

FT MONEY: Keen to quit the young man's game

By Josephine Cumbo, Financial Times
Published: Mar 04, 2006

David Rogerson is a 55-year-old senior accountant who would like to quit his demanding job with an international retail manufacturer and semi-retire within five years.

David, who is married with three children aged 15, 19 and 21, has been with the same firm for 15 years but says the travel associated with his job is getting too much.

"This really is a young man's game," says David, who lives in southern England but often travels to Europe. "I want to be more locally focused and reduce my hours to part-time. I would also like to try something different, like working for charity."

David, who is the breadwinner, currently earns £70,000 a year, before tax, so any drop in income would be felt by his family, who spend about £50,000 annually.

With £410,000 in liquid assets, David has room to tweak his working arrangements. But he worries that his portfolio of cash, premium bonds and equities is in "too many bits and pieces" and can't be sure it is being managed effectively.

He would like to retire at 62 on an equivalent income of £40,000 a year. He wonders how semi-retirement will affect his pension pot, and how he can best manage the eight different schemes built up over his career.

To put David's plans into perspective, Ian Smith of Central Financial Planning says retiring from his current final salary scheme at age 60 could reduce his pension income by 20 per cent, because of lost service and a typical 4 per cent early retirement penalty.

"David needs to check whether an early retirement penalty applies to him as the original retirement age was 60 when he joined rather than 62," advises Smith.

Anthony Gabbott of Watterson Wealth Management says David should be wary of retiring early from his main scheme, because of the effect of penalties, but should instead draw income from his Pep and Isa portfolio when he semi-retires at 60.

"There are many variables and assumptions to consider, but if earnings in semi-retirement approximate to £30,000 per annum gross, total income of £40,000 (his retirement goal) per annum net should be achievable," says Gabbott.

Gabbott adds that the couple's Peps and Isas should be switched into income producing funds once David has semi-retired to provide tax-efficient income. "You should fully use all existing Isa allowances in the meantime," he says.

David was also urged to take into account that he would lose workplace benefits such as a death in service lump sum payout and sickness cover if he was to quit his current job. Smith points out that David currently has no cover for critical illness and this could spike his plans.

"It would be possible to use your savings and investments in the event of a critical illness," says Smith. "However, this would mean that you might be less well placed to meet your other financial goals and needs [upon retirement]."

Smith says for a healthy 55-year-old male who is a non-smoker, the cost of covering £51,000 (a year's expenditure) would be about £54 per month.

Lee Smythe of Killik & Co recommended that David consolidate his pension plans, including personal pensions and free-standing AVCs, into a Self-Invested Personal Pension (Sipp), which is possible after April 6 or "A-Day". He says: "This will allow David to benefit from a much greater degree of investment control, increased options with the regards to drawing of benefits at retirement and also greatly improved ease of administration."

Another benefit of A-Day pension changes for David will be the ability to take 25 per cent of his accumulated FSAVCs funds as a tax-free lump sum, not currently allowable.

"This will mean that David has scope to make large additional pension contributions to a Sipp, although I would suggest that such contributions are limited to the amount on which David would receive higher rate tax relief," says Smythe.

Smythe says the couple's cash deposits of £200,000 should be used to take advantage of the 2005/06 and 2006/07 Isa allowances with the balance either invested with a "view to making use of annual Capital Gains Tax allowances or investing using an investment bond structure".

Smith of Central Financial suggested that half the £200,000 cash in deposit should be used to spread risk by investing in emerging markets, property funds and fixed interest.

David was also advised to consider moving all his investments into a "wrap" account.

"This. . . offers demonstrable advantages in terms of reducing administration, giving instant access to valuations and performance of all your investments and actually reducing costs in the process," says Gabbott.

Names have been changed to protect privacy.