Case study 2

Peter Chadborn is principal and co-founder of CBK (Colchester). He cites the example of a female married client who was given the opportunity for early retirement at the age of 60. Her husband, who is around eight years younger than her, is almost certainly going to work into his mid sixties, and is also the main breadwinner.

'Their requirements are going to change in say another eight to 10 years at the time when the husband retires,' says Chadborn. 'It's a moving target if you like. When looking at retirement options we're interested in information such as what they've got in terms of existing pensions provision, whether they've got any debts to repay such as a mortgage, and whether they've got any cash in the bank.'

Step one for more or less all clients is to complete a risk profile, with the next step doing a budget planner to get the client to really understand things. 'It's not a case of understanding the levels of income,' says Chadborn. 'It's more about understanding outgoings.'

This particular client identified four objectives: security of income, access to capital – which was not anticipated but it was reassuring to know that it would be possible – tax efficiency, and growth. 'That is very typical,' says Chadborn. 'People want all those things, but traditionally people are faced with the problem that they are cautious, so they go down annuity routes, but that doesn't meet with the desire for growth potential or access to capital.' Therefore, says Chadborn, one might look at collectives, but these have the disadvantage of not offering security of income. 'Neither is doing the job very well. You need something that does all those things. We need to look at annuity options.'

The client bought an annuity with an existing personal pension, which also released some tax free cash. She was left with approximately £100,000 in her name available, via savings on deposit, current account, tax-free lump sums and, unusually these days, a surplus on an endowment policy. 'The first step was to keep an emergency fund,' says Chadborn. 'This meant we had £75,000 to play with in total. We said that with £60,000 we're going to look at something like Aegon's 5 for Life product or equivalent and we're going to put £15,000 into collectives, or unit trusts, utilising the ISA allowance to enable tax efficiency and offering growth potential and access to capital. This product then sat nicely between the other two. She didn't need to take income now but had the option of turning on the tap in the future. Guaranteed income was also taken care of.' The client was left, therefore, with a core of annuities, with growth potential and a hedge against inflation coming from unit trusts, and the remainder in a hybrid product which offers some options.

The downside, which is often floated as a negative on such products, says Chadborn, is the charges. 'There was a lot for her to get her head round – the charges for the guarantee, for the fund and our charges. But if you want to tick all the boxes, to have your cake and eat it, this is not usually an issue. If you look at the changing landscape here in terms of consumer interaction with advisers, people's requirements, lifestyles and outlook are hugely different from in the past.'

Chadborn says he takes the view that whatever advice his firm is giving, the simplistic approach is often not the right one. 'We need to prove we're adding value. The client needs to say: "I couldn't have done this without you".'

get back over £200,000 for his £130,000 which isn't a bad deal.' One should always be aware of the risk of issues such as the annuity provider going bust, cautions Smith, but there is usually some degree of protection in place.

'There's been some good innovation in the at-retirement market,' says Smith. These include options such as impaired, enhanced and flexible annuities, temporary income with guaranteed maturity value, unsecured pensions (USP), alternatively secured pensions (ASP) and guaranteed drawdown. 'Some things seem like a good idea but when it comes down to the exact numbers unless there's other income available they are not always appropriate. Plus the older clients get, the more they want simplicity. In some instances variable annuities, for example, can be a great product, but the high level documentation runs to 15 to 20 pages. There's a risk they don't understand or that there will be some surprises along the way. Often it can also be expensive, for example, if you're still investing for a variable annuity you've got an annual management charge, then a percentage of equity as another charge on top of that – you've got maybe a 2% hurdle. In a low interest rate environment 2% is quite a lot.'