Lifestyle Financial Planning Service

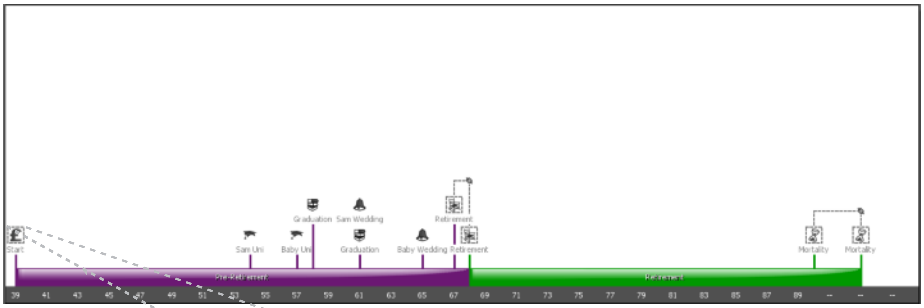
Example Case Study - *Mr & Mrs Hillman*

Consilium
Asset Management

Children Change Everything

Robert (38) and Rachel (35) Hillman were motivated to prepare for retirement. Rachel's parents had always put their children first, including paying for their University educations. Unfortunately, Rachel's father was made redundant before retirement and her parents were never able to catch up on their savings. As a result, the Hillman's now help support Rachel's parents financially. Robert and Rachel used to fit the definition of prudent. They saved regularly for retirement, and valued the contribution made by their employers toward pensions. They also put additional savings in an online savings account.

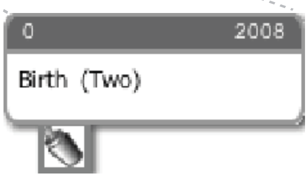
Then, two years ago, Sam was born. Sam changed everything for Robert and Rachel, including their financial priorities.



To afford Sam's childcare, Robert stopped paying into his pension & put their extra income to saving for Sam's university education.

Robert and Rachel now are expecting their second child early next year.

Robert is intent on fully funding the children's university education, and both he and Rachel would also like the kids go to private schools for primary and secondary education. In addition, it has always been a dream of the Hillman's to own a holiday home in Devon once the children have completed their secondary education.



They understand the challenge ahead in financing their children's educations, while assisting their parents, reaching for their dreams, and saving for a comfortable retirement. They are determined make smart choices now to lessen their future financial burden.

Goals:

Private Primary &Secondary Education for both children
Pay for Children's University Education
Holiday Home in Devon
Retire in Comfort

Key Life Events:

Birth of Second Child
Beginning of Primary School
University Enrolments
Graduations
Purchase Holiday Home
Children's Weddings (?)
Retirement

Earned Income

Robert is a senior manager at a software development firm, where he makes £65,000 per annum. He hopes his career path includes becoming a director and eventually a senior director of development someday, he likes his current employer and has no plans to switch anytime soon. Robert is expecting to work until 67, but would jump at the chance to retire sooner.

Earned Income

Software Manager (Robert)	£65,000
HR Manager (Rachel)	£35,000

Rachel is a manager in the human resources division of a hospital. She earns £35,000 a year. She doesn't see herself working until full retirement age, but is willing to do so for the sake of the children's educations. She too would jump at the chance to retire early.

Taxable Savings

The Hillman's have a joint savings account with an online bank for unforeseen expenses and emergencies. The current balance on this account is £25,321. Robert and Rachel manage this money independently and their returns over the last three years have averaged 2%. To date they have not made use of tax efficient investments.

Taxable Savings	
Online (Robert , Rachel)	£25,321

Pension Funding

Robert's employer offers defined contribution Pension Scheme. His retirement fund is worth £60,456. His employer will match 100% of Robert's contributions up to 3% of his salary. Robert has the entire balance of his retirement fund invested on a cautious basis. These funds have averaged a return of 4% over the last three years. However, Robert is not currently contributing to his pension fund.

Rachel's situation is somewhat different. Her employer offers a final salary pension scheme. Rachel's current contribution is 5% of her salary. She has nine years service with her current employer.

Both Robert and Rachel will receive state pension benefits at retirement age. However, being almost thirty years away from today's current full benefit age, Robert is sceptical about the benefits they will receive from the government. He wants to make sure that their retirement savings are enough to overcome any potential benefit shortfall.

Retirement Income	
Roberts employer (Robert)	£60,456
Rachels Employer (Rachel)	£12,748
State Pension (Robert)	£17,762
State Pension (Rachel)	£15,699

University Funding

The Hillman's have high hopes for their children's university educations and want to assist them in being academically successful. The changes to student funding concerns them. They are keen that their children graduate with no debt.

Both Robert and Rachel want their kids to attend prestigious universities, and are hoping that one of the children will attend either Oxford and Cambridge. These big dreams come with a big price tag. The Hillman's current college of choice for Sam costs £18,500 per year in today's terms, while they estimate the costs for their second child will be £15,000 per year. They both realise this cost will increase due to inflation and will be considerably higher by the time their children leave secondary school.

The Hillman's have already begun funding Sam's university savings account and will begin doing the same for their second child once it is born. Sam's account has a current balance of £5,691. The Hillman contribute £250 a month to Sam's account and would like to do more. The account has averaged a return of 3% for the last couple of years.

University	
University (Sam)	£18,500
University (Baby)	£15,000
Sam's Cash (Sam)	£5,621

Real Property

The Hillman's knew they wanted to start a family and where they wanted to live and raise the kids, so not long after they were married, they bought a home in their neighbourhood of choice. While they have no plans to sell the house, it has been a good investment. Originally purchased for £375,000, the house was recently valued at £525,000. The Hillman still owe £275,000 on the mortgage. After travelling to Devon a few years ago, Rachel and Robert became enchanted by a small secluded beach community. They dream of one day owning a small summer home there. The present value of their dream vacation home is £200,000.

Real Property	
Preston Lane (Robert, Rachel)	£525,000

Debt	
Mortgage (Robert, Rachel)	£275,000

Insurance

Once Sam was born, Robert wanted to make sure the family was taken care of in case something happened to him. He purchased a 20-year term life policy with a £500,000 benefit amount. The policy has an annual premium of £315.

Insurance	
Life Cover (Robert)	£500,000

Tax & Investing

The Hillman's recently reviewed their finances and were concerned at the level of tax they were paying. They are aware that they have not made use of available tax planning opportunities over the last few years. Their adviser has explained the benefits of using tax efficient investments, and they are now keen on making the most of this. They would also like to address inheritance tax concerns if they are able to.

Expenses

Robert's and Rachel's expenses are reasonably in line with their income. They both drive late model cars with monthly payments. Rachel's car is financed with a loan of £300 per month, while Robert leases at £450 p.m. They also try to take one or two family holidays a year (£3,000). Other than the monthly mortgage payment on their home (£1568) their largest expenses are assisting Rachel's parents (£250) and paying for Sam's childcare (£700). The Hillman' s education expenses will grow even bigger once their second child heads to daycare and Sam moves to a private primary school.

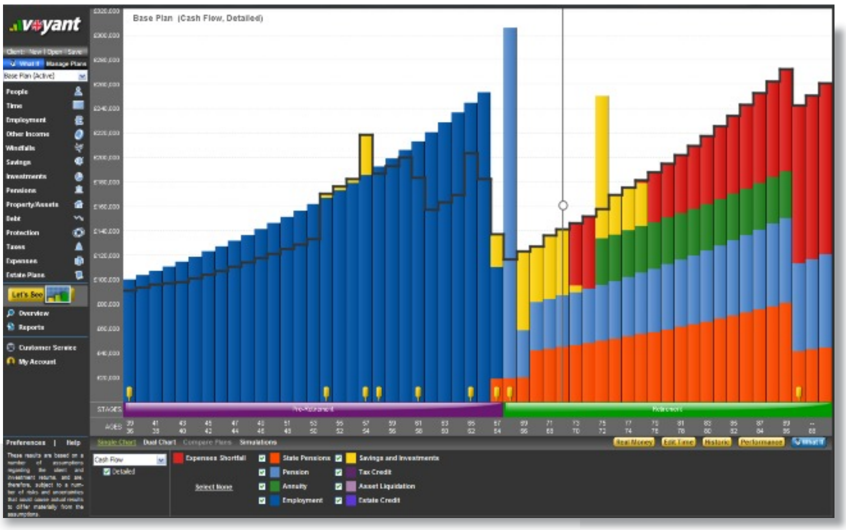
Basic	
Gas (Robert, Rachel)	£720
Water (Robert, Rachel)	£300
Electricity (Robert, Rachel)	£960
Council Tax (Robert, Rachel)	£2,400
Lease Car (Robert)	£5,400
Parents (Robert, Rachel)	£3,000
Childcare (Robert, Rachel)	£8,400
Car Insurance (Robert, Rachel)	£400
Building & Contents Insurance (R...	£750
Food (Robert, Rachel)	£6,000
Telephone (Robert, Rachel)	£720
TV (Robert, Rachel)	£132
Clothing (Robert, Rachel)	£2,400
Entertainment (Robert, Rachel)	£2,400
Mortgage - payment (Robert, Ra...	£18,816
Car - payment (Rachel)	£3,600

Leisure	
Holidays (Robert, Rachel)	£3,000

Milestone	
University (Sam)	£18,500
Baby Uni (Baby)	£15,000
Sams Wedding (Robert, Rachel)	£10,000
Baby Wedding (Robert, Rachel)	£10,000

Current Financial Situation

Robert and Rachel have a lot of competing needs, objectives and dreams to balance, but with their current income, they have a lot of potential solutions. First, some of the challenges:

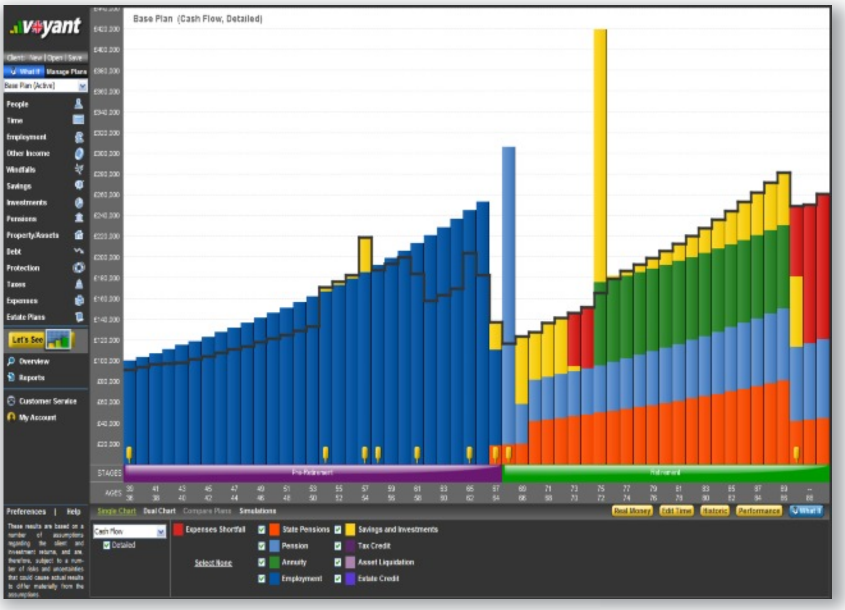


On their current path, the Hillman's will need to start tapping into their taxable savings to afford daycare, once their second child is born. The additional daycare expense will cause a saving shortfall, impacting their ability to contribute to the children's university savings accounts. While this might not affect the Hillman' daily lifestyle for several years, it greatly reduces their chances of affording other events and all but eliminates the possibility of paying for the kids' University educations.

Any unforeseen expenses or emergencies could immediately drain the Hillman's available savings and result in instant financial turmoil.

The complete lack of savings for retirement will greatly jeopardise Rachel's and Robert's chances of affording a holiday home or retiring early. They also risk having a standard of living in retirement, they are unhappy about. This would certainly mean financial hardship.

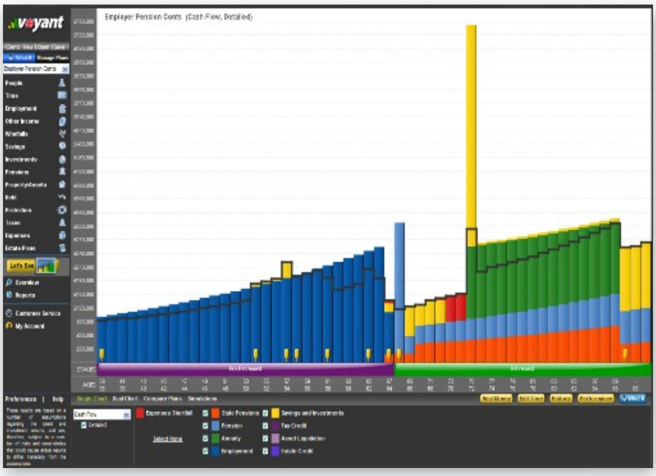
"What If" Scenarios



Investment Strategy

The Hillman's want to take a look at their current investment strategy. For the last three years, their average rate of return has under-performed industry average. The Hillman's realise their current asset allocation strategy is to risk averse for a couple in their late 30's. Either working independently or with a financial professional, Rachel and Robert want to reallocate their portfolio. While this will not dramatically affect their short term taxable savings, it could greatly impact the long term value of their overall savings and investments.

They have also reinvested some of the taxable savings they have into ISA accounts for each on them.



Employer Pension Contributions

Robert and Rachel realise the easiest way to for them to grow Robert's Pension is to make sure any contributions are matched by his employer. This guarantees a 100% return on investment immediately, since for every pound saved, his employer contributes one additional pound, up to the contribution maximum.

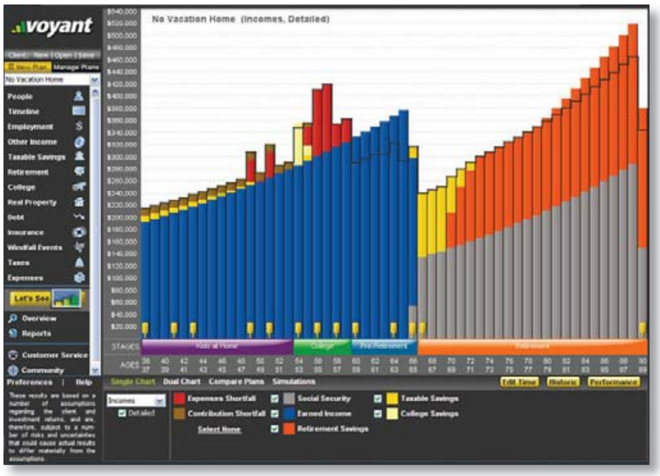
To test the value of this scenario, the Hillman's increase the gross contribution to Robert's pension fund to 3% of his annual salary. While the contributions will increase the rate at which the Hillman's use their taxable savings to pay for childcare, the effects on retirement are substantial. By increasing Robert's savings to pension, with his employer contribution, the Hillman's can see their retirement income concerns have now been resolved.

No Holiday Home

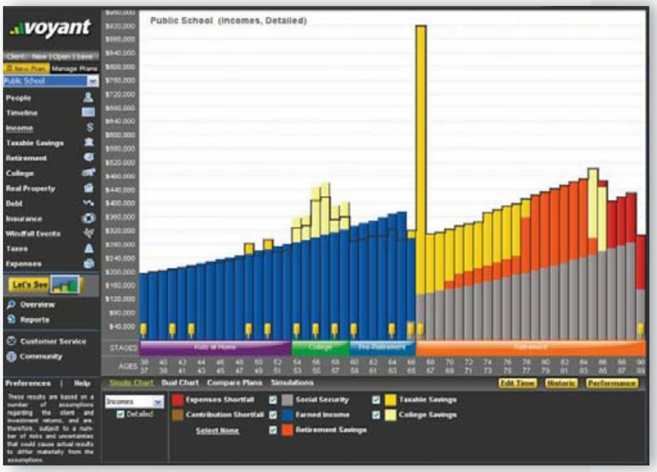
While Rachel and Robert dream of owning a second home, they are willing to give up on the dream if it means affording their children's educations and securing a more stable retirement.

The Hillman's soon realise that their dreams of a holiday home will not happen until after University. However, they are keen to ensure that their plans include the purchase of a second home without significantly affecting their ability to afford university tuition. Deferring the plans for the holiday home would give them more income during pre-retirement, since they would not have to fund the costs of education as well as the home.

Through a quick comparison, they are amazed to learn that making the most of pensions will provide them enough with retirement income to be financially secure, and they will be able to fund partially the purchase of a second home. However, there is still a slight shortfall if they wish to purchase their second home. Both Rachel and Robert are excited to know that their dreams are still within reach and are committed to making pension contributions.



While the combination of the employer contributions and a more aggressive investment strategy appears to address their retirement needs, the Hillman's still face a shorter term dilemma. With the arrival of their second child, they will still be draining their taxable savings to pay current expenses in lieu of saving for college. Robert and Rachel realise that cuts must be made.



Public Schools

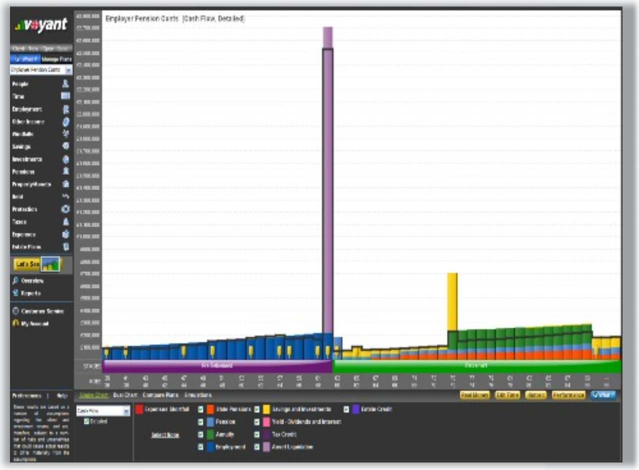
The Hillman's realise the simplest solution would be to send their kids to public school just for their secondary education.

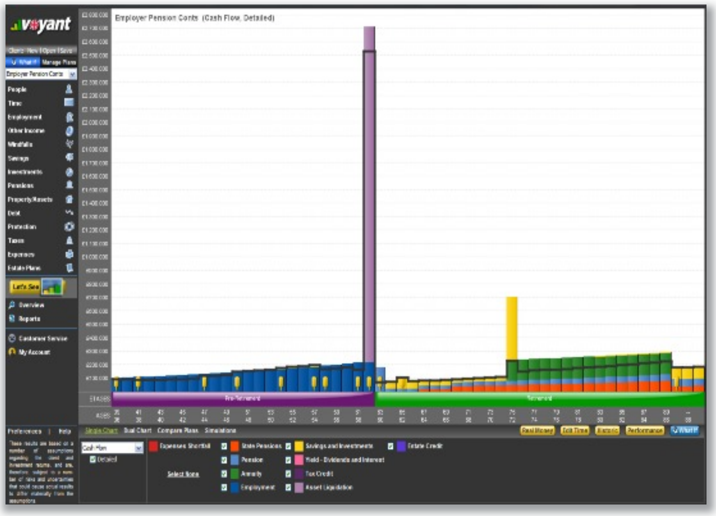
Removing the primary school expense shows that once Sam starts education, the Hillman's will no longer need to drain their savings to afford education expenses. The chart also shows that once their second child starts primary school, the Hillman will be able to allocate additional savings to each of the children's University savings accounts and allow the rest of the money to flow into tax efficient savings. This appears to solve the Hillman's shorter term dilemma, but both Robert and Rachel are not comfortable with the solution.

Private School / Reduce Expenses / No College

Robert and Rachel really want to send their kids to private school. Using their "Employer Pension" plan as their new base, Rachel suggests they reduce their expenses to account for the money that would be otherwise drained from savings. Robert suggests that he reviews his leasing arrangements for the car to £350 per month. They also agree to have only one main holiday a year saving £1000 each year. Rachel & Robert agreed that private education for the children will be reviewed if necessary. Childcare costs will stop when Sam goes to primary schools and Rachel's parents have agreed to look after the new baby until he or she goes to school. Once Sam started primary school, Rachel was going to buy a new car. She commits to delaying this for another three years.

These changes have the Hillman's back on track. In the short term, they will still be draining money from their savings, but they have stemmed the long-term reductions. In their current plan, Robert and Rachel have reduced some expenses. The kids will be able to attend a private school & there is sufficient funding for University.





Holiday Home

Although the Hillman's are happy that the issues relating to retirement and the children's education have addressed, they are still unsure whether they will be able to afford their dream holiday home. After reviewing the plan, their adviser builds another plan showing the effect on their income and capital if they were to downsize their main home & purchase a holiday home after the children have graduated.

By downsizing to a reasonable sized house, they are now able to buy outright their dream holiday home and can retire earlier than they originally thought.

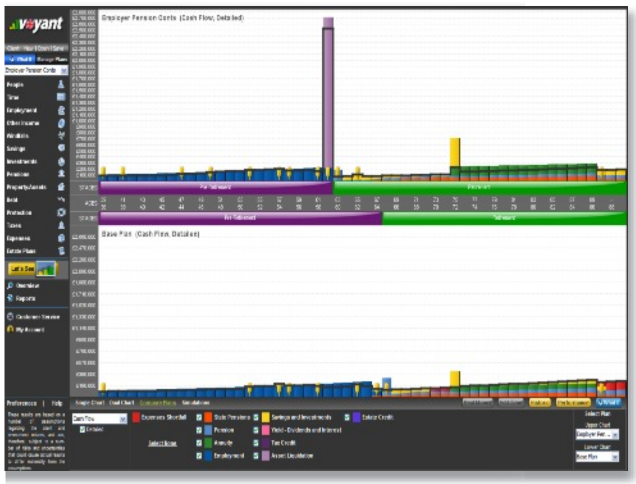
As well as enabling Robert and Rachel to purchase their dream home, downsizing will also release capital to enable them to start some form of inheritance tax planning.

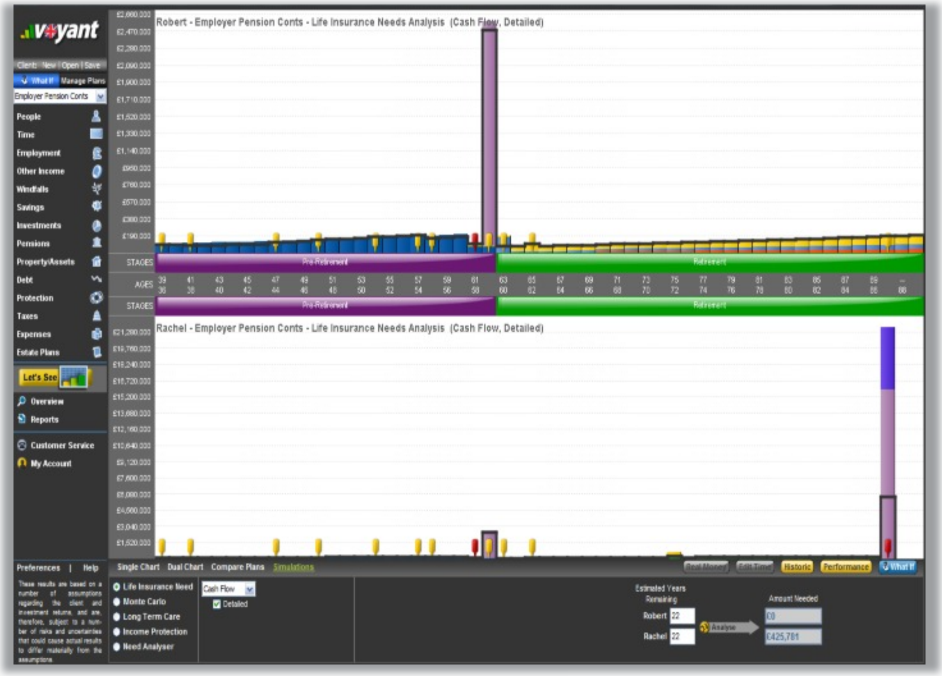
The purchase of the second home now fulfils their financial dreams and objectives.

The Big Picture Plan

Rachel and Robert are happy. They now have a financial plan that helps them achieve all their goals and dreams. They are going to adjust their retirement plans to maximise the matching employer contribution. They are going to reduce their current expenses to cover the cost of secondary education expenses for Sam and his soon-to-arrive sibling.

The Hillman's will do all this knowing that with careful planning, they are able to meet all their financial objectives, and that they can still afford their special place in the Devon. Rachel and Robert are excited.





Life Insurance Needs Analysis

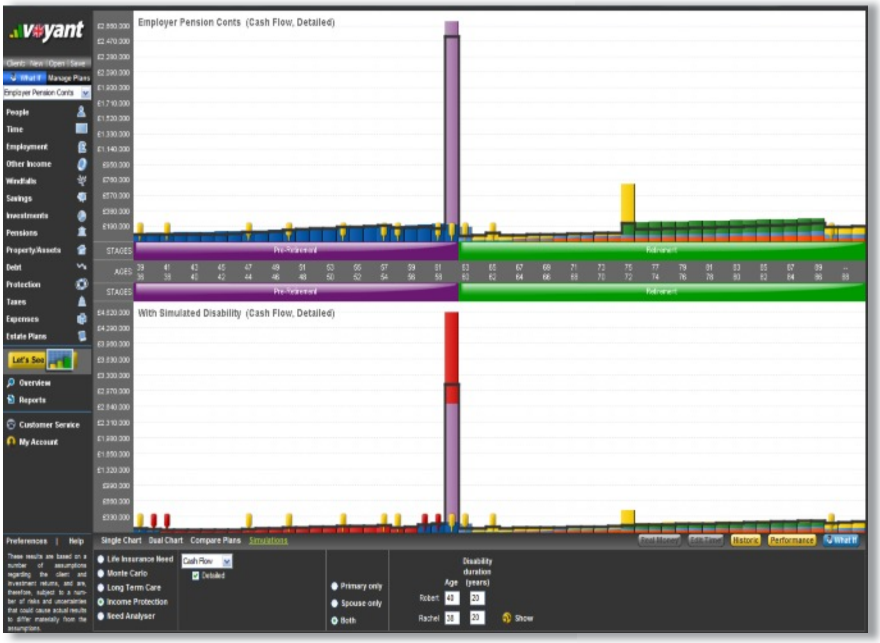
Rachel and Robert run a quick Life Insurance Needs Analysis simulating their financial outlook should either of them die in two years. They quickly understand that Rachel is under-insured.

Should anything happen to Rachel, Robert's retirement would be in jeopardy as well as the children's Private Education. This would would cause drastic and immediate financial turmoil for the family. The Hillman's begin to research purchasing additional life insurance.

Income Protection

The Hillman's also run Disability Simulations. The results are apparent. Should either Rachel or Robert become unable to work even a short time, the family would quickly drain their limited savings and suffer immediate financial turmoil.

The Hillman's see the value of owning Income protection insurance and decide to investigate the disability benefits available from their employers, as well as other supplemental policies.



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