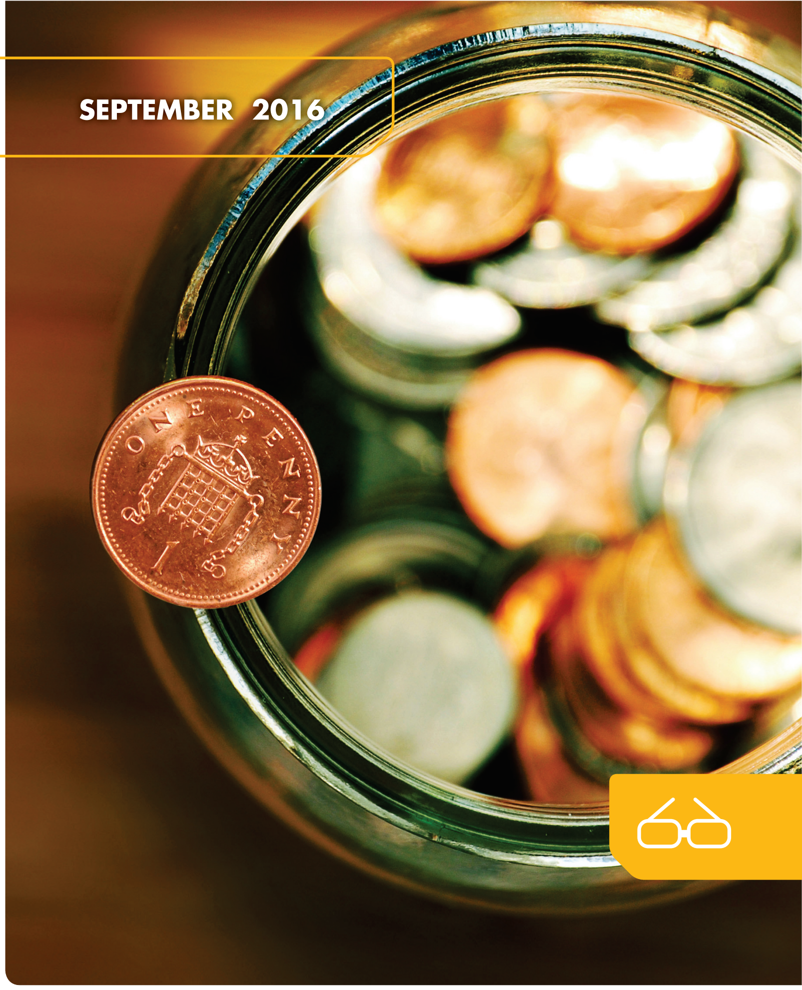
ACTIVE PRACTICE UPDATES

SEPTEMBER 2016



Hammonds

Chartered Accountants and Business Advisers

Personal financial planning

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, property, 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.

Provident House Burrell Row
Beckenham BR3 1AT
0208 249 6328 info@hammondsaccountants.co.uk

Personal financial planning

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 your 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.

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.

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.

Thinking about creating a financial plan for the future?
Contact us for more information.