CASE STUDY

INCOME PLANNING FOLLOWING A DIVORCE

NOVEMBER 2024

BACKGROUND & OBJECTIVES

When Mr and Mrs X decided to divorce after 30 years of marriage, Mrs X asked clarity to help her:

- Understand her financial situation.
- Create a financial plan to ensure she received the level of income she required, in a sustainable manner.
- With ongoing financial advice and support to ensure she stayed on track.

Historically, Mr X had always 'handled the financial stuff'. Mrs X therefore needed someone to advise her on the best course of action to achieve her required level of income, without bombarding her with financial jargon and paperwork.

Mrs X was mortgage free, with no personal debt and around £250,000 held in an individual savings account (ISA), which had built up over the last 15 years.

Once the divorce was finalised, she would have the following additional capital:

- £900,000 in pension savings (received as a result of a pension credit from Mr X).
- £550,000 from the sale of their main home (representing Mrs X's 50% share).

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WHAT WE DID

Prior to our initial meeting, Mr X had helped Mrs X put together a comprehensive budget so she knew she needed an **income of around £40,000 a year**, after tax. Mrs X was 56 and had retired from work, but was not yet receiving any pension income. Once she reached age 60, she would start to receive payments of around £4,000 gross per year from a previous employer's defined benefit pension scheme.

Our **first step was therefore to enter all of Mrs X's financial assets and known future income into our powerful WealthPlan modelling tool**. This provided a **clear picture of the shortfall that needed to be generated** from Mrs X's capital in order for her to receive the desired level of income.

To assess Mrs X's attitude to risk and create a suitable **asset allocation model for her investments**, we then worked with her to complete **our risk profiling process**. This showed that Mrs X had a relatively cautious attitude to investment risk.

Mrs X confirmed that, ideally, she did not wish to draw on her defined contribution (DC) pension savings until she reached age 75. However, she was **keen to understand more about the options available in respect of these pension savings**, so that she would be well prepared for this future decision.

Our advice focused on three key areas:

1. How best to meet the income shortfall that would be present until Mrs X drew her main pension benefits at age 75.
2. The options available (based on current legislation) with respect to her DC pension savings.
3. Developing an appropriate asset allocation and investment management approach, designed to achieve the desired level of income with an acceptable level of risk.

Using prudent assumptions, we **used our WealthPlan to graphically illustrate to Mrs X the impact of different options**. We then talked through the key features and considerations of annuity purchase vs income drawdown.

OUR RECOMMENDATIONS

For ease of administration and so that Mrs X could view an up-to-date valuation of all her holdings at any time, we recommended the use of a platform to manage Mrs X's assets. The platform provides access to **all necessary product wrappers, along with excellent investment choice and low charges, and the ability to set-up regular withdrawals** paid directly to Mrs X's bank account.

As both pensions and ISAs have significant tax advantages, we recommended that Mrs X initially meet her income requirements from the £550,000 capital she had outside of these wrappers. As Mrs X had not yet used her ISA allowance for the current tax year, **£15,000 of this capital was used to top up her ISA**.

To meet her immediate income needs and provide a 'buffer' for any unforeseen expenses, we advised Mrs X to hold £80,000 in a cash account. This approach ensured Mrs X would **always have at least one year's income readily available, along with an emergency fund**.

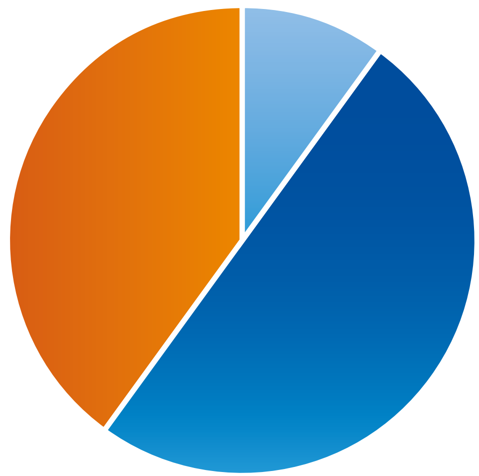
The remaining £455,000 was invested in a portfolio of collective funds, held within an investment account. Our recommended asset allocation for Mrs X was 40% fixed interest, 50% equity, 10% commercial property. We **advised Mrs X on the specific funds to invest in, based on her attitude to investment risk, using our Buy List to draw on the expertise of the clarity investment committee**. The income generated from this portfolio is paid directly into Mrs X's cash account, to help maintain a consistent balance of £80,000.

A pension account was set-up for Mrs X's £900,000 pension credit, with clarity recommending the underlying funds to use. In addition, we advised Mrs X on the need to carefully monitor her pension savings against the lifetime allowance; something clarity would handle on her behalf as part of our ongoing advisory service.

All of Mrs X's financial assets are now managed under the **Portfolio+** investment management service, meaning **Mrs X benefits from quarterly investment reviews and rebalancing**. A full review is carried out each year, during which we update Mrs X's WealthPlan to ensure her financial plans continue to fit her needs.

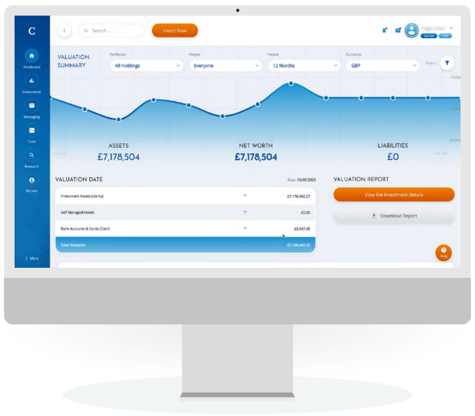
Our recommended asset allocation for Mrs X:

Fixed Interest 40%
Equities (Stocks & Shares) 50%
Commercial Property 10%

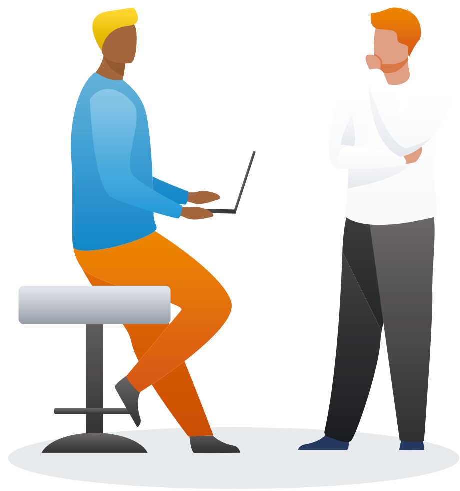


THE RESULTS

Mrs X is receiving her target level of income, in a sustainable and tax-efficient manner.



Her portfolio is held on one platform where Mrs X can view an up-to-date valuation at any time.



clarity's expert team review and rebalance Mrs X's portfolio on a quarterly basis, ensuring her investments continue to meet with her objectives and are in line with her attitude to risk.

Mrs X is reassured about her financial future and feels she has financial independence.

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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.