THE GOOD GUIDE TO FINANCIAL PLANNING

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GOOD WITH MONEY
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Contents

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Introduction

Who knows what the future holds? We live in crazy times and forecasting how the rest of the week - let alone your life - will pan out is no easy task.

Despite this general unpredictability of life, having a semblance of a plan is a good idea, even if life doesn't always want to follow it.

In this short guide, there are some generalisations and assumptions. We assume, for instance, that most people in their early thirties face a potential 'triple cost whammy' of buying a house, getting married and having kids (not necessarily in that order, indeed not necessarily at all).

We assume that for those in their forties, most of these big costs will have been borne and people have entered what we optimistically describe as the peak earnings years. This isn't really an assumption - it's what the Office for National Statistics earnings by age data tells us.

Check out our website for some of our other guides such as **The Good Guide to Impact Investing** and **Investing for women: a Good Guide.**

We've also chucked in a curveball: divorce. No one gets married planning for divorce, but it does happen and it's not a bad idea to have a few "what would happen if…?" thoughts in entirely good faith, if it means you suffer less financially should the 'd' word end up happening to you.

Of course, not everyone's lives pan out according to national averages.

But whenever big life events do occur, the chances are you will have them and there will be opportunities to both spend and save large amounts of money along the way - and avoid losses that might otherwise have occurred without a plan.

The trick is spotting the savings opportunities and taking them. And part of that is knowing what's likely to be around the corner.

So dive in. Get planning. Life happens - but if you are ready for it, your finances will help rather than hinder your plans.

don't forget to read this important info – it's on every page for a reason!

Buying your first home

Getting your foot on the property ladder is no mean feat these days, when you consider the hefty deposit to save and all the other costs involved. While becoming a homeowner is an exciting step, it's also likely to be the biggest financial commitment you make in your lifetime. Thankfully, there are steps you can take to get your finances in shape that will help make your first home a reality.

Saving for a deposit

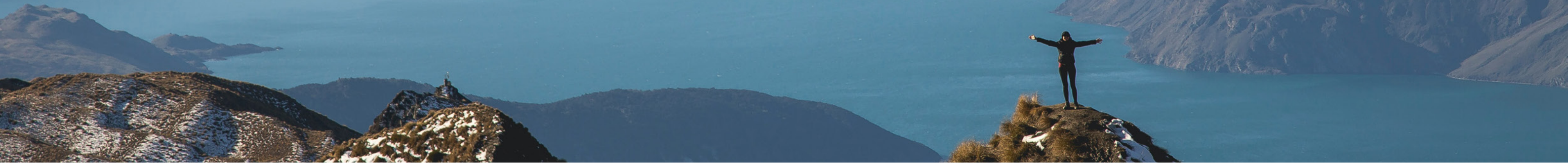
The price of the average first home has rocketed by more than £20,000 to £257,934 since the start of the Covid-19 pandemic, according to mortgage lender Halifax. The average first time buyer now puts down a £59,000 deposit (23 per cent of the purchase price) - up by nearly £12,000 from the beginning of 2020.

However, the deposit you need will vary hugely (along with house prices) depending on where you live, from an average of £32,663 in Wales and £34,347 in the North West of England, to an eye-watering £130,357 if you're looking to buy in London.

The bigger, the better

The good news is that, until December 2022, first-time buyers have a bigger choice of mortgages that only require a five per cent deposit. That's thanks to a government scheme to bring back 95 per cent mortgages, with leading banks effectively ordered to take part in return for a guarantee on the riskiest part of the mortgage.

This means that to buy a property for £250,000, you'll need to save at least £12,500. However, the bigger deposit you can put down, the cheaper your mortgage deal is likely to be - so if you can bear to hold on and grow your pot, it could be worth it in the long run.



Start saving early

When it comes to saving for your deposit, the earlier you start, the better. It's as simple as that. With time on your side, you can save far more than those who save higher amounts than you but start later in life. This is because of a brilliant effect called 'compounding,' where you get to earn interest on the interest you already have.

As soon as you can (ideally when you start your first paid job - but whatever age you are, just start NOW), put a fixed amount that you can afford aside each month. Set up a standing order for pay day, and you won't notice this money not being available to you. As Warren Buffet said, "Do not save what is left after spending; instead spend what is left after saving."

Consider a Lifetime ISA

If you're aged between 18 and 39, and your first home will cost under £450,000, you can benefit from saving into a Lifetime ISA (LISA). The government will top up your savings (up to £4,000 a year) by a generous 25 per cent - so for every £4,000 you save, you will get a £1,000 bonus. You can also save up to £20,000 a year tax-free into a regular ISA (the money you put into a LISA will count towards this).

Leave investing for the long term

Deciding whether to invest your house deposit should largely depend on when you plan to buy. When you invest your money, you put it at risk of falling in value and potentially losing some - or even all - of it.

While over the long term, any falls are likely to even out and potentially bring you higher returns than the banks, over the shorter term the stock market is too fickle to rely on. A good rule of thumb is that if you need the money within the next five years, then stick to cash savings.

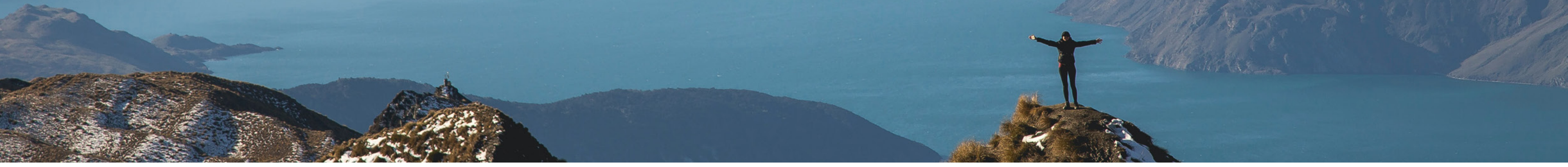
How to choose a mortgage

An independent, whole-of-market mortgage adviser can show you what your options are based on your personal financial situation. Lenders will evaluate your credit score and your ability to repay based on your income, assets, debts, and credit history.

Fixed rate or tracker?

You'll need to decide whether you want a fixed rate (set for an agreed term) or tracker (which moves up and down with interest rates) mortgage. Think about your employment plans, and whether you are likely to have children in the near future.

Don't just take a two-year fixed rate mortgage because it's what your friends did. Depending on your likely earnings in two years' time, you may want to fix for longer for added security. Likewise, don't fix for five years just because rates are low. If you want to move during this time, you could be hit with a painful early repayment fee. When it comes to tracker mortgages, could you afford the repayments if interest rates went up?



Other costs to consider

Stamp Duty: First-time buyers pay no Stamp Duty on properties costing up to £300,000, and a discounted rate of five per cent, up to £500,000.

Valuation fee: The mortgage lender will assess the value of the property to establish how much they are prepared to lend you. The cost can be £150 to £1,500 based on the property's value.

Surveyor's fee: Before you commit to buying a property, get it checked by a surveyor to find out if there are any 'deal-breaker' problems with it. A basic home condition survey will cost around £250, while a full structural survey will set you back from £600.

Legal fees: You'll usually need a solicitor or licensed conveyor to carry out all the legal work. Fees are typically £850 to £1,500. They will also do local searches, which will cost you £250-£300, to check whether there are any local plans or problems.

Electronic transfer fee: This covers the lenders' cost of transferring the mortgage money from the lender to the solicitor and is usually £40-£50.

Getting married

Marriage is much more than an emotional commitment, it's also a financial and legal one. You may be wholeheartedly in love, but you need to understand the practical risks (and benefits) of binding yourself to another person.

Plan your finances BEFORE you get married

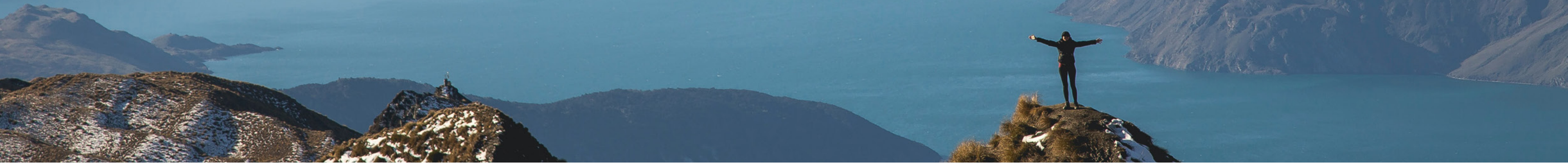
It's smart to sit down with your partner well before the wedding to do some financial planning. Ok, it's not the most romantic of pre-wedding activities, but the decisions you and your spouse-to-be make now about how to handle money will have major long-term repercussions for you both.

Key points to discuss:

- You should both disclose your full financial situation. Don't leave anything out. Include all assets (bank balances, pensions, savings, investments etc), debts (credit cards, loans, car payments etc), credit ratings, and monetary responsibilities for any children from previous relationships.
- Work out how being married can benefit you financially, for example reduced living costs, savings on health insurance and lower car insurance premiums.
- Talk about how you will share any assets you both already have. Where will you live? Will one of you need to sell a property?

Do you need a pre-nuptial agreement?

If one partner has considerably more assets or income than the other, is likely to come into a large inheritance, or owns a business, you might want to sign a prenuptial agreement.



This is a contract that can protect premarital assets and provide for children from previous relationships. It can also set out responsibility for debts acquired before marriage and prearrange spousal support in case of divorce.

Make a plan for paying off debt

If either or both of you carry a lot of debt, draw up a plan for paying it off. One spouse's premarital debt does not automatically become the other's upon marriage, but that debt will affect your joint finances - and potentially your relationship.

Improve your credit ratings

While marriage itself has no impact on your credit score, once you tie the knot you might want to apply for joint mortgages, car loans, and/or bank accounts.

When you borrow jointly but one person has poor credit, a lender may charge higher interest and fees than the other person with a good credit score could have been eligible for on their own. So - if one of you has a poor credit score, get started on improving it.

Set joint financial goals

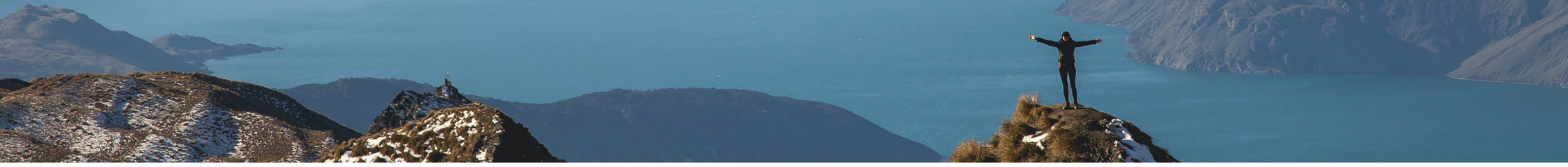
You may already be living together, but it's important to set out (and agree on) your financial goals before you take your wedding vows.

- What are your long-term career goals and prospects?
- Will either of you need financial support for further education or retraining?
- Will one of you stay at home full or part-time to care for children?
- If either of you have children from a previous relationship, what are your financial responsibilities and how are these likely to change?
- Are either of you likely to be called on to care for elderly relatives?
- What are your money priorities? Eg. holidays abroad, a nice car, or big house?
- At what age do you hope to retire, and what kind of retirement are you aiming for?
- What are your attitudes towards saving and spending? How will you manage any differences?
- How much financial independence do you want? Will you combine your finances completely or keep certain parts separate?

You probably won't have all the answers, but you'll get a good sense of where you both stand and any compromises you might need to make to achieve your financial goals.

Set a wedding budget

If you are paying for a wedding yourselves, especially if you have little money saved up, you MUST set an affordable budget - and stick to it. Don't saddle yourself with debt as you start your new life together.



Share financial tasks

A poll of 2,000 British adults by legal firm Slater and Gordon found that money worries top the list of reasons that married couples split up, with one in five saying it was the biggest cause of marital strife. To help minimise anxieties over money, do financial tasks together at least some of the time. You should both be able to access every account and know how to manage the household's money.

You could also schedule regular 'money talks,' so you can look at your shared spending and plan ahead for any unexpected expenses.

Marriage and taxes

Once you're married you can choose to file your tax returns jointly or separately. The joint option often has the most financial benefit, but this will depend on your individual circumstances.

Having kids

Children are wonderful - and expensive! The basic cost to a couple of raising one child to the age of 18, excluding childcare, is £71,611, or almost £6,000 a year, according to the Child Poverty Action Group. Add childcare and additional housing costs, and this doubles to £152,747, or nearly £8,500 a year. Then you just need to multiply this cost by the number of children you want to have.

Costs are usually higher in the early years (depending on your schooling plans etc), so a little financial planning before you start a family can go a long way.

Check your parental leave entitlement

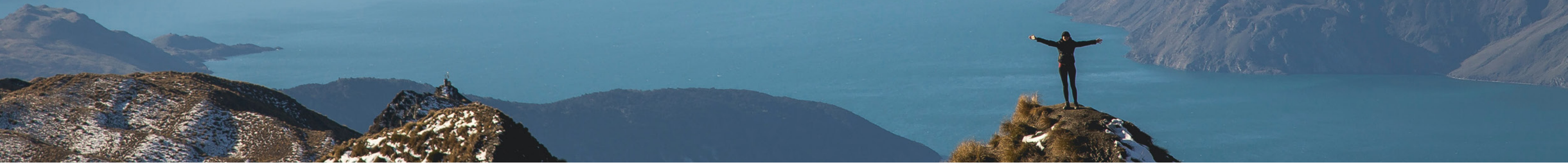
If you have been working at your company for 26 weeks and earn £120 or more on average per week, you are entitled to **Statutory Maternity or Paternity Pay** (SMP). This is 90 per cent of your average gross weekly earnings for six weeks, followed by 33 weeks at £151.97 or 90 per cent of your average weekly earnings (whichever is lower).

Most larger companies will have their own (more generous) scheme. You can check your parental leave entitlement in your contract, or ask your HR department.

For those with Class 2 (self-employed) NI contributions for at least 13 of the 66 weeks before the baby is due, the rate is £151.97 per week. If you've paid less than 13 weeks, the amount you get will be calculated based on how many weeks of contributions you've made. If you've not paid any, you'll be entitled to just £27 per week.

If you're a dad, you could claim **Paternity Pay**. You can take one or two weeks off, all in one go, once the baby's born. You'll get £151.97 per week, or 90 per cent of your average weekly earnings, whichever is lower.

If you are sharing parental leave, you would qualify for **Statutory Shared Parental Pay** (ShPP). This is £151.97 a week or 90 per cent of your average weekly earnings, whichever is lower, and is paid for 52 weeks.



Check your benefits entitlement

Some benefits are available to most families with children, such as child benefit, and others paid only to those on a lower income, such as Universal Credit or Child Tax Credit.

Child benefit: You can get £21.15 a week for your first (or only) child and £14 a week for any additional children, up until their 16th birthday - or later if they stay in education or training. While child benefit is payable regardless of income, those who earn more than £50,000 a year must pay a tax charge. If you or the other parent earns more than £60,000, the charge cancels out the Child Benefit you receive.

Child Tax Credit: You can now only claim Child Tax Credit if you are already claiming the Working Tax Credit. Otherwise, you will need to apply for Universal Credit instead.

How much you can get depends on your income, the number of children you have, and whether any of your children are disabled. To get the maximum amount, your annual income will need to be less than £16,480 in the 2021-22 tax year.

Working Tax Credit: If you work a certain number of hours a week (depending on your circumstances) and have a low income, you could receive £2,005 in 2021-22 in Working Tax Credit. You could get more if you are a single parent, have a disability, earn more than 30 hours per week and/or use approved childcare.

Universal Credit

Universal Credit is the new government benefits model that will eventually replace Working Tax Credit and Child Tax Credit - plus several other means-tested benefits. It's being rolled out gradually across the country, so you may already have been moved onto Universal Credit, or will be moved onto it soon.

Start saving for the future

You can give your child the best possible financial start in life by opening a savings pot for them early. Putting aside just £10 a week from birth to age 18 in a savings account paying one per cent interest would turn into a healthy £10,000.

A Junior ISA allows you to save up to £9,000 a year tax-free. You can choose to save your money in cash or invest it in stocks and shares, which comes with higher risk but potentially greater returns. Consider investing ethically on behalf of your children. It will provide a useful introduction to them of the impact money has in the wider world, where profits come from, and being responsible citizens and investors.

Be aware that once your child reaches 18, they can access and withdraw the money themselves. Another option is to use your own, or your partner's, ISA allowance (up to £20,000 a year) to save for your children.

You can also put up to £2,880 into your child's pension each year, and the government will add 20 per cent tax relief on top.

Buying a house after children

People will go through their financial life stages in various orders, and this could mean having kids before buying a home.

Bear in mind that having children first could dent your chances of getting the size of mortgage you need for a home. Lenders use affordability criteria (which can include childcare costs) to work out how much you can borrow.

The ‘peak earning’ years

‘Peak earning’ is the age when you earn the highest wage relative to the hours you work. And it might come earlier than you think. The average age for women to hit this ‘sweet spot’ is 40, while men are slightly later at 44.

Between ages 40 to 49, women earn an average of £31,403, while for men it’s £38,829, according to 2020 figures from the Office for National Statistics. By ages 50 to 59, this drops to £28,556 and £36,983 respectively.

So, while your earnings are at their highest, and outgoings are potentially at their lowest, now is the time to iron out any debt and maximise your retirement savings.

Get out of debt

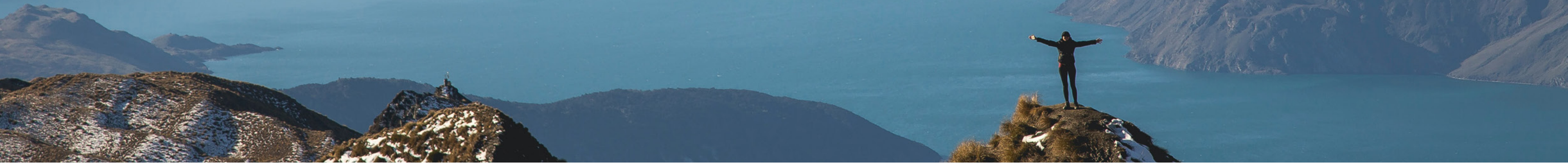
You may well have built up debt in your 30s that you are now potentially in a better position to pay off. If you have debt (which is normal: the average UK adult has £3,712 in unsecured debt as of March 2021, according to The Money Charity), choose a strategy for paying it off and see it through.

The **snowball method** involves focusing on your smallest debt first and funnelling as much cash as you can toward paying it off (while paying the minimum balance on the others). Once it’s paid off, move to the next smallest and so on.

Or, you could take the **avalanche method**, where you pay the debt with the highest interest rate first. This will minimise how much you spend on interest rates over time.

Build some emergency cash savings

If the past 18 months or so has taught us anything, it’s that you never know what’s around the corner. If you don’t have one already, start building a cash savings pot that you can fall back on in emergencies. Ideally, you will have three months’ worth of salary in an easy-access savings account.



Spring clean your pensions

Now is a good time to check that you are on track to retire comfortably. With people living longer than they used to (men on average can expect to live to 79, while for women it's 83), planning for your retirement years as early as possible is key.

Check your National Insurance contributions

A state pension can give you the financial foundation for your retirement. If you've been working, and earning over £166 a week, you should be able to claim a state pension. To receive the full amount, you will need 35 years' worth of NI contributions. Check you're on track by getting an online forecast from the DWP of the amount you could get, and the earliest date you could get it.

Consolidate your pension pots

Chances are that you've worked in quite a few places by the time you reach your early 40s, which means you're likely to have a few forgotten pensions dotted around. It's wise to find out where they are, because they could be sitting in a poorly-performing fund or in a scheme with horribly high fees. If you find having multiple pensions a hassle, consider moving them to one place.

Some schemes do come with valuable benefits such as guarantees - you will need to check this before moving your pot.

Look for a provider that will easily tell you how much money is in your pension, as well as how your funds are performing and how much you'll receive on retirement. This will make keeping on top of your contributions infinitely easier.

Max out your contributions

What you're putting into your pension now will shape your later life drastically, so it's important to find the right level of contributions and keep them up.

Consider the balance of any existing pension(s), your planned retirement age and ideal retirement income to get a ballpark figure to start aiming at - see the final section on Retirement, for examples.

Consider a SIPP

To boost your pension savings, you can make extra contributions to your workplace pension, or alternatively, make contributions to a Self-Invested Personal Pension (SIPP).

A SIPP gives you tax-relief on your savings. Basic and higher rate taxpayers receive 20 per cent (an £800 contribution gets topped up to £1,000 by the government), while additional rate taxpayers can claim 25 per cent. For the 2021/2022 tax year, the annual pension contribution limit for tax relief purposes is £40,000, or 100 per cent of your salary, whichever is lower.

By Dale Scorer
Financial adviser and chartered financial analyst at EQ Investors

Your retirement saving options outside of a pension

Traditionally we have thought about pensions as the primary way of funding this chapter of our lives and they remain the cornerstone of good retirement planning. However, with limits on both the size of pension funds and the contributions you can make, as you plan for your retirement you should consider your income as coming from a range of sources.

Drawing from several sources allows you to take an income in a much more tax efficient manner, which can be adapted if your circumstances change.

For investments outside your pension, we would recommend you split this out into short-term, medium-term, and long-term pots.

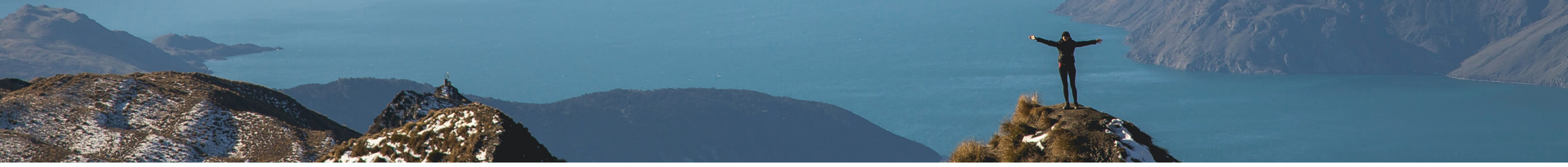
Your short-term pot should contain three to six months' worth of expenditure - your 'emergency fund' and any ad hoc expenses due within the next 24 months. This should be easily accessible and not locked up for a fixed period.

One option to consider is NS&I Premium Bonds. Instead of interest there is a monthly prize draw for tax-free prizes, with a one per cent annual prize fund rate and they are 100 percent protected by the UK Government.

Although cash savings offer protection, interest rates are historically low, and many accounts aren't keeping pace with inflation. In real terms, this means your cash retirement savings could be decreasing in value.

It is therefore important that your medium-long term pots are being invested to target inflation.

Outside your pension a Stocks and Shares ISA offers a tax efficient way to invest for the future. Each year you can save up to £20,000 in your Stock and



Shares ISA, invested in a wide range of investments including funds and shares. Any gains are exempt from UK Capital Gains Tax. You don't pay UK tax on any income you receive from your ISA. And you don't need to declare any of this on your tax return.

As an ISA has a limit on how much you can contribute - where to next?

A General Investment Account (GIA) is a way to invest more money once you've used up your ISA limit for the tax year. Much like the Stocks and Shares ISA, the GIA can be invested in a wide range of investments including funds and shares. A GIA has no limits on how much you can invest each year and you don't need to lock your funds away until a certain age.

However, investment accounts do not offer the same tax benefits as pensions or ISAs, meaning that any interest/dividends you receive from your investments may be subject to income tax and any gains that you make when selling your investments may be subject to capital gains tax.

Although these accounts are taxable, your dividend and capital gains tax allowances can be utilised before any tax becomes payable.

It's important to note with both GIA and ISA investments, there is investment risk and it's likely the value of your savings will fluctuate, falling as well as rising over the short term. As a result, it's usually only advisable to invest if you have a time frame of at least five years, allowing you to ride out short-term dips.

Remember, Stocks and Shares ISAs and GIAs typically come with several different investment options with various levels of risk. It's important to pick a profile that suits your attitude to risk and future goals.

Divorce

As well as being highly emotional, dividing your financial assets during a divorce can be difficult and complicated.

Consider professional help

The more complicated your finances, the more likely you are to need professional help. Signs that separating your finances will be too difficult to do alone include one or both of you owning a business, one person being financially dependent on the other, having young children, having multiple homes, one person having a medical issue that affects their ability to work, and/or one person owning more assets such as property and a bigger pension.

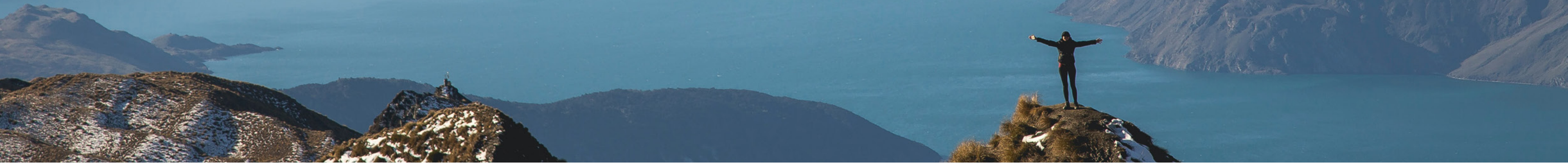
Making a financial agreement

A financial agreement (also known as a divorce settlement) sets out how savings, property, pensions, life insurance and any significant assets should be divided. It is not usually necessary to have the court involved, but it is advisable to use a solicitor to make your agreement legally binding with a consent order - this way both parties are protected and it will not be possible to make future claims.

The starting point for a court will be 50/50 and they will then look at your and your partner's "needs". These include suitable housing for any children and the parent they will live with most of the time and any difference in earnings (stay-at-home parents are given credit for their lost earnings).

What about your pensions?

Your pension should be included in your financial settlement if you divorce or end your civil partnership, and should be confirmed through a court order.



Pre-marriage pensions may be ring-fenced, so the other person has no stake in them, but this is decided on a case-by-case basis. Those built up during the marriage may be split or used as a bargaining tool in deciding who gets what. For example, one spouse might give an even bigger share of the family home to their ex in exchange for keeping their pension.

Protecting your pension

There are several ways to deal with pension arrangements when you divorce:

- You are given a percentage share of your former partner's pension pot. This is known as pension sharing.
- Some of your pension is paid to your former partner. This is known as pension attachment or pension earmarking and is a bit like a maintenance payment straight from one person's pension pot.
- The value of a pension is offset against other assets, known as pension offsetting. For example: you keep your pension and your former spouse or civil partner keeps the home.

Retirement

How much will you need to retire?

By the time you give up work you are likely to have paid off your mortgage, will no longer be bringing up children and won't have the cost of commuting.

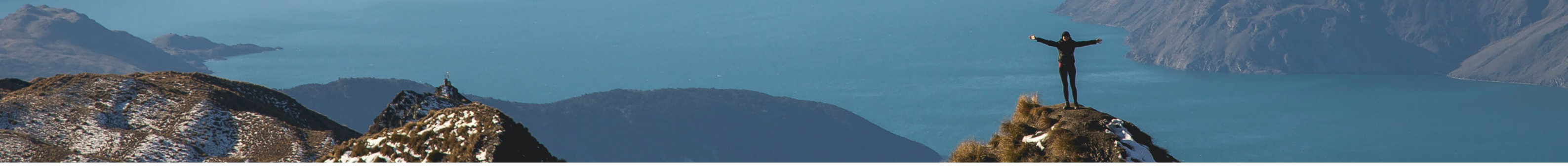
A good rule of thumb is that you will need half to two-thirds of the final salary you had when you were working to maintain your lifestyle in retirement.

A recent survey by Which? found that the average retired couple spends around £2,170 a month (or £26,000 a year), while a retired individual spends around £1,583 a month (or £19,000 a year).

This covers all basic spending and some luxuries, such as European holidays, hobbies and eating out.

Aiming for this level of income will provide a good financial foundation for your retirement. You'd need around £41,000 a year as a couple and £31,000 a year as an individual if you include luxuries such as long-haul trips and a new car every five years.

It helps to think about your pension income in two stages - first with your workplace or private pension savings, which you can access from age 55 (rising to 57 in 2028), and then with the state pension. You can currently claim your state pension from age 66 (rising to 67 by 2028, and 68 by 2039).



Before state pension

Workplace and private pensions

When you reach the age of 55 (57 from 2028) you have several options to access the money in your workplace or private pension:

1. Take a lump sum

You can withdraw 25 per cent of your pension pot as cash, tax-free. If you want to take more, you have to pay income tax on it. If you take all of your pension savings in one go, you might end up in a higher tax band, therefore paying more income tax.

2. Take a regular income

You can choose to receive a regular retirement income from your pension pot, known as an 'annuity'. This involves 'selling' your pension pot to an insurance or pension company.

They will calculate how much income you'll receive every year until you die. The advantage of this arrangement is that you'll receive a stable income. The annuity company carries the risk of paying out more than what was in your pension pot, but this will of course come at a cost.

3. Take regular small amounts

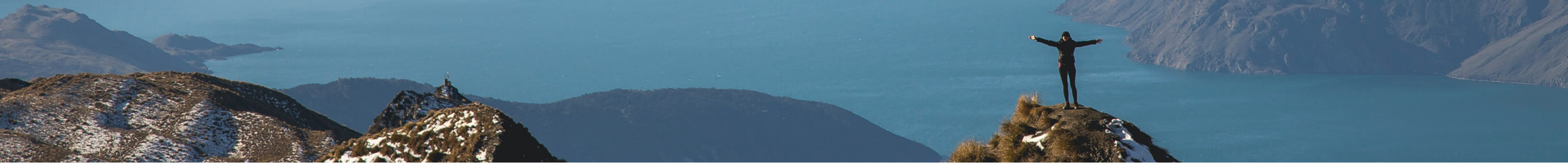
You can decide to withdraw smaller amounts on demand instead of giving all your savings to an annuity company who decides how much you'll get.

Some benefits of taking this approach include:

- Withdraw as much as you need, as often as you like
- If you plan ahead, you can avoid going over the higher tax band
- When you die, the remaining pension pot can be passed over to anyone you choose. They don't have to pay inheritance tax.

4. Leave your pension for now

If you're 55 and still employed, it might be an option to leave your money where it is. The longer your money is invested, the more likely it is that your pension pot will grow. Usually, as you near your retirement age, your money is moved by your pension company to safer assets such as bonds and cash.



After state pension

The full 'flat-rate' state pension (for people qualifying for it on or after 6 April 2016) in 2021-22 is £179.60 per week, but not everyone will receive this amount.

It depends on how many years of NI contributions you have built up - for the maximum amount, you'll need 35 years. You'll need a minimum of 10 years (which don't have to be consecutive) to qualify for any state pension at all. As a guide, multiply the number of years you have by £5 to see how much you're likely to get a week.

In August 2019, the average for a man who qualified after April 2016 was £160.18 a week (£8,329 a year), while the average for a woman was £152.55 (£7,933) a year. Combined, that's around £16,262 a year.

To work out how comfortable a retirement you are on track to have, simply add your predicted yearly state pension to any private or workplace pensions.

About Good With Money

Good With Money is a money website with a difference: it is all about how your money can do more good for people and planet, as well as line your pocket.

It created the **Good Egg mark**, a licence for financial services companies which make a positive impact.

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Meet an expert for a virtual coffee

EQ's financial planners help people at all stages of life with their financial goals. Over the years they have found that the best way to start this process is an initial meeting to get to know each other and to understand more about what you need and what they can offer. They offer these meetings free of charge as they are as beneficial for them as they are for you.

Learn more here: https://eqinvestors.co.uk/meet-us-for-coffee

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