



Investing proceeds of divorce settlement and plan for life after divorce

OVERVIEW

Life's unexpected turns can present both challenges and opportunities. This case study examines circumstances of a client seeking financial advice after divorce from her husband in her late 40s. Transforming her divorce settlement into a motivator for positive financial outcomes has secured her future and empowered her financial independence.

STARTING POINT

- Tina (49) has received divorce settlement and after purchasing a new home for herself and the kids, she has approximately \$1 million of leftover capital, needing help with 'scary financial decisions' she never had to make before.
- The money is currently sitting in the bank account, which is creating ongoing stress as she feels she should do something with it.
- Due to significant changes in her circumstances she needs to rethink all her financial decisions moving forward.
- Tina has concerns about how she will fund her new day to day living and make sure the settlement money doesn't run out.

CLIENT OBJECTIVES

1. Remove the pressures of having funds sitting in bank and decide what to do with proceeds of settlement.
2. Divide the money between improving the new lifestyle and making sure she sets herself up for the future.
3. Have a source of extra income of \$380 per week to improve quality of life and more time with kids.
4. Maximise her benefits for retirement and simplify her superannuation set up to ensure she can meet her retirement goal of retiring at age 60 on lifestyle sustaining income of \$55,000 pa.
5. Maximise and further enhance the capital while minimising risks.
6. Preserve and enhance the purchasing power of her capital.



IDENTIFIED RISKS

1. Fixing income (inevitable result of investing in fixed income investments like term deposits and bonds) in the world of constantly increasing cost of living.
2. Current negative real returns (after inflation and taxes).
3. Lack of investment experience and being 'in charge' of investment decisions was making her nervous (not used to take care of financial matters).
4. Making expensive mistakes while holding volatile investments.

SFP WORK IMPLEMENTED

- Designed a financial blueprint reflecting new circumstances.
- Selected right platform to house all investments for a tax effective structure and easy to understand reporting would help manage client's emotional decisions.
- Invested \$610,000 into well diversified and capital stable portfolio of assets to provide extra passive and tax effective income. Started drawing regular income of \$20,000 pa.
- Selected a portfolio with ability to grow the income into the future to offset future increases in the cost of living.
- Invested \$330,000 into super as non-concessional (after tax) contribution and \$60,000 as concessional (pre-tax) contribution to boost retirement savings.
- Consolidated all her super funds into one and combined new settlement money with new super contributions.
- Invested super for growth via low cost, diversified portfolio, requiring little attention moving forward. Utilised aggressive investment approach to take advantage of longer time frame and to maximise capital without need to make additional super contributions.
- Agreed on ongoing guidance to protect client from negative future financial decisions.

ACHIEVED FINANCIAL OUTCOMES

- Capital invested outside super is generating premium tax effective income of approximately 5% per year, without the need for hands on approach, generating extra \$380 per week.
- Investment income of approximately \$20,000 per year is being drawn out directly to client's bank account.
- The balance of investment income being approximately \$10,000 per year is being reinvested and used to grow the capital and increase the income moving forward.
- Super portfolio and retirement plan monitored to be on track to reach desired capital in 13 years' time.
- Additional \$110,000 of capital growth of the funds invested, despite the regular withdrawals, as a result of taking action and investing funds instead of staying paralysed in cash
- Additional \$202,000 of capital accumulated in super and combined with investment capital outside super on track to provide desired retirement lifestyle.

VALUE CREATED



Divorce settlement money are working in client's favour to reflect her new circumstances.



Big relief for Tina as she has addressed not only her new current lifestyle but also her future worries for retirement.



Her capital is being preserved and provides client with options and control over her time, while generating premium income.



Tina is now receiving additional regular weekly income which improved her lifestyle and options to be selective about working.



Since the implementation, Tina has been using the extra income to support and grow her own new business, which is something she always wanted to do.



Ongoing guidance and review of her circumstances provide her with extra peace of mind her new life is on track.


ASSUMPTIONS



This Case Study is illustrative only and is not an estimate of the investment returns you will receive or fees and costs you will incur. This Case Study is based on the following assumptions:

- Annual total investment returns in super – 8%pa, outside super – 7%pa (with 5%pa income return).

GET EXPERT HELP

Speak to one of our financial advisers at Sydney Financial Planning, contact our team to make an appointment to get started.

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advice that stands the test of time