

AF5 Exam Technique Guide

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Context of the exam

Unlike other Advanced Diploma exams, AF5 Financial planning process assesses subject matter from both the Diploma in Financial Planning and the Advanced Diploma in Financial Planning. There is also no study text for this unit.

The objective for candidates is to be able to demonstrate and apply knowledge, skill and understanding of holistic financial planning based on a complete client scenario.

This exam is about report writing, but you will not be asked to write a report. Instead, you will be asked how you would address specific client issues within the context of a report.

The activities within the exam are broken down into task-based sections that broadly follow the financial planning process.

When undertaking the tasks, it is particularly important to concentrate on the clients' needs. **Answers which only tell the examiner everything you know about a particular topic, without relating it to the clients' needs, will not receive high marks.**

Important facts about the AF5 exam

Credits and level	Study hours	Exam format	Duration of exam	Nominal pass mark	Exam sessions	Other
30 credits Advanced Diploma level	150 hours	Candidates receive a 'fact-find' two weeks before the exam. The exam tests key aspects of the financial planning process as applied to the client scenario.	3 hours	55%	April/ October	In order to be awarded the Advanced Diploma in Financial Planning, you must have a pass in AF5 Financial planning process (or equivalent).

Preparing for the exam

Beforehand

The AF5 syllabus covers all areas of financial advice. Many advisers specialise in specific areas of financial planning and only advise on other areas occasionally. The months before the exam should be used to study those unfamiliar areas. The syllabus can be found at the back of this guide, and at www.cii.co.uk/adip-financialplanning.

As soon as you've booked your exam

- Do not wait until you receive your fact-find to start preparing for the AF5 exam. Start as soon as you can.
- Use the syllabus to give you an indication of the range of knowledge you need to know and try to identify any gaps in your knowledge. Even if the areas investigated do not come up in the exam they will be valuable in contributing towards your CPD.
- Spread the learning over a period of time so that when the fact-find is published you are in learning mode.
- Depending on your current level of knowledge in all areas of financial planning, you should allow yourself a minimum of 150 study hours to prepare for this exam.
- 150 hours of study could mean studying for 7 hours a week for 20 weeks up until the date of receiving the fact-find.
- Organise your time.
 - If you look at your diary and see that it is full of meetings and other commitments, you will easily identify the free time you do have to study and revise.
 - Break tasks down into manageable, achievable goals and schedule them into your diary.
 - Below is a rough guide to scheduling your study to create a realistic path to achieving success in the exam.

A rough guide to an AF5 study plan

Wk 20–Wk 15	Wk 14–Wk 10	Wk 9–Wk 5	Wk 4–Wk 3	Wk 2	Wk 1	Wk 0 Exam Date
Before the exam				Work with Fact-find		Sit exam
<ul style="list-style-type: none"> Prepare study schedule 						
<ul style="list-style-type: none"> Identify knowledge gaps Identify source materials Engage in active study Work through Examination Guide/past papers Reward yourself Test yourself under timed conditions 	<ul style="list-style-type: none"> Identify knowledge gaps Identify source materials Engage in active study Work through Examination Guide/past papers Reward yourself Test yourself under timed conditions 	<ul style="list-style-type: none"> Identify knowledge gaps Identify source materials Engage in active study Work through Examination Guide/past papers Reward yourself Test yourself under timed conditions 	<ul style="list-style-type: none"> Identify knowledge gaps Identify source materials Engage in active study Work through Examination Guide/past papers Reward yourself Test yourself under timed conditions 			

- Identify source materials
 - Look at the syllabus for a Reading list and additional reading items.
 - Read financial journals. Topical issues (in the last 12 months) are often tested.
 - Be aware of FSA activity/concerns, e.g. TCF, Risk, ethical behaviour.
 - Look at up to date materials:
 - R01-R06 or selected J0 unit study texts (available to purchase or to members to view via the CII Library)
 - AF1–AF4 case study workbooks (available to purchase or to members to view via the CII Library)
 - Examination guides (available to purchase or to members to view via the CII Library)
- You could also attend a revision day or workshop at CII's Face-to-Face Training centre. For information on the latest available dates and venues go to www.cii.co.uk/f2f
 - Available prior to exams, these courses enable you to:
 - discover what the examiner is looking for;
 - discuss the common mistakes made by candidates and how to avoid them;
 - learn useful revision and exam techniques;
 - clarify your areas of concern in the syllabus.
- The workshops provide you with the opportunity to examine in more detail the syllabus and past papers. They provide additional question practice and support in-depth discussion with the course tutor.

Getting started on study

- You have identified the times you have available to revise, identified the gaps in your knowledge, got your source material, now – how to get on with it.
- Add detail to the revision times you have identified – prioritising areas of weakness, e.g. insert study guides from RO units and AF units into your plan.
- Work through the Examination Guide.
 - Included in this document are:
 - A past paper
 - Model answers
 - Examiner's comments
- Active study
 - Make notes to aid learning and refer to just before the exam.
 - When making notes you might like to consider using:
 - mind maps
 - timelines
 - flowcharts
 - lists
 - or whatever is most comfortable for you, but do write things down. Time in the exam is tight and recalling something you have already written is easier than creating it from scratch.
 - Reward yourself for each study session – little rewards along the way lead to big rewards at the end.

Testing yourself under timed conditions

You should test your exam skills under timed conditions. A good way to do this, and to assess your technical knowledge at the same time, is to set yourself a mock exam using the Examination Guide. To gain most benefit from this exercise you should:

- Study the fact-find detail as you would for the real exam.
- Set yourself three clear hours to complete the question paper taking into account the financial objectives provided.
- Compare your answers against the model answers once the three hours are up.
 - The model answers will not give every acceptable answer, but they will give you a clear indication of whether your responses were sufficiently holistic and if your technical knowledge was correct.
- Go back and revise further any technical weaknesses revealed in your responses.
- It is recommended that you work through at least two Examination Guides/past papers at different stages in your study plan in order to measure your progress.
- Exam guides and past papers are available to members at **www.cii.co.uk**

The fact-find arrives

By the time the fact-find arrives you will have:

- Made your study plan
- Sourced study materials
- Started your study plan
- Sat mock exams under timed conditions.

You now have two weeks to concentrate on familiarising yourself with the fact-find which contains all the client details you will need in the exam.

The financial objectives of the client will be supplied in the actual exam, together with an identical, fresh copy of the fact-find.

- You will not be allowed to bring into the exam the pre-released copy of the fact-find.

Tasks in the exam will not require you to produce a full financial plan. They will instead be focused on the various elements in the syllabus which are based on the following steps in the financial planning process:

- The relationship between adviser and client.
- Understanding the clients' objectives.
- Evaluating the clients' financial situation
- Making appropriate recommendations.
- Reviewing the financial plan.

In the two weeks before the exam:

- Book out time every day in that fortnight to look at the fact-find
- Look for potential question areas.
 - Client details can point you to potential question areas. For example, this is an extract from the April 2009 fact-find.

Part 2: Family Details of Jayne and Richard Houghton

Children and other dependants

Name	Relationship	Age	D.O.B	Health	Occupation	Financially dependent?
Elizabeth	Daughter	3	18/03/2006	Good		Yes
George	Son	2	02/04/2007	Good		Yes

Notes:

The Houghton's want to consider having their children privately educated but are not sure how they will afford this.

This might suggest a potential client objective is to fund school fees.

In the actual exam, this information related to a number of questions including:

Task 7

7.	Detail and justify the recommendations you would make in respect of each of the following remaining financial objectives. No calculations required.		
	(a)	Funding the children's private education.	(8)

Other examples might include:

- I. A couple with substantial assets – could indicate IHT questions
- II. Clients embarking on a new business – could indicate questions on business tax organisation etc.
- III. Client wishing to retire abroad – may raise questions on residency and domicile, etc.

You should ask yourself: How much do I know about these areas? How prepared am I for questions on these areas?

Research the areas on which you are not confident.

- Discuss the fact-find with someone who has been successful in passing AF5.
 - Did they see any clues that you did not see?
- Visualise the clients.
 - Imagine going through the interview process with them, checking off what is contained in the fact-find.
- List their potential needs, both immediate and longer term, as you see them. Then look to see whether or how those needs are addressed.

The night before the exam

- Get a good night's sleep.
- Put your kit bag together
 - Pens and highlighters – taking a number of pens of different widths can help reduce writer's cramp and aching.
 - Admission slip
 - Identification: passport or driving licence
 - Calculator
 - it must be silent.
 - it must be non-programmable
- Plan your route to the exam centre and allow plenty of time to get there.
- Set an alarm so you don't oversleep – you may wish to set two alarms, one not being connected to the mains.

You will be given a clean fact-find in the exam, so there is no need to take that with you as you won't be allowed to use it.

On exam day

- Arrive in plenty of time; at least half an hour before the exam
- Make sure you are comfortable in your seat and surroundings.

During the exam

- Make sure you have the correct exam paper.
- Take notice of the instructions contained within the question paper. If you are unsure of any part of the instructions ask the invigilator.
- Look through the exam paper and the tax tables.
- Manage your time, allocate time between the questions to help ensure you complete the paper - spend more time on questions awarding higher marks. You can complete the questions in any order, so try the ones you are most confident with first.
- You should not need to look through the fact-find in detail at this stage as it should be familiar to you.
- You will need to read any additional information carefully.
- **Read all the tasks before writing your answers.**
 - Candidates often waste time and effort by rushing to give recommendations at the start of the exam, when they have not fully identified and quantified the clients' objectives.
- Consider the tasks you are asked to undertake.
 - This will help you focus on identifying and interpreting the relevant information provided in the fact-find and any additional information.
 - Unlike other AF papers, the tasks in the AF5 exam are designed to follow the financial planning process. **It is recommended that you undertake the tasks in sequence.**
- If you have time left over, you should review your answers.

Handwriting

- Provided your handwriting is legible, you will not lose marks if it is untidy.
- **We strongly recommend that you do not write in block capitals.**
 - This tends to slow down your writing and, paradoxically, block capitals can become more difficult to read than joined-up writing when hurried.

Answer format

- You should provide sufficient technical details to demonstrate your ability to analyse your clients' needs and make appropriate and holistic recommendations.
- Merely reproducing quantities of technical detail which is not directly relevant to the clients' needs will not achieve many marks.
- Marks will be awarded for demonstrating the holistic consequences of your analysis and recommendations, i.e. how one part of the financial planning process affects all the other parts:
 - how they all interrelate and interact.
- As you will see in the model answers given in the next section, 'Tackling the tasks', using bullet points is acceptable.
- It is wise to leave space at the end of each task so that you can return to it if you wish to add something.

Tackling the tasks

The AF5 exam is designed to cover the whole financial planning process, and as such, has a clear structure detailed below.

- Plan your approach to each task carefully before you start writing your answers.
- Pace yourself and allow enough time to answer all the required tasks.
- Within each task make your point succinctly and accurately. Avoid irrelevant information.
- Ensure that you answer the requirements of the task, and relate it to the clients' specific situation.
- If you allocate time to particular tasks it is important to remember to move on once that time has elapsed. By not doing this you may not leave sufficient time for other questions.

Clients' financial objectives

Recommendations stem from clearly understanding the clients' objectives. As such, AF5 will assess your ability to clarify objectives with clients. As an example:

Task 1			
	Identify the key considerations you would need to discuss with Jayne and Richard in order to meet their:		
(a)		immediate financial objectives;	(13)
(b)		longer-term financial objectives.	(11)

- In order to answer this question you will need, within the parameters of the fact-find, to:
 - Consider the clients' objectives and how these relate to their existing arrangements.
 - What provisions do the clients already have to address these objectives?
 - How effective are any existing provisions?

As an example, under Task 1 part (b), funding for private education was a stated objective for Jayne and Richard Houghton.

The key considerations in the model answer were:

Model answer to Task 1 (b)	
(b)	
	Ascertain the level of school fees.
	To what age will the private school fees be funded and will this include university/start date?
	Willingness to meet fees from income/capital/help from grandparent.

Technical analysis

- Once objectives have been clarified, the examiner may ask for a detailed commentary on relevant technical issues. For example:
 - If the client is in a partnership what protection might be appropriate, how do partnership agreements work, opportunities for partnership investment and retirement planning?

Task 4

	Jayne and Richard are concerned about the impact that disability or premature death will have on their situation.	
(a)	Comment on their present situation and identify any weaknesses in their protection arrangements if either of them suffered a long-term illness or died prematurely. <i>Ignore any potential Inheritance Tax (IHT) liability.</i>	(11)
(b)	Comment on the IHT implications of Jayne and Richard's existing arrangements, with respect to their wish to protect the estate so it can pass to their children tax-efficiently.	(9)

Model answer to Task 4

(a)	Neither Jayne nor Richard has income protection in place nor do they have any critical illness. As Richard is the main breadwinner loss of his income would affect family standard of living and ability to achieve stated goals.
	No provision made for childcare if either/both fall ill. Costs of childcare, or reduction in income to provide childcare would be significant.
	May be eligible for Incapacity Benefit, but benefits are minimal.
	No private medical insurance is in place for either Jayne, Richard or the children.
	Some life cover in place via existing endowments but this is less than current mortgage debt and would not provide sufficient capital to surviving spouse or children to maintain current standard of living.
	Key person insurance has not been arranged for Jayne or Richard, nor have any arrangements been made to ensure business continues in the event of either death/illness. Their income is reliant on the continuation of the business.
(b)	Current wills were made before their children were born, so guardianship clauses may not have been included should they both die.
	Jayne's life policies are not written under trust, therefore they will form part of the estate.
	Jayne has completed an expression of wish form for her group personal pension (GPP) and so the proceeds fall outside the estate.
	Richard has not completed an expression of wish for his Personal Pension Plan (PPP), so proceeds form part of the estate.
	Their assets are illiquid and assets would need to be sold to pay the Inheritance Tax (IHT) on second death.
	Business property relief (BPR) should be available on partnership/limited company. Thereby reducing the value of the estate.

- Taxation is central to financial planning.
 - The examiner may ask for an explanation of tax implications of the clients' circumstances and objectives.
- Calculation questions will always carry marks for stages in the process and for method. For example, providing the correct answer alone will only provide low marks. Be careful and check your answers thoroughly.
- You will often be able to score marks for extracting the correct information from the fact-finds to use at the basis of your calculations, for example, identifying correctly the amount of investment income and whether it is gross or not.

Task 5

Calculate, **showing all your workings**, the value of Jayne's net inheritance of her mother's estate, were she to die now, having made no prior gifts.

(10)

Model answer to Task 5

		£
	Free estate	370,000
	Settled estate	<u>110,000</u>
	Total	480,000
	Less Nil Rate Band from tax year 08/09	<u>(312,000)</u>
	Taxable estate	168,000 x 40%
	Total IHT Payable	67,200
	IHT due on free estate	370,000
		480,000
		x 67,200
		= 51,800
	Free estate	370,000
	Less tax due	<u>(51,800)</u>
	Free estate value (net)	318,200 ÷ 4
	Jayne's share	79,550

Examiner Comments

This question was set in the 2008/09 tax year so the tax rates from that year are used in the above example. The calculation illustrated here is to show that marks can be gained for following the right method. A candidate could calculate the free estate incorrectly, and would not be awarded a mark for that error. If the method was then applied correctly all the other marks available would be awarded. Wherever an error occurs in a calculation the error does not score a mark, but what precedes and follows the error is still rewarded.

Recommendations

- **Recommendations need to be clear and justified.**
 - What are you recommending?
 - Why have you recommended it?
 - How does it meet the clients' needs?
 - Which features and/or benefits are specific to them?
- There may be more than one solution to the clients' objective and so you must ensure you provide justification for each possible solution.
- A straightforward recommendation will usually take less time to justify.
- It is important to describe accurately the operation of each solution, but a mere list of features will miss some marks.
 - Many candidates fail to describe how the compared solutions operate for the benefit or detriment of the clients in the case study
- Identifying relevant benefits and drawbacks which match the circumstances of the client shows understanding and application of knowledge.

Continuing from our example, the recommendations provided to Richard and Jayne:

Task 7		
7.	Detail and justify the recommendations you would make in respect of each of the following remaining financial objectives. No calculations required.	
	Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their clients' objectives.	
	(a)	Funding the children's private education.
		(8)

Model answer for Task 7 (a)	
(a)	Fund fees from income.
	They could make use of trust arrangements/gifts from Jayne's mother now subject to her agreement.
	Use other assets, e.g. holiday cottage to increase the Individual Savings Account (ISA) savings to fund future fees.
	Start letting furnished holiday let to generate a further income.
	IPI/Critical Illness Cover or Life Cover to be effected to enable school fee costs to be met in the event of illness or death.

Continuing service

- What events would trigger a review?
- What information would you need for a review?
- What would a review seek to achieve for the clients?

It is important to ensure that all your answers are relevant to the fact-find.

Task 8

	When considering a review strategy for the Houghton's:		
	(a)	identify six key events relevant to their circumstances when a review should be conducted.	(6)

Model answer for Task 8 (a)

Candidates would have gained full marks for any six of the following:

(a)	<ul style="list-style-type: none"> • End of the tax year/significant change in tax legislation/prior to new company year end.
	<ul style="list-style-type: none"> • Dates when children cease to be dependent/start school/get married.
	<ul style="list-style-type: none"> • Death/health problems of either.
	<ul style="list-style-type: none"> • Death of Jayne's mother.
	<ul style="list-style-type: none"> • Jayne or Richard's retirement.
	<ul style="list-style-type: none"> • Mortgage repaid for main residence/endowments mature.
	<ul style="list-style-type: none"> • Disposal/review of holiday let.
	<ul style="list-style-type: none"> • Divorce of Jayne and Richard.

Examiner Comments

See how some of the points above have universal application. For example, a review at the end of the tax year would be sensible for many clients and is credit worthy in this particular scenario. Some other points are, however, very much linked to the case study presented in the actual exam. For example, there was a mortgage still to be repaid in the case study information and this becomes a trigger for a further review, the couple owned a holiday let so its disposal also becomes a trigger for review.

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