age allowance • earnings cap • treatment of pensions as earned income • treatment of lump sum • treatment of lump sum death in service benefits • inheritance tax liability • treatment of investment income and capital gains within the fund

5.16	know the types of pension separating devices available to the courts upon divorce	<p>Points to consider include:</p> <ul style="list-style-type: none"> • set off • splitting • sharing/tagging
5.17	apply knowledge to recommend a suitable strategy for the retirement needs of a particular client in a comprehensive financial plan	<p>Design should take into consideration all objectives of financial planning, particularly those relating to retirement. Communication should be clear, precise and in language which the client understands</p>

SECTION SIX – ESTATE PLANNING

STD	OBJECTIVE	KEY-POINT GUIDELINES
6.01	<p>understand the main potential consequences of dying intestate</p>	<p>Potential consequences of dying intestate include :</p> <ul style="list-style-type: none"> • distributions contrary to individual’s wishes • no control over appointment of administrators • delays in settlement • additional costs • unnecessary inheritance tax liability • complications regarding trusts • no appointment of testamentary guardian for young children
6.02	<p>know why it is important to seek professional help in drawing up a will</p>	<p>Reference with expansion to ;</p> <ul style="list-style-type: none"> • avoiding danger of <ul style="list-style-type: none"> - applying wrong intentions - invalidity • eradicating common errors <ul style="list-style-type: none"> - partial intestacy - dissolution of residuary estate because of tax-free specific gifts - non-receipt of gifts to witnesses - no consideration of earlier death of beneficiary - no consideration of effects of testator’s divorce or remarriage - failure to consider claims by dependants - failure to consider definition of “children”
6.03	<p>know the major considerations which need to be taken into account before drawing up a will</p>	<p>Major factors requiring consideration include :</p> <ul style="list-style-type: none"> • funeral arrangements • appointment of and agreement to act by executors and trustees • appointment of guardians • estimate of value of estate including reference to “dying tidily” • list of beneficiaries and specific asset allocation • trust provisions and trustee powers • second beneficiaries if original die before testator • foreign property handled under local foreign law

6.04	know the validity of a will	<p>Attention shown to :</p> <ul style="list-style-type: none"> • eligibility i.e. “testamentary capacity” • legal requirements <ul style="list-style-type: none"> - signature - witnesses • executors and substitutes • legacies including <ul style="list-style-type: none"> - vested legacies - contingent legacies and “interest in possession” • conditional gifts • ademptions • lapse and protection against it • “residuary estate”
6.05	understand what other matters need to be considered in connection with wills	<p>Other matters include :</p> <ul style="list-style-type: none"> • security of the will • alteration and revoke including <ul style="list-style-type: none"> - destruction - codicil - marriage - divorce • regular review
6.06	understand the major characteristics of a trust including its constituent parts	<p>Reference with expansion to :</p> <p><u>Description</u></p> <ul style="list-style-type: none"> • separate legal entity • formal documentation • general purpose in a financial planning context i.e. financial benefits <p><u>Constituents</u></p> <ul style="list-style-type: none"> • settlor • trustees • trust deeds • trust fund • beneficiaries

6.07	analyse the reasons why a settlor may wish to set up a trust	<p>Reference to following reasons :</p> <ul style="list-style-type: none"> • fundamentally <ul style="list-style-type: none"> - retention of wealth within the family - mitigation of tax liabilities - management of capital and income for beneficiaries • particularly <ul style="list-style-type: none"> - provision of benefit for family members without giving outright control of capital when e.g. beneficiaries <ul style="list-style-type: none"> ◦ are minors ◦ not specified ◦ inexperienced ◦ inappropriate - provision for specific purposes e.g. education
6.08	know the common discretionary powers of trustees and why it is advisable to employ the professional services of a solicitor to draw up the trust	<p>Reference with expansion to :</p> <p><u>Discretionary powers</u></p> <ul style="list-style-type: none"> • extent, and whether, beneficiary benefits • age related benefits • choice of investment • subsidiary trusts for beneficiaries • borrowing and lending power <p><u>Professional help</u></p> <ul style="list-style-type: none"> • legal language and technical complexities • avoidance of ambiguity regarding settlor's intentions
6.09	understand ways in which a settlor can influence the discretionary powers of trustees	<p>Reference to following means :</p> <ul style="list-style-type: none"> • by becoming a trustee (first named) • by limiting "letter of wishes" • by reserving power to remove existing, appoint new, trustees

6.10	<p>analyse the major characteristics (including special treatment of income, capital gains and inheritance taxes) of the main types of trust</p>	<p>Identification of the following main types, each with explanatory descriptions :</p> <ul style="list-style-type: none"> • interest in possession trusts • voluntary trusts • discretionary trusts • bare trusts • charitable trusts • life office trusts • offshore trusts <p><u>Interest in possession trusts</u></p> <ul style="list-style-type: none"> • purpose <ul style="list-style-type: none"> - to provide income from assets - to protect control of capital • life interest • use of property by beneficiary • discretionary role of trustees • tax position <p><u>Voluntary trusts</u></p> <ul style="list-style-type: none"> • purpose <ul style="list-style-type: none"> - to protect settlor from <ul style="list-style-type: none"> ◦ wasting own capital ◦ responsibility of managing own capital - to provide income for settlor for life - to protect capital for beneficiaries (children) • general reference to trust made “without consideration” • tax position <p><u>Discretionary trusts</u></p> <ul style="list-style-type: none"> • purpose <ul style="list-style-type: none"> - to provide trustee with flexibility to distribute capital or income at their wide discretion - to provide for as yet undetermined beneficiaries - to allow for variation in allocation of benefits amongst different classes of beneficiaries • emphasis on flexibility in practice • usually set up for maximum period permitted by trust law • accumulation of income • potential for creation of sub-trusts
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		<ul style="list-style-type: none"> • “letter of wishes” • vulnerability to changes in tax laws • tax position <p><u>Bare trusts</u></p> <ul style="list-style-type: none"> • purpose <ul style="list-style-type: none"> - assets held in trust for named beneficiary with absolute and unconditional title to capital and income • outright gift • beneficiary’s rights • tax position
6.11	analyse the appropriateness of any existing trust arrangements and their impact on other areas of financial planning	<p>Reference with expansion to:</p> <ul style="list-style-type: none"> • purpose • type • changing tax legislation • tax and charges • investments • ongoing suitability
6.12	understand the major characteristics of inheritance tax	<p>Reference with expansion to:</p> <ul style="list-style-type: none"> • purpose i.e. conservation of wealth • cumulative basis e.g. <ul style="list-style-type: none"> - at death, lifetime gifts within seven years - at death, lifetime gifts with reservation - gifts with discretionary trusts - value of assets passing on death • nil rate bands and rate of tax • transferable nil rate bands (including previous deceased spouses) • classes of transfer <ul style="list-style-type: none"> - exemptions <ul style="list-style-type: none"> ◦ transfers between husband and wife/rcps ◦ lifetime transfers per tax year, ◦ small outright lifetime gifts ◦ normal expenditure out of income ◦ gifts in consideration of marriage

		<ul style="list-style-type: none"> ◦ lifetime support and maintenance gifts ◦ to dependants ◦ gifts to charities & political parties - potentially exempt transfers (PETs) including tapering relief to <ul style="list-style-type: none"> ◦ another individual ◦ a disabled person's trust - chargeable transfers <ul style="list-style-type: none"> ◦ a discretionary trust ◦ an interest in possession trust ◦ net value of property • effects of domicile
6.13	understand the major factors which need consideration when planning for inheritance tax	<p>Major factors for consideration include :</p> <ul style="list-style-type: none"> • division of assets between husband and wife/ rcps • making full use of exempt gifts • making outright gifts during lifetime • making use of discretionary trusts up to nil band rate • making use of business property and agricultural property relief • obtaining loans against non-business assets • funding IHT through life assurance policies • writing life/pension policies in trust, or under nomination • use of disclaimers and variations to will after death • payment by instalments
6.14	know what mitigation of inheritance tax can be effected by virtue of trusts and life assurance	<p>Reference with expansion to :</p> <ul style="list-style-type: none"> • trust policies producing immediate funds and avoiding probate delay • writing wills in trust on joint life, last death basis • transferring existing policies to trust • use of different types of trust • use of "normal expenditure out of income" tax exemption • using a variety of assurance policies

6.15	<p>understand the importance and effects surrounding Lasting Powers of Attorney and Enduring Powers of Attorney (pre 10.2007)</p>	<p>Consideration should be given to:</p> <ul style="list-style-type: none"> • state of health • control • restrictions on Power of Attorney • Court of Protection
6.16	<p>apply knowledge to recommend a suitable tax planning strategy for a comprehensive financial plan to meet the client's objectives</p>	<p>Design should take into consideration all objectives of financial planning, particularly those relating to estate planning and paying attention to :</p> <ul style="list-style-type: none"> • the estate • client's intentions regarding disposal • tax efficiency • implications of inheritance tax

SECTION SEVEN – FINANCIAL PLANING FOR THE BUSINESS OWNER

STD	OBJECTIVE	KEY-POINT GUIDELINES
7.01	know the major criteria which need to be considered before attempting to set up a business	<p>Reference to the following main points :</p> <ul style="list-style-type: none"> • family support • preparation of the business plan • adequate funding • personal financial plan • cover for loss of rights, income and benefits from previous employment
7.02	know what legal forms a business can take and the major characteristics of each	<p>Reference with expansion to :</p> <p><u>Sole Trader</u></p> <ul style="list-style-type: none"> • cost <ul style="list-style-type: none"> - no set up or audit fees • flexibility <ul style="list-style-type: none"> - open to anyone, anywhere, anytime • compliance <ul style="list-style-type: none"> - no mandatory records or audit • responsibility <ul style="list-style-type: none"> - debt - declaration of income to HMRC • funding <ul style="list-style-type: none"> - reliance on own capital on loans - no access to equity capital • no public disclosure of trading information • profits and losses set off against any other areas • past PAYE clawback facility • low public image • NI contributions and tax as self employed i.e. Class II and IV <p><u>Partnerships</u></p> <ul style="list-style-type: none"> • similar to sole trader status plus • joint and several unlimited liability • importance of partnership contract <ul style="list-style-type: none"> - profit (and loss) sharing - responsibilities - limits of drawing

		<ul style="list-style-type: none"> - length of partnership including cancellation period - exit routes on retirement - voting rights and policy decisions - dealing with disputes procedure - admission and expulsion of partners - absenteeism - withdrawal of capital - accountancy procedure • sleeping partners • limited partners <ul style="list-style-type: none"> - register at Companies House - limited partner's liability to capital contribution - limited partner not allowed to manage business <p><u>Limited Company</u></p> <ul style="list-style-type: none"> • legal identity separate from owners • incorporation at Companies House • liability limited to value of paid up shares or other capital investment except <ul style="list-style-type: none"> - incompetent or fraudulent directors • funding <ul style="list-style-type: none"> - fixed or floating charges over corporate assets - sale of shares - tax advantages • significance of requirement for guarantors in relation to loans and credit • compliance <ul style="list-style-type: none"> - audit required, but type dependent on <ul style="list-style-type: none"> ◦ size of turnover ◦ assets ◦ shareholders voting decision - annual records filed at Companies House • directors on PAYE • high public image • NI contributions by employees (Class I) and company • Corporation tax on profits <p><u>Public Limited Company</u></p> <ul style="list-style-type: none"> • similar to limited company but public, plus • minimum issue of nominal shares
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		<ul style="list-style-type: none"> • quoted and unquoted • very high public image
7.03	know the benefits of preparing a business plan	<p>Reference with expansion to</p> <ul style="list-style-type: none"> • blueprint for monitoring progress, taking corrective action • passport to sources of finance • errors on paper, rather than in the market place • realisation regarding pricing, costs, overheads, break even points • confidence in realistic, strategic goals • process provides insights into long term health of the business • prevents risk of “jumping in at the deep end”
7.04	understand the preparation of a business plan designed to raise funds for starting up, or expanding, a business	<p>Attention to the following main elements should be evident, and as appropriate to the purpose of the plan and the client’s business :</p> <ul style="list-style-type: none"> • <u>Executive Summary</u> • <u>The Business and its Management</u> <ul style="list-style-type: none"> - History and present position - Mission - Short term objectives - Long term objectives - Key management team - Structure - Professional advisers • <u>Products/Services</u> <ul style="list-style-type: none"> - Description and purpose - Development costs - Comparisons with other products - Guarantees and warranties - Source • <u>Market Place and Competitors</u> <ul style="list-style-type: none"> - Customer needs and benefits - Market, segment size and potential growth - Target market - Marketing objectives - SWOT analysis - Marketing strategy e.g. <ul style="list-style-type: none"> ◦ pricing policy

		<ul style="list-style-type: none"> ◦ promotional plans ◦ location and premises ◦ distribution channels ◦ profit margin ◦ market share projection - Sales forecast • <u>Selling</u> <ul style="list-style-type: none"> - selling methods - sales team - support • <u>Management and Staffing</u> <ul style="list-style-type: none"> - management roles, responsibilities and structure - recruitment and selection - incentive schemes relating to performance - appraisal system - training and development - plans for change • <u>Manufacturing</u> <ul style="list-style-type: none"> - make or buy - manufacturing process - facilities required - equipment and machinery - limitations and scale-up - engineering support - quality control - source of raw materials • <u>Acquisitions, Mergers, Joint Ventures</u> <ul style="list-style-type: none"> - plans, targets, search (as appropriate) • <u>Forecasts and Financial Data</u> <ul style="list-style-type: none"> - summary of financial performance ratios - summary sales forecasts - underpinning assumptions relating to forecasts - profit and loss accounts - cash flow forecasts - balance sheets - payback period for major investments - sensitivity analyses • <u>Financial Requirements</u> <ul style="list-style-type: none"> - current shareholders, loans outstanding - funds required and timing
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		<ul style="list-style-type: none"> - use of proceeds - details of the proposal - anticipated gearing and interest cover - exit routes for investor • <u>Business Controls</u> <ul style="list-style-type: none"> - financial - sales and marketing - manufacturing - other controls as applicable • <u>Appendices</u> including <ul style="list-style-type: none"> - management team CVs - names, details of professional advisers - technical data - patents, copyright, designs - audited accounts (if trading) - relevant published reports - orders or enquiries - market research - organisation charts
7.05	understand the potential sources of funding for starting up or expanding a business	<p>Reference with expansion to</p> <ul style="list-style-type: none"> • Own capital and assets “net worth” • Shareholders’ funds including: <ul style="list-style-type: none"> - quoted ordinary shares, warrants and preference shares - securities - special shares: non-voting “A” shares, and deferred ordinary shares - special purpose issues including: <ul style="list-style-type: none"> ◦ share splits: improve liquidity reduce share price ◦ share consolidation: raise par value, reduce number of issued shares ◦ scrip, bonus, capitalisation: increase liquidity, “free” issues ◦ rights issues: raise additional funds, change in company structure • Bank <ul style="list-style-type: none"> - overdrafts - term loans • Government loan guarantees • Factors • Leasing companies • Hire purchase companies

		<ul style="list-style-type: none"> • Trade credit • Rural Development Commission • Credit Unions • Local Exchange Trading Systems (LETS) • Venture Capital providers • Business angels • Other specialist agencies including <ul style="list-style-type: none"> - British Technology Group - The Capital Exchange magazine - GLE Business Incentive Scheme - Venture Capital Report - Grants and soft loans from <ul style="list-style-type: none"> ◦ Crafts council ◦ Local authorities ◦ The Prince's Youth Business Trust ◦ Livewire
7.06	know what financial statements are required by a business	<p>Reference with expansion to :</p> <ul style="list-style-type: none"> • Statutory Accounts <ul style="list-style-type: none"> - limited company requirement - annual presentation to shareholders - filed at Companies House - audit by registered auditors • Management Accounts <ul style="list-style-type: none"> - non-statutory - effective management - required by <ul style="list-style-type: none"> ◦ HMRC for tax assessment ◦ bankers and other financiers ◦ no audit requirements

7.07	<p>analyse a client's balance sheet</p>	<p>Explanations should refer to :</p> <p><u>Purpose</u></p> <ul style="list-style-type: none"> • summary of trading activities for a full year • snapshot of the financial position at end of year • indication of assets and liabilities • indication of sources and amounts of finance used • overall comparison between current and previous years <p>Interpretation should demonstrate attention, with clear explanations and implications arising to the following as appropriate</p> <ul style="list-style-type: none"> • Fixed assets <ul style="list-style-type: none"> - land, buildings, plant, equipment, fixtures, fittings - quoted at cost less accumulated depreciation - details in profit and loss account • Current assets <ul style="list-style-type: none"> - stocks of raw materials, finished goods - debtors including VAT - cash deposits and short term investments • Creditors due within one year <ul style="list-style-type: none"> - short term borrowings - instalments of long term loans - other creditors e.g HMRC, suppliers • Net Current Assets <ul style="list-style-type: none"> - current assets less creditors due within one year • Creditors due after more than one year <ul style="list-style-type: none"> - secured and unsecured loans - leases as HP agreements • Called up share capital <ul style="list-style-type: none"> - nominal value of shares • Reserves <ul style="list-style-type: none"> - retained profits after payment of corporation tax and dividends
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7.08	know why detailed profit and loss accounts are produced in addition to the statutory requirements	<p>Explanations should refer to :</p> <ul style="list-style-type: none"> • statutory account not showing costs of running the business • detailed accounts used for management effectiveness • detailed accounts provided for HMRC
7.09	analyse a client's detailed profit and loss account and analyse action as appropriate	<p>Evidence of attention to the following :</p> <ul style="list-style-type: none"> • sales turnover • cost of sales <ul style="list-style-type: none"> - direct production costs e.g. <ul style="list-style-type: none"> ◦ raw materials ◦ wages of production workers ◦ fixed overheads of production • gross profit <ul style="list-style-type: none"> - profit less overheads • overheads, typically include <ul style="list-style-type: none"> - salaries - rent and rates - heating and lighting - travelling expenses - printing, stationery and postage - advertising - insurance - telephone - audit and accountancy - maintenance and renewal - depreciation (non-plant) • overall financial position i.e. <ul style="list-style-type: none"> - profit before tax (gross profit - overheads - interest payable)
7.10	apply knowledge to recommend a suitable strategy to meet the clients business needs	Recommendations based on identification of trends, strengths and weaknesses using further accounting ratio analyses: see following objectives below.

7.11	<p>understand the purpose and formulae of different types of accounting ratios and measures used to analyse business performance</p>	<p>Reference with descriptions and formulae to :</p> <p><u>Gross Profit Percentage</u></p> <ul style="list-style-type: none"> determines profit from sales in percentage terms formula: $\frac{\text{gross profit}}{\text{sales}} \times 100\%$ <p><u>Return on investment</u> (Return on capital employed)</p> <ul style="list-style-type: none"> defines percentage profit owners of shareholders have obtained on their money during the year. formula: $\frac{\text{net profit (before tax)}}{\text{capital invested}} \times 100\%$ <p><u>Asset Turnover</u></p> <ul style="list-style-type: none"> stock ratio <ul style="list-style-type: none"> indicates time stock is held i.e. turnover time in days formula: $\frac{\text{stock}}{\text{cost of sales}} \times 365$ Debtors ratio <ul style="list-style-type: none"> indicates length of time in days to collect money from debtors formula: $\frac{\text{debtors (excl VAT)}}{\text{sales}} \times 365$ Creditors ratio <ul style="list-style-type: none"> indicates length of time company enjoyed credit from its suppliers formula: $\frac{\text{creditors}}{\text{cost of sales}} \times 365$ <p><u>Liquidity Ratio</u></p> <ul style="list-style-type: none"> Current ratio <ul style="list-style-type: none"> indicates balance of assets against what is owed to creditors within one year formula: $\frac{\text{Current assets}}{\text{Current liabilities}}$
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		<p style="text-align: center;">creditors due within one year</p> <ul style="list-style-type: none"> • Quick ratio <ul style="list-style-type: none"> - determines availability of cash resources to meet liabilities as they fall - formula: $\frac{\text{current assets (excl stock)}}{\text{creditors due within one year}}$ <p><u>Gearing Ratio</u></p> <ul style="list-style-type: none"> • indicates ratio of long term externally provided finance to internally provided e.g. shareholders, funds in percentage terms • formula: $\frac{\text{net borrowing (creditors due after one year + overdrafts)}}{\text{shareholders' funds + net borrowing}}$ <p><u>Breakdown Points</u></p> <ul style="list-style-type: none"> • guide to pricing and turnover strategies • indicates minimum sales required per year before making a profit • formula: $\frac{\text{total fixed costs}}{\text{gross profit on sales}}$ <p><u>Cash Flow and Sensitivity Analyses</u></p> <ul style="list-style-type: none"> • forecasts to identify cash resources required to finance the business • tests assumptions on "what if" scenarios • spread sheet computer programmes
7.12	<p>be able to calculate the value of a small privately owned company</p>	<p>Calculations based on the following:</p> <ul style="list-style-type: none"> • Earnings : profit after tax • Price Earnings (PE) ratio for a quoted company in similar business where: <p style="text-align: center;">Value of company = PE ratio x Earnings</p>

7.13	know what factors may increase/decrease the price	<p><i>Factors affecting the price include:</i></p> <p><u>Increase</u></p> <ul style="list-style-type: none"> • scarcity or rarity value • market leader in niche business • additional profit opportunities for the purchaser <p><u>Decrease</u></p> <ul style="list-style-type: none"> • undue dependence on one customer • low asset backing relative to purchase price • particular reliance on difficult to replace personal contributions of present owner
7.14	understand the liabilities and risks facing a business and its owners	<p><i>Reference with expansion to:</i></p> <p><u>General considerations</u></p> <ul style="list-style-type: none"> • extent of exposure to different forms of risk • effects on the business of any particular risk occurring • cost of insurance as ongoing overhead • commercial decision • obligatory insurance • professional advice • competitive quotations
7.15	understand appropriate protection strategies for consideration by a client	<p><i>Reference with expansion to:</i></p> <p><u>Liabilities</u></p> <ul style="list-style-type: none"> • Employer's liability <ul style="list-style-type: none"> - minimum insurance to cover legal responsibility for death or bodily injury • Personal Accident liability <ul style="list-style-type: none"> - additional insurance to cover moral responsibility to others - cover for own financial security • Product liability insurance cover for certain types of goods <ul style="list-style-type: none"> - obligatory under <ul style="list-style-type: none"> ◦ Consumer Protection Act ◦ Sale of Goods Act ◦ Common Law rules of negligence • Director's and officer's liability

		<ul style="list-style-type: none"> - insurance cover for <ul style="list-style-type: none"> ◦ negligent performance of duties ◦ breach of Companies Act • Public liability <ul style="list-style-type: none"> - insurance cover for legal liability for death or injury to third party on company property • Professional Liability <ul style="list-style-type: none"> - insurance cover against wrongful advice and negligence to client <p><u>Tangible Risks</u> (or loss)</p> <ul style="list-style-type: none"> • Premises, plant and equipment <ul style="list-style-type: none"> - insurance cover including <ul style="list-style-type: none"> ◦ reinstatement ◦ indemnity • Stock <ul style="list-style-type: none"> - insurance cover against fire or theft • Consequential loss <ul style="list-style-type: none"> - insurance cover in order to restore business finance to original state • Goods in transit <ul style="list-style-type: none"> - insurance cover against loss or damage of goods in transit • Commercial Vehicles <ul style="list-style-type: none"> - insurance cover for vehicles used for business purposes • Fidelity and theft <ul style="list-style-type: none"> - insurance cover against fraud, dishonesty or other theft by employees <p><u>Intangible Risks</u> (or loss)</p> <ul style="list-style-type: none"> • Turnover or sales <ul style="list-style-type: none"> - key person and critical illness cover against death or disability of key managers and employees • Gross Profit <ul style="list-style-type: none"> - general insurance "Loss of Profit" cover against fire or serious misfortune • Administration costs or overheads <ul style="list-style-type: none"> - variety of cover including <ul style="list-style-type: none"> ◦ PHI for key people ◦ executive pensions ◦ SSAS schemes ◦ benefits in kind ◦ private health care schemes ◦ death in service schemes ◦ group pension schemes • Loans and Overdrafts <ul style="list-style-type: none"> - term policy cover • Share and Partners Capital
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		<ul style="list-style-type: none"> - critical illness cover - Life policies - inheritance tax implications - wills • General insurance to cover <ul style="list-style-type: none"> - fixed assets - current assets - debtors - work in progress
7.16	know the issues to be considered when planning the succession of a small business	<ul style="list-style-type: none"> • Share Transfer <ul style="list-style-type: none"> - transfer of ownership of the business - trusts - dangers of widely spread ownership - different classes of shares possible • Tax Planning <ul style="list-style-type: none"> - inheritance tax - capital gains tax • Retirement Planning <ul style="list-style-type: none"> - for the retiring business owner - realising share value on exit if required (eg. buy back of company's shares) - valuation aspects

7.17	<p>understand what other steps, in addition to financial protection strategies, can be taken to ensure the successful succession of a business</p>	<p>Reference with expansion to:</p> <ul style="list-style-type: none"> • Strengths, Weakness, Opportunities, Threats, (SWOT) analysis to identify the strategic direction of the business • Organisational analysis to identify key posts and their relative contribution to the established strategy • Job Analysis of key posts to identify critical competencies • Assessment and Training Needs Analysis of current management team (and other staff) <p>either</p> <ul style="list-style-type: none"> • Training and development of potentially suitable incumbents <p>and/or</p> <ul style="list-style-type: none"> • Recruit new staff with appropriate skills and attributes • Consider contract adjustments and incentives for key individuals
7.18	<p>know those legal benefits which employers can provide for their employees</p>	<p>Reference to :</p> <ul style="list-style-type: none"> • benefits in kind e.g. <ul style="list-style-type: none"> - company car - petrol including for private use - PHI - private health care - company membership of recreational clubs - payment of school fees - non-monetary bonuses - use of company assets - staff restaurant • contribution to pension schemes • profit related bonuses • shares in the company
7.19	<p>know the variations in occupational pension schemes in terms of how they are funded, the benefits they provide and the manner in which they are established</p>	<p>Reference with expansion to :</p> <ul style="list-style-type: none"> • differences between contributory and non-contributory • implications of how established e.g. <ul style="list-style-type: none"> - irrevocable trust <ul style="list-style-type: none"> - interim deed - definitive deed - board resolution - letters of exchange

7.20	<p>understand the major factors which need to be considered when setting up an occupational pension scheme</p>	<p>Major factors for consideration include :</p> <ul style="list-style-type: none"> • type and approval mechanisms • eligibility rules • definition of final remuneration • cost implications based on assumptions about <ul style="list-style-type: none"> - salary increases - investment performance - annuity rates - early leavers - changes in scheme membership - deaths - future legislation • funding the scheme <ul style="list-style-type: none"> - controlled funding - deposit administration - deferred annuity (with or without profits) basis • contributions and their tax treatment <ul style="list-style-type: none"> - employer - employee • benefits and options including specified retirement ages • effects of underfunding and surpluses • contracting out of S2P via <ul style="list-style-type: none"> - defined benefit: Guaranteed Minimum Pension (GMP) - defined contribution: NI and “protected rights” benefits • implications of the 1995 Pensions Act
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7.21	<p>know the various types of, and characteristics of occupational pension schemes</p>	<p>Reference with expansion to : <u>Types of scheme</u></p> <ul style="list-style-type: none"> • broad categories <ul style="list-style-type: none"> - money purchase scheme (defined contributions) - final salary schemes (defined benefits) including accrual rates • Executive Pension Plans (EPPs) <ul style="list-style-type: none"> - essentially small number membership - funding base: maximum funding rules - employer minimum contribution - maximum benefits - senior, key personnel • Additional Voluntary Contributions (AVCs) <ul style="list-style-type: none"> - eligibility for membership - limited additional employee contributions - “additional years” condition - charges borne by employer - deduction from gross salary • Small Self Administered Schemes (SSAS) <ul style="list-style-type: none"> - compulsory elements <ul style="list-style-type: none"> ◦ limit on membership ◦ controlling director ◦ asset investment in other than insurance policies - suitability - additional controls - permitted areas of investment and exclusions - “Pensioner Trustee” • Personal Pension schemes • Simplified Defined Contribution Scheme <ul style="list-style-type: none"> - similarity to personal pensions - essential requirements - standard documentation - benefits <p><u>Tax treatment</u> General points :</p> <ul style="list-style-type: none"> • tax efficiency • employer contributions <ul style="list-style-type: none"> - business expense - special contributions and period of spread
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		<ul style="list-style-type: none"> • employee contributions and benefits <ul style="list-style-type: none"> - relief at highest rate - deducted under “net pay” system - investment income and capital gains exempt taxation - pension income taxed as earned income <p><u>Additional Voluntary Contributions</u></p> <ul style="list-style-type: none"> • “net pay” system • differences in treatment of basic, higher rate and non - taxpayers <p><u>Executive pension schemes</u></p> <ul style="list-style-type: none"> • opportunities for individual tax planning • employer contributions <ul style="list-style-type: none"> - as expense of the business - to reduce corporation tax - to provide pension benefits - in respect of NI contributions • employee contributions • borrowing facilities against anticipated lump sum payments • salary sacrifice
7.22	know the main characteristics of Value Added Tax	<p>Reference with expansion to :</p> <ul style="list-style-type: none"> • tax on goods and services • compulsory registration when annual turnover exceeds declared limit • voluntary registration • rates: standard, zero-rated and exempt • quarterly or annual return to HMRC showing <ul style="list-style-type: none"> - purchases and VAT - sales and VAT collected • VAT paid and collected offset against each other: difference paid to, or collected from, Customs and Excise • evidence of inputs and outputs for three years • flat rate scheme etc

7.23	<p>understand how businesses are treated for tax purposes</p>	<p>Reference with expansion to :</p> <ul style="list-style-type: none"> • business profits (sole trader / partnerships or limited companies) taxation • profits based on adjusted accounts i.e. after deduction of permissible expenses e.g. basically if it is <ul style="list-style-type: none"> - incurred wholly and exclusively for the purpose of trade - properly charged against <u>income</u> - not specifically disallowed by statute • writing down allowance: purchase or lease of plant and machinery • onus of disclosure on tax-payer <p><u>Differences in treatment for Sole traders / Partnerships and Limited companies</u></p> <ul style="list-style-type: none"> • timing and importance of accounting period • relief against losses • remuneration <ul style="list-style-type: none"> - directors as employees - PAYE and NIC Class I contributions - corporation tax rates and profit bands • Self Assessment and Pay and File • National Insurance contributions <p><u>Inheritance Tax</u></p> <ul style="list-style-type: none"> • qualifying for business property relief • situation regarding beneficiaries <ul style="list-style-type: none"> - spouse - children - trusts • need for carefully drawn wills • estate planning to meet <ul style="list-style-type: none"> - business needs - security of surviving spouse - tax mitigation - changes in tax legislation <p><u>Capital Gains Tax</u></p> <ul style="list-style-type: none"> • business gifted <ul style="list-style-type: none"> - during donor's lifetime - holdover relief - at death • no tax liability
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7.24	<p>understand the implications for capital gains tax liability on the sale of a business</p>	<p>Implications with expansion are :</p> <ul style="list-style-type: none"> • potential liability on gains • exemptions, reliefs and reductions including <ul style="list-style-type: none"> - market evaluation as at March 1982 - shares, loan notes or debentures rather than cash - roll over relief for sole traders / partnerships - roll over relief for limited companies on <ul style="list-style-type: none"> ◦ Land and buildings for business purposes ◦ fixed plant and machinery ◦ goodwill ◦ living abroad in the tax year of the gain ◦ annual exemptions • need for professional advice
7.25	<p>understand the main exit routes and characteristics available to a business owner</p>	<p>Main exit routes are :</p> <p><u>Outright Sale</u></p> <ul style="list-style-type: none"> • potential buyers dependent largely upon the following criteria <ul style="list-style-type: none"> - availability of finance - business assets including property - growth in sector - growth in profitability - performance record - management team - timing <p><u>Buy Back of Shares</u></p> <ul style="list-style-type: none"> • company buys shares from retiring shareholder • should benefit future trading • availability of cash resources <p><u>Management Buy-Outs</u></p> <ul style="list-style-type: none"> • existing management buy company from retiring shareholder • usually need for additional funding • attraction for venture capital <ul style="list-style-type: none"> - existing management team - less risk

		<ul style="list-style-type: none"> • need for universal commitment of management team <p><u>Management Buy-Ins</u></p> <ul style="list-style-type: none"> • similarity to Buy-Outs except <ul style="list-style-type: none"> - management team imported - replacement of key people, skills shortage - importance of track record of imported team <p><u>Flotation of all or part of shareholdings</u></p> <ul style="list-style-type: none"> • difficulty in meeting purchaser's criteria i.e. <ul style="list-style-type: none"> - costs - good financial performance • loss of private status
7.26	<p>understand with brief descriptions, what are the potential outcomes facing a business with serious financial difficulties</p>	<p><i>Potential outcomes are :</i></p> <p><u>Liquidation / winding up</u></p> <ul style="list-style-type: none"> • dependent on return of capital for shareholders • costs including redundancies • difficulty of selling "goodwill" <p><u>Receivership</u></p> <ul style="list-style-type: none"> • failing to meet obligations to a mortgage e.g.Banks • appointment of receiver to run the business or sell assets • suspension of director's authority • priority of payments in order of <ul style="list-style-type: none"> - auctioneer's fees for selling assets - receiver's fees - person appointing receiver - others <p><u>Administration</u></p> <ul style="list-style-type: none"> • assistance to trading out of financial difficulties • substantial costs • protection from creditors during implementation of approved rescue plan • cash availability to finance the rescue plan • difficulty in getting permission

APPENDIX ONE : PROTECTION PRODUCTS

STD	OBJECTIVE	KEY-POINT GUIDELINES
App I 1.01	know the main types of Term Assurance and the major characteristics including tax treatment of each	<p>Reference with expansion to :</p> <ul style="list-style-type: none"> • level term assurance • decreasing term assurance • increasing term assurance • convertible term assurance • family income benefit • renewable term assurance • common features of: <ul style="list-style-type: none"> - Level term - Decreasing term - Convertible term - Family income benefit - Renewable term • tax treatment including: <ul style="list-style-type: none"> - Friendly Society policies - additional qualifying rules relating to <ul style="list-style-type: none"> ◦ term of <u>ten years or less</u> ◦ term of <u>over ten years</u> - income tax - capital gains tax <ul style="list-style-type: none"> ◦ no impact on policy holder unless policy sold or assigned for money or money's worth - inheritance tax <ul style="list-style-type: none"> ◦ advantages of policies written in trust, or a life-of-another policy where there is insurable interest
App I 1.02	understand the major features of a whole life assurance policy	<p>Must include reference to :</p> <ul style="list-style-type: none"> • permanent protection • payment in return for premiums • payment of sum assured on death or agreed period • investment element to provide surrender value • single or joint lives • options and restrictions

App I 1.03	understand the major characteristics, including tax treatment, of the common types of whole life policies	<p>Reference with descriptions to the following policies :</p> <ul style="list-style-type: none"> • without profits • with profits • low cost • unit linked <ul style="list-style-type: none"> • variety of charges i.e. • tax treatment <ul style="list-style-type: none"> - LAPR - new policy qualifying rules • income tax • capital gains tax
App I 1.04	understand the various types of health insurance cover and the main characteristics of each	<p>Reference with expansion to :</p> <ul style="list-style-type: none"> • Permanent Health Insurance <ul style="list-style-type: none"> - pure protection - unit linked • Critical Illness Insurance • Medical Expenses Insurance • Long Term Care Insurance • Accident, sickness and unemployment • tax treatment <ul style="list-style-type: none"> ○ contributions paid in ○ benefits paid out
App I 1.05	analyse by example typical uses of protection products	<p>Reference with examples and expansion to :</p> <p><u>Term Assurances</u></p> <ul style="list-style-type: none"> • Overall appropriate for temporary protection needs only <ul style="list-style-type: none"> - Decreasing term: suitable for decreasing needs - Family Income benefit: appropriate for young families with limited income and high protection needs - Renewable and convertible Term <p><u>Whole of Life</u></p> <ul style="list-style-type: none"> • generally permanent protection, and guaranteed sum, for spouse or dependants • joint life policies

		<ul style="list-style-type: none"> • with profit policies • unit linked policies <ul style="list-style-type: none"> - greater growth but greater risk - flexibility and opportunity to link with specialist funds - convertibility to provide cover for different stages in life cycle • low cost
App I 1.06	understand what basic factors need to be considered when choosing a protection product	<p><i>Factors to be considered include :</i></p> <ul style="list-style-type: none"> • client needs • surrender values <ul style="list-style-type: none"> • premium levels • charging and commission structure • existing provision • tax treatment
App I 1.07	understand the basic factors which should be considered when choosing a protection product provider	<p><i>Basic factors to be considered include :</i></p> <ul style="list-style-type: none"> • financial strength • quality of service • investment choice and performance
App I 1.08	apply knowledge to recommend a suitable strategy for a comprehensive financial plan to meet the client's objectives and which ensures a client is protected against all eventualities	<p><i>Plan should demonstrate attention to all potential risks and identify appropriate protection products in each case</i></p>

APPENDIX TWO: SAVINGS AND INVESTMENT PRODUCTS

STD	OBJECTIVE	KEY-POINT GUIDELINES
App II 2.01	understand the major characteristics of Bank, Building Society and National Savings products	<p>Reference with expansion to :</p> <ul style="list-style-type: none"> • Bank accounts • Building Society accounts • National Savings products • National Savings accounts • Tax treatment <ul style="list-style-type: none"> - whether interest tax-free or taxable - interest net or gross - implications for non-, basic and higher rate taxpayers - setting up arrangements e.g. Inland Revenue IR 85 - when tax declared or due
App II 2.02	analyse the major characteristics of securities	<p>Must identify following types with descriptions of major characteristics of each :</p> <ul style="list-style-type: none"> • Unquoted shares • Quoted shares • Listed securities e.g. <ul style="list-style-type: none"> - company shares - fixed interest securities - government securities - local authority securities - other public sector stocks • Unlisted securities e.g. <ul style="list-style-type: none"> - AIM stocks - Bank deposits - Building Society deposits - National Savings • Types of shares <ul style="list-style-type: none"> - Ordinary shares - Preference shares - Gilts - Investment trust companies - Warrants

		<p><u>Unquoted shares</u></p> <ul style="list-style-type: none"> • method of purchase • availability e.g. through private equity and Venture Capital companies/trusts <p><u>Quoted shares</u></p> <ul style="list-style-type: none"> • Ordinary shares <ul style="list-style-type: none"> - ownership and limited liability including “unpaid call” - profit sharing, dividends and earnings - voting rights - nominal value - yield calculation - PE ratio - income stocks - recovery stocks - effect of “fundamentals” e.g. <ul style="list-style-type: none"> ◦ expected profitability ◦ covered earnings ◦ overseas market situation <p><u>Preference shares</u></p> <ul style="list-style-type: none"> • priority over ordinary shares • fixed dividends • cumulative and non-cumulative dividends • participating preference shares • call and put options <p><u>Gilts</u></p> <ul style="list-style-type: none"> • Government fixed interest stocks • “coupon” • effects of market expectation, inflation and interest rates • irredeemable and redeemable stocks including “shorts”, “mediums” and “longs”, and redeemable index-linked gilts • total return: interest and capital gain (or loss) • calculation of “running yield” - $(\text{coupon} \div \text{price paid}) \times 100\%$ • calculation of yield to redemption • source of purchase and charging structure <p><u>Investment trust Companies</u></p> <ul style="list-style-type: none"> • limited companies issuing shares - pooled investment • effects of trading at a premium, at a discount
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		<ul style="list-style-type: none"> • effects of gearing • dealing and management fees • split capital investment trusts • Total expense ratios • Use in ISAs <p><u>ISAs</u></p> <ul style="list-style-type: none"> • One per person per tax year • Rules regarding the following <ul style="list-style-type: none"> - maximum holdings - maximum investment - providers - changes, transfers including time limits - residence - age - charging structure
App II 2.03	understand the major characteristics of packaged products	<p><i>Reference with descriptions of major characteristics to :</i></p> <p><u>Investment Bonds</u></p> <ul style="list-style-type: none"> • generally single premium, whole of life, non-qualifying policies • usually unit-linked - nominal life cover - investment allocated to units • management and annual charges • deposit limits and encashment details • choice of equity funds e.g. <ul style="list-style-type: none"> - general funds <ul style="list-style-type: none"> ◦ wide spread ◦ blue chip ◦ less volatile ◦ capital growth, income or balanced objectives ◦ ethical - specialist funds <ul style="list-style-type: none"> ◦ spread restricted e.g. geographical, industry, size of company ◦ volatile, fluctuating prices - fixed interest funds <ul style="list-style-type: none"> ◦ range fixed interest stock e.g. gilts, British or foreign (through life assurance companies), corporate loan stock, property, cash deposit, and managed funds

		<ul style="list-style-type: none"> ◦ objective - generally high capital gain • Total expense ratios <p><u>Maximum Investment Plans</u></p> <ul style="list-style-type: none"> • unit linking, endowment • term to maturity and options • range of funds and switching • purchase, sale, encashment and surrender details • life cover and investment apportionment • cost <p><u>Endowments</u></p> <ul style="list-style-type: none"> • term - death, maturity, surrender • costs, means of purchase, penalties • types e.g. <ul style="list-style-type: none"> - non-profit : guaranteed sum only - with profits : sum assured plus profits - low cost : reliance on bonuses to achieve target - low start : increasing premiums - flexible : including segmentation, open ended "clustering" small policies <p><u>Unit Trusts/ OEICs</u></p> <ul style="list-style-type: none"> • advantages of pooling • bid/offer spread implications • method of investment and costs/ total expense ratios • "fund of funds" • "tracker funds" • fluctuation of available units • cash funds <p><u>Unit Trust PEPs/ ISAs/child trust funds</u></p> <p><u>Annuities</u></p> <ul style="list-style-type: none"> • purpose - converting capital to income • range and variety <ul style="list-style-type: none"> - Annuity term certain (Guaranteed) - Capital Protected Annuity - Compulsory Purchase Annuity - Contingent Annuity - Deferred Annuity - Equity Linked - Escalating - Safe Home Income Plan - Immediate Annuity
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		<ul style="list-style-type: none"> - Joint Life Annuity - Joint Life Last Survivor Annuity - Purchased Life Annuity - Reversionary - Temporary • purchase methods <ul style="list-style-type: none"> - regular payments at set intervals - in advance or in arrears payment implications - with or without proportion payment implications - factors affecting payments in relation to purchase price <ul style="list-style-type: none"> ◦ age and sex ◦ features of the contract
App II 2.04	understand how packaged products are treated for tax purposes	<p><i>Descriptions must include reference with expansion to :</i></p> <p><u>General</u></p> <ul style="list-style-type: none"> • payment methods, whether <ul style="list-style-type: none"> - gross, net or tax free • investor's tax rate • effect of income tax on capital gains tax liabilities, on tax bands and allowance limits <p><u>Investment Bonds</u></p> <ul style="list-style-type: none"> • significance of non-qualifying whole of life policies • no basic rate income tax on gains • deferred encashment advantages for higher rate tax payers • effects of "top slicing" • withdrawals <ul style="list-style-type: none"> - percentage allowance - accumulated allowance facility - effects of overdrawing against allowance - sweeping up calculations on encashment • tax reduction by segmentation • age allowance <p><u>Maximum Investment Plans</u></p> <ul style="list-style-type: none"> • rules governing maturity and surrender timing • effects of segmentation <p><u>Endowments</u></p> <ul style="list-style-type: none"> • special rates for directly held equities and other investments • excess rate liability • chargeable events

		<ul style="list-style-type: none"> • effects and conditions of qualifying status • effects of non-qualifying status • endowments issued by Friendly Societies <p><u>Unit Trusts/ OEICs</u></p> <ul style="list-style-type: none"> • effect of trust corporation tax credit on basic and higher rate tax payers • capital gains tax on disposal of holdings • income tax on distributions • effects of disposal of units relative to capital gains tax • effect of switching on capital gains in a “fund of funds” <p><u>Unit Trust PEPs/ ISAs/Child trust funds</u></p> <ul style="list-style-type: none"> • tax situation on contribution, income and capital gains <p><u>Annuities</u></p> <ul style="list-style-type: none"> • main difference between <ul style="list-style-type: none"> - purchased life annuities <ul style="list-style-type: none"> ◦ capital content ◦ interest element, and - scheme (compulsory or pension) annuities i.e. <ul style="list-style-type: none"> ◦ treatment as earned income ◦ use of cash commutation
App II 2.05	understand why packaged products can suit client needs and circumstances	<p><i>Reference with explanations to :</i></p> <p><u>General</u></p> <ul style="list-style-type: none"> • provide <ul style="list-style-type: none"> - spread of risk - management expertise - investment opportunities for those without investment expertise, right mix of available money or time. - different levels of risk - different tax treatment - different timescales <p><u>Investment Bonds</u></p> <ul style="list-style-type: none"> • opportunities for <ul style="list-style-type: none"> - lump sum investment - capital growth - tax efficiency • wide choice of investment funds • greater benefits for higher rate tax payer • managed funds suitable for those

		<ul style="list-style-type: none"> - new to risk investment - with relatively small resources - with capital - with little understanding of investment • numerous tax planning devices • administrative convenience <p><u>Maximum Investment Plans</u></p> <ul style="list-style-type: none"> • main value to higher rate tax payers • provision for tax free proceeds after 7¹/₂ years <p><u>Endowments</u></p> <ul style="list-style-type: none"> • provision of capital to repay mortgages, school fees etc. • variety of types means suitability for different rate tax payers, different attitude to risk, different financial situations e.g. full, low start, low cost arrangements • number of protection benefits included • bonuses or unit growth protection against inflation • tax free proceeds • disadvantages e.g. surrender value, accessibility, means suitable for long term savers <p><u>Unit Trusts/ OEICs</u></p> <ul style="list-style-type: none"> • meet need for packaged risk investments • normally outperform monetary deposits • accessible, but subject to investment risk, therefore more suitable for medium or long term • variety and spread <p><u>PEPs/ ISAs/CTFs</u></p> <ul style="list-style-type: none"> • advantages of tax-free income and gains • combine investment with ISA tax advantages • low cost transfer through “bed and ISA” • Types of CTF, benefits and control of investment after child reaches 16 <p><u>Annuities</u></p> <ul style="list-style-type: none"> • provide guaranteed income for self or others in return for capital • usually retirement income • large choice of options prior to retirement <ul style="list-style-type: none"> - temporary annuities - annuity certain - deferred annuity
App II 2.06	<p>apply asset allocation and other knowledge to recommend a suitable strategy for a comprehensive financial plan to meet the client's objectives</p>	<p><i>Plan should demonstrate attention to all potential risks and identify appropriate investment products in each case</i></p>

APPENDIX THREE: LONG TERM CARE PRODUCTS

STD	OBJECTIVE	KEY-POINT GUIDELINES
App III 3.01	understand the major characteristics of the different types of long-term care products	<p>Descriptions must include reference with explanations to :</p> <p><u>General</u></p> <ul style="list-style-type: none"> • Payment costs, methods, whether gross, net or tax free • Payments in the event of a claim <ul style="list-style-type: none"> ◦ tax free, gross or net <p><u>Investment Bonds</u></p> <ul style="list-style-type: none"> • lump sum investment • charges to plans • ability to gift capital away out of estate • use of trusts • situation in the event of a claim (ADLs) • situation on death <p><u>Protection Plans</u></p> <ul style="list-style-type: none"> • lump sum or regular payments • no return of fund on death • payments made directly to carers • tax treatment • Means tested <ul style="list-style-type: none"> ◦ Dependent on value of assets held ◦ Partial state assistance ◦ No assistance ◦ Full assistance ◦ Awareness of amounts of payment from the state • Means tested • paid directly to the home/career
App III 3.02	analyse the effects and amounts of state benefits that may be available to clients in need of care	

App III 3.03	understand the tax treatment of state care benefits	
App III 3.04	understand why packaged products and other investments can suit client needs and circumstances	<ul style="list-style-type: none"> • IHT mitigation • Planning in advance • Protection of estate • Individual requirements/wishes catered for • Removal of burden on family
App III 3.05	apply asset allocation and other knowledge to recommend a suitable strategy for a comprehensive financial plan to meet the client's objectives	<i>Plan should demonstrate attention to all potential risks and identify appropriate investment and other suitable products in each case</i>

Contacting the IFP

The Institute strives to achieve the highest standards in supporting our members and providing high quality and relevant material. We welcome any views you may have on the service and materials you receive.

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