

# Widow's testing tale

Financial Planning is all about doing the right thing for clients. In this challenging case study, a widow has turned to a Financial Planner for advice. We asked two planners to use their skills and experience to look at how best to look after her present and future needs.



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The key issue for Claire to address is the future of the business. Which is more important to her – to maximise the value of the business or to sell it as soon as possible? If the former, then she should consider honing the business for sale; this may require up to two years. This will allow her to sell the business from a position of strength; it may also be in the best interests of the employees. How good is the acting MD? Can he be promoted to full MD or should Claire recruit a more suitable person? She will need professional advice from a suitably qualified business coach to help her assess her options, manage the grooming process and possibly the sales process as well.

Did Colin leave a will? If so, was it a full tax planning will, or just a simple will leaving everything to Claire? If the latter, advice should be obtained from a suitably qualified tax planning lawyer about making a deed of variation to maximise his nil rate band (within two years of Colin's death) and possibly business property relief (BPR). A discretionary nil rate band trust will reduce the eventual IHT liability by up to £120,000 at 2007/08 levels. Including the business could enhance the saving still further. BPR will be lost once the business is sold and consideration will need to be given to the 10 year periodic charge of, effectively, 6 per cent if the business is placed in trust. Care needs to be taken regarding the CGT position regarding the business although this will be re-based on the value agreed with HMRC at the date of death and may not be too much of an issue. Claire and her sons should be the potential beneficiaries of the trust. If there is no will, the estate will be distributed in accordance with the laws of intestacy.

Claire will appreciate being given time to consider her future. She is unlikely to be able to make any rational long term planning decisions at this stage. Rather than attempt any long term ➤

## Case Study: Woman bereaved unexpectedly.



**Case:** Claire is 49 and was unexpectedly bereaved two months ago. Her husband Colin, 54, suffered a short illness and died after three months. He ran a successful sports retail business in the south of England. The business was recently valued at £1.4m. Claire works part-time in a local secondary school as an admin assistant. The couple have two sons. The 18-year-old has just started university. The 14 year old is at private school with fees of £12,500 per year. Colin put in place a life policy worth £1.1m on his life some years ago. Claire has been very upset since the bereavement and has been receiving counseling but she and Colin discussed plans before his early demise and she is determined to carry on for the sake of her sons and to sell the business, using the proceeds to seek security for herself and her sons. In total, she expects to have some £2.5m to invest, once the business is sold. The couple's home is a 4-bedroom detached cottage in a small village and the mortgage is paid off. She has £14,000 in cash and deposits. The case was assessed prior to the Pre-Budget Report.

## Case Study: Bereavement Planning

investment planning now, detailed consideration of her requirements should be limited to say the next three years only. This should include her sons' education expenses, including university. A high level lifetime cashflow forecast should also be completed, if only to put the short term in perspective at this stage. Most of the life assurance payout should be placed on the money market, possibly for varying terms up to two years. The balance should be held in an accessible high interest account to cover short term requirements.

At this stage, it is likely that other tax planning will be limited to making use of the Isa allowance by both Claire, her elder son and younger son once he reaches age 16.

Claire should also review her own will and make a Lasting Power of Attorney (LPA). We would need to know if she anticipates any further inheritances. If so, from whom and what amounts?

Although some decisions can be deferred, the luxury of indefinite time will not be available in respect of the business, the wills and LPA. As Claire's Financial Planner, we can help prioritise the issues and co-ordinate the advice required from other specialists. Once Claire is able to face the future, attention should be given to discussing this in detail. We would look at the concept of financial independence and the options she will have from that point onwards; it is possible she may have already achieved it. We would create a financial plan based on her requirements and long term objectives. This would include a more detailed lifetime cashflow forecast.

Although Claire has some investment experience, we would want to take time over developing an investment portfolio that should meet both her short and long term needs. Portfolio risk needs to be put in the context of both Claire's financial plan and her own tolerance to risk. In

order to help her with this we would ask her to complete a psychometric test and discuss the outcome with her. This should help her to differentiate between short and long term investing and how portfolio risks can be controlled through an appropriate investment strategy. We would also provide some education to help her understand that effective investing need not be complicated but does not include dabbling. If she wishes to continue with her own investing we would recommend leaving these outside her financial plan and core portfolio.

Our belief is that it is important that any investor understands fully that certain risks are worth taking and that returns cannot be guaranteed, except in certain circumstances. National Savings and gilts held to maturity spring to mind. Finally, as part of our education, we would emphasise that the need to review her plan on a regular basis is of fundamental importance.

### Key Points:

- 1** A key issue for Claire is the future of the business.
- 2** Claire needs time to carefully mull her options.
- 3** Claire's attitude to risk needs to be carefully assessed.