Personal Finance Society
Standards | Professionalism | Trust

Chartered Financial Planner of the Year 2013

The case study below contains information relating to the Denham Family.

You should treat the information contained in the case study as if it had been gathered by yourself at a client meeting with the family. Any gaps or anomalies that you identify within the case study should be treated as a normal result of the fact finding process and you, as the financial planner, should identify these, if relevant, in your response to the clients and reach a conclusion.

The clients have posed a number of questions for your advice.

Your response and recommendations should be made as extracts from a comprehensive financial plan. There is no need to produce a full financial plan, unless you feel that this is necessary.

Any assumptions that you make in preparing your recommendations must be fully detailed and justified in your response to the clients. You should also include all relevant calculations and supporting information.

Any recommendations for products can be made on a generic basis, but you should include realistic estimates for the cost of any financial products recommended together with any implications of using these.

THE DENHAM FAMILY

Phil and Sue Denham are married and live in Derbyshire.

Phil is aged 61 and is a senior manager in a well-known drinks manufacturer, where he has worked for the last 10 years. His current salary is £60,000 p.a. and he receives an annual bonus each year. Over the last 3 years, the average amount of the annual bonus has been £20,000 and Phil does not expect that to change significantly this year. He drives a company car with a taxable benefit of £8,300. Phil enjoys his work, but wants to retire in 4 years time when he is 65 so that he and Sue can spend some time travelling.

Phil is a member of the company's final salary pension scheme. He contributes 4% of salary to this scheme. The scheme is a 60ths scheme based on final salary with a 2/3rds widow's pension. Historically, the scheme has paid discretionary increases broadly in line with inflation (CPI or RPI?). There is also a death-in-service benefit of 4 times salary.

Phil received some financial advice several years ago when he was advised to consolidate the rights under his previous pension schemes into a SIPP. He has also been contributing a further 6% of his salary to this, as well as making occasional lump sum payments from his bonus. The SIPP is currently valued at £650,000.

Sue is aged 57. She works as a part-time legal secretary in a local solicitors' practice. She earns around £12,000 p.a. She contributes £100 per month to a personal pension and has an accumulated fund of £75,000 (this includes transfers from previous employers' schemes).

Phil and Sue have two children, Andrew, aged 32, who is married to Gemma, and Mark, aged 29, who is single. Andrew and Gemma have a daughter, Susie, aged 9, who suffers from severe learning difficulties.

Sue's mother, Mary, died just over nine months ago. Her net estate of £700,000 was shared equally between Sue and her sister, Joanne. The money that Sue received is currently held in a building society deposit account. Sue's father and Phil's parents all died several years ago.

Phil and Sue have been married for almost 35 years. Sue had been previously married to Tony, a long-time childhood friend who suffered from leukaemia. Although they married young, Tony unfortunately died a few months after the wedding. Sue inherited his full estate.

Phil and Sue jointly own an apartment in the French Alps which they, and Mark, use for skiing holidays. They also occasionally rent it out Net. Rental income each year averages around £3,500. There is no mortgage on this property. Andrew and Gemma have no interest in skiing, and have never visited this property.

There is an outstanding mortgage on the house in Derbyshire of £60,000. This is an offset mortgage linked to their 3 bank accounts. Phil and Sue are currently making repayments of £1,600 per month with a view to clearing the mortgage before Phil retires when he is 65.

Phil and Sue wrote Wills when they married. These were last reviewed soon after Mark was born. Both are written to pass all assets to the survivor, provided that he or she survives for at least 4 weeks after the first death. On the survivor's death, all assets pass to their children, Andrew and Mark, in equal shares.

When Susie was born, Phil and Sue set up a discretionary trust to set aside some assets for Susie and any further grandchildren. The initial amount gifted to the trust was £40,000 and further small amounts have been added each year. The maximum additional gift in any year has been £5,000. The trust's assets are invested in a portfolio of collectives with an asset allocation of 50% equities, 40% fixed interest and 10% property. The current value of the trust fund is £87,000.

When Andrew and Gemma moved house 4 years ago, Phil and Sue gave Andrew £30,000 to help with the house purchase costs. They also offered Mark a gift of the same amount, but he felt he didn't need it at the time. To keep the money available for Mark, Phil and Sue each purchased £15,000 of NS&I Premium Bonds and earmarked them for Mark. Over the last 4 years, they have won quite a number of small value prizes which they have used to purchase more Premium Bonds in Sue's name – Sue's total holding of Premium Bonds is therefore earmarked for Mark, as well as £15,000 of Phil's holding.

Last year, a friend of Phil's raised a loan to invest in an EIS, following some advice he received from his accountant. The friend has recently been discussing the tax benefits of this investment with Phil who is now seriously considering borrowing £40,000 himself to invest in a similar EIS scheme. [This paragraph is just silly]

Assets

Owner	**Phil**	**Sue**	**Joint**	**Income/ yield**
House (joint tenants)			£700,000	
Contents			£60,000	
French apartment			£250,000	See notes
Contents			£20,000	
Cars	£15,000	£12,000		
Bank accounts	£6,000	£2,500	£44,000	
Building society accounts	£65,000	£370,000	£30,000	2.0% net
NS&I Premium Bonds	£30,000	£18,000		
Quoted shares/investment trusts	£92,000	£35,000		
Unit trusts/ OEICs	£40,000	£20,000		
ISAs	£85,000	£60,000		

Objectives

Following your recent meeting, Phil and Sue have stated that they have the following objectives:

1. Phil and Sue wish to retire in 4 years when Phil is aged 65. They require an income in retirement of around £45,000 p.a. net in today's terms to maintain their standard of living and pay for their travelling. State if linked to RPI/CPA in course of payment

2. Estate planning – Phil and Sue realise that there is likely to be a substantial inheritance tax liability on their deaths and would like to take action to mitigate this liability as far as is possible, provided that this does affect their standard of living and financial security.

3. Phil and Sue would like to make provision to help with Susie's care, especially after their deaths. However, they don't want to do this at Mark's expense – they think it only fair that their estates are split as equally as possible between each of their two sons (and his family in Andrew's case).

4. Phil and Sue want to ensure that their financial affairs are arranged in as tax-effective a manner as possible.

Tasks

Provide relevant analysis, recommendations and comments for Phil and Sue on:

- How they may meet their objective for income in retirement.

- The level of their potential inheritance tax liability and how they may mitigate this, both in the event of one or both of them dying now and should deaths occur after they have retired. Recommendations should, therefore, deal with both situations and be sufficiently flexible to allow for any required restructuring on retirement.

- How they can best provide for Susie's future care without disinheriting Mark and Andrew.

- Action they should take to arrange their financial affairs to maximise tax effectiveness, including comment on Phil's proposed EIS investment.

You should also detail any other potential issues and problems you have identified together with an outline of actions that Phil and Sue, Andrew and Gemma or Mark should take to address these (but note that detailed recommendations are not required for these).