

Case Study

Planning After a Personal Crisis



Charles Badenach is a principal and private client adviser for the Shadforth Financial Group and winner of the Financial Planning Association Pre-Retirement Planning 2010 award.

He previously worked in the legal profession with a major law firm and has been admitted as a Practitioner of the Supreme Court of Tasmania and the High Court of Australia. Badenach has also completed the Diploma of Financial Planning from Deakin University and is a Certified Financial Planner.

He is a representative of the Shadforth Financial Group, an associate member of the Financial Planning Association of Australia and the Law Society of Tasmania.

Badenach is involved in a number of community and industry based bodies both as a trustee or board member including Shadforth's Limited Board of Advice.

Badenach has also completed the Graduate Diploma in Applied Finance and Investment through the Securities Institute and is a Graduate from the Institute of Company Directors Diploma Course.

By **Charles Badenach**

Principal, Private Client Adviser, Shadforth Financial Group

Peter*, 54, first sought financial advice during a difficult period of his life, after suddenly losing his wife to cancer. During this period of time, he found it difficult handling his financial responsibility while managing his own emotional stress. As a result it was suggested he use the services of a financial planner.

Given financial planner's, Charles Badenach, background as a commercial lawyer who works closely with a number of lawyers in Hobart, he was referred to Peter from a lawyer who was administering his late wife's estate.

"Peter had no interest in financial affairs and had previously seen a financial adviser who had placed him in a retail superannuation fund. However he had no contact with the adviser in over four years," said Badenach.

Yet it was a time when Peter's finances had to be put into order as the couple's children and his own future required direction and support.

"They had 2 children aged 27 and 29, with the 27 year old daughter diagnosed with a mental disorder. She does not work and receives a disability support pension," said Badenach.

During their marriage Peter and his wife had established a successful catering business, which he had sold approximately two years before his wife's death to focus on her health.

When first meeting Badenach, Peter had a complex structure including a family trust and a company that he did not fully understand as his wife ran the administrative side of the business.

"The main issue with his financial position was that nothing had been done for a very long time and as a consequence his entire situation needed a comprehensive review," said Badenach.

"On an ongoing basis he also needed a regular review mechanism to ensure that his objectives, needs and goals could be met going forward."

Upon closer inspection, Badenach quickly established several positives in Peter's case; he's in good health, has private health insurance, had a substantial asset base and only required an income of \$40,000 p.a. to meet his day-to-day needs.

Peter's full time work earnings were approximately \$54,000 p.a., plus his income from his investment properties and dividends from the company structure.

Additionally, Peter and his late wife had both worked hard over the course of their lives to raise their children, pay off their mortgage and accumulate a substantial capital sum, something that could be used now to further secure his own future.

Table 1. Summary of financial situation

Description	Owner	Asset value	Liabilities
Principal residence	Peter	\$600,000	Nil
Two residential rental properties	Peter	\$520,000	Nil
Investment portfolio	Family trust	\$370,000	Nil
Commercial investment property	Company	\$600,000	\$230,000
Vacant farm property	Joint with brother	\$310,000	Nil
Superannuation	Peter	\$115,000	Nil
Cash in bank	Peter	\$66,000	Nil
Direct share portfolio**	Company	\$196,000	Nil
Total			

** this comprises solely of one company's shares

Table 2. Income position (Income received in addition to Peter's work income of \$54,000)

Description	Owner	Asset value	Income
Two residential rental properties	Peter	\$520,000	\$20,800
Investment portfolio	Family trust	\$370,000	\$12,950
Commercial investment property	Company	\$600,000	\$65,000
Cash in bank	Peter	\$66,000	\$2,640
Direct share portfolio**	Company	\$196,000	\$4,076
Total			105,466

** this comprises solely of one company's shares

Existing insurance details

Apart from private health cover Peter had no personal cover.

Table 3. Capital gains tax information

Asset	Owner	Purchase price	Current value (est)	Estimated capital gain
Rental properties	Joint	\$220,000	\$520,000	\$300,000
Investment portfolio	Family trust	\$350,000	\$370,000	\$20,000
Direct share portfolio	Company	\$25,000	\$196,000	\$171,000

OBTAINING THE OPTIMAL SOLUTION FOR THE CLIENT

As Badenach points out, “in a case like Peter’s, it is important to work closely with other professionals to work towards obtaining an optimal solution for the client. In this instance this included working with a lawyer, real estate agent, valuer and accountant.”

Badenach developed a strategy involving several key features:

Legal

Badenach referred Peter back to his lawyer to change the property ownership structure of his vacant farmland from a joint tenancy to a tenancy in common so the property could be given to Peter’s children instead of to his brother under the right of survivorship principle.

Badenach also noticed that the tenant in Peter’s commercial property no longer had a current lease and was now a monthly tenant. Badenach referred this issue also to Peter’s lawyer who engaged a valuer to determine what the current market rent was and subsequently negotiated with the tenant’s lawyer to sign a new lease on amended terms.

Overall, Peter owns three investment properties excluding his principal residence.

Finally, Peter’s will was also updated and an enduring power of attorney was signed.

Income needs

As previously mentioned, Badenach established early on that Peter’s income needs were being easily met, with the majority of the income being sourced through the rent from the residential properties and dividends from the company each year.

“I advised Peter that he can afford to reduce his workload from 5 to 4 days which he is doing in 2011 to pursue his hobbies,” said Badenach.

Superannuation

When first meeting Badenach, Peter’s superannuation had been placed by another adviser into a retail structure, something that Badenach changed to a wrap structure after completing a comprehensive review.

“This resulted in a significant fee saving, greater investment choice and greater transparency for Peter,” said Badenach.

In addition to Peter’s work income of \$54,000 per annum he also received \$105,466 through his properties, held cash and share portfolio. From this Badenach and Peter decided that he would salary sacrifice the maximum into superannuation from his salary.

“For the 2009–2010 financial year Peter was salary sacrificing \$50,000 per annum, something that he had not been doing at all before.”

After assessing Peter’s risk profile, Badenach found Peter had limited experience with investing despite having held an investment portfolio for a number of years.

“However, in our detailed discussions, Peter indicated that he was comfortable with the volatility associated with a balanced profile,” said Badenach.

After he completed a risk profile questionnaire, he confirmed that Peter was a “balanced” investor, quite contrary to his conservative superannuation allocation.

Therefore, Peter’s superannuation asset allocation was adjusted from very conservative cash and fixed interest approach to a balanced approach, in line with his risk profile.

Peter also signed an updated non-lapsing binding nomination, something which he did not have in place previously, after recent changes to his lifestyle, relationship status and the need to clarify his estate planning

Non-super review

Badenach worked closely with Peter’s accountant and confirmed that post-GFC there was no capital gain on the family trust investments when taking into account accumulated losses within the trust.

“Given that there were no assets in the trust, Peter’s desire to simplify his affairs and the fact that the traditional beneficiaries, given their changed personal circumstances, could no longer have distributions made to them, it was agreed to have the family trust wound up,” said Badenach.

Accordingly, Badenach recommended Peter sell the family trust investments and contribute these proceeds together with the accumulated bank savings into superannuation as a non-concessional contribution. Given Peter’s saving mentality and excess income, Badenach believes he will quickly accumulate a further cash reserve.

“The reasons behind this were really family-based, his wife had passed, his children can no longer receive distributions as his daughter is on a disability support pension and his son’s income is too high. In addition to this, Peter was keen to simplify his affairs where possible.”

“Apart from the investments within the company structure, the focus for Peter will be on superannuation going forward.”

Insurance

While Peter already had private health insurance, Badenach also moved to insure him through a number of other options.

“I recommended that Peter have a TPD Policy of \$500,000 attached to his super, while also establishing trauma cover for \$100,000 through our non-super review.”

“Although Peter has a considerable asset base, liquidating these investments quickly could be an issue in the event of illness,”

“There is also a potential issue if Peter passes away that an inheritance will impact on his daughter’s disability support pension. To ensure that his daughter receives an adequate inheritance to provide for her future Peter was very keen to have this level of insurance,” said Badenach.

GOING FORWARD

As Peter wanted simplicity in his life, Badenach took the necessary steps to ensure that from this point onwards, his life would remain relatively hassle-free.

To start with, Badenach’s office Shadforth is now the mailbox for all of Peter’s investment documentation while quarterly reports and twice-yearly financial health checks are in place.

In addition, Shadforth is the point of contact for the commercial and residential properties, thus further reducing the administrative burden that Peter was previously experiencing.

“I also recommended an agent to manage the residential properties, with rent paid into a separate account which then pays Peter monthly.”

Since meeting Badenach, Peter is involved in a new relationship and she has recently moved into his residence.

“We tactfully explained the benefits of a co-habitation agreement to Peter and this was signed before his partner moved in. If the relationship develops, we have spoken with Peter about the need to potentially amend his existing agreements and other arrangements.”

After implementing the above plan, Badenach found that Peter’s financial vulnerability and insecurities has been significantly reduced.

Post-advice, Peter had reduced tax liability by increasing the amount in superannuation and using salary sacrifice as a wealth accumulation strategy while simplifying his affairs and cutting down on the administrative burden he previously struggled with.

Without seeing a financial planner, Badenach believes Peter would have left himself open to a number of negative situations including:

- Inappropriate super asset allocation
- Higher super fees
- He had no will and could have lost his farm land to his brother’s children
- Would not have been protected from his new de facto in a contested situation
- No binding agreement with his tenant
- Higher tax payments
- An unnecessarily complicated structure

“Peter now has a person (me) that will act as the principal wealth adviser for him that will co-ordinate and monitor his financial position. This will ensure that he is able to meet his goals and objectives going forward.”

ADVICE STRUCTURE

“At the initial meeting two years ago when I first met with Peter, we had a general discussion about who we are, what we do, what we offer and his particular circumstances,” said Badenach.

On fees, he said, “We charge clients on a fee for service basis and the amount which a client is charged depends on the level of complexity involved and what level of ongoing service the client actually wants. In this instance Peter was charged an upfront fee for the strategic advice and is now charged an ongoing fee, which is paid monthly.”

“We report to Peter on a quarterly basis and have a six-month face-to-face meeting to formally review his position. Approximately once a month Peter also contacts us in addition to these formal review dates on issues that he may have.”

“Having a transparent fee structure is essential to having close working relationship with your clients such as Peter.” ●

NOTE

* Names changed to protect identity

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