Money Management financial planner awards 2009

Case study 4

Income drawdown planner of the year

BACKGROUND

Bob and Jean Colley are both aged 63 and have recently retired, buying their dream home, paying cash of £800,000 for the house overlooking the sea near Constantine Bay, Padstow, Cornwall. They are both keen golfers and have joined the local golf and country club. They hope to have a long retirement playing golf, enjoying the country club and spending their savings over the remainder of their lives, and like to combine their love of golf and travelling.

Their two children are well established and financially sound. Bob and Jean gave each of their children £550,000 in 1995 and feel no need to assist further. Their children have excellent jobs and send the four grandchildren to private schools. With their children's knowledge and agreement, the Colleys have made their grandchildren equal beneficiaries of their estate. They took advice about 10 years ago and established a second-death whole of life assurance policy for a sum assured of £600,000 to help offset the potential inheritance tax liability. This policy is in trust for their grandchildren and costs £400 pm.

Bob has a number of personal pensions with various providers with a combined value of £650,000 and a protected rights only personal pension plan worth £70,000. He has not drawn benefits from any of the arrangements and the funds are now invested 25% cash and 75% gilts. Jean has a personal pension plan valued at £200,000 and has taken no benefits to date. She also has a protected rights policy currently valued at £170,000 as she transferred an old company pension plan three years ago to Standard Life. Her pension funds are also invested 75% gilts and 25% cash.

The couple has no outstanding debts. In addition to the house and pension funds outlined above, they also own the following assets:

- £200,000 in a jointly held deposit account earning 2% gross interest.
- Each holds £20,000 in premium bonds, purchased in October 2006
- Bob has invested £100,000 since April 2002 into unit trusts, now valued at £250,000 (currently split 60% UK gilt fund, 30% worldwide gilts and 10% in a cash fund).
- Jean has invested £125,000 since 1999 into four unit trusts; currently all invested in UK gilt funds and valued at £255,000.

Both Bob and Jean are relatively experienced investors. They switched their actively managed portfolios into cash and gilts in 2007 as they felt that the equity markets were overvalued. They believe that that was the correct decision but are now keen to buy back into stocks and shares. They are relaxed about investing up to 55% of their combined assets in equities to meet their future needs.

PROBLEM

The Colleys' respective parents and grandparents lived into their 90s and both Bob and Jean are fit and healthy. Their current annual expenditure is £60,000 pa, as they enjoy the social life associated with their hobbies and spoiling the grandchildren. This figure also includes regular charity donations. They do not anticipate this figure changing significantly.

Having now moved into their new home, they want to take income from their pensions and investments rather than continuing withdrawals from their cash savings. They have recently renewed their cars and have no requirement for the tax-free cash.

They dislike the idea of buying an annuity and have asked about income drawdown. However, they have considered the ASP route at age 75 but are concerned at the 82% tax charge, believing that they should leave as little as possible in the pension fund on death past that age. They also seek reassurance that they will have sufficient monies to maintain their current lifestyle until they have both died. They do not wish to become a burden, either financially or emotionally, on their children.

ADVICE

Your report should advise how Bob and Jean can best meet their current and future income requirements bearing in mind their attitude to risk and their concerns about becoming a burden on their family. 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