

Pre-retirement planning report

RONAN JAMES

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1 Financial position and objectives

Financial Position

I understand your current financial position is as follows:

- You are aged 49, and widowed.
- You own James Electrics Ltd outright. This Company makes light fittings.
- Your assets are listed on the attached net worth statement.
- You have no personal liabilities.
- Your daughter – Susan – works in the business with you.
- Susan can be considered financially dependent on you.
- You have not confirmed your current gross income.
- You have not provided details of your annual expenditure, but that you expect this to remain constant in real terms.

Objectives

We understanding of your main objectives are as below:

1. Your priority is to resolve the situation created by actions taken by the Company's Bank. These actions are adversely affecting your business finances. If allowed to continue this could threaten the stability of the business, and therefore your personal financial security.
2. You wish to retire at 60.
3. On your death, you want to ensure Susan is properly catered for.

2 Attitude to investment risk, and assumptions used

Attitude to investment risk

You have stated you are an experienced investor, and that you are happy to expose up to 55% of your invested assets in the stock market. You have not undertaken a formal assessment of this. It is essential that you understand the risks associated with your investments. Please note more

information is required about your current personal investments, given that some "Managed Funds" can have between 60% and 100% equity exposure.

I recommend that you complete an investment risk profiling questionnaire through which to establish this.

I further recommend that I complete a cash flow model to ascertain the demands on your capital to generate your expected retirement income.

The following text provides a summary of the various asset classes and the associated risks as follows:

Cash - Investment in cash should provide protection against rising interest rates, generally performs poorly in the long term, especially in times of higher inflation.

Fixed Interest - Investments in fixed interest securities perform well in times of falling interest rates, and can provide secure income at known dates in the future. They tend to lose value in times of rising interest rates and high inflation.

Equities - Equities provide rising income and capital returns in the long term. In the shorter term, values can fluctuate substantially. Equities tend to perform badly in times of slowing economic growth, or rising interest rates. International markets can move in different directions from each other and therefore reduce overall volatility.

Property - Investment in commercial property usually involves exposure to office space, warehousing, and retail space amongst others. The state of the economy will have a bearing on returns. The existence of short, medium and long term leases means that the returns from commercial property are generally uncorrelated to those from equities.

The effect of inflation erodes returns produced by all asset classes. The comparative or opportunity risk is that the return in one assets class is overshadowed by a much better return in another asset class.

Within each asset class there is a systemic risk that the class itself performs poorly, and the non-systemic risk that the fund or individual stocks fall relative to the performance of the asset class as a whole.

By using a combination of cash, property, fixed interest and equities, the individual risks described above can be reduced as a consequence of the diversification provided by different asset classes.

Assumptions

I have used various assumptions to draw my conclusions and make my recommendations. Some of these assumptions are based on the market assumptions are used to model your financial position over the years -others are specific to your own affairs. I have used the following assumptions:

- Inflation rate of 2.0%. The 12-month rate of change of the Retail Prices Index (RPI), (Excluding mortgage interest) was -1.2% to the year-ending April 2009, down from -0.4% in March 2009 (source: IDS on-line search 4th June 2009). The rate in the previous 10 years has rarely been above 3.5%. Whilst there is the potential for deflation, I believe an assumption of 2.0% at the present time is reasonable.
- A gross rate of return of 1.25% on any cash investments. This can currently be achieved from a deposit account having £100,000.00 credit balance. There is potential for 12 month fixed term deposit accounts achieving up to 3.5% pa (Cater Allen Private bank 12-month term deposit account rate quoted 4th June 2009).
- The following real rates of return on investment asset classes are:
 - Equities – 6.8%
 - Commercial property – 3.30%
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The rate assumed for equities is taken from Dimensional Fund Advisers Matrix 2009, which gives an equal weighting to UK & US returns between 1967 and 2008. It is adjusted for inflation and assumes for reinvestment of income.

The rate of return for commercial property funds is taken from IPD UK Annual property index to 31st December 2008. The annualised rate for the last 10 years is @ 7.5%. I have adjusted for the assumed rate for inflation (3.2%).
- Your expenditure will remain level in real terms.
- Annuity rates available at age 60 are currently @ 6.25% for a single life annuity level and guaranteed for 5 years (FSA comparison tables).
- Borrowing Rates applicable to your SIPP's are @ 6.0% per year.
- You will be entitled to a full State Retirement Pension at age 65. You are not entitled to SERPS or S2P benefits.
- You are in good health, and a non-smoker.

- You are resident for tax and domiciled in the UK.

3 Issues and recommendations

Overview of recommendations

To meet your personal financial objectives I am making the following recommendations:

1. You and your daughter Susan should transfer both your Non-Protected Rights, and Protected Rights Personal Pension Plan funds into new, separate SIPP contracts.
2. You should both use the same SIPP provider.
3. Arrange for a new valuation on the company property.
4. Arrange for a single contribution for you and Susan from James Electrics Limited to your SIPP's with immediate effect.
5. Using your combined SIPP funds and a mortgage, purchase the property from your business into your combined SIPP's.
6. Arrange for a lease agreement to be established with James Electrics Ltd.
7. Make on-going annual contributions from James Electrics Ltd to your, and Susan's SIPP contracts.
8. Make a new Will and a Lasting Power of Attorney.

Specific Recommendations

Pension Transfers

- Until recently it was not possible to hold Protected Rights funds within a SIPP unless these funds were held in a separate cash account. These funds could not be used to invest in commercial property or equities. Recent rule changes now allow this.
- By transferring your combined personal pensions into the new SIPP's you are enabled to purchase individual equities and other approved self-invested assets. This is not possible in your existing personal pension plans.
- The recommended action will create a fund value @ £588,000.00

SIPP Borrowing

- A SIPP (or group of SIPP's) is/are allowed to borrow up to 50% of net assets. This borrowing is allowed to assist in the purchase of a new investment, or to improve an existing one.
- I have made this recommendation, as opposed to establishing a Small Self-administered (pension) Scheme, to utilise the maximum loan-back, because this would not generate sufficient cash back into the business to make you independent of "the Bank".
- Similarly, please note SIPP's cannot make loans back to a connected party.
- Initial indications are that a new commercial property valuation will arrive at a discounted value @ £900,000.00 given the current depressed commercial property market. A total fund @ £626,000.00 is therefore required to enable the property purchase to proceed (£939,000.00 including Stamp Duty and fees). There is a shortfall in cash available @ £38,000.00.
- The transfers will create a fund value @ £588,000.00. Receipt of the single contributions @ £19,000.00 each, will mean the SIPP's will have net assets @ £626,000. Borrowing @ £313,000.00 is therefore allowable.
- Arrange for a loan within your combined SIPP's, on an interest-only basis @ 6.0% per year, over a term of 16 years. The borrowing secured by the SIPP's will allow the members to purchase the commercial property currently owned by James Electrics Limited.
- Then lease the property back to the Company at a commercial rent charged @ £9,750.00 per month. This represents an Open Market Rental value @13.0% per year.
- Completing these transactions will enable the Company to repay all borrowings to the Bank, and to provide working capital @ £652,000.00 (£690,000.00 – Single contributions).
- Use the rent received, plus new contributions made into the SIPP from James Electric Limited to repay the mortgage.
- The loan should be repaid over 16 years, so that there are no liabilities remaining in your SIPP when you come to take benefits at your stated retirement age of 60. Whilst the loan could be repaid over a longer term, the effective rate of return by repaying the

loan will be @ 6.0%, compared to an assumed rate @ 6.8% on equity investment.

Ongoing gross contributions

- I recommend that all future contributions on behalf of you and your daughter should be made @ £19,000.00 per year from James Electrics Limited (Total £38,000.00).
- This contribution level should be regularly reviewed, subject to the profitability of the business.
- Note has been made with respect to the Anti forestalling measures in the 2009 Budget.
- The contributions are 100% allowable for Corporations Tax.

Will

- You should make a Will to ensure that your estate is dealt with in accordance to your wishes.
- You should instruct Lasting Power(s) of Attorney to be established covering Personal Finance and Affairs also Health and Welfare.
- You should carefully consider the situation that Susan has worked in the business since leaving school, and as a consequence has assisted you in the enhancement of the business value.
- Your son Robert – who is in the Army – has not expressed any interest in the Company to date. This does not necessarily mean that this will always be the case!

How the recommendations meet your objectives

The profitable survival of your company is the pin in the hinge of your personal and corporate financial planning, and will ensure the future security of your family.

My recommendation will allow you and your daughter to utilise your combined pension funds to purchase the commercial property currently owned by your Company. This will release you from the strictures currently being imposed by your Bank.

Whilst your pension funds will be heavily invested in commercial property in the early years, this situation will have a number of advantages. The dynamics of the pension fund investments will change over time:

- a) The rent stream received by your combined SIPP's will be accrued in proportion to the original transfer value allocations. New contributions and rent receipts will allow you to repay the borrowings in a relatively short period of time.
- b) With the commercial property owned by your (combined) pension funds, this will have favourable tax implications when you decide to pass on your shares in the company.
- c) Appendix C projects what your pension fund might be worth at age 60.
- d) The whole of your projected pension fund could be used to provide you with a single life, escalating annuity (increasing in line with RPI) @ £62,400.00 gross per annum.
- e) It will be possible to receive your income through Unsecured Pension which allows you to draw your income from the fund which remains invested. Thus your stated goal to retire at age 60 is achievable.
- f) The income being taken from the fund can be reduced when you receive State Retirement Pension from age 65, should you decide this to be appropriate.
- g) By making a new Will, you will ensure that your estate is distributed in accordance with your wishes.

4 Action points and other areas for consideration

Action points

A further meeting to discuss the recommendations and the assumptions used in my projections should be arranged. Should you accept my recommendations the following will be necessary:

- I will make further recommendations specific to establishing your attitude to risk, and your expectations for actual retirement income.
- I will make further recommendations concerning your personal non-pension investments.
- I will arrange to meet each year to review your objectives, the appropriateness of the assumptions I have used, and to monitor the performance of your pension fund.
- You should instruct a solicitor in the drafting of a new Will and lasting power(s) of Attorney.

Other areas for consideration

The following areas should also be discussed:

- You should consider protecting your pre-retirement income against ill-health.
- You should give further consideration to the succession of your business, especially with respect to your daughter's current position, and potential future involvement. The interaction and advantages open to you both given that she is to be involved as a member of the new SIPP arrangement.
- Given the above, and having considered Susan's stated plans for purchasing her own home and unstated aspirations, you should take professional advice on drawing up appropriate Shareholder Agreements.
- These recommendations will enable you to utilise Business Protection Relief to the maximum in your on-going Inheritance Tax (IHT) planning.

Appendix A

Net worth statement

Asset value	Estimated
Principal residence 665,000.00	£
Savings Account 33,000.00	£
ISA's 120,000.00	£
Personal Pension (Non-protected Rights) 355,000.00	£

Personal Pension (Protected Rights)
95,000.00

£

£1,268,000.00

Estimated business value (Property + 1 year's pre-tax profits)
£1,700,000.00

Estimated total net worth
£2,968,000.00

Appendix B

"Group SIPP" Set-up costs

Initial set-up Fees

Set-up per member @ £495.00 X 2
£ 990.00

Transfer(s) – in @ £150.0 X 4
£ 600.00

Joint property purchase (Administrator's solicitor)
£ 500.00

Borrowings (Administrator's preferred lender)
£ 200.00

Total estimated set-up costs
£2,290.00

Annual fees

Active member fee @ £395.00 X 2
£ 790.00