The Five Ages of Financial Planning

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Our relationship with our finances continually changes as we progress through our life. In most instances, the role and responsibility that our finances play is directly linked to the circumstances of our age.

For example, pension contributions seem to take on far more significance at age 55 than they do at age 25. Therefore, to help you gain a better understanding of what you should reflect upon financially as you progress through your life stages, we have produced this brief guide, which highlights important considerations that will support your changing lifestyle.

Naturally, this is only guidance as everybody will have different personal priorities, but the aim is to ensure you are keeping your financial plan on track throughout your lifetime.

18–35 Starting Out

Let's start at the time when schooling finishes and you legally become an adult.

At this early stage of your financial life, it is all about learning how to budget. Whether this involves employment or further education, a good understanding of what is coming in and going out will always stand you in good stead.

For those that are progressing through further education, learn how the Student Loan system works. It is not as simple as it seems. If you can, take the opportunity to speak to somebody who is starting to pay it back. It is more likely that they will have a better understanding of the process. As you start work, you will face the initial shock of Income Tax, National Insurance, Pension Contributions (as a result of being automatically enrolled into your Employers Qualifying Workplace Pension Scheme) and student loan repayments (where relevant).

Whilst the shock eases as you get older, the quicker you can come to terms with all forms of taxation, the better. It doesn't go away.

If you are offered an opportunity to join a Company Pension scheme, do try and commit to it. Your retirement may seem like a long time away, but these early contributions will make an enormous difference to your final pension fund.

As well as paying into your pension, get into the habit of some form of regular saving as early as you can. Whilst you should keep personal debt to a minimum, it is worth obtaining a credit card (as long as you use it efficiently).

This will help you build a credit score, which will be crucial once you start to consider a mortgage. Many credit card companies will offer deals for younger people as they look to obtain your loyalty, so do shop around. However, do remember that they are a very expensive form of debt, so take care with them.

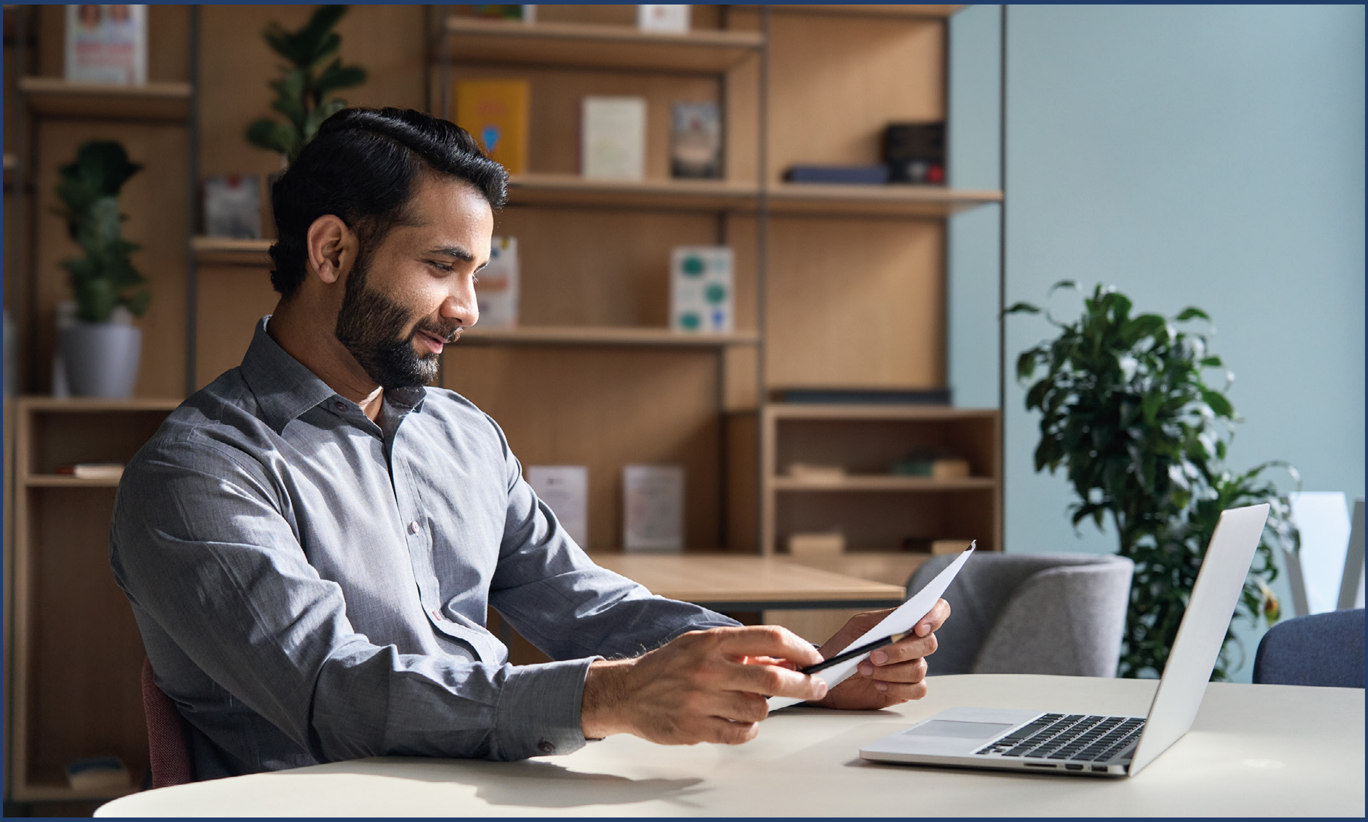
Should you enter a long-term relationship (especially one that involves a mortgage and/or a house), you should consider a Will (as well as pension nomination forms). It is also a good time to think about some form of Income Protection. It may seem very unlikely that you will be affected, but this will only get more expensive as you get older.

Finally, start thinking about getting professional advice concerning your finances. Initially, this may just be concerning any mortgage you obtain, but the earlier you build a relationship with a financial planning firm, the better your financial plans will be. This is also a good time to start reading about financial matters.

When you are starting out, try and adhere to the three key criteria on the list below. Getting an understanding of your finances and making good financial decisions will ensure you benefit from those decisions sooner.

Three key criteria when starting out:

1) Start saving as soon as you can. None of us know what is around the corner and the sooner you have some savings behind you, the better
2) Seek Protection whenever you need it. We all think 'it' won't happen to us, but for many 'it' does
3) Try and understand what is going on – We know financial matters can often be dull and are invariably complicated, but the sooner you understand what is happening with your money, the more you will be able to control it (rather than it controlling you)



35–50 Onwards and Upwards

Now it's time to head onwards and upwards. Once you have a better understanding of what money is and more importantly, what it can do for you, you will have more control over it.

Whilst this is only a timeline of 15 years, this period often splits into two halves. In the first half, you may be blessed with children and will probably have the pleasure of owning your own home, which almost certainly means a mortgage. Both children and mortgages mean that protection is key. It's not just about life assurance, but income protection and critical illness as well.

In our experience, many people will assume that either the State or their employer will cover them and far too often that isn't the case. We urge you to speak to your employer about how you are protected, should the worst happen.

Do also make sure you are aware of what cover is offered in terms of critical illness and income protection.

At this age, you are more likely to suffer an illness and survive than to die, but you do need to be prepared to deal with these difficult circumstances.

Regarding your assets, by now, you should have some accessible cash savings. Try and aim for around six months of your regular income level to be available in some form of instant access account, unless you are saving for a specific purpose.

Any long-term savings in excess of that should be invested in some type of multi asset risk rated investment, preferably within a tax efficient wrapper such as an Individual Savings Account (ISA). These investments do not include the same security of capital which is afforded with a deposit account.

Preparing for you and your family's future

If possible, try and increase your pension contributions, especially if your employer matches the increase with one of their own. Whilst retirement may seem a long way away, these early contributions will work the hardest for you. This will also support the second half of this life period when the runway to retirement really starts.

Planning for retirement includes taking advantage of any Higher Rate Tax relief on your pension contributions, as well as committing to long term risk rated multi asset investing. A pension is one of the most tax efficient investment wrappers available at present. They offer income tax relief on any contributions you make, your investment grows free of all taxes and the fund is free of inheritance tax as well.

Furthermore, the death benefits offered by a personal pension can be very favourable. Whilst your assets are 'locked' into a pension until well into your fifties, the earlier that contributions are made, the more likely it will be that you can plan for your retirement.

It may feel like a long way away, but you also said that about your 40th birthday when you were just starting out and yet here you are! This period can also be a time when you hit the 'Responsibility Sandwich'. You may find yourself sitting in the middle of grown-up children and grown-up parents who may now both start to be a little more challenging.

Whilst you should have organised a Will by now, you must ensure that it is up to date. This is also a good time to discuss setting up a Lasting Power of Attorney for your parents as well as thinking about one for yourself as well.

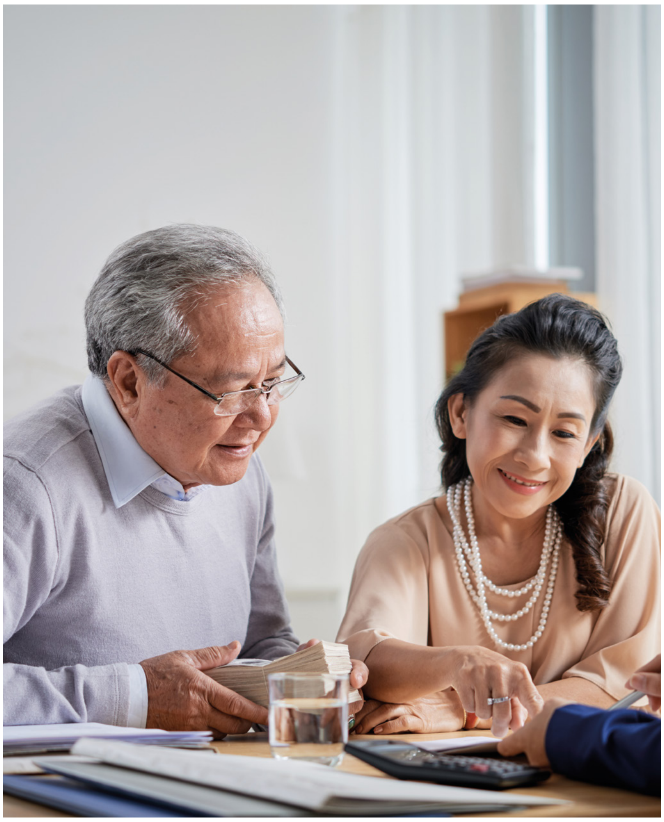
The world is full of people who wished they had done this form of planning, but never got round to it often because they thought 'it would never happen to them'. Sadly, it does and dealing with the financial matters of your parents due to serious illness can be stressful, time consuming and costly without a Lasting Power of Attorney.

By now, it is wise to have built a relationship with a financial planner. The earlier you do this, the better your financial plans will be. The planner will help you gain an understanding of your finances and help you with key financial decisions. Making these good financial decisions will ensure you benefit in the long term.

This period in your life does to tend to be full of stress. The more support you can take on, the better it will be.

Please note: The value of your investment can go down as well as up and you may get back less than the amount invested and levels, bases of and reliefs from taxation may be subject to change and their value depends on the individual circumstances of the investor.

50–60 Winding up and winding down



This is all about Retirement Planning, especially as the mortgage may have been paid off. Try and push on with your pension savings and think about what income you will need in retirement. Keep your cash savings at a modest level and commit to multi asset investing, using tax efficient wrappers. One of the biggest long-term issues that affect savings is inflation, so make sure you are protecting against it.

The 'responsibility sandwich' will continue to affect matters. On one side, there is potential for you to become the 'Bank of Mum & Dad'. Ensure you understand the implications of that. On the other side of the 'sandwich' there may be parent care costs and/or inherited wealth. Advice here is crucial.

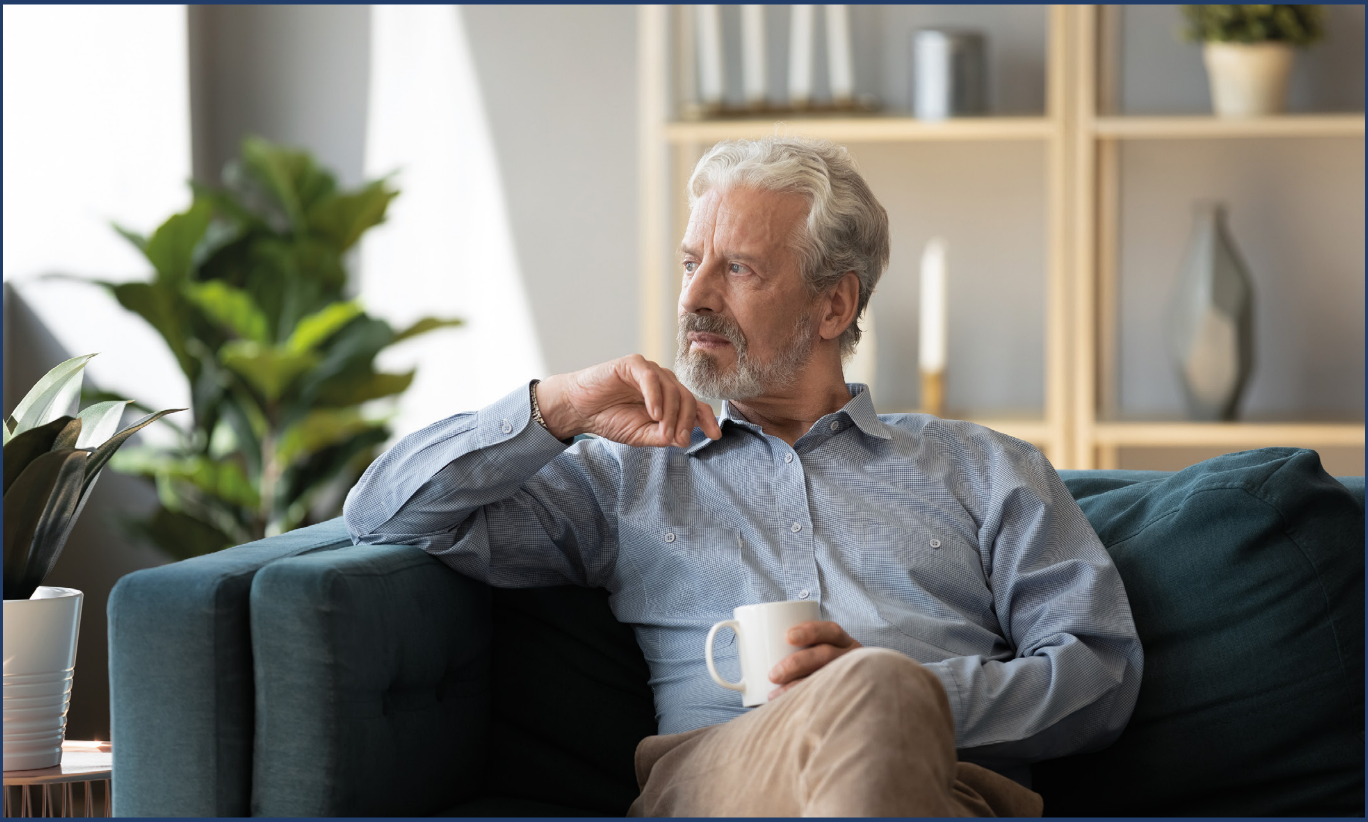
Your Will and Lasting Power of Attorney should have been arranged. Make sure both you and your Executors know where they are kept.

60–75 Sailing into the sunset

It is now that you start moving from wealth accumulation to wealth decumulation. When moving into the decumulation phase it is essential that you are able to access sufficient income to meet your outgoings for the rest of your life. Typically one of our financial planners will produce a detailed cash-flow model to assist with this.

Those key decisions to invest early and regularly will come to fruition and it is at this point that advice becomes essential. HM Revenue & Customs (HMRC) describes retirement as one of the most complicated periods of your taxation life. Make sure you take advantage of all relevant allowances to enable you to draw income as efficiently as possible. You may have Inheritance Tax issues and the earlier you plan for these, the less likely it will affect you and your family.

Your financial planning must consider some form of Long-Term Care provision and you may still have continuing parent care costs. Now is also a good time to consider financial gifts for children and grandchildren, perhaps through some Trust work.



Post 75 Supporting those who are starting out

By now, you should have a good understanding of what your Succession plan will look like. You will have a clear understanding of what assets you need to provide you with your income, as well as any potential care costs. Anything in excess of that can be distributed (as frankly, you can't take it with you). Key planning involves your potential Care needs and IHT planning.

Your health will drive your spending but do feel comfortable with spending. Experience has shown us that too many people worry about running out of money and therefore don't spend enough in retirement. By taking advice and planning sensibly, you should be able to enjoy the fruits of your labour. Finally, be honest with your family about what to expect upon your death. This period will be painful enough for them without them having to deal with the stress of managing your financial circumstances.

As we mentioned at the start, this age structure isn't perfect. We all have different circumstances and different requirements. However, the one factor that will always stand you in good stead is a financial plan. The sooner you get an understanding of your finances and make good financial decisions, the sooner you will start to benefit from those decisions.

And finally, don't forget to live life in retirement. You've earned it. It doesn't matter how much you are worth or how well it is invested and has grown by. What matters is how your wealth supports whatever it is you want.

** The value of your investment can go down as well as up and you may get back less than the amount invested.

If you would like find out more about financial planning, please speak to your financial planner or please visit www.pfgl.co.uk and get in touch by emailing hello@pfgl.co.uk

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