

CASE STUDY

# FINANCIAL PLANNING FOR HIGH EARNERS

NOVEMBER 2024

# BACKGROUND & OBJECTIVES

Mr & Mrs B are both high earners and approached clarity to help them get a handle on their financial affairs. Mr B is 42 and a partner in a top four accountancy practice, with earnings of around £350,000 a year. Mrs B is 35 and employed in a senior role, with an annual salary of £75,000.

As their income is fairly significant, Mr & Mrs B want to ensure they consider all relevant financial planning options and are well prepared for the future. In particular, they want to:

1. **Pay off the £500,000 mortgage on their £1 million home as quickly as possible.**
2. **Optimise their pension savings in line with Mr B's desire to retire from work at age 50.**

Like many couples, Mr & Mrs B treat their financial affairs as one. All our advice is therefore considered and made on a joint basis.

Mr & Mrs B are both non-smokers and in good health, with one child, aged 5. They have current wills in place, last reviewed three years ago.

Mr B had existing pension savings of £350,000 and the couple had around £150,000 in other savings and investments.

Mrs B is a member of her employer's pension scheme, with matching pension contributions.

Mr B's pension savings were split across policies with five providers and he was looking to consolidate these in order to make his pension easier to manage and monitor. He was also **keen to make a lump-sum contribution** to make the best use of his available pension allowance. His employer's tax team had confirmed **he could contribute around £10,000 by 'carrying forward' his unused annual allowance** from the previous three tax years.

# WHAT WE DID

To start with, we completed our financial planning and risk profiling questionnaires to make sure we fully understood Mr & Mrs B's situation, objectives and attitude to investment risk. We discussed the lifetime allowance for pensions and the need to carefully monitor any pension savings against this limit. In addition, as Mr B wanted to retire at age 50, we highlighted that savings in a pension are locked away until age 55 (increasing to age 57 in April 2028), which would need to be considered as part of Mr B's longer-term financial plans.

We discussed the importance of considering debt repayments before committing funds to longer-term investments. Mr & Mrs B were comfortable with the level of cash they had available for emergency and short-term needs, and it was agreed they would **use £50,000 of their available capital for a lump-sum mortgage repayment**. Their monthly overpayments of £2,000 would also continue, in order to help meet their objective of paying off their mortgage as quickly as possible.

**Mr B has a fairly adventurous attitude to investment risk, while Mrs B's attitude is significantly more cautious.** Their investment objective is to create total growth of their accumulated wealth, through capital growth and reinvested income.



# OUR RECOMMENDATIONS

After carefully reviewing Mr B's existing pension policies, we recommended he **transfer his five pension arrangements into a self-invested personal pension (SIPP)**, which would also receive his lump-sum payment.

Although we advise Mr & Mrs B on a joint basis, it was agreed that Mr B's SIPP would be invested in line with his more adventurous view. A SIPP provides the widest range of investment options, including clarity's buy list funds, ensuring we can meet the desired asset allocation with high-quality investment funds.

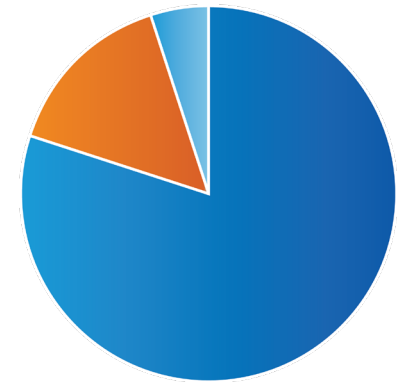
To **minimise costs**, we recommended a combination of actively managed and passive (index-tracker) funds, **using a more passive approach in efficient markets** such as the US and UK, with **active management where it is really needed or can add value**.

**Mr B's profession means the couple are subject to strict financial independence rules.** Any investment funds we recommend are therefore submitted to his firm's compliance department for pre-clearance using an automated system, which also provides all the necessary information required by his firm on an ongoing basis.

We recommended Mr & Mrs B both make **maximum use of their ISA allowance** for the year and hold their ISAs on the same platform as Mr B's pension, in order to easily monitor and manage their entire portfolio through one online account.

Our recommended asset allocation for Mr B (SIPP):

**Fixed Interest 15%**  
**Equities (Stocks & Shares) 80%**  
**Commercial Property 5%**

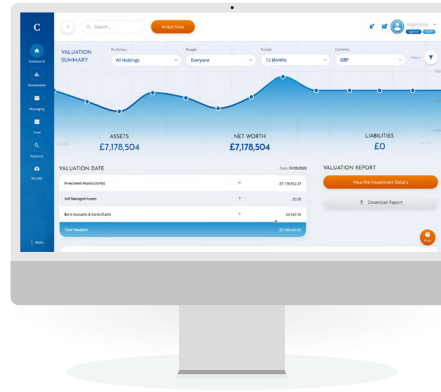


Mr & Mrs B use our **PORTFOLIO** service, so their investments benefit from a professional review and rebalance each year. This ensures their portfolio is managed in line with their objectives and attitude to risk, and maintains the desired asset allocation over time.

# THE RESULTS



Mr & Mrs B significantly reduced the balance of their outstanding mortgage and are on track to pay this off several years early.



They have a clear understanding of their finances and can access up-to-date information and valuations at any time through **clarityONLINE**.



Mr B's pension is now invested in line with his personal attitude to investment risk and, having consolidated into one arrangement, is easier to monitor and manage.



The couple are benefiting from all relevant tax wrappers and allowances, so they are not paying any unnecessary tax and more of their money can remain invested.



Mr B's financial independence requirements are easily handled through an automated compliance reporting system.



Mr & Mrs B benefit from a professional annual review of their financial plans and investments, ensuring they stay on track to meet their financial goals.



**Important information:** Our views are based upon our understanding of current legislation in England, unless stated otherwise. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances. This document is provided for information only and does not constitute advice. You should not act on any of the information without seeking professional advice.

**Risk Warning:** The past is not necessarily a guide to future performance. The value of your investment and the income from it can fall as well as rise and is not guaranteed. You may not get back the full amount invested.

© clarity Ltd. clarity Ltd is authorised and regulated by the Financial Conduct Authority (FCA). The FCA does not regulate all types of Pensions, Mortgages or Taxation Advice. clarityLAW is brought to you in association with Taylor Vinters solicitors, a firm regulated by the Solicitors Regulatory Authority.