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FACTSHEET

2020 Financial Resolutions

What does wealth look like to you?

Whether it's stopping smoking, losing weight, eating more healthily or getting fitter, most of us have probably made at least one New Year's resolution, but how many of us will actually go on to achieve it?

We all have different financial goals and aspirations in life, yet these goals can often seem out of reach. In today's complex financial environment, achieving your financial goals may not be that straightforward.

This is where financial planning is essential. Designed to help secure your financial future, a financial plan seeks to identify your financial goals, prioritise them and then outline the exact steps that you need to take to achieve your goals.

If your New Year's resolutions include giving your financial plans an overhaul, here are our financial planning tips to help you create a robust financial plan for 2020 and beyond.

BE SPECIFIC ABOUT YOUR OBJECTIVES

Any goal (let alone financial) without a clear objective is nothing more than a pipe dream, and this couldn't be more true when setting financial goals.

It is often said that saving and investing is nothing more than deferred consumption. Therefore, you need to be crystal clear about why you are doing what you're doing. This could be planning for your children's education, your retirement, that dream holiday or a property purchase.

Once the objective is clear, it's important to put a monetary value to that goal and the time frame you want to achieve it by. The important point is to list all of your goal objectives, however small they may be, that you foresee in the future and put a value to them.

KEEP THEM REALISTIC

It's good to be an optimistic person, but being a Pollyanna is not desirable. Similarly, while it might be a good thing to keep your financial goals a bit aggressive, being overly unrealistic can definitely impact on your chances of achieving them.

It's important to keep your goals realistic, as it will help you stay the course and keep you motivated throughout your journey until you get to your destination.

SHORT, MEDIUM AND LONG-TERM

Now you need to plan for where you want to get to, which will likely involve looking at how much you need to save and invest to achieve your goals. The approach towards achieving every financial goal will not be the same, which is why you need to divide your goals into short, medium and long-term time horizons.

As a rule of thumb, any financial goal which is due within a five-year period should be considered short-term. Medium-term goals are typically based on a five-year to ten-year time horizon, and over ten years these goals are classed as long-term.

This division of goals into short, medium and long-term will help in choosing the right savings and investments approach to help you achieve them, and it will also make them crystal clear. This will involve looking at what large purchases you expect to make, such as purchasing property or renovating your home, as well as considering the later stages of your life and when you'll eventually retire.

ALWAYS ACCOUNT FOR INFLATION

It's often said that inflation is taxation without legislation. Therefore, you need to account for inflation whenever you are putting a monetary value to a financial goal that is far away in the future. It's important to know the inflation rate when you're thinking about saving and investing, since it will make a big difference to whether or not you make a profit in real terms (after inflation).

In both 2008 and 2011, inflation climbed to over 5% – not good news for savers. So always account for inflation. You could use the 'Rule of 72' to determine, at a given inflation rate, how long it will take for your money to buy half of what it can buy today. The 'Rule of 72' is a method used in finance to quickly estimate the doubling or halving time through compound interest or inflation respectively. Simply divide 72 by the number of years to get the approximate interest rate you'd need to earn for your money to double during that time.

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RISK PROTECTION PLAYS A VITAL ROLE

It's best to discuss your goals with those you're closest to and make plans together so that you are well aligned. An evaluation of your assets, liabilities, incomings and outgoings will provide you with a starting point. You'll be able to see clearly how you're doing and may find areas you can improve on.

Risk protection plays a vital role in any financial plan as it helps protect you and your family from unexpected events.

CHECK YOU'RE USING ALL OF YOUR TAX ALLOWANCES

With tax rules subject to constant change, it's essential that you regularly review your own and your family's tax affairs and plan accordingly. Tax planning affects all facets of your financial affairs. You may be worried about the impact that rises in property values are having on gifts or Inheritance Tax, how best to dispose of shares in a business, or the most efficient way to pass on your estate.

Utilising your tax allowances and reliefs is an effective way of reducing your tax liability and making considerable savings over a lifetime. When it comes to taxes, there's one certainty – you'll pay more tax than you need to unless you plan. The UK tax system is complex, and its legislation often changes. So it's more important than ever to be tax-efficient, particularly if you are in the top tax bracket, making sure you don't pay any more tax than necessary.

CREATING YOUR COMPREHENSIVE FINANCIAL PLAN

Creating and implementing a comprehensive financial plan will help you develop a clear picture of your current financial situation by reviewing your income, assets and liabilities. Other elements to consider will typically include putting in place a Will to protect your family, thinking about how your family will manage without your income should you fall ill or die prematurely, or creating a more efficient tax strategy.

IDENTIFYING YOUR RETIREMENT FREEDOMS OPTIONS

Retirement is a time that many look forward to, where your hard-earned money should support you as you transition to the next stage of life. The number of options available at retirement has increased with changes to legislation, which has brought about pension freedoms over the years. The decisions you make regarding how you take your benefits may include tax-free cash, buying an annuity, drawing an income from your savings rather than pension fund, or a combination.

Beginning your retirement planning early gives you the best chance of making sure you have adequate funds to support your lifestyle. You may have several pension pots with different employers, as well as your own savings to withdraw from.

MONITORING AND REVIEWING YOUR FINANCIAL PLAN

There is little point in setting goals and never returning to them. You should expect to make alterations as life changes. Set a formal yearly review at the very least to check you are on track to meeting your goals.

We will help you to monitor your plan, making adjustments as your goals, time frames or circumstances change. Discussing your goals with us will be highly beneficial, as we can provide an objective third-party view, as well as the expertise to help advise you with financial planning issues. ■

ADVICE EVERY STEP OF THE WAY

Setting goals marks the beginning of financial planning to help you achieve the objectives at various life stages. Goal-setting gives meaning and direction to the various financial decisions you will take during your lifetime. The start of a new year is the perfect time to review your financial strength, pore over your budget and make big plans for next year. To arrange a meeting, or for further information, please contact us.