



PLANNING A FRESH START

*Charles Badenach
Shadforth Financial Group*

Devastated by her parents' deaths and falling victim to scam artists had left Jenny* feeling isolated and uneasy about her financial inheritance. Financial planner Charles Badenach helped her rebuild her finances and see the potential in what she had.

Jenny*, 59, was shattered when both her parents passed away in quick succession. She was an only child and had never married nor had children.

She previously worked as a teacher but stopped more than seven years ago to care for her elderly parents.

After her parents died, Jenny inherited a considerable share portfolio and a number of investment properties from her parents, yet she felt she wasn't emotionally and mentally equipped to manage the assets she acquired.

Unfortunately, that left her vulnerable to dishonest people.

“When I met Jenny, she had been systematically taken advantage of financially over a two to three year period. She was befriended by Mr & Mrs X who were both of dubious moral integrity,” said Charles Badenach, financial planner.

The couple had convinced Jenny to invest in a restaurant and a proposed tourism venture which was to be developed as a pak & restaurant. She received no legal or financial advice on these investments and, as a result, lost over \$400,000.

“The only people to benefit from this arrangement were Mr & Mrs X,” said Charles.

A neighbour of Jenny’s became her confidante and when she became aware of these financial disasters, she recommended that Jenny see Charles.

“When Jenny first came in, her financial affairs were a mess. It was first necessary to disentangle her from her two business interests which were an anchor weighing her down.”

Making matters difficult, Jenny had been pressured to appoint Mr & Mrs X as her enduring power of attorney.

“Consequently, as a starting point we needed to engage the services of a lawyer to protect her two business interests, limit any further financial losses and instigate legal action against Mr & Mrs X.”

Charles, who has his own legal background, referred Jenny to a lawyer to help with these matters.

“We all met initially together but once Jenny was comfortable, she and the lawyer developed their own professional arrangement so he could help her escape from her situation.”

Advice for a fresh start

Once those issues were resolved, Charles and Jenny could then focus on the financial advice side. Given her background, he found Jenny was very cautious about doing anything and was happy to maintain the status quo.

“Over a long period of time, I built up Jenny’s trust - both in myself and in the decisions she was making. Over the course of our many meetings we modeled a number of different financial scenarios and explained the importance of several different matters.”

These scenarios included reviewing what Jenny had, getting the investment structure right i.e. super versus non-super, protecting her asset base, minimising tax, planning for what would happen to the assets when she dies and making tax-effective gifts over her lifetime.

“When I first met her approximately 12 months ago, Jenny had accumulated a relatively small retail superannuation balance of \$62,000 and \$50,000 in a term deposit. However, she had inherited what she called “mum and dad’s money” which consisted of a direct share portfolio worth \$2 million, a term deposit of \$600,000 and five investment properties all based in Hobart.”

These investments had not been touched since her parent’s death. The business interests were funded from her accumulated life savings and she was devastated by the loss of these funds (approximately \$400,000) more than anything else.

Looking at Jenny’s finances (see Tables for asset breakdown), Badenach found Jenny in an unusual situation as she had plenty of funds to live on, but she was intimidated by the amounts and managing the various accounts.

“She had trouble keeping track of everything and was keen to reduce her tax and simplify her affairs. That was what she needed from me more than anything.”

Financial goals

- Ensure that her assets provide her with a regular income of \$104,000 per annum.
- Reduce her reliance on residential property.
- Review how her financial affairs are structured and determine whether this could be done better.

Needs and objectives

- Simplify her financial affairs and reduce the administrative burden associated with her portfolio.
- Work out a gifting strategy which would enable her to give money to the charities she supports.
- Reduce the number of properties and minimise the tax on these sales.
- Obtain a regular income as in the past her income was irregular and ad hoc.
- Diversify her asset base.

Annual income

- Term Deposit Income \$41,500
- Property Income \$100,000 (approx)
- Share Income \$82,000 (approx)

Annual expenses

- Total Cost of Living Annually \$104,000
- Income / Salary Continuance No
- Trauma / Crisis No
- Home & contents Yes
- Car Yes
- Health Yes

Superannuation and other expenses

- Salary sacrifice: N/A
- Gearing arrangement: N/A
- Savings plan: N/A

Assets and liabilities

Assets	Current Values	Liabilities
Family Home	\$700,000	N/A
Motor Vehicle	\$35,000	N/A
Cash at Call	N/A	N/A
Term Deposits	650,000	N/A
Superannuation	62,000	N/A
Pension / Annuity	N/A	N/A
Overseas Pension	N/A	N/A
Direct Shares	2,000,000	N/A
Managed Investments	N/A	N/A
Investment Properties	\$2,200,000 (approx)	N/A
Life & TPD Insurance	N/A	N/A
Credit Card	N/A	N/A
Personal Loan	N/A	N/A

Strategy for change

Charles and Jenny together developed a strategy that she was comfortable with but one that would also achieve her goals.

Thanks to her lawyer, Jenny's business affairs with Mr & Mrs X were resolved and the enduring power of attorney to Mr and Mrs X was revoked.

"This was so important for Jenny - to separate herself from these people."

Jenny's will was also updated and a private ancillary fund is being set up.

"This is being done at the moment and we are working on the investment plan, responsible person and such in conjunction with the lawyer."

Property holdings

Jenny told Charles that she wanted to reduce the number of property holdings she now held. As a result, he assisted her in this process by engaging a valuer to provide advice on which properties were to be sold and which were to be retained given the current climate.

Consequently, two of the properties are currently being sold, one was sold in 2010-2011 and another is being sold this financial year 2011-2012.

The property sales have been staggered over two financial years in order to minimise CGT payable.

"We further recommended that Jenny make personal deductible superannuation contributions up to the maximum of \$50,000 per annum in the years in which the properties were sold. The combination of these strategies has significantly reduced the amount of CGT payable by Jenny," said Charles.

The balance of the property proceeds was invested in superannuation as a non-concessional contribution in order to take advantage of the concessional tax environment.

The remaining properties were retained and Charles arranged for an agent to manage them. A monthly sum is now paid into Jenny's account which has improved the regularity and reliability of her cash flows.

Superannuation

After reviewing Jenny's super, Charles moved her from a retail structure to a wrap structure.

"This resulted in a significant fee saving, particularly when the additional monies were added following the property sales," said Badenach.

He also recommended Jenny contribute the maximum amount she could put to superannuation (both as concessional and non-concessional contributions) for the foreseeable future to build the amount which is held within this tax-effective structure.

"We also adjusted the asset allocation for Jenny's super from a high growth approach to a balanced approach in line with her risk profile and updated her non-lapsing binding nominations for her superannuation assets."

Income needs

Jenny's income needs were already being met so Charles found that in this instance it was really a matter of restructuring and rebalancing the portfolio where necessary.

"The income in the past was an ad hoc arrangement, so what we implemented was fairly straight forward in several ways.

The rent from the remaining investment properties is paid monthly into her bank account from now on and he set up a cash management account to receive the income from the share portfolio.

"We arranged for a fortnightly figure to be paid from this account into her bank account (\$2,500) to help meet her day-to-day needs. This is less than the actual income received from the share portfolio, but it allowed a cash reserve to be built up and avoided the "feast or famine" situation that she had experienced previously."

Charles also modeled her cash flows for her and explained the sustainability of her monies over the longer term, which gave her a considerable degree of comfort.

Non-super review

Finding Jenny uncomfortable with the share portfolio her parents had left her, Charles found himself having to help Jenny realise the potential in this portfolio.

The portfolio had very significant stock specific risks to major banking brands, large shopping conglomerates and infrastructure funds. Badenach decided to reweigh the portfolio and Jenny, after reading the financial press, wanted some resource exposure.

"We suggested that as a starting point she use as an exchange traded fund which will give her exposure to the materials and energy sectors."

The benefit of this approach is that it will provide a diverse exposure to the resources sector, with a natural reweighting mechanism (i.e. strongly performing stocks come into the index and poorly performing stocks fall out of the index), and will provide a greater exposure to the materials and energy sectors than otherwise would be the case.

He also recommended that Jenny take advantage of his firm's administration service to handle the day-to-day paperwork associated with the portfolio seeing as she felt intimidated handling this process on her own.

"We also set up a private ancillary fund with \$200,000 with the intention to contribute additional tax deductible amounts each financial year. Jenny has no dependants to gift the monies to, and they would all be going to charity in any event."

These monies will be contributed from the inherited share portfolio.

"We are in the process of working out the CGT implications applicable to the stocks to be contributed to the fund."

Over time they would potentially look at making "in specie" transfers of the ASX direct shares into superannuation subject to the contribution limits and CGT implications.

"Superannuation would remain the preferred structure for Jenny's investments going forward," said Charles.

Forward planning

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

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

Charles also recommended an agent manage the residential in-

**The quote**

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vestment properties with the rent to be paid into a separate account, which then pays him monthly.

"This will make Jenny's tax and related processes far easier for her."

Jenny now has a consolidated record of her will, power of attorney and tax returns with Charles acting as the key contact point for the agent on the residential investment properties. This has further reduced the administrative burden that Jenny was previously experiencing.

Jenny is now CHESS sponsored to further simplify the management of her affairs.

Beyond these arrangements, Jenny is now far more comfortable in her lifestyle and is playing a far more active role in her finances.

"There has been a complete turnaround in Jenny's approach to her share portfolio. She is now actively engaged and is starting to realise that she can enjoy the gifts her parents left for her."

On a strategy basis, Charles achieved the following for Jenny:

- Reduced the CGT payable on the sale of her investment properties.
- Increased her funds within the tax-effective superannuation structure.

- Reduced the tax on Jenny's day-to-day income by investing in shares with fully franked shares and using the superannuation structure.

In the process of establishing a private ancillary fund, which will enable Jenny to provide an ongoing legacy to the causes she feels closely aligned to.

Reviewed her existing super and non-super investments to ensure that they are invested in line with her individual risk profile.

Arranged for Jenny's estate planning arrangements to be amended.

Advice Structure

The initial meeting, associated consultations, and Statement of Advice were charged on a fee for service basis and the client was invoiced at the end of the work period.

"Jenny wanted to use the Shadforth Financial Group to assist her on an ongoing basis. We have agreed on a fee and this will be charged monthly in arrears," said Charles.

This will be deducted from Jenny's cash account. **FS**

NOTE: * Names changed to protect identity