Financial planning for individuals

This guide looks at how financial planning can help you realise your goals for you and your family

Consistent financial planning is essential to growing your wealth and building your financial security. A plan that is on course to meet your expectations in later life is also one that can help protect you against market setbacks or changes of circumstances. But it is also important to regularly review and enhance your level of investment.

Financial planning encompasses different elements including managing investments, retirement strategies, making a Will and tax planning.

Your current situation

The first stage is to review your current financial situation. To get a clear view of your circumstances you will need to calculate your net worth and your annual income and expenditure.

Net worth statement

Your net worth statement gives a picture of your total wealth. It is comprised of your assets minus your liabilities and may include:

Assets	Liabilities
Assets such as your home, vehicles and belongings	Mortgages
Investments such as collective investment schemes, shares and life policies	Credit cards
Business assets	Loans
Cash	Overdrafts

Your net worth is the difference between your assets and liabilities. Then start to consider what you need to do to improve your net worth the over the ensuing years.

Income and expenditure

Once you know your net worth you can look at your annual income and expenditure. This will give an overall indication of your financial situation. You will also be able to see if there is surplus income available for further investment.

Examples of income and expenditure include:

Income
Net salary or business profit
Child tax credit
Child benefit
Interest
Dividends
Pension income

Expenditure
Pension contributions
Savings contributions
Living costs
Mortgage repayments
Loan repayments
Education costs
Insurance costs

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Working out your expenditure can be complicated as it involves going through your bank statements and receipts to see where you are spending money.

However, once you get into the habit of keeping track of your outgoings you will be able to make changes to increase your disposable income and improve your financial situation. For example, restructuring debts to reduce costs.

Income and expenditure data is essential for making informed longer-term financial projections. For example, looking at your projected income and expenditure position if you fall ill and cannot work or if your partner dies.

Set goals

Once you have a clear picture of your finances and lifestyle, you can start to think about your objectives. These don't have to be financial goals but can be things you want to achieve.

For example:

- changing your career
- starting or growing a business
- having children.

The next stage is to group these aspirations by how long it will take you to achieve them:

- Short term – less than 5 years
- Medium term – 5-10 years
- Long term – more than 10 years.

Personal factors

You will need to consider the effect your personal circumstances will have on your finances and what you want to achieve. This includes:

- age
- health
- where you live
- marital status
- dependants
- country of residence and domicile.

Funding your goals

Working out how much your goals will cost can be difficult, particularly with long-term plans. However, you need to know roughly how much you need to save. Taking inflation into account and fluctuations in stock markets will have a significant effect on the final costs.

Saving and investing

Your attitude to risk will play an important role in deciding which savings and investment products you use.

For example, if you are comfortable with risk you might consider investing in venture capital trusts or stocks and shares.

However, if you are more cautious, savings products such as ISAs or collective investments such as bonds or unit trusts might be more suitable.

A comfortable retirement

Planning for retirement is likely to be on most peoples' 'financial to do' list. Although auto-enrolment means many people will be saving into a workplace pension by 2018, increasing your pension pot will make your retirement more comfortable.

Different strategies to boost your retirement income include:

Increasing pensions contributions: Saving for the future by reducing your disposable income today can be difficult to justify, especially if you have pressing short term goals. You could consider increasing your contributions if you get a pay rise or if your profitability increases.

Self-invested personal pensions (SIPPs): SIPPs are similar to conventional pensions but the investor has greater flexibility as to how funds are invested.

Pensions aren't the only way to fund your retirement: You could also consider using savings and investment vehicles such as equities, ISAs or possibly property.

Protecting people and income

If safeguarding your money or protecting your family or dependants is a high priority, protection options might be of interest.

Life insurance policies pay out a lump sum if you die. There are 2 main types of life insurance:

- term life insurance which pays out if you die within a set time frame
- whole of life insurance which pays out on death.

Income protection will cover your income if you cannot work due to illness or disability. This type of protection can be particularly useful if you are self-employed or if you don't receive sick pay as part of your employment.

Critical illness cover pays out a lump sum if you are diagnosed with an illness covered by your policy.

Private medical insurance can pay some or all of your medical bills.

Making a Will and keeping it up to date means that you decide who inherits your estate. If you die without a Will, your estate will be distributed according to intestacy law which may not be the way you wish.

Passing on wealth

With careful planning, you can pass your wealth on as efficiently as possible.

If your property and possessions (sometimes referred to as your estate) are worth more than £325,000, you may have to pay inheritance tax (IHT) when you die. IHT is charged at 40% on everything over this threshold.

However, there are various ways you can reduce your potential IHT bill, including:

- giving money to charity in your Will
- leaving things to a spouse or partner
- gifts – there are separate rules that cover different types of gifts.

Monitor and review

Once you've established your goals and how you are going to achieve them, you can start implementing the plan. But it is important to regularly review and update your plan as financial markets and your personal circumstances may change. Key areas to keep an eye on are:

- updating your Will – particularly if you have children or get divorced
- interest rates on savings and debts – switch to get the best deals
- end dates of insurance policies.

Call us to discuss your personal finance planning.