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SAMPLE PAPER

FINANCIAL PLANNING & ADVICE
(VERSION 9)

TIME ALLOWED: 2 HOURS

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How to use this sample paper

These 80 questions should be answered in two hours in the real exam, so make sure you time yourself accurately.

Record your answer for each question by circling your selected answer.

When you have finished the test, you may check your answers against the **Answer Sheet** at the back of this paper.

The exam is scored as follows:

56-80 Pass
0-55 Fail

For those questions you answered incorrectly, the answer sheet will show you the corresponding syllabus element, sub element and learning objective against which the questions were written, so you can identify any syllabus areas where you may need to revise further.

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1 A key development in pensions legislation that has seen an increase in attempts to scam pensioners out of their funds, is the introduction of:

A pension freedoms

B short-term annuities

C charge capping

D new rules for pension transfer advice

2 Defined Benefit Schemes have both advantages and disadvantages for a member. The below options detail both 1) an advantage and 2) a disadvantage of such a scheme. Which of the following options best describes how advantages and disadvantages affect the scheme member?

A Flexibility in the amount withdrawn, no investment risk

B Benefits do not have to be taken all at once, if a firm goes bust the benefit may be reduced

C The presence of the Pension Protection Fund, unable to use the scheme to manage a personal tax position

D An opportunity to phase in the start of a lump sum or the income, value increases align only with inflation

3 How does inflation impact risk in retirement planning?

A High inflation increases stock market risk

B Lower inflation reduces the amount of funds needed

C When inflation is higher than assumed, real purchasing power is reduced

D When inflation is lower than assumed, real purchasing power is reduced

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4 Haz and Pat have assets and liabilities as follows:

House:	£200,000
ISAs	£50,000
Debentures:	£15,000
Secured loan:	£10,000
Personal pension (each):	£50,000
Mortgage:	£180,000

What is their joint net worth?

A £175,000

B £205,000

C £355,000

D £385,000

5 Lauren is considering using a buy-to-let property as an alternative way of funding retirement. She needs to be aware that:

A capital gains tax (CGT) may be payable on disposal at the higher rates of 20% and 40%

B she will be able to claim higher rate income tax relief on the mortgage interest for all of the 20-year term of their mortgage

C stamp duty is charged at an additional 3% on purchases over £40,000

D the property will be outside of the estate for inheritance tax (IHT) purposes

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6 Why would a financial planner present a draft plan to a client prior to the development of a comprehensive plan?

A So that the client can see what their money has been invested in

B To demonstrate to the client the size of the guaranteed returns

C To ensure objectives have been correctly identified and prioritised

D To establish a baseline for future advice

7 Why is it beneficial for Financial Planners to use open style questions when collecting client information?

A To establish a definitive 'yes' or 'no' response

B To comply with FCA requirements

C They are easier to answer

D They allow for more detailed responses

8 How should a financial planner proceed if a client has more goals and objectives than they can afford?

A Tackle the largest first

B Change the planning assumptions

C Prioritise the most important

D Tackle the smallest first

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9 How does a flexible lifetime annuity differ from a conventional annuity?

A There is no upper limit on the payments from a flexible lifetime annuity

B Payments from a conventional annuity will trigger the MPAA rules

C Flexible lifetime annuities can benefit from investment growth

D Payments from a flexible lifetime annuity will trigger the MPAA rules

10 Payment protection insurance has historically caused a lot of controversy over mis-selling. This was designed to cover borrowers by continuing to make repayments on loans, credit cards or mortgages if the policy holder found themselves unable to work through ill health or redundancy.

Why did a significant problem with many payment protection products lead to many successful cases for mis-selling against providers?

A Products were not underwritten and therefore providers were unable to meet their commitments

B The protection was often presented falsely as compulsory for a borrower, a credit card applicant or a mortgage applicant

C The amount of protection offered was usually significantly disproportionate to the cost of the policy

D The products were often guaranteed by fictitious ‘shell companies’ who had no capital or assets

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11 Which of the following is true of a defined contribution scheme? Benefits depend on:

A the member's final salary

B the member's number of years service

C the scheme accrual rate

D fund performance

12 The Pension Protection Fund's (PPF) levels of compensation include:

A a spouse's pension of 75% of the PPF compensation amount

B 100% of the pension entitlement for members over the scheme's normal retirement date

C statutory increases in pension but only for pensions earned since April 2005

D 80% of the pension entitlement for members who have not yet reached the scheme's normal retirement date

13 David and Victoria are getting divorced. David has a personal pension, and, as part of the settlement, Victoria is to be entitled to receive benefit from it. Which type of pension mechanism on divorce will best enable her to have a clean break?

A Sharing

B Offsetting

C Earmarking

D Deferring

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14 An eligible jobholder for automatic enrolment into a workplace pensions scheme is aged at least:

A 18

B 20

C 22

D 25

15 If a client wants to purchase an immediate care plan to fund care home fees they will have to undergo a medical assessment in order to determine:

A cost

B eligibility

C health

D tax status

16 How are payments of pension arrears treated after a pension scheme member's death?

A As a Benefit Crystallisation Event

B As a return of premiums paid

C Under the small pots rules

D Under the triviality rules

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17 In what circumstances would a pension be excluded from an evaluation of a client's current circumstances?

A The client only makes minimum contributions

B If it is a state pension

C If it is a self-invested pension plan (SIPP)

D The client is below the minimum pension age

18 A self-invested personal pension (SIPP) has net scheme assets of £400,000. What maximum amount, if any, is the SIPP permitted to borrow to purchase commercial property?

A £0

B £100,000

C £200,000

D £400,000

19 As a financial advisor you have two clients who are twin brothers.

Ronny has been diagnosed with a terminal illness that he has had for 3 years.

Greg, since hearing his brother's diagnosis has been heavily abusing alcohol and as a result has been hospitalised three times.

Given the above circumstances who, if at all, would be most suited to apply for an enhanced annuity?

A Both Ronny and Greg

B Ronny

C Greg

D Neither

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20 Why would a financial planner use a fact-find questionnaire?

A To gather personal and financial information

B To establish the client's financial history

C It is the only way to establish a client's capacity for loss

D It avoids the need for a risk profile

21 The best financial plan will ensure that clients have:

A met the FCA's investment rules

B more money than they will need

C no financial risk

D sufficient liquidity for expenditure requirements

22 Jill, a business owner is planning to sell her business as part of her retirement plan. In respect of business asset disposal relief, she should be aware that:

A if available, relief will be at a rate of 7.5%

B she needs to have held her shares for at least one year

C she will qualify providing that she owns at least 5% of the shares in the company

D she will qualify providing that she owns at least 10% of the shares in the company

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23 A client, Sally, has just called with a query. During the conversation, she told you that she has just changed job and her salary has increased by 25%. What should you do?

A Recommend that an ad hoc review is held as soon as possible

B Recommend that she does nothing now, but should bring this up at her next review

C Tell her you will make a note on her file for her next review

D Tell her you will update her financial plan and send it to her

24 If a pure life policy is written in trust then:

A Any pre-existing will is invalidated

B The Testator will be paid more quickly

C The insured sum will be insulated from IHT

D Trustees will need to establish probate

25 A single, healthy, young client approaches you for financial advice for the first time. In seeking to understand his priorities, which of the following is most likely to be the initial consideration?

A Retirement planning

B Estate planning

C Protection

D Savings and investment

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26 How can failing to provide the necessary information lead to mis selling?

A Customers end up with an unsuitable product

B Customers take longer to make a decision

C The stock market can move while the customer waits for the information

D The customer has to look for the information themselves

27 During the fact-find process, a client has made statements which appear to be contradictory. As a consequence, the adviser should:

A detail the inconsistencies in the report and provide solutions for all scenarios

B ask open questions to clarify the correct position

C make a note of the contradictions but proceed based on the most likely position

D ask the client to sign a disclaimer relating to the inconsistencies

28 When splitting pension rights in the event of divorce, pension sharing:

A allows the scheme member to become the pension credit member

B allows one party to keep the marital home in lieu of pension rights

C creates a cash equivalent transfer value

D enables the scheme member to control the retirement date of both parties

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29 A key advantage of a self-invested personal pension (SIPP) over a personal pension (PP) is:

A wider investment options

B lower charges

C higher rates of tax relief

D more favourable death benefits

30 When investing in a Lifetime ISA (LISA), an investor needs to be aware that:

A the amount that can be held in a LISA is in addition to the current annual ISA limit

B the Government will pay a bonus on all contributions up until age 50

C the maximum contribution that will receive a bonus is £5,000 per tax year

D they cannot access the LISA until age 55, unless it is to be used for a home purchase

31 Why would a financial planner look at capital protection products for a client wishing to plan for long-term care?

A As a means of building up sufficient assets to pay for care fees

B As a means of avoiding inheritance tax

C In order to afford a larger life insurance policy

D To secure a guaranteed return on their money

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32 If an individual accepts pension advice from someone not registered with the FCA, they may not be covered by the:

A Financial Assistance Scheme

B Financial Services Compensation Scheme

C HMRC

D Prudential Regulation Authority

33 The Retail Distribution Review (RDR) was focused on:

A culture and ethics

B financial markets

C investment products

D treating customers fairly

34 In what key way does the Government encourage individuals to save for their retirement using a personal pension?

A The availability of the Lifetime Allowance

B The use of carry forward

C By granting tax relief on the contributions paid

D With an annual allowance of £40,000 for the present tax year

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35 An adviser has noticed that a client has given contradictory responses during the fact finding exercise. How might the adviser proceed?

A Through the use of additional open questions

B The adviser would have to terminate the relationship with the client

C By checking the fact-find

D By using the answers that make the most sense

36 What stage of life assessment describes a client with a low level of assets and high financial uncertainty?

A Early accumulation stage

B Foundation stage

C Late accumulation stage

D Maintenance stage

37 What primary information can a financial planner obtain from a client's net worth statement?

A Their current assets only

B Their current assets plus any expected windfalls such as inheritances

C Their current assets and liabilities

D Their current assets and liabilities plus any expected windfalls such as inheritances

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38 Liam is aged 50 and has 20 qualifying years in respect of his State pension entitlement. He is intending on retiring at age 66. Which of the following best describes his State pension entitlement?

A If he continues to work until age 66 as planned, he will receive a full state pension

B He will receive a reduced state pension unless he makes class three national insurance contributions

C He will receive a reduced state pension if he has previously contracted out

D He will receive a reduced state pension if he has been self-employed

39 When deciding on whether to purchase a care fee annuity, an important point to note is:

A income received is subject to income tax

B no capital is returned on death

C payments made directly to the care home are taxable

D the income received is always linked to inflation

40 An employer offers group Critical Illness Cover (CIC) to its employees and pays the premiums. What effect does this have on the employees tax?

A It is regarded as a tax free bonus

B It is treated as a benefit in kind and taxed

C The employee will have to pay tax on any claim

D There is no tax to pay as CIC is exempt

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41 Where a client approaches a financial adviser to discuss an appropriate suite of protection policies, it is of paramount importance that the adviser:

A seeks to obtain the cheapest policies

B only recommends product providers who are based in the UK

C quantifies the client's needs

D assesses the likely impact of financial underwriting

42 Business protection that provides financial cover in the event that a top salesperson is unable to work would be:

A key person cover

B shareholder protection

C partnership protection

D special liability cover

43 The key purpose of financial planning:

A can be restricted to one or two areas of financial concern

B doesn't involve debt management or damage limitation

C is an evolving action plan resulting from a cyclical process

D is a recommendation to undertake a financial transaction

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44 Four individuals are considering purchasing an annuity. They are all aged 60. Their circumstances are as follows:

Jonathan thinks he has suffered a number of mini strokes in the past 3 weeks but has refused to see a doctor. His brother recently died from the same condition.

Janette, who has just relapsed after spending 6 months in a rehabilitation centre for drug addicts. She is quite unwell.

Shirley has been diagnosed with Multiple Sclerosis and has been told by doctors she may only live another 8 years.

Regis is an active tennis player, playing three times per week. He was recently diagnosed with pre-diabetes and is taking appropriate medication to stop full diabetes developing.

Which person would be best advised to elect for an impaired life annuity?

A Jonathan

B Janette

C Shirley

D Regis

45 When evaluating a client's financial plan, what should you do if the budget to fund financial solutions is scarce?

A Agree the priorities with the client

B Invest in fewer products

C Liquidate the plan

D Lower the risk parameters

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46 What is the tax position of benefits paid from an immediate care long term insurance policy?

A They are paid tax free, if paid directly to a care home

B They are paid tax free in all circumstances

C They are only paid tax free, if paid directly to the policyholder

D They are subject to income tax in all circumstances

47 What would be a paramount objective for a client entering the maintenance stage of retirement planning?

A A significant shift from risky assets

B Downsizing their property

C Maintaining living standards

D Realising all of their Capital Gains allowance

48 A client has a critical illness policy where the premium remains level throughout its term. This confirms that:

A the client has an excluded medical condition

B the policy does not have a reviewable premium

C the policy has a fixed term and has life cover attaching

D the policy will accrue a surrender value over time

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49 For what main reason should an employee join their employer's group income protection insurance scheme?

A To provide a lump sum for their family in the event of critical illness

B To provide private health care in the event of illness

C To ensure they have an income once sick pay ceases

D To provide a lump sum for their family in the event of death

50 For what main reason should a married couple take out life cover rather than rely on any bereavement payments from the state?

A Bereavement payments are not available if the claimant has a life assurance policy

B Bereavement payments are only available to people who have died having previously attained state pension age

C Bereavement payments are only available in respect of people who were in full time work

D Bereavement payments are only paid for a maximum of 18 months

51 An eligible job holder for automatic enrolment into a workplace pension scheme must have annual earnings of at least:

A £7,500

B £10,000

C £12,500

D £15,000

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52 When carrying out his duties, the actuary of a defined benefit pension scheme should be aware that:

A a statement of investment principles must be supplied to the Pensions Regulator on an annual basis

B recommendations to change the scheme to a hybrid basis can only be made if and when the scheme is showing a deficit

C scheme funding levels must be reviewed every 5 years

D the technical provisions must be calculated within 15 months of the actuarial valuation

53 Based on the following annual figures, what is your client's spendable income or shortfall?

Mortgage	£9,800
Income	£28,000
Expenditure	£18,600
Sports club membership	£1,800
Interest from savings	£500

A Spendable income of £100

B Income shortfall of £400

C Income shortfall of £1,700

D Income shortfall of £2,200

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54 How can short periods of unemployment be managed within a financial plan? By:

A amending the client's capacity for loss

B ensuring there are adequate liquid assets held in an emergency fund

C purchasing adequate term insurance

D re-adjusting the risk profile of the plan

55 Where a small self-administered scheme makes a loan to its sponsoring employer, what minimum rate of interest must be charged?

A 1% per annum above the base rate

B 2% per annum above the base rate

C 3% per annum

D 5% per annum

56 A key benefit to a client selling their own business to fund their retirement is that:

A there would be no tax charge on the sale proceeds

B Business Asset Disposal relief may apply to the sale proceeds

C the business will usually be worth more than the client anticipates

D the rate of CGT may be reduced to 5%

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57 When dealing with a client of the Muslim faith, a financial adviser must ensure that:

A no products are recommended which pay interest

B insurance-based solutions must not be used

C pooled funds will be more suitable than directly held stocks

D commission payments cannot be received as a result of any recommendations

58 When assessing client circumstances which of the following should form part of the consideration of their capital needs?

A Debts

B Ethical preferences

C Objectives

D Occupation

59 Why is it important to use a split trust for a policy that provides both critical illness and death benefits?

A So that the critical illness payment is tax free

B So that the settlor can benefit

C To avoid payments being treated as a benefit in kind

D To make the premiums more affordable

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60 Most Critical Illness Cover (CIC) policies are now reviewable. What is meant by this term?

A Premiums are only guaranteed for a fixed period

B No survival period is required

C The amount of cover fluctuates

D The insurer has the right to cancel the policy after giving notice

61 A financial plan should generally be reviewed at least every:

A month

B three months

C six months

D 12 months

62 Which of the following events can invalidate a will?

A Death of a dependant

B Death of an executor

C Marriage of a beneficiary

D Marriage of the testator

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63 John inherits £50,000 and you advise him to invest this in a single premium life assurance policy. He asks you how many years before he can withdraw all of his original investment free of any tax liability but still leave all the profit invested for growth, you tell him this is possible after:

A 10 years

B three quarters of the term

C 15 years

D 20 years

64 Financial plans are usually reviewed on an annual basis unless:

A the client's circumstances change

B stock market volatility drops

C there is a small change to interest rates

D the housing market stagnates

65 Alan and Craig are comparing their respective company pension benefits. Alan is a member of a contributory defined benefit (DB) occupational pension scheme. Craig is a member of a non-contributory defined contribution (DC) occupational pension scheme. In relation to these benefits, it is reasonable to expect that:

A Alan will be less affected by a salary increase than Craig

B Alan’s pension will be taxed more severely than Craig’s

C Craig will bear a greater investment risk than Alan

D Craig’s pension will have a greater commutable element than Alan’s

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66 When reviewing the performance of a plan, why is it important to re-establish the client's objectives?

A Because stock markets go up and down

B So that their risk profile can be lowered

C To ensure products continue to meet the client's needs

D To generate higher fees

67 Leeza's income protection insurance policy provides a proportionate benefit, whilst Hannah's policy provides rehabilitation benefit. As a consequence:

A Hannah's policy will usually have lower premiums

B Hannah's policy will pay a benefit level on a sliding scale depending on the severity of her medical condition at the time of any claim

C Leeza's policy will pay a lump sum towards treatment such as physiotherapy

D Leeza's policy will pay a reduced amount if she returns to work and earns less money following a claim

68 How, if at all, does statutory revaluation affect members who leave a defined contribution (DC) pension scheme?

A It guarantees to increase the value of the fund by the RPI every year

B It ensures that the value of the fund is increased annually, following statutory revaluation guidelines

C Statutory revaluation does not apply, so members have to rely on fund performance

D Members can choose the higher of the fund value or the statutory revaluation figure

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69 What is the advantage of having a Private Medical Insurance (PMI) policy accepted without being underwritten?

A Claims can be handled quicker

B Pre-existing medical conditions will be covered

C The contract can be set up quickly

D The premiums will be lower

70 A key information document is required for all:

A products

B packaged products

C PRIIP products

D non-PRIPP products

71 Why are some financial advisers required allowed less flexibility in their choice of continued professional development?

A They specialise in derivatives

B They specialise in insurance

C They specialise in mortgages

D They specialise in pension transfers

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72 What is the main reason that review meetings should take place between financial advisers and their clients?

A It is a regulatory requirement

B To determine whether there are any further business opportunities

C To enhance the relationship between the client and adviser

D To ensure that the client's objectives are being met

73 How do differing retirement objectives affect financial planning advice?

A It changes the number of financial planners a client may need

B The objectives need to be analysed to see if they are realistic

C They don't, all retirement planning is the same

D They increase the risk for retirees

74 For what main reason would a client take out a payment protection policy?

A To cover the costs of a medical bill

B To receive long term sickness benefits should the client become incapacitated

C To cover regular payments on a financial commitment

D So that their family can benefit from a life assurance benefit

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75 Kevin wants to reduce his working hours to be working a 3 day week. He is aged 55 and his pension has a value of £375,000. He wants to retire at age 60 and with the reduced working week, his net income will be £12,000 less annually. He has a small mortgage and is very risk averse.

Mike is aged 57 and has a defined benefit pension value of £650,000. His company retirement age is 60. He does not want to work part time. He has a wife who has no pension. He owns his house with no mortgage.

Ciara has a retirement pot with her company which is a defined contribution scheme. She will retire at 60 in 3 years' time. Her fund is worth £300,000 and as a single person, feels that her pension will give her an adequate income. She would love to travel when she retires.

Meghan has a critical illness but has been told it is not life threatening. She is 60 and wants to retire this year and feels her pension will be adequate to provide for herself and her two dogs. She has a private pension worth £250,000 and owns her own house.

Given the above facts, who would benefit most from a phased retirement with a pension commencement lump sum (PCLS)?

A Kevin

B Mike

C Ciara

D Meghan

76 A benefit crystallisation event is a test against the:

A annual allowance

B lifetime allowance

C personal allowance

D money purchase annual allowance

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77 The FCA has five main principles on which its Code of Conduct is based. However, in addition to these the FCA has introduced a further four additional principles. What is the purpose of these additional principles?

A To cover firms and individuals who operate in niche areas of the market e.g. Stock Borrowing and Lending Intermediaries

B They define additional responsibilities for those who undertake senior management roles

C They detail additional responsibilities of the board and independent non-executive directors (INEDs)

D They set out a financial planner's responsibilities in terms of ethics and personal accountability

78 How can sequencing risk affect a portfolio?

A A poor sequence of returns in the early years will be more exaggerated

B A poor sequence of returns in the later years will be more exaggerated

C Where withdrawals are being made, a poor sequence of returns in the early years will be more exaggerated

D Where withdrawals are being made, a poor sequence of returns in the later years will be more exaggerated

79 By what latest point must an employer make payments into its defined benefit pension scheme in respect of a given month?

A 10 days from the end of the month they relate to

B 19 days from the end of the month they relate to

C 30 days from the end of the month they relate to

D 60 days from the end of the month they relate to

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80 Mis selling is most likely to have occurred when a client has:

A been persuaded to hold an adequate emergency fund

B made a loss on their investment

C purchased underperforming investments

D received unsuitable advice

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Financial Planning & Advice (Version 9)

Question Number	Answer	Syllabus Reference
1	A	3.5.5
2	C	3.2.2
3	C	4.1.2
4	A	1.5.2
5	C	4.1.3
6	C	5.1.1
7	D	1.3.1
8	C	1.6.1
9	D	3.8.2
10	B	3.5.5
11	D	3.2.3
12	B	3.5.1
13	A	3.5.1
14	C	3.5.3
15	A	2.7.4
16	A	3.3.1
17	D	1.5.1
18	C	3.6.2
19	C	3.8.3
20	A	1.3.2
21	D	1.7.3
22	C	4.1.3
23	A	5.3.1
24	C	2.9.6
25	C	5.1.1
26	A	3.5.5
27	B	1.3.4
28	C	3.5.1
29	A	3.6.4
30	B	4.1.3
31	A	4.2.3
32	B	3.5.5
33	C	2.1.2
34	C	3.1.1
35	A	1.3.4
36	B	4.1.1
37	C	1.1.3
38	A	3.2.1
39	B	2.7.3
40	B	2.6.4

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41	C	2.9.1
42	A	2.2.5
43	C	1.1.1
44	C	3.8.3
45	A	1.7.2
46	A	2.7.2
47	C	4.1.2
48	B	2.6.3
49	C	2.5.3
50	D	2.3.3
51	B	3.5.3
52	D	3.6.1
53	C	1.5.3
54	B	1.7.1
55	A	3.6.3
56	B	4.1.3
57	A	1.3.3
58	A	2.9.3
59	B	2.6.5
60	A	2.6.2
61	D	5.3.1
62	D	2.9.6
63	D	2.4.3
64	A	1.1.2
65	C	3.2.3
66	C	1.7.3
67	D	2.5.2
68	C	3.2.3
69	C	2.8.2
70	C	5.2.1
71	D	1.2.1
72	D	5.3.1
73	B	4.1.1
74	C	2.8.3
75	A	4.2.2
76	B	3.3.1
77	B	1.2.1
78	C	4.2.3
79	B	3.6.1
80	D	3.5.5

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