A wealthy family, unaware that they were going to run out of money

Why they came to us

Although wealthy, they were confused by their finances.

They had many advisers but no one co-ordinating everything to tell them the truth about their money: they were on track to run out of money in their early 70s. They felt something was wrong, but had no idea how serious it was. They found it difficult to discuss money together.

They were in their mid-forties and both had been married before. He was employed, with substantial capital and a large personal pension. He really enjoyed his work and wanted to continue to do it for as long as possible – into his seventies - but not at the current pace.

Borrowing : There was a mortgage with no plans for repayment.

Investments : They were running down their portfolios. They had four investment managers, all working independently and without knowledge of each other. He had 'collected them' over the years, mainly after discussions at dinner parties. He regularly asked whether he could withdraw large sums of money from his portfolios. They thought he was asking permission and answered 'yes'. They didn't understand his question was really 'can I afford to draw that amount?'. They were taking out more than their portfolios would sustain.

Risk : The investment managers all invested in much the same way. If the market crashed their investments would all fall at the same time and take the same time to recover. Our clients would either have to reduce their standard of living or run the risk of selling at the bottom of the market and running out of money even sooner.

Fees : The portfolios all had high fees: over 2% pa is expensive.

Estate planning : There was a trust for their son but not for the three children of her first marriage.

Their wills were not flexible enough to take account of actual family circumstances.

First we met them together so they started a conversation about their money and understood the truth about their situation. After initial concerns they found it liberating.

We explained that if they didn't withdraw less from their portfolios, they would run out when they were in their seventies. This was a shock, but it was easier for them to accept the truth at a meeting guided by us as impartial advisers, not taking either side.

Second they completed a detailed expenditure forecast which showed them they were spending too much.

We then helped them to prioritise their 'wish list': travelling more, helping their children, working less and spending more time together. We discussed downsizing to a smaller house in their seventies (when their children would be leading independent lives) so that they would release more capital to spend.

What was achieved

They are now comfortable with their money and talking about it. They will not run out of money in their lifetimes and feel relaxed now that they've solved important family issues such as their children's inheritance.

- They agreed a realistic long term financial plan. They meet us every year to keep it on the right track. The plan includes a list of the things to do immediately and things to defer. They no longer feel stressed discussing money and plans for the future.

- They spend less but still enjoy a high standard of living.

- He changed to working part-time. He is confident he can continue doing work he enjoys into his seventies. He couldn't have done it if he had tried to keep going at his previous pace.

- He was able to give the children from her first marriage deposits to buy flats.

- We consolidated their investments and his pension into a single portfolio, invested across six funds. Each of them complements the others, so at least one manager should be up in any year when the clients need to draw from them. They can now see everything in one place and really understand how their money is being managed. The portfolio structure makes it simple to take advantage of her lower tax position and use ISAs for themselves and their children.

- Paperwork is now limited to a single source. Their tax reporting is simplified, and online valuations and transactions mean that they can check their position 24/7.

- The charges are much lower - by about £30,000 pa.

- They repaid their mortgage from investments and reduced their outgoings. It also reduces their risk: if interest rates increase, the value of their investments may fall.

- His pension fund is close to the lifetime allowance, so he has stopped contributions. At age 55 (the earliest he can draw on it), he will take maximum tax-free cash to limit the build-up of value which will be subject to a surtax. If he dies prematurely, he has nominated his step-children to get the pension pot (which will be free of tax). The clients are now on track to get full state pensions.

- Their wills have been changed to leave everything to a discretionary trust when they both die. Their letters of wishes are flexible so that, on their death, their executors have discretion how best to distribute capital and income to best meet their wishes. Their son and her children will receive the sums that our clients want, at the time that is best for the children. The letters of wishes can be updated regularly to take account of changing circumstances without having to change the wills.

- Potential inheritance tax (IHT) is reduced. We calculated how much capital they will get through in their lifetime. There is now a surplus which can be given away in their lifetime. As they are too young to make significant gifts, we arranged a relatively inexpensive life policy to cover the potential inheritance tax if they die within the next ten years before gifts are made.

- They drew up lasting powers of attorney so that their finances can still be managed if either or both of them should lose mental capacity.