FINANCE UPDATES

JUNE 2018

Orchid Financial Services Ltd

Getting started with financial planning

Spring clean and take charge of your finances.

Creating a financial plan usually provides a thorough understanding of your wealth, and can be regularly updated when your circumstances change.

Such plans will also help answer one of life's most burning financial questions: whether or not your money will last a lifetime.

With people living longer, the introduction of pension freedoms in 2015, our complex tax system and turbulent investment markets, ensuring your wealth lasts is no easy task.

That's where financial planning comes in, and a good plan should include the overall formula you'll adopt for your retirement saving and investments.

It should also prepare you for the action you'll take if things turn out for the worse, such as unexpected illness or investment returns being lower than anticipated.

It's never too late to start managing your money, whether you're a millennial who has struggled since the financial crisis of 2008 or someone who has retirement on the horizon.

The earlier you start to take control of your finances the easier the task becomes.

What are your targets?

It would be great if money was no object for all of us – if we could all buy our first homes by the age of 25, be married by 27 and afford to raise children by the age of 30 if we wished to.

Sadly, that's not the case as each milestone comes at a significant cost – and that usually involves making certain sacrifices to achieve your goal at the earliest opportunity.

For many millennials, the term used to describe those born between 1981 and 2000, saving for your first home may be the biggest target.

This is usually no easy task as the average first-time buyer needs to save £20,000 for a deposit on a home outside of London, where the average saver needs to find £80,000 for a deposit.

Wedding planning website Hitched claims the average cost of a wedding in the UK hit £27,161 in September 2017 – an increase of 9.6% on the previous year and more than the average deposit on a home in the UK.

Raising a child from birth to the age of 21 is even more expensive, according to research from LV=, which estimated the cost to be £231,843 in 2016.

Of course, you could be saving for multiple targets – such as a holiday, a house and retirement – at the same time and this will affect how much you're able to stash away.

Whatever your goals are, you should try and save as much as you can within your budget. The earlier you get into this saving habit, the less you may need to contribute each month.

How much should you save?

Once you've identified your target, it's wise to undertake an inventory of your finances. The aim of this is to discover how much you can afford to save each month.

This may sound complicated but it's simply the process of comparing how much money you have coming in each month with your monthly outgoings.

To do this, get all of your bank statements, bills and insurance policies together and look at what you're paying out each month.

You may discover that you're paying for things you no longer need, such as an unused gym membership or an annual magazine subscription.

Thorney Lakes Golf Centre Thorney
Peterborough PE6 0TJ
0844 414 0730 info@orchidfinancialservices.com

www.orchidfinancialservices.com

Getting started with financial planning

According to a survey by moneysupermarket.com, 3.6 million people in the UK waste £14 billion a year on direct debits they no longer need or use.

If you're one of them, you can cancel these and redirect the surplus towards your goal.

When you have all the facts and figures at your disposal, it's time to create a monthly budget to give you an idea of how much you can afford to put away within your contribution limits.

How much you should save depends on your age and your target, and a good place to start would be to save 20% of your monthly pay packet and increase your contributions as your wages rise.

Whatever budget you settle on, make it bulletproof by living within your means and stick to it at all costs if you're serious about achieving your goals.

Put your extra money to work

If you've got a surplus to work with after undertaking your inventory, the next step to consider is putting your extra money to work for you.

Popular options include saving up to £20,000 a year into an ISA and increasing your pension contributions.

Another option is to explore your investment options, although you should go into it knowing that no product on the market guarantees lucrative returns.

Different types of investments usually carry different levels of risk, with potentially higher returns linked to investments with a higher level of risk.

For example, buying unregulated cryptocurrencies may result in big returns or significant losses, while purchasing government bonds is usually perceived to be a safer option.

The same principle applies to investing in stocks and shares, with those in emerging markets deemed to be of higher risk than stocks and shares in more developed economies.

Be prepared to play the waiting game as those who invest over longer periods of time usually have better returns on their investments to show for it.

Whatever you decide to do, it is important to seek expert financial advice early on to make the most of your savings and investments.

Reviewing your plan

As your personal circumstances change, so should your financial plan.

For instance, look back over the past 10 years. You may be earning more income and your expenses will probably have increased in line with that.

Perhaps you have developed new interests or your family situation may have changed, or maybe you understand your appetite for risk more deeply than you did a decade ago.

Your financial plan should be flexible and reviewed over time.

Consider all your income and expenditure, any assets you own or liabilities, your emergency fund, insurance policies and debts. These will all need to be considered in your financial plan.

Move on to the next target

Once you've achieved your first goal, move on to your next savings target.

If you're already in the savings habit, you'll be used to a certain amount of your income going towards savings each month.

For instance, you may have spent years accumulating a deposit to buy your house – but once you've bought it, your attention will turn towards paying off your mortgage.

The word 'mortgage' is Latin for 'death pledge', such is the length of time most people will spend paying it off, so paying off your mortgage is usually a key long-term priority.

Similarly, you could use any extra cash to pay off other debts – like a credit card or student loan – or funnel more funds into your longer-term goals.

If you're debt and mortgage-free, you could consider increasing contributions into your workplace or personal pension – but remember to stay within your contribution limits.

Seek expert advice

Planning your finances is an ongoing journey that needs thought and professional advice, whether you're just starting out or approaching retirement.

Our team of financial advisers are on hand to offer as much, or as little, advice as you need.

Get in touch for financial advice.