Options in retirement planner of the year

BACKGROUND

Richard and Annette Wilson, both non smokers and in very good health, are about to retire. Annette is head teacher at a secondary school and will retire on her 62nd birthday, 31 August 2010 by which time she will have had 38 years' continuous full time service. Her pensionable salary is £75,000. She wants to take both her State and occupational pensions from 1 September 2010. Upon retirement, Annette will have about £1,000 pm to invest and would like it to generate £60,000 to split equally between their two children Danny and Suzanne in 2015.

Richard celebrated his 64th birthday last week and will retire from his work as a director of an engineering company on his 65th birthday. He expects the value of his personal pension plans to equal £1m. It is their ruby wedding anniversary in the summer of 2013, and he is planning to take Annette on a world cruise then. He thinks £40,000 should cover the fares and a ruby ring, and also an extra £20,000 for incidentals (both figures are in today's terms).

Richard and Annette keep their finances separate in a very organised and amicable way.

PROBLEM

Richard needs to draw a net pension income of £40,000 pa indexed to RPI immediately, receiving his State pension on top of this in due course. He has no need for any immediate lump sum but may do in the future, in addition to the ruby wedding celebrations. If Danny or Suzanne were to get married, he would like to make a gift of £20,000 to each, in as tax efficient a manner as possible. He wants flexibility and to pay as little tax as possible. There is no reason for Richard to make additional pension income provision for Annette. He would like to know, though what sort of death benefits Annette might get, if any. Richard has received a State Pension forecast, which shows that he will receive a full Basic State pension and a maximum Second Pension.

They both come from families with a history of serious heart conditions. They consider RPI will remain at or about 2.5% pa for 5 years. Richard wishes his pension funds to be invested in a cautious manner and to emphasise income generation, rather than capital growth.

ADVICE

Annette has always been a cautious investor. She would like to know what to do with the lump sum from her pension and to minimise any tax she might have to pay either now or in future. Richard would like to see your suggested portfolio and to see your forecasts for the next 5 years.

Richard also wants advice on the most tax efficient method of taking an indexed net income of £40,000 pa. He wants to fund his planned ruby wedding celebrations from his pension funds.

Annette wishes to invest £1,000 pm for 5 years to create a lump sum, once you have sorted out what she should do with her pensions and lump sum.

You should also, in bullet form if necessary, address any other areas you deem to be important bearing in mind their attitudes 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 page 3

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