Chartered Financial Planner of the Year 2014

The case study below contains information relating to David Way and Wendy Miller.

You should treat the information contained in the case study as if it had been gathered by yourself at a client meeting with David and Wendy. Any gaps or anomalies that you identify 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 raised a number of points requiring 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.

Any recommendations made should form part of a comprehensive financial plan and your plan, as a whole, must be affordable to the clients. Any knock-on effects that a particular recommendation may have on others should be stated and clearly explained.

You may use financial planning software to help prepare your recommendations, but there must be clear explanations detailing how you arrived at your solutions.

Good luck!

David Way and Wendy Miller

David and Wendy met at university over 30 years ago and have been living together since. They have never quite got round to getting married and are comfortable with their current domestic arrangements. They are both aged 53.

David and Wendy have 2 children, Ross, aged 20 and Mel, aged 15. After leaving school at the age of 18, Ross has been travelling and doing some casual work. He has decided to attend university starting in October 2014 to read for a 3-year mechanical engineering degree. Mel will complete her GCSEs in the summer of 2015 and then expects to stay in full-time education for a further two years to complete an International Baccalaureate. She has expressed a desire to attend university after leaving school, although she is not sure which subject to read at the moment.

David is the sole director and employee of Isthmus Consulting Limited, a consultancy company specialising in distance marketing, which he set up seven years ago. The company has ten shares in issue, of which David holds eight and Wendy two. Wendy is the Company Secretary.

David draws a salary of £10,000 p.a. The company also declares annual dividends of £6,000 per share. Having had several good years, David has found business a bit slow for the last couple of years. The company currently has enough accumulated cash from previous years to pay David's salary and maintain the current level of dividends and pension contributions for the next two years or so.

Wendy works as an Executive PA for the MD of a local builders' merchants. Her salary is £40,000 p.a. She also receives an annual bonus of, on average, £5,000 p.a. Whilst this is not guaranteed, it has been paid for each of the last six years that she has worked there.

David and Wendy live near Cambridge. They purchased their current house 10 years ago for £200,000. It is currently valued at £600,000. There is an outstanding capital and interest mortgage of £160,000 which has 15 years to run. Current mortgage repayments are £1,180 per month. The outstanding mortgage is covered by a mortgage protection policy which costs £20 per month.

Wendy's mother died just over two years ago. Wendy was the sole beneficiary under her will and inherited £150,000 in cash and an offshore bond which had a probate value of £40,000. The bond had been taken out eight years ago by Wendy's parents, as policyholders, with an original investment of £20,000. It was written on a multiple life last survivor basis with Wendy as the third life assured. Wendy's father died four years ago. The bond is currently valued at £50,000. No withdrawals have been taken from the bond. Wendy has earmarked this bond to provide the funds to buy a sports car. She is intending to buy the car in April/ May 2015 and wants to spend in the region of £30,000.

Wendy used most of the inherited cash to pay off some additional borrowing that they had used to refurbish and extend the house. The remaining £25,000 is currently held in her building society account.

David's parents both died several years ago.

David is currently contributing £400 per month to a SIPP. Isthmus Consulting also pays an employer's contribution of £1,000 per month. The current fund value is £470,000. David has transferred previous pension arrangements into this SIPP.

Wendy is a member of her employer's contracted-in final salary scheme. The accrual rate is 1/60th for each year of service and the scheme retirement age (SRA) is 60. She pays 5% of her salary into this scheme. The current cash commutation rate at SRA is £12 for each £1 of pension, subject to a maximum cash sum of 3n/80^{ths} of final salary. The scheme includes a death-in-service lump sum of 2x salary. Pensions in payment include a 50% spouse's pension. Wendy also has a deferred pension from her previous employment in local government of £3,000 p.a. payable from age 60. This amount has increased each year broadly in line with inflation.

They have heard about the recent and proposed changes to pensions but do not understand fully how these work. They are, however, interested in seeing whether they can make use of this new flexibility to allow them to start reducing their current work load so they can spend more time together. They would also like to spend some time travelling once Mel has left school.

David and Wendy are both keen on arts and crafts, and David is interested in training to become a blacksmith. They have an old outbuilding at home that they could easily convert into a small forge. They would then look to sell the goods that David makes at local craft fairs and markets and online. Whilst this will initially be a hobby, they both see that it could grow into a small business to help support them in retirement – however, they are both adamant that they don't want to be 'tied down' by the business, so they estimate that turnover will be unlikely to exceed £20,000 in any year (and it is likely to be a lot less in the early years!). David reckons that gross profits will be 50-60% of turnover, once the initial start-up costs have been repaid.

David holds 4,000 shares in Acme Marketing Plc, a previous employer. He acquired these for £0.80 per share through a Save As You Earn scheme. The current share price is £6.00.

Both David's and Wendy's NISAs are invested in medium risk portfolios with an asset allocation of 55% equities, 10% commercial property, 30% fixed interest and 5% cash. David also has an emerging markets OEIC. Both NISAs and the OEIC hold accumulation units/ shares.

At your initial meeting, they completed risk questionnaires which show that Wendy is prepared to accept moderate risk and David moderate to high risk for medium to long-term investments. They both have a cautious attitude to risk for short-term investments.

Wendy has an outstanding credit card balance of £3,000. The current interest rate charged on this balance is 18.6% p.a. While she has tried to reduce the balance in the past, it seems to creep back up towards £3,000 each time.

When Mel was born, David and Wendy each took out a life of another 20-year convertible term assurance policy with a sum assured of £80,000.

David and Wendy last revised their wills about five years ago. They are currently written to leave all assets to the survivor. On the second death, the estate is split equally between Ross and Mel.

David and Wendy have confirmed that their current household expenditure (including mortgage costs and pension contributions) is £83,400 per year.

Assets

Owner	David	Wendy	Joint	Income/ yield
House (tenants in common)	£300,000	£300,000		
Contents			£55,000	
Cars	£12,000	£10,000		
Bank accounts	£8,000	£3,000	£12,000	
Building society accounts	£20,000	£35,000	£15,000	1.2% net
NS&I Premium Bonds	£32,000	£5,000		
Quoted shares/ investment trusts	£24,000			3.0%
Unit trusts/ OEICs	£23,000			1.0%
Offshore bond		£50,000		
NISAs	£45,000	£22,000		2.0%

Objectives

Following your recent meeting, David and Wendy have stated that they have the following objectives:

1. David and Wendy wish to investigate the possibility of starting to retire in two years' time when Mel has left school. Initially, they would expect that their current salaries would reduce by one-half when they start to retire and then cease five years later. They would need to maintain a joint net income of at least £45,000 p.a. in today's terms, after payment of mortgage costs.

2. David and Wendy 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. David and Wendy want to make provision to help Ross and Mel with university costs. They want to provide each child with £14,000 p.a. in today's terms (£9,000 p.a. university fees and £5,000 p.a. living costs) for three years between the ages of 19 and 22 (assuming that each takes a gap year). Should Mel decide not to attend university, they would like to provide a lump sum of £40,000, in today's terms, at her age 22 that could be used towards a house deposit. They don't feel that they could afford to fund both university costs and a contribution towards the house deposit for each child.

4. David wants advice on restructuring his remuneration from Isthmus Consulting Limited so that he can make best use of the Employer's Allowance for National Insurance contributions. He does not want the overall cost of his remuneration to the company to increase.

5. David and Wendy want to ensure that their financial affairs are arranged in as tax-efficient a manner as possible.

Tasks

Provide relevant analysis, recommendations and comments for David and Wendy on:

- How they may meet their objective for income in retirement
- Funding Wendy's sports car purchase
- 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 funding Ross' and Mel's university costs/ house deposit
- How David should consider restructuring his income from Isthmus Consulting Limited
- Action they should take to arrange their financial affairs to maximise tax efficiency.

You should also detail any other potential issues and problems you have identified together with an outline of actions that David and Wendy should take to address these (but note that detailed recommendations are not required for these).