



**Presentation at BVA Congress**  
25-27 September 2008  
London, UK

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# Retirement Strategy

## *Planning for Individuals & Practices*

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## Managing the Change

- Personal & Individual
- Family
- Business
  - The business entity itself
  - Continuing partners
  - New partners & New owners
- Staff & Clients
- Practice manager overseeing change

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## Retirement Planning

- Retiring from
  - Work
  - Practice
  - Ownership
  - Current role
- All of it – including property
- Voluntary, planned & choice
- Forced
  - Partnership agreement
  - Sacked
  - Ill Health
  - Death

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"All work and no play  
makes Jack a dull boy  
and Jill a rich widow"

Evan Esar

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## Future of Retirement 2007 Report HSBC

- Falling birth rates & Ageing population
- More four or five generation families
- 60 yr olds & 70 yr olds vitally important to
  - Families
  - Communities
  - Workplaces
- 40s & 50s
  - Half expect to work as long as possible
  - 29% expect to retire when old enough to receive pension.
- 70s
  - One third some voluntary work
  - 11% have some paid work

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## Future of Retirement - HSBC

- Health boost immediately after retirement
- Miss work less than expected
- Miss colleagues less than expected
- Miss money less than expected
- Life after 60 is better than expected
- More fit and active than before

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## Earnings & Saving

- 0 – 30 years
  - Learning & Assistant
- 30 – 60 years
  - Earning & Partner
- 60 – 90
  - Retired & Spending
- Middle third pays for final third !!

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How well you retire  
depends upon  
how well you plan  
today

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## Common Hiccups

- Surprise
- Lack of Preparation
- Inadequate or Poor Planning
- Partnership or Shareholders Agreement
  - No Agreement, Inadequate or Unclear
- Outdated business practices or business model
- Property value disproportionate
- Lifestyle practices
- No options
  - Low practice profitability, Poor income, Not enough saved, Poor final sale value

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## Plan For Change

- Ensure business is attractive to a potential purchaser or partner
  - Profitable business
  - Above average profits
  - 3-4 day working week
  - No out of hours
  - Growing every year
  - Stable staff
- Who would not want to buy in ??
- Retirement fund
  - How will I generate my fund
  - Safe home for my fund to grow
  - Income, capital & more

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## What am I worth? Assess Your Assets

- Private Assets
- Veterinary Business
- Other businesses.....
- LESS
  - Any mortgages or loans, Credit card debts, HP or finance plans

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## Private Assets

- Property
  - Main residence, other properties, any share in practice property, land, woodlands & rivers
- Motor vehicles, Yacht
- Home contents
  - Furniture, Household Goods, Carpets
  - Jewellery, Silver, Gold, Pictures
  - Antiques, Collections, Coins, Art
- Investments
  - ISA, PEP, TESSA, Equities, National Savings, Premium Bonds, Insurance Bonds, Building Society, Bank Accounts, Savings accounts, Endowment policies, Life insurance policies
- Pension funds – (25% cash value)
- Capital assets or income generating assets

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## Is your business share your retirement fund?

- Partnership
- Practice
- Limited company
  - Share sale
  - Business undertaking
- What options & obligations
  - Retiring partners
  - Continuing partners
  - Shareholder / Director selling
  - Continuing shareholders / Directors

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## Exit Routes

- Total sale of share
- Part sale
- Staged buyout or abrupt
- Merger / takeover
- Retain ownership, let others run it
- Become a “corporate” owner
- Is property included & linked
- Close & lock the door

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## Exit Routes Ltd

- Directors Retired or Fired
- Keep shares or return them
  - What is structure
  - Shares & Dividend policy
  - Are Shares / Directors linked to clinical work
- Be clear at outset
- Wind up ESC16
- Shareholders Agreement
- Articles of association

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## Partnership & Shareholders Agreement

- Does it exist
- Has it been reviewed recently
- Notice period
- Valuation methods
  - Property, Goodwill, Other Assets & Liabilities
  - Share valuation
- Payment terms –period, interest
- Options & Obligations
- Retiring partners & Remaining partner
  - Must buy their share or not
  - Clinical work or not
  - Binding out clauses

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## Notice Period

- Period of notice – 6 mo, 1 yr, 2 yrs
- Voluntary notice
- Compulsory notice eg Age or death or expulsion
- Can more than 1 partner give notice
- How soon can more partners retire
- Any “seniority” of notice
- Is retirement cancelled if illness or disaster

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## Business Valuation Balance Sheet

### FIXED ASSETS

- Goodwill
- Freehold & Leasehold Property (residential – commercial – OMV values?)
- Property Improvements
- Fixtures & Fittings
- Equipment & Computers
- Motor Vehicles

### CURRENT ASSETS

- Stock
- Debtors
- Prepayments
- Cash at Bank & in hand

### CURRENT LIABILITIES

- Bank Overdraft
- Creditors
- Accruals
- HP & Leases
- VAT PAYE & NI & Tax
- Mortgages & Bank Loan

NET WORTH (Total Assets – Liabilities)

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## Goodwill

Established 3 Vet practice  
1 owner & 2 assistants

Turnover	£600K
Net Profit	£150K

### Balance sheet:

Fixed assets & Equipment	£21K
Current assets	£14K
Current liabilities	£17K
Net worth	£18K

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## Goodwill

The premium a willing purchaser is prepared to pay for a business, over and above its asset value.

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## Continuing Business Planning

- Finance an owner retiring
- Valuation
- Future ownership
- Logistics of change over
- Opportunity for business to refocus
- Review the current business plan

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## Logistics & options

- How paid out
- Interest
- Staged
- Shares or partnership
  - Must buy
  - Option to buy
  - Open market options
  - How valued
- Future liabilities

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## Business planning

- Replacement for retiring individual
- Like with like
- New skills or different skills
- Complimentary skills
- Current Skills & Job role
  - Clinical role
  - Managerial role eg HR or Finance
  - Pastoral role
  - Other roles eg Strategy, Ideas person, Implementer

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Planning for the retirement of key individuals must be included as part of the overall business planning process for the practice.

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## Who to inform & when

- Practice team & senior management team
  - Assistants, manager, clients, neighbours
- Clients
  - Farm, Equine, Pets
- Suppliers
  - Wholesaler, Utilities, Insurances, Bank
- Officials
  - VAT, Inland revenue, PAYE, RCVS, Company house, and more
- Potential purchasers & Publicity in open sale
- Confidentiality

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## Informing Staff & Clients

- Senior management team
- Veterinary team
- All staff
- Client differences - SA, LA, EQ
- Specific farm or equine clients
- Personal letter & personal introductions
- General letter
- Surgery notice
- Newsletter

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## Living in Retirement

- Can I afford to
- What have I got
- How much do I need
- How long will it last
- Have I got enough

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## Life expectancy

- 65 year old male 82 yrs old (16.9 yrs)
- 65 year old female 85 yrs (19.7 yrs)
- 4 years increase since 1981
  - 65 year male = 78 yrs
  - 65 year old female = 83 yrs
- Increasing life expectancy

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## Funds & Investment in Retirement

- Income from any work
- Pension income
- Lump sum from pension & practice sale
- Invest for Income or Capital growth
- TOTAL RETURN important
- Manage yourself, IFA or other
- Bit of both
- Invest in tax efficient areas

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## Decreased Spending ?

- Mortgages
- Loans
- Pension premiums
- Children's education
- House – downsizing ??
- Income tax

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## Extra Benefits

- Old age state pension
- Winter fuel allowance
- Free TV licence
- Bus pass
- Travel tokens & discounted travel
- Entertainment discounts – OAP days
  - 10% off at the vets!
- Medical benefits – prescription charges
- Income tax allowances
- No employees NIC

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## Spending Increases ?

- Hobbies
- Health club subscription
- Holidays & Travel plans & Entertainment
  - Day trips
  - Theatre & Ballet & Cinema
  - Meals out with friends
- Day to day costs
  - Food –gourmet or basic
  - Fine wines or plonk
  - Heating & electricity & rates
  - Home maintenance
  - Motoring
  - Clothes
  - Books, Journals BVA & other subs
  - Insurance & BUPA

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## Spending Increases ?

- Children
  - School fees
  - University fees
  - House deposit
- Grandchildren
- Parents
  - Nursing home
  - Carers
  - “Granny” annexe
- Support & Domestic help
  - Cleaners, gardeners, cleaning gutters
- Nursing care
  - Yours or leave for your children to pay!!!

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## Pensions – “A safe bet”

- Main saving vehicle for many
- Presumed secure
- PLUS .....
- Business Final Sale Value = security
  - Business value proportion
  - Property value proportion
  - Is it saleable
- Annual Profits v Final Value
  - How is practice run?
- Increase annual profits

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## Pensions

- Defined Benefits
  - Final Salary Schemes
  - 80ths or 60ths or other formulas
  - Index Linked
- Defined Contributions
  - Final Value uncertain
  - Investment performance dependent
- How much to contribute?
  - 12% salary? 15% salary? 20% salary?
  - When did you start & compound interest
  - Half your age as a % of salary
- If not pensions – what other savings instead

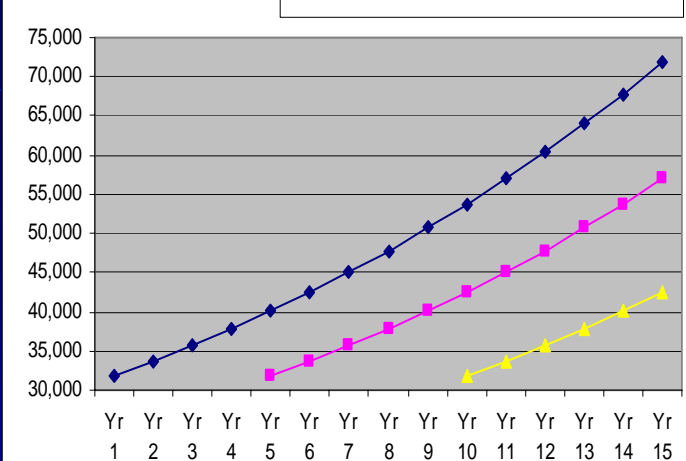
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## Compound Interest

- £1,000 contribution per annum
- Interest of 5% pa
- Invested 20 years ago = £ 34,719
- Invested 10 years ago = £ 13,207
- Interest earned
  - 20 yrs = £ 14,719 interest
  - 10 yrs = £ 3,207 interest

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## Compound Interest



## Pensions

- Can influence the funding if I want
  - High risk, low risk, UK funds & abroad
- Spread risk
  - Use more than one company
  - Have several policies
- I have options when I retire
- I can cash them in policy by policy
- I can take different options with each policy
- "I trust the pension industry to invest my money"
  - *(They earn & deserve their charges & the good salaries & large bonuses)*
  - *Perception & Reality*

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## Pension Annuities

- Provide a guaranteed income for life (short or long)
- In return for a lump sum investment
- Income is taxed

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## ANNUITIES SUMMARY

- Can choose when to purchase
- 25% tax free cash sum
  - When 50 yrs (55 yrs from 2010)
- Must purchase at 75 yrs old
- Income drawdown options
- Once taken, the fund is £ zero
- If you die it has all gone.....
- Average annuity fund is < £25,000

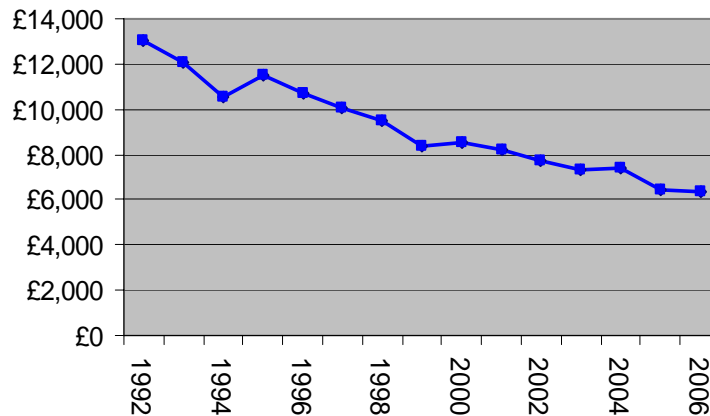
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## ANNUITIES SUMMARY

- 65yr male lives 17 years
- 65 yr female lives 20 years
- Rising life expectancy
- Mortality Cross Subsidy
- Gilt yields & annuity rate halved in 12yrs
- Save more: Work longer

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Annuity Rates £ pa



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## Best Annuity Rates

Monthly - no guarantee – no escalation

	Male 60 yr	Female 60 yr
May 2008	£6,992	£6,660
Mar 2006	£6,354	£6,029
Jun 2005	£6,397	£6,071
Jun 2004	£6,646	£6,469
May 2003	£4,515	£4,167
Mar 2002	£5,350	£4,874

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## Best Annuity Rates

Monthly - no guarantee – no escalation

	Male 60 yr	Female 60 yr
27 May 2003	£4,515	£4,167
13 Mar 2002	£5,350	£4,874
27 Mar 2002	£7,469	£6,992

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## Annuity Options

- Level of risk & Size of fund
- Open market option
- Choose your provider & type of plan
- Once chosen cannot change type
- Once chosen cannot change provider
- SHOP AROUND

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## Type Annuity



- Flat Rate
- Single Life
- Joint Life %
- Impaired Life
- Escalating
- Indexed
- Guarantee
- Dependant
- Income drawdown
- Value Protected Annuities (VPA)
- Investment Linked
- Unit linked annuity
- With Profits
- Offshore Annuity
- +/- Death Insurance
- *Flat rate - 80% market*

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## Investment Annuities

- Investment linked
  - Rate proportional to investment return
- With Profits
  - “Smoothed” investment return
- Unit Linked
  - “Unsmoothed” investment return
- Open Annuity
  - Offshore funds



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## Factors (60yr Male & Female)

- Gender: Female 5% < Male
- Frequency: Monthly 4% < Annually
- Monthly: Arrears 1% > Advance
- Arrears: Annual arrears 9% > Advance
- Guarantees: 10yr = 2% less
- Escalation: RPI = 35% < flat rate  
5% pa = 47% < flat rate
- Joint life: 50% pension is 7% less  
100% pension is 12% less

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## Husband & wife, 60 Years old, Good health, Non smokers, £100K fund

- Male - Single life
  - No Guarantee or Indexation
  - £6,423 pa (Range £5,789 to £7,057)
- Male - Joint life 100%
  - 5 yr guarantee & 5% indexation pa
  - £2,684 pa (Range £2,290 to £3,079)

*Annuity is 60% less<sub>50</sub>*

## Escalation & Inflation

- 60yr reaches 80yr before benefit > flat rate
- 15 yrs inflation at 2.5%
- £1,000 is worth .....
- .....£684
- 1970-91 inflation reduced £1.00 to .....
- ....just 11p in value !!!

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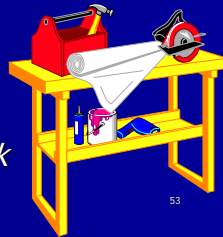
## Buying Power £1,000 after....

INFLATION RATE	10 Yrs	20 yrs	30 yrs
2.5%	£776	£603	£468
5.0%	£599	£358	£215
7.5%	£459	£210	£96

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## OPTIONS

- Explore options
- Choose best time to exercise options
- Link this to your other life plans
- Shop around
- Stay in control
- [www.annuitydirect.co.uk](http://www.annuitydirect.co.uk)
- [www.annuity-bureau.co.uk](http://www.annuity-bureau.co.uk)



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## Plan Ahead & Plan Now

- Personal
  - Family, friends, financial, lifestyle
- Contribute & save
  - Create a retirement fund
- Business
  - Plan for change in owners / clinicians
  - Future owners
  - Clients & Staff
- Profitable business to allow contributions

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## TOP TIPS

- Save half your age as % of income
- Partnership / Shareholders Agreement review
- Make business profitable
  - Pay proper contributions
  - Consider Final Capital Value or Annual Profits
- Asset audit & Expenditure audit
- Build and contribute to a retirement fund
- Compound Interest & Inflation
- Work or have small income in retirement
- OR ..... Save more – work longer

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## Retirement Strategy *Planning for Individuals & Practices*

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