

What is Financial Planning?

This is a question we come across quite frequently as many believe this is all about having money to invest and then using a financial planner to obtain advice around an appropriate investment portfolio.

Yes, investing is part of financial planning however, it's only one part. There are many other aspects to financial planning that a financial planner is able to advise upon, so, I thought it may be useful to 'kick' off the new year with a case study that covers one area that seems common to many businesses, known within our industry as 'succession planning'. This type of planning is all about looking how can we exit our business and ensure we remain financially independent in retirement. This is particularly important in family run businesses and is a common 'issue' within the farming community. How is a child working in the business able to afford to buy their parent's share in the business? How can the parents ensure they have sufficient income to live on during retirement when they no longer own the business? How can the parents equalise their estate, so that other siblings, who are not part of the business, receive their fair share of the inheritance when the parents pass on?

Joe is nearing his chosen retirement age, having run a successful and growing SME business for many years. His daughter Sally joined him in the business several years ago and they have both been discussing how he could exit the business and still remain financially independent in his retirement. At the same time, Sally wants to take over full ownership and Joe wishes provide an equally financial benefit to his other children, so as to ensure they all receive a fair share of his estate.

Part of our financial planning role was to assist Joe and Sally to gain clarity on the options open to them and to work through various financial scenarios. Working alongside their other professional advisers, we were able to be clear about what Joe and Sally's concerns were and obtain confirmation as to what they both ideally wished to achieve.

We talked through a 'blue print' financial plan where we introduced Joe and Sally to various financial modelling outcomes that come about from choosing different options. Some of these were:

- How long can the business sustain paying Joe an income whilst he no-longer worked in it? This would enable Sally to buy out his shareholding over a period of time without her having to take on personal debt to buy the shares outright
- What if Joe's income from the business ceased immediately upon retirement? How would he be able to achieve the income he needs to live on from his other personal assets and for how long?
- How long would Joe's personal capital remain in-tact if he drew on it to sustain his income needs in retirement?
- What would Joe's long term financial horizon look like if he kept his money in a cash deposit account, in his commercial property portfolio or if he considered diversification into shares?
- How would Sally be able to sustain payments to Joe to purchase his shareholding?

These were only a few of the many modelling scenarios we talked through however, they were all extremely helpful in being able to demonstrate what Joe's life could be like financially with each option. Furthermore, it allowed Sally to appreciate the options open to her with regards to buying her father's shares in the business and continue to sustain the business and its growth going forward. It also addressed the other important concern Joe had, of how he can 'play fair' by his other children with his overall assets after he passes on.

Financial Planning is helping people grow and protect their wealth and providing guidance and advice on how they can achieve their financial goals.