



Financial Planning for Family Solicitors

December 2010

Introduction

This guide is designed for family solicitors. The purpose is for us to highlight some of the main issues which you and your clients need to be aware of with regard to Financial Planning, and how we can help you to address these issues. For further information please contact us, or visit our website.

Why did we produce this guide?

As legal professionals you have a vital role to play at what can be a difficult period in the lives of your clients. Much of your work will be dealing with relationship breakdown in some form, and with this comes financial upheaval. Your advice will help them to come up with practical solutions to their needs, but there comes a point where they may need a financial plan to help them once the dust has settled. As such, you are in a unique position to be able to direct your clients towards a suitable Financial Planner.

As Certified Financial Planners we are uniquely placed in our area to provide fee-based comprehensive financial planning, free of the traditional bias of commission based Independent Financial Advisers. We are always looking to build on our network of professional connections, and would invite you to read further to find out more about how we can work together. The Legal Services Act is likely to bring new challenges to your profession; if we work together, we may be able to assist you to recruit and retain clients as our firms bring a multi-disciplined approach to working on the issues affecting clients.

We feel that there are a lot of misunderstandings about Financial Planning, and much of this misinformation is propagated by Financial Advisers. Therefore, this guide seeks to set the record straight, and to give you the information you need to be able to help your clients get back on track financially.

About Woodruff Financial Planning

We are a Certified Financial Planners, based in Colchester, Essex. Our ethos is very much about offering a defined service standard for our clients, and as such we are specialists in comprehensive financial planning, investment management, and also offer traditional financial advice. We are fee-based, independent, and professional. Our Principal adviser also has a Law degree and completed the Diploma in Legal Practice.

We meet all the requirements of the Lexcel Practice Standard 8.9, which deals with due diligence in the selection of financial advisers and other professionals. See the Appendix for further information, as well as a checklist.

What is Financial Planning?

Financial planning is not about products. Any financial adviser who has approached you with a great product or a fantastic new investment type is doing you and your clients a disservice.

To us, Financial Planning is about answering this question:

How much is enough to live the life I really want and never run out of money?

Your clients will have important decisions to make about their lives and you probably realise that they need to have a sound financial base to achieve the lifestyle they want. We work with professionals like you who advise clients on how to take this step.

Financial Planning will help your clients to comfortably reach their goals. The money side is boring - what is exciting is what that security can do for their lives.

By developing a comprehensive financial plan, clients should accumulate personal wealth faster and achieve their goals more quickly. This means that they will have more time to spend doing what they really want to do with their lives.

Our Financial Planning service looks at all aspects of your lifestyle, goals and requirements and through sophisticated financial analysis develops a strategy suitable for you. The result is that you know exactly where you are now, and more importantly, where you are going.

We believe that before we talk about products we need to find out what's important to clients and what they want out of their life. Only then can we focus on how we can achieve their goals.

What does this mean in the context of your work as a family solicitor?

Typically, our work with Family solicitors stretches across these issues:

Pensions & Divorce

Where the pension funds of one spouse are much larger than the other, you will include this asset as part of the financial settlement. Obviously, you are not able to provide financial advice and would need to refer your clients to a planner who will keep you updated on the progress of the case so you can secure the required Court Orders to enable the case to proceed. We have experience in dealing with pensions sharing orders and other types of settlement in divorce cases, and help clients in receipt of pension funds to establish the best options for their needs.

Clients 'losing' assets

If one party in a divorce case is forced to give up significant assets such as the family home, or other assets such as pensions or investments, this will have an impact on their future financial plans. We can help them to develop a strategy to work towards recovering this dent in their finances.

Clients 'gaining' assets

It is common for the party who receives assets not to have any experience in dealing with those assets. We can help them to manage their money given their new circumstances, and also to work out how their new financial situation impacts on their future financial security.

Maintenance

Where maintenance has been granted, it is sensible for this commitment to be insured through various forms of protection policies. Usually, it would be preferable to insure the maintenance payer's income so that they can be sure of keeping up the payments if the worst happens.

Education

Often part of the financial settlement deals with the future education expenses of the children, with provision being made for private education costs and university fees. We work with clients to assess the likely capital or income needed to fund such costs, as well as the impact of this provision.

Mortgages

Where a couple splits it is often the case that both parties need a new mortgage, either to buy out one former partner from the marital home, or to secure a new property.

Case Study

See the Pensions and Divorce Case Study in the Appendices.

How you can help our clients

We tend to work closely with clients on a regular basis throughout the year, so we are in a good position to be able to refer business to other professionals. Our typical clients are business owners, professionals and investors.

Relationship breakdown

Clients come to us seeking advice on their personal situation may be in need of your advice before they make any final decisions. Ultimately, this may result in divorce proceedings.

Pre-nuptial agreements

We deal with business owners and wealthy individuals who may have the need to manage complex affairs before marriage.

Arrangements for children

Some clients set up financial arrangements for children or grandchildren and may need legal advice on the best methods.

Financial Planning - Benefits

Our Financial Planning Service Will Benefit Clients By:

- Ensuring that they never run out of money
- Advising them when you can stop working and start doing the things they want to
- Guaranteeing that their family is financially secure no matter what happens
- Helping them make the most of the rest of their life
- Telling them when they can stop accumulating and start spending!

The Ultimate Aim is Financial Independence.

This means that at some point, if they choose to, clients can stop working and start doing the things that they really want to do.

A Realistic Assessment of Clients' Life Goals

When we go through this process we usually find that clients fit into one of the 3 scenarios below. Their financial plan will help them determine where they are now and how to get to the perfect scenario to match their future lifestyle needs.

- **Not enough**
This is the majority of people, who find that they will not have accumulated enough to do what they want in later life. They either have to keep working, or plan to reduce their future standard of living to avoid resources running out. Typically, in a divorce settlement one partner will lose assets, and will need a plan to recover their position. On the other hand, the assets received by the other partner may not actually be enough to provide a stable financial future.
- **Just Right**
Obviously, this is what we aim for. We want to put plans in place so that clients never run out of money, but keep the lifestyle they want. More importantly, we want to ensure that they don't have to work longer than they need to.
- **Too much**
Weirdly, this situation might not be as good as it looks if you worry about your heirs! Imagine that you have worked all those years paying income tax on your earnings, VAT on your purchases, corporation tax on your business, stamp duty on your house purchases. Then your estate has to pay another 40% tax on your death! We can avoid this with careful planning so that you can either afford to give money away to charity, or retire sooner while you can still enjoy your life.

Financial Planning Service - How Does It Work?

Understanding the client

As **independent financial planners**, we aim to identify where the client is now, how they got there, and what they want to achieve in the future.

We do this by a comprehensive data gathering and an analysis of their current and future spending patterns.

Through this approach, we help them to set their financial goals.

Creating a financial plan

We identify the resources that clients have now, those they will have in the future, and what they might need to cover other eventualities.

We then help clients to set a strategy for their goals, and more importantly tell them the truth about how their money really works.

This does not involve financial products, just common sense financial principles and unbiased financial advice.

We use state of the art software to evaluate clients' financial lives now and how their choices will impact on their financial future. This will give them a greater understanding of the implications of their financial decisions. This is a highly collaborative and interactive stage which allows the client to be at the centre of their financial decisions.

As we discuss their plans, we can make changes and assess alternative scenarios so that they can immediately see the implications of different routes towards their goals.

Once we have agreed their investment management strategy we will prepare a written plan of action.

Putting the plan into action

Only when we have set out the client's financial goals can we set about recommending an investment management portfolio.

We would then go through a rigorous research process to ensure we recommend the most appropriate products and providers on the market.

Reviewing your plan

We schedule at least an annual investment management meeting to regularly review the client's plan and current circumstances to ensure that they remain on track to achieve their goals.

Appendix A

Lexcel Practice Management Standard 8.9

Choosing an IFA – guidance for solicitors

We are confident that we meet all of the criteria for the selection of a financial planner for your clients. We have included the guidance below, as well as comments on how we meet the standards required.

Criteria:

1. Independence

We are independent of product providers, and adopt a whole of market approach to the selection of products. In addition, we produce comprehensive financial plans before we recommend products, so our recommendations are based on the needs of clients rather than the sale of products. In contrast to some advisers such as St. James's Place, we do not restrict the products offered.

2. Direct Authorisation

We are not part of any financial network which could unduly influence us. We are directly authorised by the Financial Services Authority, and as such are responsible directly to the Regulator for our own compliance. We have passed every FSA requirement to trade and are confident in our independence and stability as a result.

3. Fee-based remuneration

We are fee-based, and have been for a number of years. We feel that the majority of Financial Advisers inadvertently prejudice their clients' needs by allowing themselves to be influenced by product providers' commissions. We take this out of the process and, like you, charge for our advice and expertise.

4. Qualifications

We have attained a greater level of qualifications than are currently required, or indeed will be required by 2012. The standard has been set at QCA Level 4. Our Principal adviser has QCA Level 6 as a Certified Financial Planner. Also, he has a Law degree and the Diploma in Legal Practice, which places him in a unique position in the financial adviser community.

5. Disciplinary record

We have never had a client complaint, and regularly monitor client satisfaction with our services. We are proud of our customer satisfaction levels.

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Financial Planning

Case Study

Pensions and Divorce

Summary:

We advised a client on the rights to her spouse's pensions on divorce and then built these assets into a comprehensive financial plan which enabled her to achieve her long-term goals.

Background:

The client was getting divorced from her husband and had sought advice from a family solicitor. As part of the divorce settlement, she was to receive a share of her husband's sizeable pension schemes. The solicitor was unable to give advice on financial matters and so referred the client to us.

Problems/Challenges:

In these matters, the Law Society requires solicitors to refer their clients to an independent financial adviser. The solicitor needed us to find a home for the money so that the divorce could be finalised. To be able to provide a professional service to their client, the solicitor needed to be regularly updated at every point of the process so that the pension could fit within the overall divorce settlement.

The client needed advice on how best to manage this money since she had previously taken limited involvement in the family financial affairs. Since her life was undergoing a major change, she also needed to examine how the divorce and settlement would impact on her financial security and the future.

Our approach:

The main driver was to find a home for the pension funds in a short time frame. We worked with the client to agree a strategy for the pension funds, produced research on the most appropriate pension solutions for her needs, and discussed these various options with the client.

We managed the process so the client and solicitor had confidence that the pensions were to be transferred to the client's name in a timely manner.

Once this critical process was in motion we sat down with the client to produce a financial life plan. This

allowed us to get to know her and work out a future direction for her finances. She set out her dreams to retire at age 60 and provide a lump sum for her children's education.

We produced her financial plan by gathering all the information we needed on her present income and outgoings, assets and liabilities. We then made assumptions as to how these would change over time based on a realistic assessment of her circumstances and how her goals would affect these areas. This enabled us to look into the future and work out whether she would remain on track to hit her goals.

As part of this, we assessed her existing assets including her pensions and agreed a strategy to manage the risks of these investments in order to achieve long-term goals.

Outcomes and Impact:

The client was able to receive the pension money from her former spouse and completely separate her finances from his pensions. This process was handled efficiently and with minimum involvement from the client.

We were able to give her confidence in her future financial stability and that she would be able to afford to retire with the lifestyle she required whilst still providing for her children.

Continuing Support:

Each year we schedule two reviews with the client. The first is to re-evaluate her financial situation and revise her financial plan so that we can take into account any changes to her circumstances and re-assess whether she remains on target to meet her long-term goals.

The second meeting reviews her investment portfolio and aims to keep her on track towards her goals while taking the least risk needed to do so.

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