Paraplanner of the Year Award
Case Study Application Form

Submit your answer to the case study below, no more than 2,500 words (Inc. appendices and attachments) to FPawards@cisi.org.

Deadline: Monday 21 August 2017 at 9am

Background:

Smart Kit Limited was started by husband and wife team Richard (now aged 45) and June (now aged 44) Lock in September 1982 and manufactures specialist high performance clothing with distribution by mail order. The business operates from premises that are currently leased on a reasonable long-term basis in an out of town location. Smart Kit Ltd made net profits of £3 million last year. Richard and June are the only directors (owning 50% each) and take basic salaries of £100,000 gross and generally distribute in the region of £500,000 as bonuses or dividends depending on the net profits; any balance is reinvested in the business. They each have £80,000 in their directors' loan accounts (at interest of LIBOR +3%) for short term business funding as necessary. Richard and June started insured personal pensions in 1989 and the company makes contributions of 15%pa of basic salary. The pensions are invested 20% fixed interest, 40% property and 40% UK equities with retirement ages of 65. Each personal pension policy is currently valued at £600,000. Richard also has an old preserved final salary pension scheme with a current transfer value of £60,000 and certificated tax-free cash currently valued at £20,000. In addition to their pensions their other personal assets are as follows:

Cash in a joint deposit account earning 0.5% gross interest of £32,000

Home valued at £555,000 with a variable rate repayment £200,000 20-year offset mortgage (to which the deposit account is linked).

Their annual personal expenditure is approximately £50,000 including £24,000 of mortgage payments. They have no children or other family and feel they live a comfortable but not extravagant lifestyle. They have sufficient income protection and private medical insurance which is paid by the company. Richard and June explain that they are relaxed about equity investments and happy about investing in equities to meet their specific needs in the future. In fact, they are happy to invest up to 55% of their investments into real assets such as equities to meet their objectives described below.

Problem:

Richard and June would like to fund their retirement from the business in around 18 years' time and maintain their current standard of living thereafter. They hope to sell the business at that time but do not wish to rely on the sale to fund their retirement.

Requirements for your report to the client:

1. State and explain the assumptions that you have used in your response, including your interpretation of their attitude to risk.
2. Discuss the strategies available to the couple to retire in 18 years' time and demonstrate how your recommended final solution(s) meet their objectives and take account of their attitude to risk.

List any other issues that you feel you need to address with Richard and June.