The Five Ages of Financial Planning

Our relationship with our finances continually changes as we progress through the life cycles. In most instances, the role and responsibility of our finances 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 a brief guide below, which highlight 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.

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

18-35 – Starting out

Whether this involves employment or further education, at this early stage of your financial life, it is all about learning how to budget. Understanding what is coming in and what is going out. For those that are progressing through further education, learn how the Student Loan system works. This will stand you in good stead as you start earning.

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 taxation, the better.

Once enrolled into your Employers Pension Scheme, do try and commit to it and avoid opting out. Your retirement may seem like a lifetime away, but these early contributions will make an enormous difference to your final pension fund. Get into the habit 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. Get professional advice on any mortgage you obtain and learn to shop around. Finally, should you enter a long term relationship, there is a requirement for a Will (as well as pension nomination forms). You should also consider Income Protection. It may seem very unlikely that you will be affected, but this will only get more expensive as you get older.

35-50 – Onwards and Upwards

This period often splits into two halves. In the first half, you may be blessed with children and a mortgage. Both mean that protection is key. It's not just about life assurance, but income protection and critical illness as well. By now, you should have some accessible cash savings of around six months of your regular income level, unless you are saving for a specific purpose. Anything more than that should be invested in some form of multi asset risk rated investment. If possible, try and increase your pension contributions, especially if your employer matches the increase with one of their own.

The second half starts the runway to retirement. 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.

This can also be a time when you hit the 'responsibility sandwich'. You sit in the middle of grown-up children and grown-up parents. As both get older, both will probably push the limits of your patience.

You will have organised a Will by now. 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 so, but never got round to it because 'it would never happen to them'. Try not to be one of those people.

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 to 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. 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 more time 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.

In all instances, try and adhere to three key criteria:

- **Start Saving as soon as you can**
- **Seek Protection whenever you need it**
- **Obtain Advice whenever it's required**

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.**