

# Truth, the whole Truth and nothing but the Truth

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## Introduction

For many years financial planners, particularly those working with high net worth individuals, have sought systems and processes that would be able to create a lifetime cash flow model for their clients. Such a system would capture the client's current and future position; assets, liabilities, income, expenditure and also financial plans already in place. It would allow agreed assumptions to be set for growth, interest rates and inflation, asset by asset. It would enable the user to input details of the client's desired future lifestyle, for instance after divorce or upon retirement. This having all been completed, it would produce a detailed and robust tabular and graphical representation of the client's financial situation in the years to come, up until the assumed point of death (and even this could be set, taking into account familial life expectancy or state of health).

Until recently such a system has been the Holy Grail of financial planning, but with the recent introduction of the 'Truth' software system financial planners who have invested in the software now have precisely this functionality at hand. It is proving highly useful, although the adjective 'popular' might not be entirely appropriate as this firm has had one or two clients who have resolutely refused to be shown the 'truth', fearing the worst! Nevertheless, most clients find it beneficial. Those whose reports indicate that they are unlikely to run out of money are pleasantly reassured; those who can see that they will have more than enough can more reliably plan their gifting, spending and philanthropic strategies. As

changes occur in legislation or in the situation of the client, so these can be revised in the system; what-if scenarios can be tested and decisions made with confidence. Since the data and assumptions are agreed with each client, it is difficult to fault the conclusions if one cannot fault the assumptions.

## 'Truth' and family law

It became apparent to Cavendish, a financial planning firm that deals with a number of leading family law firms, that such a system would almost certainly be of benefit to family solicitors when dealing with higher net worth clients. At its simplest, the software can be used to:

- a) Show the client with accuracy their post-divorce financial situation, to the point of their eventual death, given a certain nature and level of settlement.
- b) Produce what-if scenarios for a number of different settlements.
- c) Tailor the settlement to the investment risk profile of the client. A more cautious investor, for example, would require a larger lump sum in order to produce the income required by their desired post-divorce lifestyle.

Since most of the required data will already be contained within form E, it is a straightforward matter for the financial planning firm to enter it into the 'Truth' software, requesting additional information as required. Deborah Jeff, partner & Head of Family law at West End practice Seddons believes "Truth" will be an extremely useful tool for her clients:

*"Having seen how "Truth" works I'm sure my clients will benefit greatly from such precise calculations of their financial circumstances and needs as they are now and what they will be in future. Whether a client is just beginning or just ending their divorce, the accuracy Truth provides is startling, whether the client likes the findings or not. When faced with this reality, it allows the client to plan more appropriately for their financial future."*

## Methodology

It is essential to use a financial planning firm that has subscribed to the Truth software and is an expert user. Such firms will almost certainly be fee-based and used to dealing with clients at the highest level. A financial adviser working on a commission basis, independent or not, will almost certainly not be a suitable choice. Although a commission-based approach can be convenient (and seemingly 'free') for the client, it means that adviser remuneration is contingent on the take-up of a financial product, which introduces potential conflicts of interest. In a fee-based model, the products and advice are effectively divorced from each other; pure planning takes precedence over products. Moreover, a commission-based approach is not congruent

with the independence and impartiality prized by the legal profession, and which is equally prized by fee-based financial planners.

We find that involving the financial planning firm from an early stage in the divorce can be beneficial. Whether it is a matter of assisting the client with form E and/or giving advice on 'housekeeping' issues such as what to do with existing financial plans, the financial planning firm can provide a parallel track of advice which, apart from the obvious benefits, relieves the family solicitor of any concerns that he or she might inadvertently breach FSA regulations by giving advice.

With the completion of form E, the 'Truth' strategy report can be prepared in a seamless fashion, the client being billed directly by the financial planning firm for the work undertaken. Such fees would not be contingent in any sense upon investments being made or financial plans taken up.

With the report completed the family law practitioner and financial planner can review the effect of the draft proposals on the client's lifetime cashflow, model different scenarios and 'what-ifs' on-screen and negotiate with the other side appropriately. It allows the solicitor to show the client at first hand the position they might be in given a particular outcome of the divorce.

We would contend that this might be the first time that such certainty has been enabled in family law given the limited usefulness of *Duxbury* and proprietary tables. It would almost certainly enable far greater accuracy in calculating the nature and quantum of a required settlement.

Truth can calculate the level of capital and/or income that would be required to remedy this position and will then recalculate the capital chart to demonstrate the beneficial effect of the suggested settlement.

### Decree absolute and beyond

For a family law practitioner, pronouncement of the decree absolute and execution of the terms of the financial order is the end of the journey with a client. For the client it is the beginning of a new journey, and one which can be troubling once the support of the family law practitioner ceases and the client finds themselves alone. By virtue of the involvement of the financial planning firm over several months, and particularly because of the 'Truth' report, there should be no financial surprises for the client to deal with once divorced. It is fairly common for such clients to continue with the financial planning firm in order to execute and maintain the strategies recommended during the divorce

process, ensuring a seamless transition from one life stage to the next. In addition, where the law firm leaves off, so the financial planning firm takes over more substantively, supporting and hand-holding the client as necessary through the early stages of their new life.

### Are there any conflicting issues?

We did consider whether 'Truth' was a 'product' and therefore if there might be difficulties with its recommendation. However, 'Truth' is simply a software package (albeit a highly complex one) and it is the referral to the financial planning firm and its particular skill and knowledge that is the key to its successful use.

Using 'Truth' is a highly skilled and, initially at least, a labour-intensive exercise (although, as mentioned above, one which is made a little easier if form E is already completed). The financial planning firm will charge for its services and this will inevitably increase the client's overall fees. However, we feel that the benefits of using the system, especially for a high net worth individual, far outweigh the quite reasonable charge for advice.

### In summary

The solicitor, working in tandem with a trusted fee-based financial planning which is adept at using 'Truth' is better able to fulfil their duty of care towards their client in a number of ways:

1. By enabling the client to see, with a great degree of accuracy, their future financial life in any number of different scenarios.
2. By enabling the solicitor to understand the client's desired post-divorce lifestyle and to work towards a settlement that will enable it to be feasible.
3. To present proposals to the other side that are backed by robust data and analysis, prepared and signed off by a firm of professional financial planners.
4. To introduce another form of professional support to the client that might well continue once the final legal bill has been settled.

*Andrew Brixley-Williams is Head of Family Office at Cavendish Wealth. Cavendish Wealth is a paid subscriber to the 'Truth' software and is not connected with or remunerated by Prestwood Software (the software developer of 'Truth') or any of its associated companies.*

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