From Buckley's to Bruny Island

You don't have to have only high net worth clients for your advice to make a difference, as Mark Story reports

Like so many of her generation, Jenny Barrington (not her real name), a widowed resident of Bruny Island (just south of Hobart), did not make initial contact with a financial adviser until she was nearing retirement and well into her 60s.

Her belated call for financial advice, 18 months ago, came as no surprise to her chosen professional planner, Hobart-based David Allen.

Far from being a high roller, Barrington is indicative of Allen's client base of everyday, hard-working Australians who want simple financial solutions - explained unambiguously by someone they can trust. And like many women of Barrington's generation, she had been used to leaving all the financial matters to her husband.

But at the age of 54, she found herself widowed with three grown sons, two homes and a part-time income from courier work with a local pathology firm. Barrington then moved to a full-time position as a courier superviser, managing to support herself financially.

Everything was ticking along nicely until, on turning 63, she chose to reduce her working hours and opt for a part pension. To her utter distress she was told by Centrelink that because she owned two residential properties, she had Buckley's chance of ever receiving an age pension.

After this bombshell, she concluded that her only real option was to live off what superannuation she had accumulated - until that ran out - and then sell one of the houses.

"At that stage my mother was living with me in suburbia and we had no plans to ever sell our holiday property on Bruny Island," she says.

PLEA FOR HELP

Faced with this dilemma, and with her retirement fast approaching, Barrington was desperate enough to attend a seminar for people nearing retirement.

"I was pleased to find that the government had reduced the [taper rate under the] assets test and there might be hope for me. But I was astonished at the fees for the advisers, and had no confidence with the advice given," recounts Barrington.

Having been completely bamboozled by a rival dealer group over their proposed fee structure and even more incomprehensible statement of advice, she eventually hired Allen as her financial adviser.

"Within the first half hour of meeting David I felt that all my future plans were in very good hands. As my mother is 90, he felt that I too should have a good income until hopefully this age is reached," Barrington says.

LIQUIDITY

Her main problem was liquidity. While she had accumulated $85,000 through her industry super fund, plus equity in her Hobart and Bruny Island properties, she lacked funds to live on.

"I was looking for around $25,000 in annual income," she says.

"While I knew proceeds from the Hobart property, together with the age pension, might get me close to this, I was unsure how the Hobart house sale would impact my tax status and Centrelink entitlements."

The family lawyer who handled her husband's estate recommended that Barrington put the Bruny Island property into a family trust, so that she could qualify for a government pension at retirement age. But unbeknown to Barrington, the tax shelter implications for the family trust had changed.

To complicate matters, Allen also discovered that Barrington's older brother was the trustee of this family trust. While the Bruny Island property could remain in the family trust, she was unsure whether this would trigger any means testing under Centrelink pension rules.

Photograph of Bruny Island by Peter Eastway.
To see more images, or to buy fine art prints, go to www.petereastway.com

PORTFOLIO SNAPSHOT
Jenny Barrington

Managed Funds
$330,000, balanced portfolio. 70 per cent growth; 30 per cent defensive.
Defensive: Macquarie Master Australian, Fixed Interest Fund.
Vanguard Fixed Interest (Index) Fund.
Axa Australian Monthly Income Fund.
Vanguard Monthly Interest Income Fund.
Property: Axa Australia Property Fund.
Credit Suisse Property Fund.
Vanguard Property Security Index Fund.
Australian Shares: Perpetual Concentrated Equity Fund.
Schroder Australian Equity Fund.
Barclays Australian Equity Shares Fund.
Portfolio Partners High Growth Shares Fund
International: Axa Global Equity Value Fund.
Axa Global Equity Growth Fund.
Platinum International.
Credit Suisse International.

FREEING UP ASSETS

Having assessed Barrington's options, Allen set about implementing several key recommendations. First, to ensure greater control over her own assets, he suggested Barrington engage an estate planning lawyer to transfer the trusteeship of the family trust back into her own name.

Allen then encouraged Barrington to sell the Hobart family home, move to the Bruny Island property, and invest the proceeds, plus the $85,000 within her industry super fund, into a combination of account-based and term allocated pensions.

The sale of the Hobart property freed up about $200,000 and after taking some cash, paying off debts, and rolling over her industry super fund, she had about $330,000 to invest in a diversified managed fund portfolio.

Owing to her family's history of longevity, she agreed with Allen that at a sprightly 64 she should take less money now and invest for the long term. After experiencing some delays in rolling over the industry fund, and selling the Hobart property, her funds were finally split between a combination of account-based and term allocated pensions that are held under a Summit master trust product.

Funds were invested across a range of defensive, property, Australian and international share funds (see below) based on a ratio of 70 per cent growth and 30 per cent defensive.

"The overall goal was to get a mix of value and growth while exposing the portfolio to a variety of fund manager styles," Allen says. "Our approach is to review and rebalance each asset class at least annually."

In order to meet the deadline of 20 September, 2007 (when new social security rules came in), Barrington had six months to sell the Hobart house she'd lived in for 44 years, relocate her mother and retire. Beyond this date, complying income streams would no longer qualify for a 50 per cent exemption under the assets test.

"David was indispensable to me during the next six months. I would never have done it without him," Barrington says.

GENERATING INCOME

The net effect of Allen's financial plan saw Barrington with an annual income of $28,000 - $3,000 more than she expected. Allen also managed to retain her entitlement to a $10,000 part pension, which was five times more than she expected.

"I've now been retired for five months and am living a life I only dreamed of," Barrington says. "I have lots of plans to travel, am able to see family at any time, and mum is very happy in the nursing home of her choice."

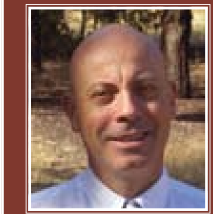
As Barrington had no investment experience, she placed implicit trust in Allen once she felt comfortable he knew what he was doing. Had she not been referred to him in the first instance, she admits it may have taken considerably longer for Allen to earn her trust.

Once he'd established what the primary objectives were, it was important to act swiftly to ensure funds were invested before the social security regulations changed.

Barrington also had an urgent need to realise income. Like many of her contemporaries, Allen says she dreaded exposing herself to Centrelink for fear of disclosing too much personal information. But it was this transparency, says Allen, that eventually delivered the best outcome.

"She also liked the fact I was contactable at any time, and would deal with the myriad Centrelink paperwork," Allen says.

"While Jenny's portfolio dropped $30,000 during the sharemarket slump, she now understands market dynamics and is in for the long haul." ■



THE PLANNER
David Allen

CRC Financial Services (Tas) Pty Ltd
Hobart, Tasmania

Allen holds an Advanced Diploma in Financial Planning from Deakin University and is a Certified Financial Planner. Formerly in land management and forestry, Allen embarked on a financial planning career in 2000 at age 40. His financial planner at the time gave him a proposition he couldn't refuse: Successfully complete a diploma and then join the firm – which is exactly what he did. Unlike Allen, many of CRC's seven financial advisers hail from a traditional life insurance background and still receive trailing commissions.

Advice structure
It was in part client dissatisfaction with commission-based structures and in part his desire to start charging for plans that saw Allen move to a fee-for-service model 18 months ago.

History
Barrington's portfolio moved to Allen's care 18 months ago, following a referral from the daughter of an existing client. Allen was favoured over another dealer group whose charges were not only found to be excessive (at around $11,000 for placements and advice) but impossible to follow.
By comparison, Allen charged Barrington an initial plan fee, plus an ongoing adviser fee based on a percentage of funds under advice. What triggered Barrington's interest in financial planning was her pending retirement, plus concerns that owning two properties would affect her age pension entitlement.

Strategy
Given Barrington's age (64) it became immediately clear to Allen that she needed more than the investment strategy recommended by the first financial adviser she contacted. In addition to estate planning and insurances, establishing Barrington's Centrelink entitlements became integral to delivering the right financial outcome.

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