money management

Financial Planner Awards 2014

Case study 1

Sipp planner

£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.

Background

John (53) and Sarah (50) Hennessey are both non-smokers and live in Cambridge. John is a marketing director at a local medium-sized pharmaceutical company earning £150,000pa gross. Sarah is the events manager at a small PR company in London. She earns £50,000pa gross. Sarah pays 10 per cent of her salary into her personal pension, which she has been doing for the past 10 years. She also has a preserved pension from a previous employment valued today at £12,000pa. John took out a self-invested personal pension plan in 2000 when he started his current employment because he has a keen interest in share dealing. His company pays 10 per cent of salary (of £130,000 taking off £25,000 car allowance) and John pays in 6 per cent of his gross salary into his pension. He achieved this by using all his relief. Although he hasn't got round to actively trading due to travelling with work, he holds the following assets in his SIPP:
10,000 BP shares bought on 01/06/2000
5,000 Vodafone shares bought 01/06/2002
Cash = £400,000
John also has two preserved defined benefit pension schemes currently worth £11,000pa and £9,000pa gross. The scheme retirement age is 65. Any tax-free cash is by commutation.
John and Sarah have rather differing views about investments. John describes himself as an aggressive investor happy to accept up to 80 per cent invested in global equities. Sarah says she is more conservative about investing and is only willing to invest up to 65 per cent of her assets in equities.
Their other assets are as follows:
House (without a mortgage): £700,000
Valuables: £60,000
Cash in a joint deposit account, 1 per cent pa gross interest: £10,000
Cash in a jointly-held long-term deposit account, 2 per cent pa gross interest: £200,000
Two cars: £60,000 (total)
Their expenditure is approximately £80,000pa including holidays and hobbies. Sarah is a keen open water swimmer and enters various events in the UK and Europe. John is a golfer and joined his local club in 2000. They have no children and wish to leave all their assets upon their deaths to John's niece, who is currently aged 10.

Problem

They both want to retire when John reaches aged 57 and pursue their hobbies. They are confused about the recent pension changes. John intends to increase his pension by a further 10 per cent pa of his salary to boost their retirement income but is unsure how this will affect his pension flexibility and entitlement in the years to come. Sarah does not intend to increase her pension. In retirement they expect their expenditure to fall to £70,000pa.

Advice

Explain the options and drawbacks of increasing John's pension.
Explore the investment strategies of both John and Sarah against their attitudes to risk.
Advise if they can afford to retire when John is 57 and if not, when they can.
Make firm recommendations to John and Sarah to achieve their objectives.

SUFFOLKLIFE