JULY 2018

CASE STUDY 3
GEORGE AND CHARLOTTE

The decision to seek professional advice on financial matters is often a difficult one to make. There may be concerns that doing so will give rise to feelings of inadequacy, quite apart from it being difficult to know whether the adviser selected is worthy of the trust which it is necessary to place in them in order to sustain an effective long term relationship. For many people, managing their finances prudently is also challenging as well as boring and so it is easy to defer the decision to an unspecified point in the future ‘when things are clearer’. That point may arrive or it may not and consequently it can take a while to make the decision to obtain advice. Once the decision has been made, it is then necessary to act and actually do it. Such a scenario applied to a family who recently came to us.

George and Charlotte had originally been in touch around four years ago, although following an initial meeting they had concluded that the time was not then right for them to embark on the planning process. This is not an unusual occurrence in our experience, as there is often an external catalyst that prompts a wish to seek advice. Without that, it is often difficult for busy people to make the necessary time to do so. However, a change in circumstances had now prompted them to renew the contact.

In this instance, the catalyst was George's redundancy from his employer, a global multinational where he held a senior role, which he would be leaving in a few weeks. Fortunately they would not be in financial difficulties as he had been offered a generous financial settlement. He was optimistic of finding another job, as he had already had an offer from one potential employer and was in negotiation with a second. George was particularly concerned about his pension arrangements as, like many of our clients, he found the 'simplified' post-2006 regime confusing and thought that he was in danger of breaching the new lifetime allowance limit.

We met with them for an initial chat and learned that they were now in their 40s, with two pre-teenage daughters at a local school. They both had stable family backgrounds and financially modest upbringings which had encouraged them to manage their finances prudently. They had not worked with an adviser before contacting us. Although she had worked previously, Charlotte has given up her job in accountancy to bring up their children. Away from work George is a keen volunteer at the local fencing club and Charlotte is also involved with multiple voluntary activities. They also enjoy sailing.

Major financial decisions are taken jointly although one of George's concerns was that while he regarded himself as reasonably well informed, he might be missing out on opportunities through his lack of time to spend on their personal finances. Despite her background meanwhile, Charlotte felt overwhelmed by the complexity of it all and consequently lacked confidence to negotiate a path "through the morass".

They had provided fairly extensive financial information in advance, which revealed that George and Charlotte are already meeting the first rule of successful financial planning, as they spend less than their income, which leaves a reasonable surplus. They also had no major anticipated capital expenses in the next few years. Their home had a mortgage, which amounted to under 20% of its value, and was on an offset basis.

Their concerns and objectives were several:

- Charlotte had recently received a state pension forecast which suggested that her entitlement was only around 80% of the standard figure.
- Although they held both ISAs and junior ISAs (for the children), they had previously cashed in some other ISAs to fund expenditure and all these accounts were currently in cash.
- They wanted a clear strategy to help them to allocate surplus cashflow from earnings and share bonus sales in the most effective way to meet their objectives.
- Charlotte's lack of involvement with the family finances had led to her feeling disconnected from them and she was keen to have a clear idea of the structure of their plan over the short, medium and long term. She thought that their expenditure was quite high and wanted reassurance that their goals were achievable.
- George's pension benefits exceeded the then lifetime allowance so he was wondering whether any protection against a higher limit would be available. He had been paying annual allowance charges for several years on his pension benefit accrual.
- They had a selection of money purchase pension schemes between them, arising from previous jobs, contracting out and personal contributions although most of the benefits were George's. It was unclear to them what the arrangements were for death benefits from these.
- Charlotte had no earnings and did not pay tax so they assumed that she could not make pension provision for herself.
- George was still carrying a significant exposure to the fortunes of his former employer via the deferred shares that he held and could not sell for a further couple of years.
- They wanted to achieve financial independence (so that paid work became optional) from George's age 55 and be able to maintain their current lifestyle.

- They wanted to fund private education for both of their daughters, followed by university, with a ‘starter fund’ for each when they graduated.

- Their plans should not be derailed by the premature death or incapacity of either of them and if such a scenario were to arise, the other should be well supported with guidance and advice in managing the family’s finances.

Initial steps

- It was agreed to retain up to two years’ worth of anticipated expenditure as liquid cash.

- This was helped by moving from National Savings Premium Bonds (whose prize fund return was lower than their mortgage rate) and micro credit schemes (which were relatively illiquid) to a bank account which offset their mortgage.

- Since cash in the offset account exceeded the required cash reserve to allow them to sleep at night, retaining the ISAs in cash was now unnecessary and could be invested to meet their longer tem goals based on their need to take investment risk and their willingness and capacity to do so.

- Surplus cash beyond this was allocated to a diversified portfolio consistent with the level of exposure to riskier growth assets with which they were comfortable. They opted for a global (that is with no UK bias) investment approach given the UK’s decision to leave the EU in 2019.

- Although they appreciated that over the long term the impact of phasing cash into a portfolio (rather than investing on a single date) is minimal, it was decided that they would be more comfortable with doing so gradually, so this was accommodated.

- Use ISA subscriptions for current and future tax years.

- George’s restricted shares were gifted to Charlotte to make use of her income tax allowance and capital gains tax exemption when sold, the proceeds being added to a more diversified portfolio.

- A review of their state pension entitlements identified scope for Charlotte to supplement her NIC record with voluntary contributions, which was a far more effective use of that capital than investing it elsewhere.

- George was advised not to join his new employer's pension scheme due to his lifetime and annual allowance restrictions and as a 'high earner', his annual allowance would be restricted further. Fortunately his employer will compensate him with additional salary.

- Their deferred defined benefits scheme memberships were retained as the schemes were not in deficit and there was no clear reason to consider transferring to another scheme.

- Their existing money purchase pension schemes were reviewed to determine whether lower cost options existed and whether there was merit to using self-invested personal pensions to hold a portfolio matched more closely to their requirements.

- Charlotte was able to make the maximum permitted pension contribution of £2,808 net for someone with no earnings to build up her own provision, while receiving basic rate tax relief despite her lack of taxable income.

Two years later

- George is now settled in his new job and his earnings have increased faster than expected.

- His new employer's share price has risen, which has had a positive impact on George's benefits in the form of his long term incentive plan although clearly this is highly dependent on future price movements.

- The average annual investment return (after costs and inflation) required to achieve their goals has reduced from 2% to 0.5%, which affords them additional flexibility going forwards.

- Their mortgage is now entirely offset by cash in a linked bank account so as monthly repayments were maintained at the same level, 100% of each payment is reducing the capital balance and the debt should be cleared within the next few years, particularly as some of George's share options start to be exercised and allow this to be accelerated.

- Charlotte's father had died and left some cash to the children, which has been invested in low cost funds to give them some capital to start them off in life when they finish their education.

- Like many people, they had previously been persuaded to buy payment protection insurance in connection with their mortgage and wondered whether there was merit to engaging one of the many heavily advertised services to help them to claim back these premiums. We were able to advise them how to do this without incurring the costs that such services normally levy.

- Although individuals in the accumulation phase of their lives are typically vulnerable to events such as death or incapacity, we were able to demonstrate that their existing cover was sufficient to maintain their desired lifestyle even if George were unable to work again.

George can now devote more of his energies to creating wealth rather than managing it while Charlotte is relieved to know that with a plan in place and a clear idea of how to implement it, she and George are back in control of their finances and can look forward to being able to achieve their goals in accordance with their timescale.

For further information please get in touch with your usual Bloomsbury contact, telephone 0207 965 4480 and ask for a member of the wealth team or alternatively e-mail: truewealth@bloomsburywealth.co.uk

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