

# Ringing changes

Advising a cash rich, but time poor young couple set to marry soon will always be a challenge. We asked two Financial Planners how the couple should plan for a long married life together

## Case Study: Planning for Affluent Couple, aged 30 and 29

**Case:** Daniel is 30 and will marry Sophie, 28, in April. They know this is the same time as a certain prince and his fiancée plan to marry but their wedding will be a much lower key affair at a local church in Surrey, near where Sophie grew up. Even so, like many young couples, they have quite a bit in common with the Royal couple. They are busy and time poor but financially their future is looking healthy. Like any young couple planning to get married they want to sort out their financial affairs and plan for the future.

Both are fortunate enough to be well off and have good incomes. Daniel is doing well at his job with an investment bank in Canary Wharf and earns approximately £140,000 a year. For the last four years, he has achieved bonuses averaging £200,000 per year.

Sophie is a rising star at her City-based public relations company where she is a partner. She earns £70,000 per annum and bonuses can add £30,000 to that. They own a 4-bedroom house in Clapham which is worth £750,000. Both are cautious spenders and have managed to pay off £400,000 of the £600,000 mortgage and save too.

Daniel has few excesses beyond his top of the range, nearly new Audi R8 which he bought for a knockdown £65,000 from a friend recently made redundant from his City job. He has £100,000 in savings, most in equity-based Isas and the rest in shares. His parents are both wealthy and are likely to leave him substantial funds (in excess of £2m) when they die but that may be many years away.

Sadly, Sophie's parents both died a year ago in a yachting accident off South Africa. As a result, as their only daughter, she has recently inherited their estate worth £2.5m net. She also has savings of nearly £50,000, mostly in cash Isas.

Both are family-oriented and want to buy a home in Surrey for up to £1.5m with the aim of starting a family within two years. They realise this will depress their earnings for several years. They would like to consider school fees planning as they plan up to four children and would like them privately educated. They want robust Financial Planning advice to make sure they are well invested for the long term and that they protect their income and heirs. Fictitious case study. Abridged.



### Gareth Tregidon CFP<sup>CM</sup>

Financial Planning Manager,  
Bevan & Buckland Chartered  
Accountants, Swansea

Looking at their current position, they are both progressing well in their careers and have taken some good decisions with regard to Financial Planning. They have started to pay off their mortgage, have made some investments and invested in pensions.

Within the next few years they plan to start a family, which will obviously affect Sophie's earnings potential while she is not working. Prior to this they also plan to move home, and expect to spend around £1.5m on the new property, and expect to pay around £750,000 more than the value of their current property. Bearing in mind the outstanding mortgage this means finding around £950,000 plus additional monies for legal costs, stamp duty and so on. Rather than borrowing more, they could consider using some of the money recently inherited from Sophie's parents. This would ensure that their monthly expenditure was minimised during the period when Sophie was not working, although such things as interest rates at the time and their attitude to investments will also need to be considered.

They have mentioned that they want to protect their incomes, however without further details on any existing arrangements this is difficult to address here. For example, does Daniel's firm continue to provide an income if he were off work for a prolonged period? As a partner, does Sophie's firm have any protection in place, either in the event of death or long-term illness? If there are existing arrangements it is important to make sure that their beneficiaries are named through specific nomination or trust forms.

They also want to take advantage of lower life assurance rates while they are young. Once again we would need to confirm what (if any) arrangements are already in place before being able

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to calculate what cover may be needed. As Daniel is a member of his firm's occupational pension scheme we would expect there to be death in service (life) cover included. In the meantime we should consider why they want cover, what they want covered and what the ultimate goal taking out cover is.

Turning to their pensions, do they have an idea as to when they would each like to stop working? When they do, what level of income would they like to receive? Does Daniel's scheme retirement age match their own requirements? What car will Daniel want when he retires? These are always difficult questions, as retirement will seem a long way off, but the answers are essential to any retirement planning.

Retirement planning is not just about

pensions and they should also consider other future potential income sources. Of these they have already started to invest in Isas, which can provide a very tax efficient income in retirement. They should both aim to maximise their full allowances each year (both investment and/or cash), ensuring that all investments are then reviewed regularly.

Staying with retirement planning they should both aim to maximise the contributions they make to pensions. A full analysis of Daniel's existing company scheme would be worthwhile, particularly given Daniel's income level and the changes to tax from April 2011. Sophie's position is slightly easier, as she contributes to her own plan, but an analysis of the current investment strategy would be worthwhile particularly as she is planning to take 5-6 years off when they have children.

## Key Points:

**1 In order to plan properly** we need to ascertain precisely where Daniel and Sophie are currently, where they want to end up, and make assumptions as to what may happen in between.

**2 Financial Planning is not an exact science**, with various different routes possible to meet their goals. Any solution must be tailored specifically for them.

**3 Consideration** also needs to be given to other factors that may influence their plans.



## Jonathan Gibson CFP<sup>CM</sup>

Verus Chartered Financial Planners,  
Dundee & A2+B Wealth Chartered  
Financial Planners, Aberdeen

Daniel and Sophie are in a strong financial position. During a discovery meeting, I would like to explore what's important about money to Daniel and Sophie; who's important to them; and what they like to do when they're not working. I would also hope to obtain:

- Details of existing protection including Daniel's death-in-service benefits; and
- Recent statements re: their Clapham house mortgage; Daniel's final salary pension scheme, savings, equity-based Isas and shares; and Sophie's personal pension and savings including cash Isas.

The couple should complete a detailed expenditure questionnaire for lifetime cashflow planning purposes and other questions I would ask include:

1. Does Daniel expect his bonuses, averaging £200,000, to continue?
2. What percentage of Daniel's bonuses, if any, is pensionable in respect of his final salary scheme?
3. What's the expected cost of their wedding and honeymoon?
4. When does Daniel expect to replace

his Audi and at what cost?

5. When would they stop working?
6. Are they hoping to purchase a modern or older home in Surrey and if older, how much would renovation cost?
7. Which private school do they have in mind for their planned "up-to four children" and over what duration?
8. Do they want to factor in further education costs?
9. As well as taking "advantage of lower life insurance rates", how important is protecting their income in the event of long-term disability or critical illness?

I'm keen to explore Sophie's existing investment experience and exactly what they mean by being, "well invested for the long-term" and by "taking some investment risks with their money". Daniel and Sophie should each complete FinaMetrica's Questionnaire as this would provide a highly personalised assessment of their risk tolerance.

At an investment plan meeting, they will be provided with an investment policy statement which describes our passive investment philosophy and the investment management procedures to be used for assets identified for investment. During this meeting I can confirm my understanding of their circumstances and goals.

A financial model would be created to analyse their circumstances and determine what their financial future could look like and to identify any shortfalls. Projections would help ensure Daniel's final salary benefits do not exceed the Lifetime Allowance. Having conducted technical and product research, draft recommendations for discussion at meeting might include:

1. Index-linked PHI and critical illness cover on Daniel's life to protect their lifestyle in the event of disability;

Several of the issues raised above could, either partially or fully, be dealt with using Sophie's recent inheritance. From this they could also set aside funds for other events such as future school fees. Planning school fees for children they have not yet had is difficult, as we would need to make certain assumptions regarding the level of fees, start and end dates and so on. Legal advice would also be needed on suitable trusts to protect the funds in the event of death, and to minimise tax where possible. It may also be advisable to "re-direct" funds from Sophie's parents' wills for this purpose.

There are various other areas that will need further discussion, including income tax planning for Daniel using specialist tax schemes, investment of the remainder of Sophie's inheritance and their own and Daniel's parents' estate planning. ■

2. Index-linked family income benefit to protect the surviving spouse in the event of premature death before retirement;
3. Repayment of their £200,000 Clapham home mortgage and the purchase of their new £1.5m Surrey home from the proceeds of Sophie's £2.5m net inheritance;
4. Deposit-based savings to replace Sophie's lost gross income of £100k per annum over the next five to six years and meet planned capital expenditure over the next five years, such as the wedding;
5. The implementation of individual wrap portfolios adopting a passive strategy, which might include the following tax-wrappers:
  - a. Sipp for Sophie's personal pension;
  - b. Transfer Daniel's equity Isas and utilise respective 2010/11 Isa allowances;
  - c. General investment accounts/personal portfolios thus providing annual CGT allowances and Capital Gains Tax at 18 per cent or 28 per cent as opposed to 50 per cent tax on interest from savings re Daniel; and
  - d. Offshore/international bonds thus providing the opportunity in the future to make tax-deferred withdrawals of 5 per cent of the amount invested to support future education costs;
6. Enterprise Investment Schemes and Venture Capital Trusts including their respective tax-rebates of 20 per cent and 30 per cent are likely to be worth exploring, especially since Daniel's income is at the new high rate of 50 per cent;
7. Once married, arrange an index-linked, joint life, second death, whole of life policy, written in trust, to cover their potential inheritance-tax liability of circa £1m; and
8. Wills and Powers of Attorney need to be put in place. ■

## Key Points:

**1 Follow the CFP<sup>CM</sup> six-stage process** and conduct lifetime cashflow planning

**2 Provide clients** with a detailed Investment Policy Statement.

**3 Adopt a passive investment strategy** and ensure portfolios are diversified geographically, across asset classes, within asset classes and by investment style.