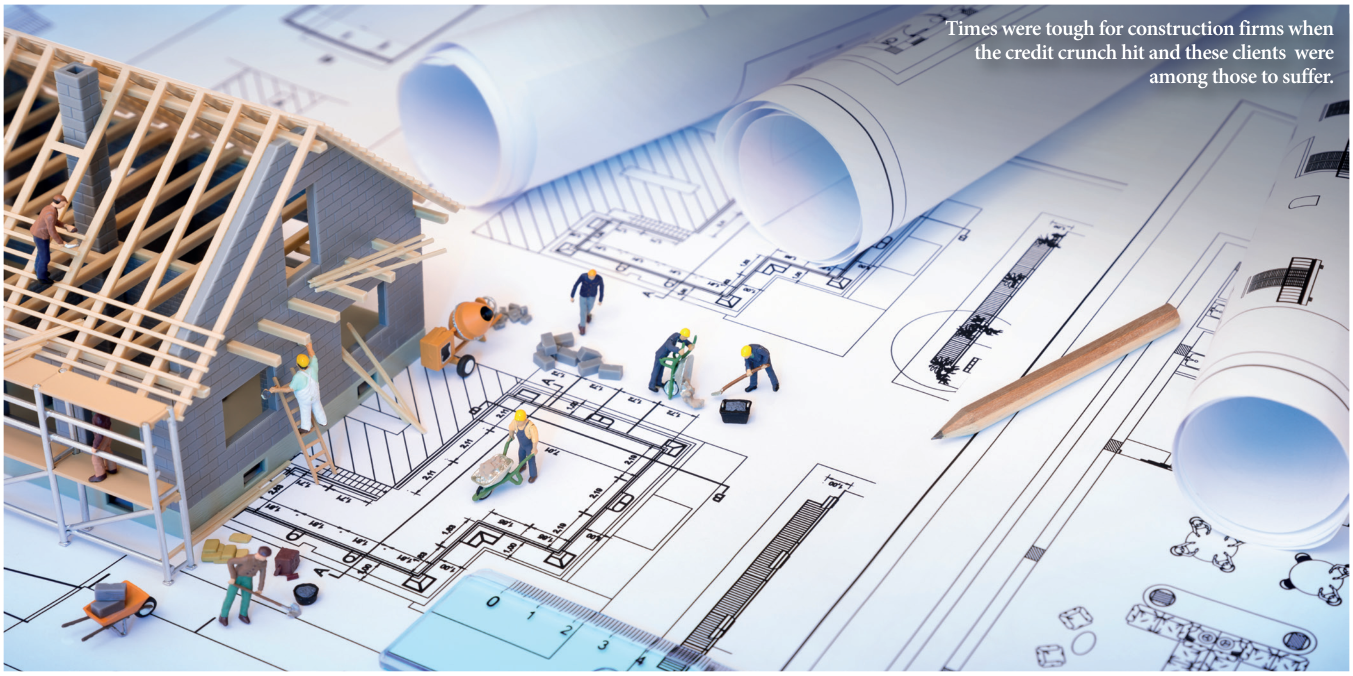

Times were tough for construction firms when the credit crunch hit and these clients were among those to suffer.

How Financial Planning aided a business hit by credit crunch

A construction company fell on hard times after the crash and was struggling with debt. The firm needed help and turned to Accredited Financial Planning Firm Navigator in Northern Ireland.

Casebook Brief

Stephen (62) and Kate (59) were referred to us by a local accountancy practice (a long standing professional connection) as they were in need of some advice regarding their personal finances. The couple have a property development business which, during the credit crunch, experienced some very difficult times.

It continues to work its way out of debt and this is one of the main reasons why their accountant asked us to speak with them. Stephen had some personal guarantees on banking facilities and wanted to alleviate some of the hurt that these were causing, without impacting severely on their long-term goals. Both he and Kate wanted to tidy up their affairs with the objective of being fully retired by the time Stephen is 65.

This is a real life case study. Names and some other details have been changed to protect confidentiality.

Stephen, aged 62, was a very successful property developer running his own construction company with his wife, Kate. During the credit crunch the business was badly affected. There were numerous banking facilities in place against the value of land which was now valued at a fraction of the original cost. Further to charges over the land, the banking facilities were also secured with personal guarantees against Stephen.

Kate works along with her husband in the construction business. Prior to that she worked in a large organisation, which has provided her with a preserved Defined Benefit pension. Their home in Northern Ireland is unencumbered with a value of approximately £900,000. They have five children, most of whom are married with their own children. They have one daughter however, who is "still on the payroll" while she is at university.

Stephen and Kate enjoy spending time with their children and grandchildren, visiting their holiday home in Donegal and travelling to the Canary Islands. They had planned to originally retire at age 60 however this was pushed back when the credit crunch took hold. Their main objective now is for Stephen to be able to retire at 65.

The couple were referred to us by their accountant, a professional connection of Navigator's. Basically, Stephen and Kate were worried that they would not be able to meet their objective of Stephen retiring at 65 considering the personal guarantees which the bank held in relation to property loans. They had numerous retail investments across various wrappers including ISA, SSAS, personal pensions and investment bonds. They also had Kate's uncrystallised Defined Benefit scheme which had an NRA of 60 (just a few months away).

Stephen and Kate's initial query was that they wanted to know if they could use the very significant transfer value in Kate's pension to pay down some of the loan facilities and help remove the personal guarantees from Stephen's name. The short answer to this question was of course, yes. The prudent response however was, should they? This is where the initial meeting and setting objectives became vital.

At the first meeting, we established Stephen and Kate's real objectives. We soon discovered that their initial question regarding Kate's pension was only part of the overall objective – of allowing Stephen to be able to retire at age 65.

It was very clear at this point that the team approach at Navigator would be required in this case. There were so many moving parts to the scenario (the company, debts, assets and investments), that the clients really did not know where they were now, let alone how they would achieve their objectives. It would take a joined up, team approach to help ensure that Stephen and Kate received the level of advice and service required to help them to understand and work towards their long-term objectives. Our proposal therefore was very focused

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What Happened Next...

Once the process was fully completed we sat down with Stephen and Kate to take stock of their new position. We spoke in depth about the business and they felt that they had really turned a corner. They informed us that business was improving steadily and the property development company was considering purchasing some of the commercial development land from the SSAS. Further to this there was increased liquidity within the company and as such there would be little to no potential reliance on the cash within the SSAS.

We have agreed to regular contact about this to ensure that we can begin the process of making this capital work harder for Stephen and Kate, when the time is right. Since the initial Financial Planning session completed we have been in regular contact with Stephen and Kate to keep them aware of what is happening in the background. For their part, Stephen and Kate are now in a position whereby a weight has been lifted from their shoulders. They now have some more time to spend with their family and to enjoy regular holidays while still working towards their main objective.

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on Financial Planning and would involve the use of cashflow modelling.

There were many factors which had to be considered - the deferred Defined Benefit pension, several personal pensions (including a SSAS, as well as a mishmash of retail investments thus adding to the complexity of the case. This was when the joint team effort really worked well as our technical experts came in and provided their expertise regarding the case.

Once information was collected in relation to the existing retail investments, we conducted a full analysis using the Navigator Portfolio Analysis Tool. This revealed that the overall portfolio was out of kilter for Stephen and Kate in terms of their risk profile as the asset allocation was heavily skewed to UK Equities. It also showed that the current portfolio was underperforming in comparison to what should have happened had they invested simply in the underlying asset classes. This underperformance was partly down to poor performance by the existing active fund managers, exacerbated by the fairly high fees.

Stephen and Kate were very surprised to hear this information – especially in terms of the overall risk profile of their current portfolio. The next step was to create a financial plan. This was based largely on the cashflow model built using Voyant. This helped to demonstrate the current financial situation to Stephen and Kate. It furthermore helped show the steps that would we would need to take to ensure their long term financial security. These steps included –

- Consolidation of retail investments to a platform. This would include personal pension switches, GIA and ISA transfers to a single platform (with overall lower charging structure as well as permitting a single investment strategy)
- Adherence to a single, evidence based investment strategy based on a strategic asset allocation model
- Biannual Regular Progress Meetings
- Utilisation of current personal cash deposits and company working capital to help reduce overall liability, thus releasing Stephen's personal guarantees
- Crystallising Kate's deferred Defined Benefit Pension (see notes below)

The crucial point from the financial plan was that they did not need to use Kate's deferred Defined Benefits pension to reduce the overall debt and remove the personal guarantees. We carried out detailed analysis of the DB Pension taking into consideration the transfer values, Kate's risk profile and overall DB pension benefits. These were compared to the potential benefits of a transfer to a personal pension including overall death benefits and 25% PCLS (tax free cash).

This showed that it was more beneficial for Kate to crystallise her DB pension and pay down some of the existing debt using her PCLS (tax free cash) and income. This was factored into the financial plan, along with the cashflow model, and demonstrated that the debt could be paid down in full by the end of 2017 (when business transactions and income were also considered). This process showed that as attractive as it may have seemed to vest pension benefits (due to pension freedoms) via a transfer, the rights given up would be disproportionate and the overall objectives could be achieved by other means. Not only has the immediate objective of reducing the personal guarantees been achieved, but Kate has a guaranteed income for the rest of her life, which suits her cautious risk profile.

Stephen and Kate's company has a SSAS. This consists of commercial development land (75%), which will eventually be sold to the property development company and cash (25%). Since 75% of the value of the SSAS is intrinsically linked to the potential sale of assets to the property development business we elected not to include it in the overall cashflow modelling as it may A) not sell for what the clients believe to be true value and B) may not be sold for several years (past Stephen's retirement date). The cash within the SSAS is also earmarked for liquidity purposes within the sponsoring employer if needs be. In this instance, we decided to run a number of 'What If' scenarios on the cashflow model. This showed that if the commercial development land was sold before retirement date and for its true value then Stephen could afford to retire before 65.

Once we presented the solution to Stephen and Kate they were not only happy but also visibly relieved. They were now in a position whereby if they continued doing what they did best – develop property – they would be able to fully retire when Stephen was 65. Indeed, they could achieve their objectives sooner if the property development business improved somewhat and the commercial development land was sold from the SSAS. This was a very powerful message to relay to the clients who had genuine concern over their long term financial future.

For Stephen and Kate this was both a life changing and life enhancing experience. The use of the financial plan meant that they moved away from a transactional service to a comprehensive Financial Planning experience. They were able to achieve their objectives without giving up the valuable benefits of the DB pension. They now have the confidence to move forward with their lives, knowing that their financial future was on track and being reviewed via our service.

John Sloan, Financial Planner at Navigator Financial Planning

John Sloan is a Financial Planner with Navigator Financial Planning, a CISI Accredited Financial Planning Firm, having joined in March 2016. He is now approaching 10 years in the industry. John works closely with fellow planners at Navigator - director David Crozier and Dale Kirkpatrick, in helping clients to plan for their financial future. Navigator's aim is to ensure that all their clients are afforded the same high level of advice and service from every member of the team and it is this team approach which John feels is vital for the future of the industry. A keen golfer and aspiring chef, John will usually be found on the golf course, in the kitchen or spending time with his young family.

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Key point 1 *It is often easy for clients to confuse the symptoms and the disease. In this case Stephen and Kate could only think about reducing debt by any means possible, without looking at their overall objective.*

Key point 2 *Although attractive at first sight, the transfer of Kate's deferred Defined Benefit Pension was not the only potential solution and this was shown through the process. In fact, in this case it would have been the wrong solution.*

Key Point 3 *Proper Financial Planning, using cashflow modelling, showed that taking a comprehensive view on the entire situation was far more effective than a transactional, piecemeal approach.*