Exploring financial planning...

...and how to get more from this valuable process

This guide will help you to start thinking about what matters most when you design or review your financial life plan with your financial adviser (you will normally pay a fee for financial advice). In outline, this process is simple, but financial plans are not to be rushed.

If you have a partner, you'll need to decide between planning together or separately. There's no golden rule. Either way, you'll need time to explore what you really want for the future. And your adviser will need time to gather the information on your current finances and work with you to build a plan to help you achieve your goals.

The financial planning process

Long-term financial planning is not taught in schools or even in business or economics degrees. So, most people need financial advice, and we can get more from these services if we understand the process.

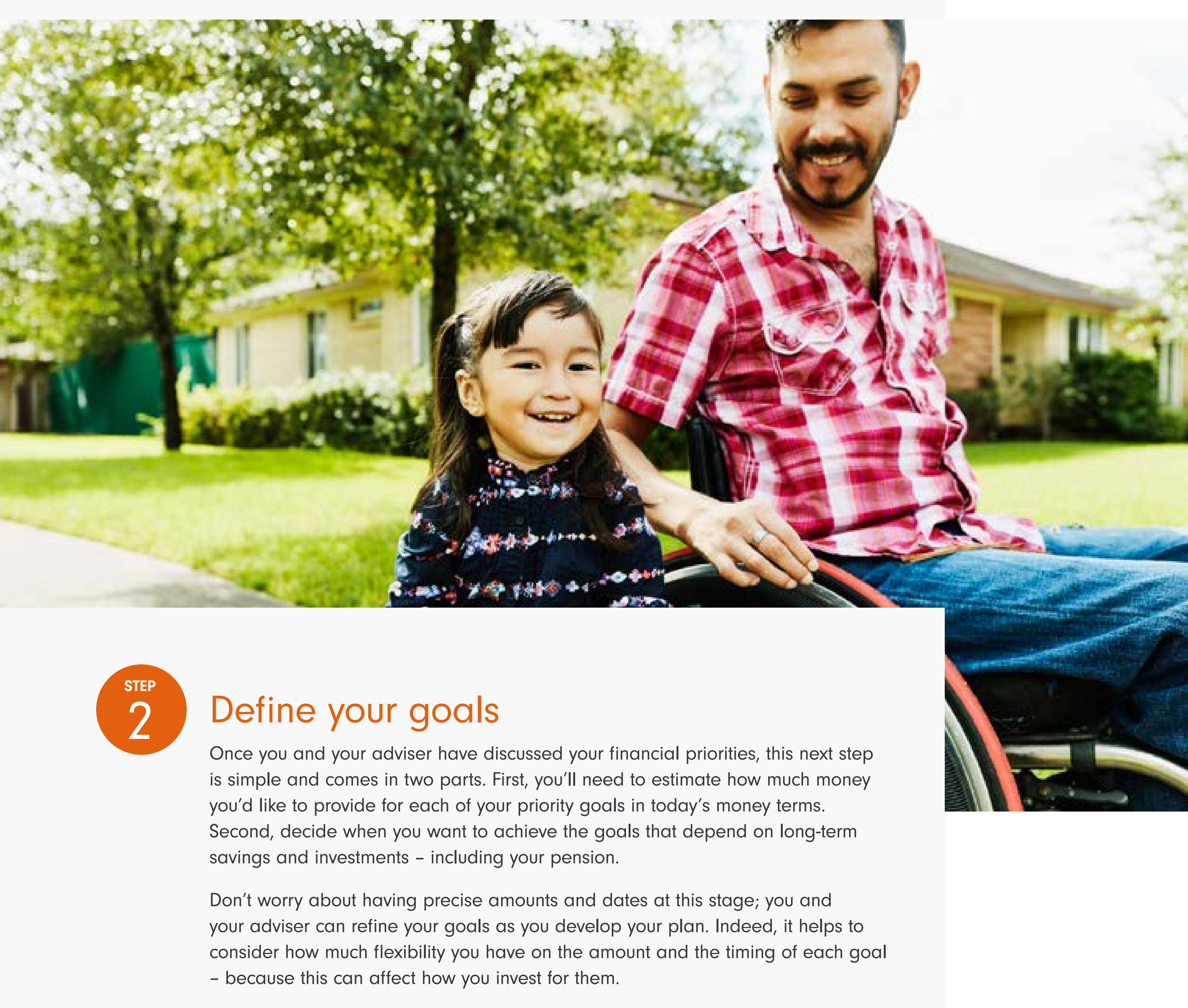
Financial advisers don't develop plans for you; they work with you to tailor a plan to meet your needs and future hopes for yourself and your loved ones. Only you know about your circumstances and future ambitions. So, you need to engage in the development of your plan. The good news is that with better understanding comes more trust and more likelihood that you'll do what you need to – to make your plan successful.

STEP 1 Start with the essentials in mind

If you were planning a holiday of a lifetime, you'd want to list the 'must-see' places on that trip. Likewise, when planning your finances, there are particular 'must-sort' money challenges, and you'll want to identify those quickly. To help you do that, we've listed below some of the big money questions most of us will face during our lifetime.

It may take work to uncover the details of your unique money challenges – and some solutions that suit you. But rest assured, your financial adviser will be able to discuss these challenges with you and identify appropriate solutions for your needs. Start by considering and writing down which of the following twelve questions you need to address. Check which points you need to cover:

1. Will you provide enough money for the needs of any financial dependents in the event of your death? And have you organised things to equip others to deal with your financial and material possessions after you're gone?
2. Will you and your loved ones have enough money (and can deal with your finances) if you cannot work (or look after your family or home) due to an accident or illness?
3. Do you have enough accessible savings to cover short-term emergencies, like a temporary loss of work or expensive repairs to your car or home?
4. Are you optimising your State Pension and other state benefit entitlements?
5. Have you paid off (or are you on track to pay off) any credit card or other expensive debts you have?
6. Have you repaid (or are you on track to repay) your mortgage before you retire?
7. Do you have (or are you on track to build) a big enough pot of money in pensions and other investments to stop or slow down from work in the future?
8. Are you saving enough for any other life goals, such as helping a child through university, going on an extended holiday or taking a year off from work to do something you've always wanted to do
9. Are you making sensible use of investments to offset the risks from inflation over the long term and make it easier to achieve your goals?
10. Are you using your tax-free allowances and tax-advantaged savings, investment and pension products?
11. Are you on top of any costs for the management of your investments?
12. For those at or in retirement: do you have a robust plan to deliver a sustainable income from your pensions and other savings in retirement?



STEP 2 Define your goals

Once you and your adviser have discussed your financial priorities, this next step is simple and comes in two parts. First, you'll need to estimate how much money you'd like to provide for each of your priority goals in today's money terms. Second, decide when you want to achieve the goals that depend on long-term savings and investments – including your pension.

Don't worry about having precise amounts and dates at this stage; you and your adviser can refine your goals as you develop your plan. Indeed, it helps to consider how much flexibility you have on the amount and the timing of each goal – because this can affect how you invest for them.

STEP 3 Explore ways to get your plans on track

In the third step, you and your adviser will check what, if anything, you need to change to put your financial plans on track. Your adviser will need details of your financial situation, including your net income, spending, mortgage or other loan amounts, regular contributions to savings and pensions and the current value of your assets – including all your investments and pensions.

Armed with this information, your adviser can undertake the necessary analysis and planning to find possible ways to get (or keep) your financial goals on track. These solutions will include looking at the money you're already saving or have invested – and making smarter choices such as:

1. Ensuring your investment choices are in line with your risk appetite and capacity for loss.
2. Ensuring you're investing tax efficiently.
3. Optimising the government or employer payments to your pensions and savings.
4. Making sure the charges you pay for your investments represent value for money.

At this stage, your adviser can also let you know whether you're on track to achieve your goals.

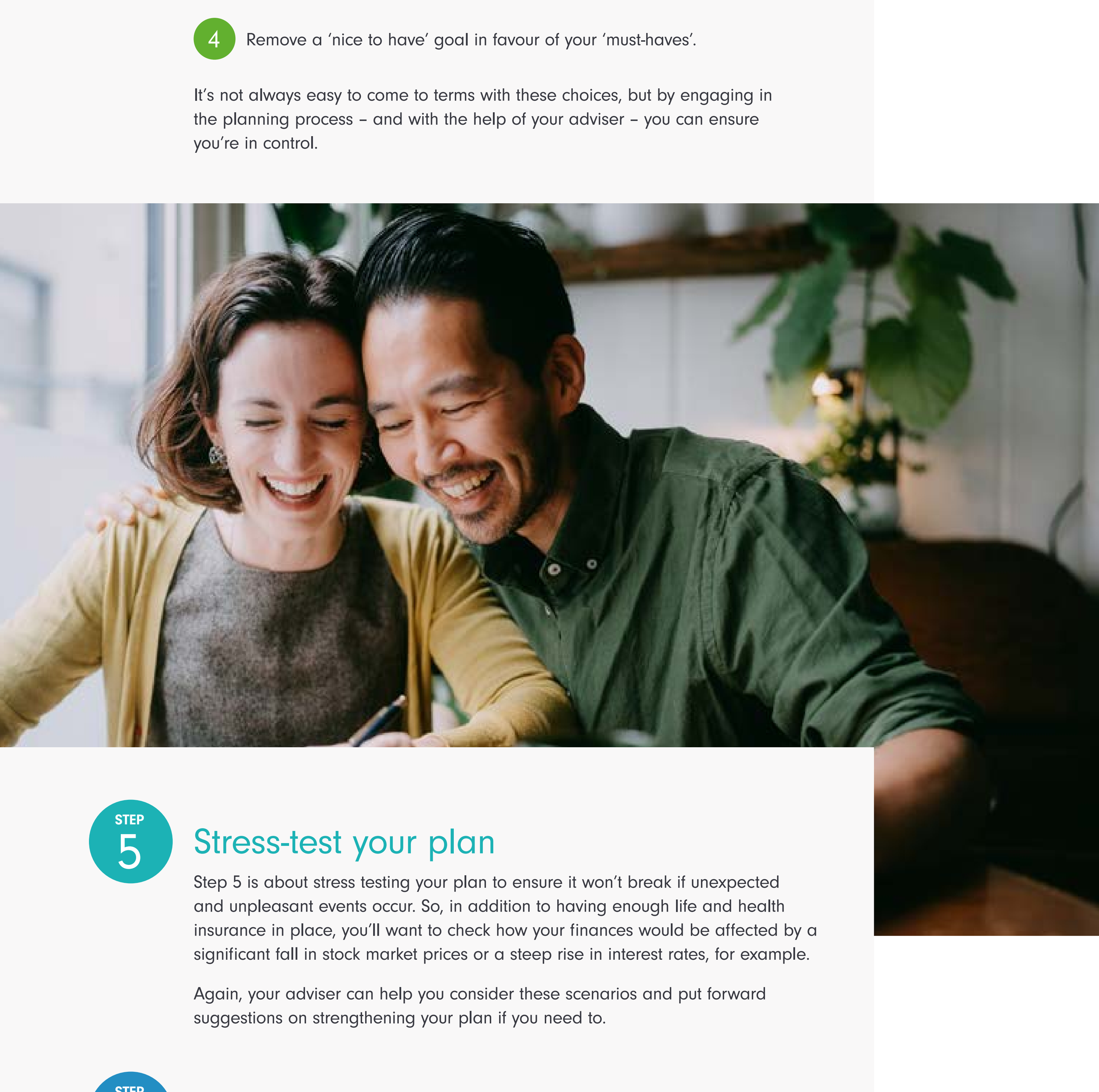
STEP 4 Adjust your goals – if you need to

From the previous steps, you may discover that you can afford to fund all of your goals. Or, better still, you'll find you can achieve a big goal (like retiring or slowing down from work) earlier than you thought.

On the other hand, you may find that you can't afford to achieve all of your goals in the timeframes you've set – and in this case, you and your adviser can discuss whether you should:

1. Save more towards the goals that matter to you – which may mean spending less on other things in the short term – or finding ways to earn more.
2. Scale back on the size of your goals. For example, £20,000 would undoubtedly buy a holiday of a lifetime for a couple. But £10,000 could pay for an excellent break too.
3. Delay one or more of your goals – until you've built the pot of money you need.
4. Remove a 'nice to have' goal in favour of your 'must-haves'.

It's not always easy to come to terms with these choices, but by engaging in the planning process – and with the help of your adviser – you can ensure you're in control.



STEP 5 Stress-test your plan

Step 5 is about stress testing your plan to ensure it won't break if unexpected and unpleasant events occur. So, in addition to having enough life and health insurance in place, you'll want to check how your finances would be affected by a significant fall in stock market prices or a steep rise in interest rates, for example.

Again, your adviser can help you consider these scenarios and put forward suggestions on strengthening your plan if you need to.

STEP 6 Put your plan into action

The final step is to act on whatever recommendations your adviser has made within your unique plan, which might include:

- Changing spending habits and paying off debts if you have them.
- Arranging your financial affairs (including setting up wills and any powers of attorney) to ensure that your family can quickly deal with your assets when the time comes.
- Setting up regular payments to any investment and insurance plans you need.
- Consider investing lump sums (or transferring existing investments) into more suitable arrangements, if appropriate.
- Acting on any other issue you've identified.

Descriptions of the benefits of financial planning vary, but in broad terms, this is about designing a plan for tomorrow, so you can focus on what matters today.

With the help of your adviser, these six steps will help you create a robust financial plan. And you can both follow the same steps to review your progress yearly or when significant life events occur.

Planning around life events

Significant life events often trigger people's interest in financial planning and a financial adviser can help you consider the steps to take in the following scenarios:

1. A sudden illness or death of someone close may prompt you to review what life or health insurance you need or to explore estate and inheritance tax planning.
2. Receiving a large sum of money (from a life policy, inheritance, or business sale) may cause you to consider how to invest this money.
3. On the home front, you'll need to plan your money carefully if you're buying a first (or larger) home, have a fixed-rate mortgage due to expire soon, or have an interest-only mortgage nearing the end of its term.
4. Moving in with a partner should prompt you to plan for jointly managing finances and agreeing on priorities.
5. Having children is a good time to review your insurance, savings, and investments.
6. Gaining a big promotion (or pay award) at work will prompt you to consider how best to use that extra income.

Your adviser can also help with things like:

1. Choosing between the different types of pension that may be available at work.
2. If you've accrued several pensions over time, you may need advice on which ones should be kept as they are, to help maximise your retirement benefits and which could be considered for consolidation to help achieve your overall financial plan.
3. Financial advice can ease the stress of a separation or divorce. And, if you later find a new life partner, you may want to re-set your financial goals at that time too.
4. Planning income in retirement.
5. Investing (and leaving legacies) tax efficiently.
6. If you're a business owner, you may also require advice to ensure:
   - You enjoy a tax-efficient share of their business profits – now and in retirement.
   - Your loved ones don't lose out in the event of your illness or death.

So, many life events can trigger us to seek advice, but you don't have to wait to develop a financial life plan. The best time to start planning is now.

The challenge of financial planning

We hope this guide has given you some key insights into the financial planning process.

Managing your money can be a challenge. We need to keep our income above our expenditure while building a pot of accessible money for emergencies, managing our mortgage and other debts and making sound investment choices.

In short, financial planning is a difficult job to do on our own. So, consider the benefits of professional advice when building your financial plan (you will normally pay a fee for financial advice).