Case Study Assignment Module 11

Scenario – Stage 1

You are an administrator of a large DC pension scheme and regularly collect information from members in order to liaise with an annuity service appointed by the Trustee of your scheme, to secure annuities at competitive market rates for members of the scheme as required. The annuity service has provided a "Know Your Client" questionnaire to be deployed in these situations and designed to obtain details such as the member's attitude to risk, capacity for loss, health situation and future income requirements etc.

You have been advised by your Pension Manager, that Mr J Parker, a senior manager and member of the scheme, would like to retire at his Normal Retirement Date in July 2016 and take his pension benefits. Mr Parker has been contributing to the pension scheme for a number of years and his pension pot is currently worth £385,000. Your records show that Mr Parker has also made additional voluntary contributions to a Free-standing AVC arrangement. You receive a call from Mr Parker and he advises you that he also has a personal pension that has been paid up for a number of years and an old Defined Benefit pension from a previous company that recently came into payment. Mr Parker wants to gain an understanding of his options and the procedures which will be applied before he can take any benefits. You are very familiar with the rules of the scheme and the procedures which apply on retirement. The Scheme allows him to take two drawdown payments per year but after the first payment, there will be a £50 charge for the administration of each following payment and each payment must be at least £2,500.

Question 1: What broadly are the options that should be communicated to Mr Parker? (5 marks)

Question 2: What information should you request and provide initially and why? (6 marks)

Scenario – Stage 2

Mr Parker passes by your office and returns the completed "Know your client" questionnaire. He says that he attended a retirement seminar recently and believes that he would like to take as much tax-free cash as possible and use the remaining funds to purchase an annuity.

Question 3: Using the extract from the "Know Your Client" questionnaire in the appendix, please list the key points when assessing the client's needs.

(6 marks)

Scenario - Stage 3

You apply to the annuity service for some indicative annuity quotations and contact Mr Parker who is keen to understand the various tailoring options better, in particular, how these will impact his actual income.

Question 4: Identify 6 potential tailoring options that would impact the value of his pension. (6 marks)

Scenario - Stage 4

Mr Parker has heard that he could combine all his pension plans to provide him with the solutions to his needs. He has asked you to explain the merits and demerits of so doing. He also reminds you that he wishes to pay off his mortgage.

Question 5: List two advantages and two disadvantages of combining pension funds. (4 marks)

Question 6: Explain to Mr Parker how he could achieve the repayment of his mortgage utilising his pension funds at retirement. Show your calculations.

(4 marks)

Question 7: Once Mr Parker has determined how to secure the repayment of his mortgage and looking at the information available, what type of income might he obtain from the balance of the funds and why? (3 marks)

Question 8: What additional option might Mr Parker consider if he had a moderate attitude to and capacity for, investment risk? Explain your reasons.

(2 marks)

Question 9: Mr Parker has decided to take a lifetime annuity. What type of annuity should he consider and why? (5 marks)

Question 10: How might you obtain the quotations? (2 marks)

Question 11: Outline what additional information you might provide to help Mr Parker with his choice of annuity and why? (3 marks)

Scenario - Stage 5

Mr Parker has agreed to go ahead with purchasing an annuity and wants to understand what the next steps in the process will be and how long it will take to complete them.

Question 12: Outline the key points you should cover with Mr Parker in respect of the disinvestment of his pension accounts and the purchase of the annuity.

(4 marks)

Total 50 Marks

APPENDIX – Extracts from the "Know Your Client" questionnaire

Name: Mr John Parker
DOB: 12/07/1951
Health issues: Yes
Details: Hypertension

Children: Two (aged 32 and 30)
NRD: 12/07/2016
Current Income: £60,000 salary

Old DB pension already in payment: £3,278 per annum indexed at 3%

Pension Plans:
AAA Retail Exec Scheme. **DC Occupational scheme: £385,000 fund value**

Aviva FSAVC: £65,000 fund value

Prudential Personal Pension: £50,000 fund value

Other savings:
Endowment plan: Matures on his 65 birthday (12/07/2016). Current maturity value £ 55,000

Name: Mrs Jean Parker
DOB: 01/02/1955
Health issues: No
NRD: 01/02/2021 (for basic State Pension)
Current Income: £9,000 pension

Pension Plans: None

<u>Notes from a conversation</u>

Mr Parker has confirmed that he is cautious in his attitude to investment risk and as he has few investments other than his main residence valued at £700,000 in 2014. Mr Parker's capacity to accommodate loss is also low. Mr Parker would like to pay off his remaining mortgage of c £170,000 with the pension on his NRD at age 65 as his endowment policy will fall very short of this figure and he intends to use the proceeds of the endowment policy to fund some nice holidays with his wife and some friends .

Mr Parker has said that he is worried about the effect of inflation on his pension income and is unsure about his longevity with regard to his current Hypertension for which he takes regular medication. However, the condition seems to be stable at the moment and does not restrict him from enjoying his golfing hobby. Mr Parker and his wife plan to spend up to two years in Scotland looking after his ailing father and writing a book when he retires. He does not wish to be concerned about managing finances during this period and would prefer to know that he is getting regular payments into his bank account. His daughter and her family will move into his home for two years whilst they save for a larger property of their own. Mr and Mrs Parker plan to down-size when he returns to his home in England thus releasing some capital for the future.

Mr Parker would like to have an income of circa £ 25,000 per annum with no requirement for this to be varied at any time and has a projection of £8,000 per annum for his state pension. Mrs Parker has recently begun receiving a defined benefit scheme pension from her teaching career of around £9,000 per annum. Mr Parker and his wife have no other income except for a small defined benefit scheme pension which he is already receiving as a pension.

Mr Parker would like to provide for his wife as much as possible if he dies and provide suitable guarantees without reducing his income too much. Mrs Parker will not need as much money after Mr Parker has passed away as she will only have herself to look after and she could always downsize from the 4 bedroomed family house to a 2 bedroomed bungalow. Mr Parker believes that half his income should be more than adequate for his wife's needs.