

Investment companies planner of the year

BACKGROUND

James McNally aged 47, has recently finalised his divorce, but he is very bitter as he feels his resources have been seriously depleted. He is now looking to rebuild his assets as fast as possible. He is having difficulty accepting that the divorce may mean he has to postpone his plan to retire at age 55. He doesn't drink or smoke and enjoys great health.

James is employed as a software developer for a thriving company and currently earns £82,000 basic salary with a non-guaranteed annual bonus. Over the past three years this bonus has averaged £35,000 pa, paid bi-annually. James owns a small number of company shares but has no interest in purchasing any more. He is not keen on his job but it pays the bills.

James's daughter Gemma, aged six, now lives with his ex wife. As part of the divorce settlement he pays maintenance of £1,200 pm, payable until Gemma is 18. He is very generous towards his daughter and indulges her love of horse riding. Instead of paying his ex wife personal maintenance or signing over a share of his pension, James gave her the mortgage-free family home and a lump sum of £350,000 in full and final settlement of all claims. He used cash that he inherited from his aunt to pay for all of the divorce costs.

He has purchased a two bedroomed bachelor pad and is adamant that he will never remarry or have any more children. Following his divorce, James now owns the following assets:

- Bachelor pad – paid £450,000 in 2006, now valued at £365,000.
- £42,000 in a savings account earning 1% gross interest.
- Personal pension valued at £350,000 invested in four funds – 35% UK Equity, 35% worldwide equity, 20% Far East and 10% US. He transferred old personal pensions into this fund and currently pays £1,000 gross pm. His employer matches this contribution. Retirement age is set at 60.
- 2,850 shares in the Scottish Mortgage Investment Trust, purchased in March 2005 for £10,000.
- 6,400 shares in the Scottish American Investment Company, purchased in October 2006 for £15,000.
- Two Baronsmead VCTs – he invested £25,000 in April 2007 and 2008 respectively to offset his income tax bill. He is keen to continue these investments to help clear his current mortgage and perhaps use future dividend income to supplement his pension.
- 1,000 BT and 800 British Airways shares inherited when his father died on 5 June 2005. He has no emotional attachment to these share holdings.

He has a repayment mortgage of £123,000 with a remaining term of 13 years. He has been making lump sum payments on the mortgage to clear it quickly. The mortgage costs £930 pm on the standard variable rate (currently 4%). He has no other debts. James has an aggressive attitude towards investment risk and is happy to invest 70% of his assets into equity. James is enthusiastic about the benefits of investment trusts and would like to use them wherever appropriate within his portfolio.

PROBLEM

James's annual expenditure is currently £57,000 including pension, Gemma's maintenance and the mortgage payments. He is keen to continue his present standard of living in retirement. He would like to retire at 55 but is aware that he will probably have to work until he is 60.

He wants to provide Gemma with a lump sum on her 18th birthday, which she can use towards either a car or a small deposit on a house. He would like to give her the equivalent of £25,000 in today's terms. This gift takes priority over everything else.

ADVICE

James would like an analysis of his existing portfolio of VCTs and Investment Trusts, as he is no longer sure that they continue to help him achieve his goals. James hates paying tax of any kind and seeks your advice on how he can reduce his tax bill both now and in the future. Your report should outline what he needs to do to ensure both of his main objectives ie, retiring early and providing the gift to Gemma. You should also, in bullet format if necessary, address any other areas you deem to be important bearing in mind his attitude to risk.

£500
First prize

£200
Runner up

Your answers should be no more than 2,500 words. Please ensure that you state the number of words used for each case study entry.

Full rules see p3

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