

Pre retirement planner of the year

BACKGROUND

Ronan James, a widower aged 49, owns 100% of the shares of a family business James Electrics Ltd. His salary is £75,000 pa. His daughter, Susan aged 27, has worked in the business since she left school. She earns £35,000 pa and the plan is for her to take over when Ronan retires at 60. His son, Robert, joined the army and has no interest in the business. The company has been in business for 50 years manufacturing light fittings at their factory. Last year the annual turnover was £5m, pre-tax profits £750,000. James Electrics Ltd has a full order book – in fact Ronan was thinking of expanding but has now decided not to. He anticipates that the turnover for 2009 will be £5.5m.

The company owns the factory, which was recently valued at £950,000. The agent suggested that the monthly rent would be £12,500 if they were to rent it out. There is no mortgage on this property as Ronan's father (who died 8 years ago) didn't believe in debt. The company would normally maintain cash balances of £350,000 but does not currently hold any cash. Ronan would like to have £500,000 available to prevent any cash flow issues.

Ronan considers himself an experienced investor and is happy to invest up to 55% of his assets into the stock market. His personal assets include:

- Home with no mortgage valued at £665,000
- £33,000 in a savings account earning 1% gross interest.
- Personal pension valued at £355,000 invested in four funds – 40% UK Equity, 30% worldwide equity, 20% fixed interest and 10% cash. The company pays £1,000 pm into his pension and he pays £500 gross pm.
- He has a protected rights pension fund of £95,000 invested 100% in a Managed fund.
- A portfolio of investment trust ISAs, valued at £120,000 invested in UK equities.

Susan also has a personal pension to which the company contributes £1,000 pm but she only pays £250 net pm. Her pension plan is valued at £90,000 and is invested 100% in a Managed fund. She also has a protected rights pension fund valued at £24,000, also invested in a Managed fund. She is single and lives at home with her dad but is saving for a home of her own. She has saved £25,000 towards a deposit.

PROBLEM

James Electrics Ltd is starting to experience cash flow difficulties and Ronan is becoming concerned that this may result in closure of his profitable business with the loss of 30 jobs.

The only debt that the company carries is an overdraft facility of £210,000. This facility was previously £500,000 but the bank reduced it at its quarterly review in January. Ronan has asked the bank to consider lending him £500,000 against the company premises but its rate would be 10% above base, which he feels is extreme.

In addition, Ronan's suppliers have indicated that they wish to be paid in advance for raw materials purchased rather than their old terms of 30 days after receipt of goods, although they have advised Ronan that they hope to be able to return to their old terms as soon as possible. Ronan cannot afford to switch to new suppliers as he doesn't want to risk poor quality. But Ronan is unwilling to move to payment in advance terms for his customers as he feels that he will lose clients to his competition.

Ronan also feels that he should include Susan more in the business – he doesn't want her to leave as he isn't getting any younger. Susan wonders if there is a way to use her pension fund to help her Dad as she can't access these funds for her new house.

ADVICE

Ronan seeks your advice as to how he could access funds to use in his business. 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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