



wealth matters

Financial Review

Adam and Carol Sample

Compiled By Julian Gilbert

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Overview

You have asked me to provide a full financial review of your personal circumstances. Adam, you are a Marketing Manager employed with ABC Ltd. You are currently on a gross annual salary of £95,000. Carol, you are the director of Sunny Ideas Limited, from which you receive a salary of £4,800 pa and dividends of circa £38,000, the aim being to keep you as a lower rate tax payer. You are looking to both retire at 60 with a joint income of £45,000 pa net in today's terms.

Summary of Objectives

From the information you have provided to me, I can summarise your objectives as follows;

1. To retire at 60 on a joint income of £45,000 per annum net in today's terms.
2. Pay off residential mortgage.
3. Provide cover should either of you become critically ill.

(1 being the most important)

Cash Flow

Cash flow refers to the amount of money being received and spent over a period of time, and is used to evaluate whether there is any surplus income which may be used to meet your objectives. For the purpose of this report I have analysed cash flow over a period of a year.

Income and Expenditure

Income

	<u>Adam</u>	<u>Carol</u>	<u>Joint</u>	<u>TOTAL</u>
Basic Salary	£95,000	£4,800	£0	£99,800
Dividends	£0	£38,000	£0	£38,000
TOTAL	£95,000	£42,800	£0	£137,800

You have stated that your totally monthly income is around £7,500, equating to £90,000 over the year.

Expenditure

	<u>Adam</u>	<u>Carol</u>	<u>Joint</u>	<u>TOTAL</u>
Mortgage Payments	£0	£0	£6,039	£6,039
Council Tax	£0	£0	£2,400	£2,400
Utilities	£0	£0	£10,200	£10,200
Food & Drink	£0	£0	£10,400	£10,400
Car Insurance	£1,800	£2,160	£0	£3,960
Endowments	£0	£0	£1,718.40	£1,718.40
Pension Contributions	£2,400	£3,296.76	£0	£5,696.76
Clothes	£600	£1,800	£0	£2,400
Electrical Goods	£0	£0	£6,000	£6,000
Gym Membership	£900	£900	£0	£1,800
Holidays	£0	£0	£10,000	£10,000
Meals Out	£0	£0	£5,200	£5,200
TV	£0	£0	£1,080	£1,080
Other Subscriptions	£0	£0	£5,000	£5,000
Discretionary Spending	£0	£0	£13,300	£13,300
TOTAL	£5,700	£8,156.76	£71,337.40	£85,194.16

You stated that you have around £400 per month to put towards your financial goals, from the information you have provided me, I believe this is a realistic figure.

Net Worth

Net worth is calculated using the value of your assets minus the value of all of your liabilities (debt). It refers to your individual financial position at a moment in time. By calculating your financial position on death we can determine your Inheritance Tax (IHT) liability (see page 11).

Assets and Liabilities

Assets

	<u>Adam</u>	<u>Carol</u>	<u>Joint</u>	<u>TOTAL</u>
Residence	£0	£0	£460,000	£460,000
Contents	£0	£0	£50,000	£50,000
Car	£5,000	£3,000	£0	£8,000
Business Interest	£0	£70,000	£0	£70,000
Current Account	£1,500	£1,000	£0	£2,500
TOTAL	£6,500	£74,000	£510,000	£590,500

Liabilities

	<u>Adam</u>	<u>Carol</u>	<u>Joint</u>	<u>TOTAL</u>
Mortgage	£0	£0	£160,000	£160,000
TOTAL	£0	£0	£160,000	£160,000

Mortgage

Your property, 12 Albert Street is currently valued at £460,000. Your mortgage is held with Nat West on a fixed rate, which is currently 5.49%. The amount outstanding on this product is £160,000; £110,000 of which is on an interest only basis with the remainder on a repayment basis. The mortgage term is for another 13 years but your current fixed rate product expires in April 2009. I will ask our in-house mortgage adviser, Debs Caulfield to contact you shortly before this time, to review the rate. Your mortgage term extends four years beyond the day that you wish to be financially independent.

Endowment

You currently have an endowment with Standard Life for the purpose of paying off the interest only part of your mortgage should either of you pass away.

Standard Life

This contract commenced on 10th August 1988 and it matures on 10th August 2013. This is a 'With Profits' endowment, currently worth £55,487.15 (as of 2nd July 2008); £25,039.53 of this are bonuses that have been added to the policy since its inception and £7,925.45 is the final bonus added to the policy. You pay £146.20 per month into this policy. The last bonus declared on this policy was £213.51 on 15th November 2007, compared to the £1,754.40 paid into the policy over the year. Currently the bonus rate for Standard Life is around 0.5%. This is compared to the 6.00% (1982-91) seen in previous years which led to the growth of the policy. The current terminal bonus for this policy is £7,925.45. Having looked at the policy in detail and discussing it with our Standard Life representative, I feel that you are unlikely to see much further growth from this policy.

The policy has a basic sum assured of £35,750 and a mortgage sum assured of £110,000. Should one of you pass away, the mortgage sum assured would be payable (£110,000) or the basic sum assured plus the total bonuses, which ever is greater.

It would be possible to sell this endowment to Absolute Assigned Policies (AAP) for £57,838 and then invest the proceeds into a tax efficient vehicle. You could expect anywhere between £83,996 and £100,435 in 5 years time.

Based on the projections provided by Standard Life, you would more or less receive the following on maturity of the policy;

Standard Life £72,700 (based on 3.75% growth)

This means in 2013 when your endowments mature you would have 8 years to build up £37,300 to be able to pay off the interest only part of your mortgage in 2021. Ideally you want to pay this off even sooner, so you do not have the mortgage liability into retirement. But I am generally not a fan of With-Profits (please see the article at the end of the report) and based on the current performance of 'With Profits' I would suspect the true figure on maturity would be a lot lower than Standard Life has projected. With ISAs and Unit Trusts, you would be far more likely to see growth of around 7%;

Standard Life £91,916 (based on 7% growth, net of charges)

This means you would only need to build up a further £18,084 to pay off the interest only part your mortgage. According to our projections, based on 7% growth your fund value would be over £110,000 in 8 years, allowing you to pay off the interest only part, leaving you with the repayment part of your mortgage until 2021. Alternatively, in 2014, you could start overpaying your repayment mortgage so that it is all paid off in 2017, your targeted retirement date.

Protection

You currently have no critical illness cover, your only life cover is provided by your Standard Life endowment, plus £190,000 in Death In Service benefits for Adam through work. You are under insured at the moment. Ideally you should have sufficient life and critical illness to pay off the mortgage in either circumstance. However, should either you pass away before your mortgage expires, you will only have enough cover to pay off the entire mortgage amount if Adam were to pass away first.

Decreasing Life and Earlier Critical Illness

I recommend that you take out a joint Life & Earlier Critical Illness policy with Legal and General for £100,000, to cover your mortgage but more importantly provide lump sum should either one of you become critically ill. As part of your mortgage is on a repayment basis and due to affordability, I recommend that you take this out on a decreasing basis. This means the amount of benefit will decrease over the policies term. Due to affordability, I also recommend that you take this out for £100,000 rather than the full mortgage amount.

Please see attached quote

Level Term Assurance

I recommend that Carol takes out a Level Term Assurance policy with Legal & General for £110,000. This type of policy pays a level lump sum should you pass away. I feel that Adam would not require extra cover of this nature due to the Death in Service benefit provided by ABC.

Please see attached quote

Income Protection

Income protection is vital for Carol, as you are the director of your own limited company and there is not any protection for you in the same way as an employed person. I highly recommend this type of cover and would suggest that you take out a new policy with Liverpool Victoria.

Adam currently has sick pay through ABC based on 6 months full pay followed by 6 months half pay and with the option to take his pension early after this. Ideally, Adam should have Income Protection as well, but based on the cost verses the risk of loss of earnings; it is not really cost effective.

Please see attached quote

Summary of Costs

Old

Standard Life Endowment	£110,000.00	£146.20 pm
TOTAL		£146.20 pm

New

L&G Decreasing Life & Critical Illness	£100,000	£123.19
L&G Level Term Assurance	£110,000	£20.48
Liverpool Victoria Income Protection		£85.11 pm
TOTAL		£228.78 pm

Savings & Investments

The starting for saving and investments should be an Individual Savings Account (ISA). You are entitled to invest £3,600 pa (£300 pm) into a Cash ISA along with £3,600 pa into a Stocks and Shares ISA, or £7,200 pa (£600 pm) into a single Stocks and Shares ISA. Neither of you has used your ISA allowance for the 2008/09 tax year.

I would recommend that you sell your Standard Life endowment to Absolute Assigned Policies (AAP) and invest £7,200 each into a Stocks and Shares ISA with Transact. The remaining balance can then be placed into a Transact General Investment Account (GIA). Here you would expect to see better growth than you have been seeing in your endowments. For example our WRAPS™ Confident portfolio has seen growth of 11.98% over 3 years.

By investing in a General Investment Account you will also have easy access to your ISAs and will be able to just transfer the necessary funds across at the beginning of every tax year, making use of your ISA allowance each year and saving in a more tax-efficient way. We should set up an ISA for both of you, but the Unit Trust should just be in Carol's name as long as she remains a lower rate tax payer, as she will avoid higher rate tax on dividends within the Unit Trust.

Retirement

I feel that there are 3 issues that are pertinent to you achieving your retirement goals. The first is to look at your current pension and fund choices and decide whether they are set up appropriately. Secondly, to look at your retirement goal, and discuss what funding levels are required to achieve your goals. We also need to discuss the best method of getting money out of your company in the most tax effective manner. The best way of funding your pension is by making company lump sum contributions and regular monthly amounts, as you will save on corporation tax at your highest level. See the article on this subject at the end of the report. Thirdly, we should look at the impact that "A" Day could have on your retirement goals, and also look at alternative retirement options, such as a Self Invested Personal Pension and Income Drawdown.

Norwich Union - Adam

This contract commenced on the 15th July 2002 and is due to mature on 1st January 2021, at age 65.

The current value and transfer value is £39,508.76 (as of 19th June 2008), all of which is non-protected rights. You are currently contributing £200.00 per month net (£250.00 per month gross).

This policy is currently invested in the Balanced Managed Fund, UK Equity Fund, Property Fund, European Equity Fund and the Aberdeen North American Fund. Some of these funds have performed very well such as the UK Equity Fund and the European Equity Fund. The European Equity Fund has regularly out performed its sector average, with average annualised growth of 20.34% over the last 5 years. But the remaining funds have not done as well and your overall portfolio has seen annualised growth of around 12.99% over 5 years, compared to 17.21% with our WRAPS™ Confident portfolio.

I would recommend that you transfer this policy to Transact, along with the regular contributions. You will be able to make use of a wider range of funds compared to only 41 funds with Norwich Union, to better reflect your attitude to investment risk.

Scottish Equitable - Adam

Adam currently has a policy held with Scottish Equitable. This policy started on 28th January 1992 and the retirement date is 1st January 2021, at age 65.

The current value of the policy is £33,851.52 (as of 28th June 2008), all of which is non-protected rights. The transfer value for this policy is £28,541.74. The transfer value is subject to an Early Exit Charge which will reduce as you get closer to retirement age; however this is set to age 65. This policy is also subject to a 'Paid Up' charge, £21.25 at the last policy renewal and an annual fee of £3.55 (the policy has been paid up since December 1999).

Scottish Equitable funds are historically not good performers in general and the two funds that you are invested in both have under performed their benchmark over 5 years. Your options are either to leave the policy where it is for the next 13 years, until there is no penalty, or take the hit on the transfer and have your money invested into more appropriate and better performing funds. In spite of the hit, I would recommend that you transfer the policy as I have little faith in Scottish Equitable providing the returns and management you need.

Merchant Investors - Carol

Carol currently has a pension with Merchant Investors. The policy started on 21st January 1992 and the retirement date is 5th August 2021, at age 65.

The current value of this policy is £67,654.94 (as of 28th June 2008), all of which is non-protected rights. This is also the transfer value of the policy. You are currently contributing £343.41 per month gross (£274.73 net) into this policy and it is invested in the Merchant Investors Managed fund.

You are subject to a Fund Management Charge of 1.00%, in addition to the Annual Management Charge on the Managed Fund of 0.70%. There is also a monthly maintenance charge of £4.75. These policies are subject to a lot of charges considering it is only invested in one fund, I would recommend that you transfer these policies to Transact.

ABC Ltd - Adam

Adam currently has a Final Salary pension with ABC for his service from 28th October 1991 to today. The retirement age on this policy is 1st January 2016, at 60.

The value of the pension at 60 is projected to be £26,672 per annum, in real terms. This appears to be based on your current salary and assumes you stay with ABC until your retirement. Of course, if your salary grows in real terms, you could receive more than this. I would of course, recommend that you remain in this scheme. However, the policy should be reviewed on a regular basis and we should discuss the best option with this pension as you get closer to retirement.

Contracting in or out?

Adam, you are currently contracted out of the State Second Pension (S2P) with ABC Ltd. Carol, I recommend that you contract out as you will receive rebates based on a salary of £11,000, but you only pay yourself a £4,800 salary. Therefore your rebates are to your advantage. Opting out allow you to take this income at age 55 and take 25% tax free cash, plus you can take drawdown rather than an annuity.

Summary of Costs

Old

Adam's Norwich Union pension	£200.00 pm
Carol's Merchant Investors pension	£274.73 pm
TOTAL	£474.73 pm

New

Adam's Transact pension	£625 pm
Carol's Transact pension	£343.41 pm*
TOTAL	£968.41 pm

* This is to be paid as a gross company contribution from Sunny Ideas Ltd.

Inheritance Tax Planning

I have valued your estate at net £730,500. As your net estate is worth more than £624,000, you do have an inheritance tax issue. We calculate Inheritance Tax on a second death basis as the estate will go straight to the surviving spouse on first death.

Your Current Estate

	<u>Adam</u>	<u>Carol</u>
Total Assets	£590,500	£730,500
Life cover not in Trust	£190,000	£0
Total Estate	£780,500	£780,500
Total Liabilities	(£50,000)	(£0)
Net Estate	£730,500	£730,500
IHT Allowance	(£624,000)	(£624,000)
Estate liable to IHT	£106,500	£106,500
IHT due @ 40%	£42,600	£42,600
Total left for estate	£687,900	£687,900

If you go along with my recommendations your new estate is as follows;

Your New Estate

	<u>Adam</u>	<u>Carol</u>
Total Assets	£640,500	£720,500
Life cover not in Trust	£190,000	£110,000
Total Estate	£830,500	£830,500
Total Liabilities	(£0)	(£0)
Net Estate	£830,500	£830,500
IHT Allowance	(£624,000)	(£624,000)
Estate liable to IHT	£206,500	£206,500
IHT due @ 40%	£82,600	£82,600
Total left for estate	£747,900	£747,900

One way of negating your Inheritance Tax liability is to take out a joint whole of life policy, on a second death basis. This does not seem to be a priority for you at the moment but I suggest we look at the issue again in the future.

Wills

You currently haven't got a will set up which reflects your current wishes. I would recommend that you set up a new will as soon as possible, as this will ensure that all your assets are passed to whom you desire with immediate effect upon death and not delayed by probate. I can recommend a very good Wills and Probate solicitor; Victoria Wells at SA Law, whom I will pass on your contact details if you wish to discuss this matter further.

Game Plan

Your retirement game plan is to retire at age 60 on an annual income of 45,000.00 net. I have worked with a figure of £57,000.00 gross to allow for income tax.

Your 'Do Nothing' Scenario

Should you leave your existing policies where they are and continue to make the same contributions, you could receive the following in retirement;

£26,672	Adam's ABC Final Salary Pension
£14,197	other pensions

£40,869 **Annual pension in retirement**

This is massive £16,131 per annum short of your target

Your 'Do Something' Scenario

Should you follow my recommendations, you could receive the following in retirement;

£26,672	Adam's ABC Final Salary Pension
£15,985	Transact pensions

£42,657 **Annual pension in retirement**

This is still £14,343 per annum short of your retirement goal and would take additional monthly contributions of £2,454 or a lump sum contribution of £188,514.

See Projections

Recommendations

1. Sell Standard Life endowment to Absolute Assigned Policies (AAP)
2. Invest £7,200 into a Transact Stocks and Shares ISA for Adam
3. Invest £7,200 into a Transact Stocks and Shares ISA for Carol
4. Invest the balance into a Transact Unit Trust in Carol's name
5. Take out joint Decreasing Life and Earlier Critical Illness with Legal & General
6. Carol to take out Level Term Assurance with Legal & General
7. Carol to take out Income Protection with Legal & General
8. Adam to transfer his Norwich Union pension to Transact
9. Adam to transfer his Scottish Equitable pension to Transact
10. Carol to transfer her Merchant Investors pension to Transact
11. Adam to make monthly personal pension contributions of £500 net (£625 gross)
12. Carol to make monthly company pension contributions of £343.41 gross
13. Carol to contract out of the State Second Pension (S2P)
14. Set up a will
15. Sign up for a Wealth Matters Gold Plan review

Suggested Solutions

With the arrival of “A” Day in April 2006, it is extremely important that we use the best pension contract for your retirement. I would recommend the following course of action:

Why Transact?

- Wide investment opportunities
- Good administration support, monitor your scheme online.
- A very good Pension contract

Why use Transact instead of a traditional personal pension plan?

- Invest in any Unit Trust available
- Invest in Investment Trusts, Shares
- Take income drawdown without needing to transfer your fund
- Chose carefully selected funds, using Wealth Matters Investment Team
- Buy and Sell funds when appropriate
- Quarterly Fund reports, once your portfolio hits £50,000
- Portfolios rebalanced every year.

Wealth Matters Investment Strategy

- Ascertain your attitude to risk through FinaMetrica
- Chose carefully selected funds

When you reach retirement, or want to reduce your workload, I would suggest looking at the pros and cons of drawdown over an annuity.

Moving Forward

I would recommend that your financial position is monitored every few years. As you have an investment portfolio of £100,000 or more you qualify for our Gold Plan (annual review). Future appointments will take place at our offices at Capability Green, Luton, as the annual reports can be adjusted through our computer system.

The value of investments can go down as well as up and you may not get back the full amount invested.

There is no guarantee any new investment will equal or outperform that of the original.

Past performance is not a guide to future performance.

Levels and bases of and reliefs from taxation are subject to change.

Any comments made on existing policies or advice on fund switching or placing policies in trust are only carried out after confirmation that there has been no material change to your circumstances which could alter the schedule since the financial plan was put in place.

Assumptions

I have made the following assumptions while compiling your report;

1. ISA growth has been assumed at 7%
2. Annuity rate is at 5.8%

Appendix

1. Information on your existing policies;
 - a. Standard Life endowment
 - b. Adam's Norwich Union Personal Pension
 - c. Adam's Scottish Equitable Personal Pension
 - d. Carol's Merchant Investors Personal Pension
 - e. Adam's ABC Ltd Final Salary Pension
2. With-Profits Article
3. ISA Projection
4. 'Do Nothing' Scenario
5. 'Do Something' Scenario
6. Guide to make pension contributions from a limited company
7. Guide to Pension Simplification
8. 'Are you ready for retirement' article
9. WRAPS™ Performance