DIY INVESTORS NEARING RETIREMENT

In this case study, we look at the financial situation of Philip and Jessica, a couple in their 60s who are seeking clarity on their financial position and exploring tax-efficient strategies for their family. With retirement within reach, they now wish to review their retirement plans, reassess their investment portfolio, and make provisions for their children while maximising tax efficiency.

Philip and Jessica have successfully paid off their mortgage, providing them with a strong foundation of financial stability. Previously, Philip and Jessica have been investing their excess income using self-invest services, often relying on suggestions from various sources such as friends, online forums, and the investment section of their Sunday newspaper. They came to us because we had been recommended by a friend that Jessica knows through her running club.

Tax Inefficiency

Philip and Jessica realise that their previous investment approach may not have been as tax efficient as possible, prompting them to seek guidance on optimising their investments.

Accumulated Investment Portfolio

The couple are struggling to manage the numerous investments they have accumulated within their portfolio, creating a need for consolidation and simplification.

With two married children, one with a three-year-old child and the other expecting in two months, Philip and Jessica wish to explore options for providing financial support to their family.

Recommendations and Actions

We conduct a comprehensive cashflow analysis, reviewing Philip and Jessica's pension provisions to assure them of their retirement readiness. We always explain that this is only a guide as past performance is not a guarantee of future performance. Based on their financial goals and risk tolerance, we recommend an investment portfolio aligned with their pension objectives and existing investment holdings.

Tax Efficiency and Consolidation

Recognising their inheritance tax situation, where they exceed the nil rate band (the allowance above which you start to pay inheritance tax), we propose gifting the excess of £400,000 over this to their family. To maintain control over the assets, we suggest establishing a discretionary trust, which allows them to manage the distribution of assets while minimising tax implications. They are in good health with no need for this money. We would therefore expect this money to be entirely outside their estate and free of inheritance tax before they pass away.

We also recommend consolidating all their assets onto one platform to help make them easier to manage, also reducing their charges. To improve their situation further we also recommend a portfolio that is appropriate to their attitude to risk. This has a much smaller number of funds but still has a very wide range of investments. Previously their investments did not align with their attitude to risk, and they were not as diversified as they thought. Many of the investments that they held invested in the same securities as each other. Without access to the tools that we have they were not aware of this.

The rate of inheritance tax is 40% on anything over the nil rate band. Taking the advice to move the excess over the nil rate band into a trust we save their estate a total of £160,000. This isn’t an immediate saving. They need to survive seven years from the date of the gift for it to be totally free of inheritance tax. We also recommend they consider insurance for to cover the liability should they pass away during this seven-year period. This is known as a gift inter vivos policy and is designed to meet an inheritance tax bill should someone pass away in the seven years after making a gift that could attract inheritance tax.

Family Provisions and Future Planning

Through the creation of the trust mentioned above not only do the couple have a potential tax saving from inheritance tax, but they also have a fund that they can use to provide for their family. A discretionary trust does as its name suggests. Philip and Jessica can distribute assets from the trust to anyone named in the trust deed at their discretion. This is done as a category of beneficiary rather than named people so that they can choose to give money to someone or not. This is particularly useful if you have young beneficiaries, you’re not sure how a beneficiary might act with access to money, or if you want to protect assets in various scenarios where they might be lost if they were in the name of the beneficiary.

Conclusion

By addressing Philip and Jessica's concerns and aligning their financial strategies with their goals, we provide them with clarity and peace of mind. Through a combination of tax-efficient investment recommendations, portfolio consolidation, and provisions for their family, they can optimise their financial position while enjoying a comfortable retirement and securing their family's financial future.