financial planner awards 2009

Money Management

Case study 3

Cautious investment planner of the year

BACKGROUND

David and Leanne Adams are both aged 47. David has just won the £1m Premium Bonds jackpot and whilst they are delighted, they are feeling overwhelmed at the size of their win. David is an electrical maintenance engineer; he was recently promoted and earns £37,000 pa. He has death in service cover of four times salary and a group personal pension plan. There are no other benefits. Leanne works as a part-time secretary three days a week earning £8,000 pa. She joined the stakeholder scheme in 2001 but her employer doesn't make contributions. Both jobs are relatively secure.

David and Leanne live in Sussex in a modest three bedroomed house valued at £240,000 with an outstanding repayment mortgage of £100,000. They have two children, Michael aged 23 and Daniel aged 21 who have both been to university and are now living with friends.

Michael has a degree in IT and is earning £20,000 pa. Daniel has just recently graduated with a business degree and has joined a graduate trainee program with a bank earning £18,500 pa. Both Daniel and Michael worked whilst in college but still ended up leaving in debt: Daniel's debts are £7,000, £5,000 of which is a student loan, the balance is on credit cards; Michael has a student loan of £4,000.

David and Leanne have the following assets:

- David pays 5% of salary into the pension, which is matched by his employer. He joined the scheme in 1996; current fund value is £67,000 and is invested in the managed fund. Retirement age is 60.
- Leanne began a pension in 2002 with a small inherited lump sum. She pays £50 gross pm and is invested in the UK equity fund. The current fund value is £6,000 and retirement age is 60.
- £12,000 in a joint savings account earning 1% pa.
- £1,000 in Premium Bonds in David's name.
- £3,600 in a cash ISA in David's name earning 3% pa.

Their only debt is their mortgage – their fixed rate of 6% ends on 30 June this year and the term ends in 2015.

Their annual expenditure is £32,000 inclusive of the pension contributions and the mortgage payments. They are both risk averse and do not wish to invest more than 20% of their money into equities.

PROBLEM

They have decided that they would like to retire by the time David is 55 and do some travelling whilst they are still young. They know that their current retirement provision will not be sufficient to meet the cost of living in retirement, which they anticipate to be £24,000 pa in today's terms.

Although they believe that their sons should be self sufficient and learn the value of money, they are keen to share some of the money with them. They would like to immediately clear the debts that the boys built up at college. They would also like to give each of the boys £50,000. They are worried that the boys will not learn how to manage their finances so would prefer that they do not have access to this money until they are at least 25 unless it is used as a deposit for a property.

Ideally they would like to retain access to most of the cash that they have won as they are quite nervous about losing control of these funds.

ADVICE

Your report should advise how David and Leanne can best invest their win to meet their future income requirements bearing in mind their attitude to risk and their wish to help their sons. You should also, in bullet format if necessary, address any other areas you deem to be important to this couple.

£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