



## **Personal Financial Planning**

A guide for clients

*No one should be without a financial plan. Read our guide to get started.*

Achieving your financial goals is made harder when you don't have a plan laid out on paper. Without a timescale, a sense of priority and an idea of how you will use your money in the future, how can you be sure that you'll achieve what you want to in your lifetime?

This is where financial planning comes in. It enables you to identify the things you want to achieve in your life – financial or otherwise – and creates a roadmap that helps you realise them.

Planning helps you understand how to use your money to your benefit but can also make you aware of your financial limitations. Put simply, it's about bringing focus and organisation to your finances so you can utilise them effectively.

Remember that your plan is not set in stone. Your ambitions, just like your finances, may change and you should update your plan to reflect that.

If at any point you're feeling constrained by what you've put into your plan, don't be afraid to make changes. Financial planning is an organic process which evolves over time.

### **Your current financial position**

Working out the current state of your finances is essential before you begin the financial planning process. You need 2 vital pieces of information in order to do this:

- assets vs liabilities
- income vs expenditure.

### **Assets and liabilities**

The difference between what you own (assets) and what you owe (liabilities) is known as 'net worth'.

If the value of your assets outweighs the value of your liabilities, you can be said to have a positive net worth.

However, if your liabilities exceed the value of your assets you have a negative net worth.

To calculate your net worth, first list all of your assets (for instance cash, home, stocks and shares, pensions) with an approximate value for each.

Next, record the value of all current liabilities (for instance overdrafts, mortgages, credit card debt, loans).

Subtract your liabilities from your total assets to work out your net worth.

### **Income and expenditure**

The more disposable income you have, the more money you have to invest in the future.

To calculate your disposable income, simply work out how much income you receive per month after tax and subtract your monthly outgoings.

Working out your expenditure may be a little trickier since it can vary on a month-to-month basis. Try to come up with a realistic monthly figure for how much you spend on food, energy and travel.

Remember to record all sources of income, accounting for dividends, rent payments, and bank interest.

We can help you calculate your current position.

### **Setting financial goals**

The hardest part of financial planning is reconciling what you want to achieve with what you are able to achieve. This doesn't mean to say that you can't aim high. Rather, your financial plan must strike a balance between pragmatism and idealism, ensuring that your finances can help you achieve your goals without being unrealistic.

It's useful to think in terms of timescale when working out your goals.

Organise goals into 3 categories:

- short-term: 0-5 years
- medium-term: 5-10 years
- long-term: 10+ years.

You may have a fairly substantial list after doing this - and that's fine. The key thing now is to recognise that, depending on your goals and financial situation, achieving all of them may not be feasible.

It's crucial that you assign a priority value to each goal, which will allow you to focus on those you hold to be most important.

This isn't to say that you shouldn't work towards multiple financial goals at the same time. On the contrary, a hallmark of a good financial plan is one that allows you to achieve several ambitions simultaneously.

It's also important that you review your financial plan. This helps you to measure your progress towards meeting your goals, but more importantly, it ensures that your plan accounts for any major changes to your financial situation.

Finances rarely stay the same for long, and if you leave your plan to gather dust you may find yourself having to create a new financial plan before too long.

Talk to us about your financial goals.

### **Aspects of financial planning**

#### **Pensions**

How you figure a pension into your financial plan will depend on what stage of life you're at.

If you're young and have only recently got your first pension, you will need to decide on the proportion of your salary you want to pay in.

Are you approaching retirement age? Your focus will be accessing your pension as tax-efficiently as possible.

In your 80s? You'll probably be thinking about how best to transfer your pension to loved ones as part of planning your estate.

#### **Savings**

How and where? These are the key questions you need to ask yourself before committing to a savings target or deciding on a place to save.

Your monthly savings target will largely be determined by the amount of disposable income you have. Think about ways you can generate more income or cut your expenditure to increase your disposable income.

After you have come up with a realistic savings target, the next thing to think about is where you will put your money.

This will depend to some extent on what your savings will be used for. For instance, it's best to look for an easy-access savings account if you want to build up an emergency fund.

### **Investments**

How you invest your money is a huge and complex area of financial planning. Ideally, you should develop a separate plan dedicated solely to your investment strategy.

If you're planning on making investments here are the essential things to consider:

**Returns:** what sort of return do you need for your financial plan? What type of investment will deliver this?

**Risk:** do you want to make low-risk, low-return investments, or are you prepared to increase the risk for the chance of a better return?

**Charges:** remember that there a number of fees associated with making investments in stocks, bonds and commodities.

**Length of investment:** some asset classes are more suited for long-term investment while others work better in the short-term.

### **Estate planning**

If your estate exceeds £325,000 it could be subject to inheritance tax (IHT). Planning and a well drafted will can help mitigate IHT and ensure that your assets go to your chosen beneficiaries.

Are you afraid you have left Inheritance Tax Planning too late? Are you perhaps faced with an illness which means you have a reduced life expectancy and you are concerned about your exposure to IHT? Don't rule out planning now – there are specialist IHT solutions that may assist you.

Some achieve IHT efficiency after two years by taking advantage of Business Property Relief whilst allowing you to retain control of the investment capital and with management charges only being taken if the annual target return is delivered.

Others involve investing in AIM stocks (with or without ISA investment) which achieve IHT efficiency after two years.

### **Making a will**

A valid and up-to-date will gives you peace of mind that your estate will go to who you intend. It can also save your loved ones stress and help ensure that you don't pay more IHT than you need to.

Your will should contain information on how you want your estate to be distributed, as well as any alternative arrangements if your beneficiaries die before you. If you have children under the age of 18 you will need to specify who you would like to care for them.

You will need to choose an executor or executors - the people or person who will organise your estate when your die. Make sure whoever you choose is happy to take on the responsibility.

Your estate will be divided according to intestacy law if you die without a will, meaning it may not go to the people you intend. Although the rules differ between England and Wales, Northern Ireland

and Scotland, in general spouses and civil partners have the greatest access to estates, followed by children, parents and siblings.

### Insurance

A financial plan cannot be considered sound without contingency measures. What if you were unexpectedly made redundant or suffered an injury that rendered you unable to work? What would happen to your family if you were to die?

Taking out protection insurance policies such as income protection and life insurance can ensure that your finances aren't harmed by an unforeseen event.

### Helping you find a recommended independent financial adviser

We have a long history of successful and enduring working relationships with independent financial advisers and we have produced this guide to highlight when clients may benefit from further support and the positive implications of engaging the right independent financial adviser for you.

There are many times in a person's life when they may need the guidance of an independent financial adviser. However some events tend to trigger action more often than others:

- **Birth**  
The organisation and guidance of an adviser can add far more security to lifetime events, such as financing your child's education, setting aside 'nest-egg' savings, planning for general family expenses and extending or purchasing a property.
- **Marriage and partnerships**  
Marriage, civil partnerships and cohabitation can also be triggers to seek financial advice. These are times when creating some financial structure and protection can benefit you for the rest of your life.
- **Divorce**  
Separations can be intricate and sometimes acrimonious, affairs that require the guidance of a team of professionals. Some cases require highly specialised input to protect all of the involved parties and provide positive and tailored solutions for the family. Financial advice can make a huge difference to the outcome of divorce or separation proceedings for either or both parties.
- **Business events**  
You may need to seek financial counsel at business set-up or acquisition, depending on your end goal. Receiving advice at this point can help to make that journey far smoother.  
  
Business exits or sales too are often complex, involving several advisers and innumerable options for you and may require specialist knowledge.
- **Unforeseen circumstances**  
Winning the lottery, personal injury or any number of huge life-changing situations can require expert financial advice to ensure the best possible outcome for you through structural and financial planning.
- **Retirement**  
Retirement often results in a substantial change in lifestyle for most people and such a change often requires financial advice. It is important to ensure that your assets cover your living expenses and support your lifestyle and plans over the duration of your lifetime.

With frequent legislation changes and announcements, and the average life span increasing, the road to an easy retirement is becoming bumpy, particularly due to ever increasing care costs.

- **Death**

A death in the family is a difficult time for all involved and seeking financial planning advice early can help to mitigate unwanted hassles and stresses. Without proper planning such stresses can lead to poor judgement and unfortunate outcomes.

- **Capital creation events**

The sudden or planned introduction of capital, such as inheritances, business sales, personal injury awards or lottery wins, can be a stressful time. Utilising the services of a financial adviser can facilitate the formation of a careful and measured approach to planning, looking at your objectives and attitude to risk and helping you to find the right investment solution to match it.

When selecting an independent financial adviser we consider a wide range of factors to make the best recommendation for you:

- Understanding their offering
- Assess their qualifications and experience
- Is their advice independent or restricted?
- Do they have a good track record of working with other clients?
- How do they outline and communicate their services and costs to clients?
- Are they a Chartered Firm?
- How long has the firm been in business?
- Do their service standards match our own?
- Do they have the best interests of the client at heart?
- Do we trust them?
- Do they have any areas of speciality?

If you would like any further advice or would like to discuss your own needs further please get in touch with [Sue Stephens](#).

## **FOR GENERAL INFORMATION ONLY**

Please note that this guide is not intended to give specific technical advice and it should not be construed as doing so. It is designed to alert clients to some of the issues. It is not intended to give exhaustive coverage of the topic.

Professional advice should always be sought before action is either taken or refrained from as a result of information contained herein.

### **About Us**

#### **Professional, Personal, Affordable.**

We are one of the leading, independent chartered accountancy practices in Liverpool. At BWM we provide a wide range of accountancy and business support services to organisations and individuals throughout the North of England and beyond. Our experienced and skilled partners and their teams are ready to support you with high quality, individual yet affordable services however complex your personal or business needs.

For more details of how we can help you transform your organisation, please visit [www.bwm.co.uk](http://www.bwm.co.uk) or call us on 0151 236 1494.