



## Financial Planning - Compensation claims

### When do you involve an independent financial adviser?

A financial adviser should usually become involved before a case settles or prior to an interim payment being received. Leaving it too long can mean claimants fall into the wrong hands and are not properly advised. For example, a Personal Injury Trust may not be considered, causing loss of benefits.

An early introduction to a financial adviser can also help reassure clients about how to plan for the future, after a long and often stressful legal process.



### “Financial Planning” (not just investment advice) adds value to the Claimant’s Future

A huge amount of analysis will be undertaken by both sides prior to a legal case being settled.

Whilst the analysis and settlement is most likely derived via reports from some of the leading experts in the country, no case will unfold in line with every detail included in the schedule of loss post settlement.

Prudent financial planning such as periodically reviewing care packages and costs can save significant amounts of money over the years. If less than the full amount of a periodical payment is spent in a given year, this reduces financial pressure. The surplus can be reinvested for later years.

Financial planning and efficient use of an award can also help effectively stretch the settlement of a case that has settled for less than 100% liability. This guards against the money running out and can significantly improve the claimant’s future.

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## Consider Phasing Long Term Investments Into Place

During times of obvious volatility we may recommend that the medium to long term investments are phased into place on a monthly basis over 6-12 months. This is a prudent approach as it reduces the risk of investing on a bad day.

Simpson Millar LLP used this strategy to great effect with a number of clients during mid to late 2008 during the financial crisis, saving well over £100,000.

Whilst this is a prudent approach it can also have a negative effect on the investment values if the initial buying prices of the investment funds are greater than the average prices over the phased period.

Any strategy would be discussed with the Trustees, Claimant or Deputy.

## Consider Periodical Payments

One of the greatest challenges of planning the financial future for a claimant is to make a lump sum award last for a lifetime, factoring in the following issues:

- Short term financial needs
- Regular financial needs
- Future financial requirements
- Taxation
- Investment risk, returns and charges
- Timeframe for investment

In many cases it is appropriate for part of the award to be allocated to periodical payments. These are tax free annual payments that can be a core component of any long term financial strategy for a claimant.

Eg If the care and case management is paid via periodical payments, there will be a lower lump sum component of the settlement to be invested for the medium to long term and less uncertainty in the strategy. Periodical Payments are tax free and remove investment risk from this element of

the award. Using periodical payments is also likely to reduce a claimant's overall tax burden.

Periodical Payments are linked to an appropriate index to protect their purchasing power in future years. The ASHE 6115 index measures the earnings of care assistants and home carers.

The ASHE (Annual Survey of Hours and Earnings) 6115 index is a far more appropriate measure than say RPI (Retail Prices Index) which is the most commonly used measure of inflation. RPI is measure using 650 representative consumer goods and services, only 0.12% of these relate to home care assistant fees.

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