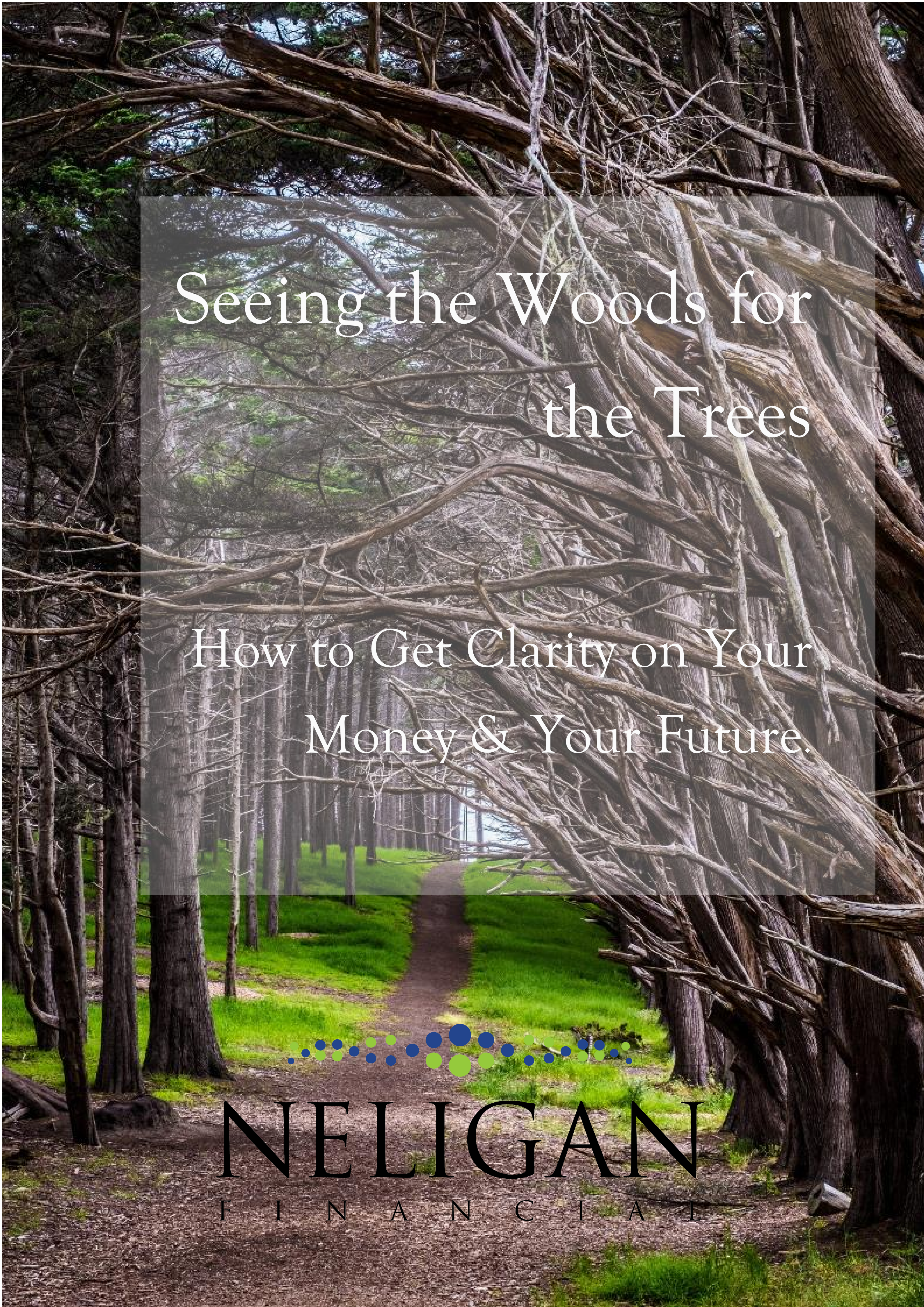

Seeing the Woods for the Trees

How to Get Clarity on Your Money & Your Future.

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Photo Credit: Anatoliy Gromov via Unsplash

Foreword – The Importance of Clarity

I know what it's like, you've worked for thirty years odd years (if not more) and built a career whilst raising a family. Planning for the future was something you knew to be important so you did as much as you could to save. The future has now arrived, your 'babies' have now graduated (or will do soon) and your working life is entering its final chapter before you embark on life's next phase.

You have decided that you need to make sense of your money to make sure that you will have enough to see you through the rest of your life whilst you still have the time to act.

But where do you start?

You've got a filing cabinet (at best) or a mass of envelopes stuffed in plastic bags (at worst) all containing details of pensions, investment and life assurance policies accrued over the decades.

You are wondering to yourself:

What do I have?
Do they all still exist?
What are they worth?
Are they any good?
What will they give me?
Will they be enough?

But you can't see the wood for the trees. You don't know where to start to make sense of it all and provide some clarity to the money that you have accumulated over time.

From hundreds of conversations with clients over the years I know that two of the most important benefits of money are that it provides financial security and freedom. In short, *the freedom to do what you want to do, to live the life you want without ever having to rely upon anyone else.*

But, because you can't see the woods for the trees you don't know whether you have enough money to do everything you want to without money worries.

If you have experienced any of this, then this guide is for you.

It's intended to be a step by step guide to help you 'see the woods' so that you gain financial clarity. With financial clarity comes the opportunity to take whatever actions are needed for you to achieve your lifetime priorities.

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Are you like Richard & Elizabeth?

Richard and Elizabeth knew the life they wanted but not whether it was achievable. They wanted to understand whether their finances would be sufficient to cover an early retirement or whether they would need to keep on working.

They stared at files accumulated over many years and didn't really know what they were worth or what life their financial position would provide them.

By following the steps contained in this guide Richard and Elizabeth could see that the savings they had made throughout their lives, together with their pensions were substantial enough to allow for early retirement – which they described as "an amazing feeling and has allowed us to follow our dream and go travelling whilst we still have our health."

The Importance of Financial Clarity

If you don't know what you have you don't know what's possible (or impossible).

As explained in the foreword to this guide, in my experience, most people in retirement want financial security and the freedom to do what they wish, whenever they wish to do it. This is my definition of financial independence.

However, if you don't know how much money you have you don't know if either of these things are possible and, therefore, what actions you need to take to address any financial shortfalls that may be present when the earnings stop.

You may get to the point you want to, or must stop working but find that you can't afford to. Or, if you do stop you aren't able to live the life you want or expect. People tell me that they will "cut their cloth accordingly" but I don't buy that. I don't believe anyone who works hard for 30 to 40 years will be happy cutting back on life because they don't have enough money. They might not have a choice but I don't believe it won't be anything but a regret that they didn't plan better and save more.

The other side of that coin is that you may find that you have more than enough and could stop working sooner than you realised. Had Richard and Elizabeth not taken the steps to gain financial clarity they would not have discovered early retirement was possible and would have continued to work in jobs they didn't particularly enjoy until they were 60 or 65 (because that's when society and convention says that is when you are *supposed* to retire).

Having too much money is a problem because it means you could have done more, sooner and because, if you die with too much you may end up giving 40% of it to the tax man as inheritance tax. Having paid tax on income, profits, fuel, goods & services, alcohol, cars and wherever else our hard-earned money goes in tax do you really want to give 40% of what is left to the government?

So, by understanding how much money you have and how much you need, you can make sure that you are able to live your ideal lifestyle, without money worries and make sure that the tax man isn't your biggest beneficiary on death.

Gaining financial clarity will not only help you understand how much you have and whether it is enough. It also helps you understand what income will come from which sources when the pay checks stop. It will also help you determine whether your existing plans and policies are still suitable or whether your money needs to work harder for you by paying less in charges and/or having it invested more appropriately.

So, Where Do I Start?

The first thing you can do is go to your filing cabinet (be that the metal, rectangular shaped one or the plastic one with 'Tesco' written on it) and sort out the paper work you have.

It's not a fun job (unless you're slightly OCD, in which case you had it all sorted anyway) but an important first step towards financial clarity.

Sort the papers into piles by policy or account number first. This will then help you understand how many different policies you have. There will be a lot of paperwork you can get rid of (by confidentially destroying it; you don't want someone finding your personal information and using it to defraud you): historic valuations and updates from pension or investment providers don't need to be kept. Neither do the market updates that are out of date the minute they leave the printers.

What you should keep is:

- The most recent statement.
- Original policy documents (although it isn't the end of the world if you have lost some).
- Anything from HMRC for at least six years.
- Recent payslips, P60s or P11Ds in case of a tax query.

Having completed this exercise you will now have a better understanding of what you have but the chances are that you are not yet able to work out what it is all worth because you don't have recent valuations for a lot of them; either because you didn't keep them or they had not been sent.

You might want to create a spreadsheet or document so that you have an easy-to-view list of what you have which you can populate as you go through the rest of the process.

You will want your column headings to include the following:

- Product type (i.e. pension, ISA, collective investments, savings, life assurance, mortgage, loan).
- Provider
- Plan Number/Account Number/Customer Reference Number
- Latest Value
- Transfer Value (for pensions if you were to transfer it to another provider but more on that later)
- Outstanding Balance (for mortgages and loans)
- Interest Rate (for savings, mortgages and loans)
- Current premiums or contributions
- Maturity Date (for life assurance contracts)

- Sum Assured/Death Benefit (for pensions this is usually the fund value)

If you have current or deferred Defined Benefit (also known as Final Salary) pensions you can record what the expected pension income will be in retirement (the Normal Retirement Date (NRD) or Normal Retirement Age (NRA)).

Who the 'eck are Phoenix?

Having sorted through the paper work you can now start to fill in the blanks, such as what is it worth now and what I am paying for it?

This is where you will have to write to the current providers and ask for additional information (*and for this I wish you the best of luck because if you have spent any time in financial services one of the first things you learn is that dealing with product providers is only marginally more enjoyable than being poked in the eye*).

What you will need to ask will depend upon the nature of the product. In the appendices I have provided some templates I use to obtain information on behalf of my clients and you are welcome to use them.

During your sorting, you may have come across companies that you have never heard of and certainly not ones you started the original plan or policy with. Phoenix is a good example of this.

Over the past few decades there has been a lot of merger and acquisition of books of business (customer plans and policies to the layman) as original product providers have become insolvent, left the UK market place or merged with other companies. Firms such as Phoenix have made their business through acquiring smaller, often struggling providers and taken over the day to day administration of the plans.

Other firms who have grown through acquisition are Aviva (Norwich Union, CGU, General Accident amongst others), Friends Life (Axa, Axa Equity & Law, Winterthur and Friends Provident) and Aegon (Scottish Equitable).

"I Think That One's A SERPS Pension (Whatever That is?")

I often have conversations with clients about SERPs pension. Usually there is a vague notion of what SERPS is but not much more than that.

SERPS, stands for State Earnings Related Pension Scheme and was a precursor to the State Second Pension, which replaced it in 2002 and no longer exists since the State Pension became a single tiered benefit. Before that, the State Pension was split into the Basic State Pension (which was paid depending upon having paid sufficient National Insurance Contributions over your working life) and an additional payment (SERPS or the State Second Pension) which was paid where an individual had paid more in National Insurance Contributions through higher earnings.

Many company pension schemes (Defined Benefit schemes and Defined Contribution schemes, commonly Group Personal Pension Plans or Contracted Out Money Purchase Plans) were 'Contracted Out' of the additional State pension and so scheme members received rebates for giving up the higher pension entitlement.

Where the company pension was a Defined Benefit pension the rebate is known as GMP or Guaranteed Minimum Pension (which is as the name suggests). Where the pension was a Defined Contribution arrangement the rebate was known as Protected Rights.

Since the introduction of the single tier State pension it is no longer possible to contract out.

Whilst we are talking about State pensions it would also help your financial clarity to get a forecast of your State pension at your State pension age. You can find out your State pension age and get a forecast here.

"We Spend How Much?!"

While you are waiting to get the information back from the product providers you can analyse what the cost of your current and desired future lifestyle are.

You can do this by going back through previous bank statements and credit card bills to work out your regular spending habits and how much you spend on luxuries such as holidays, clothes and cars.

You are unlikely to get it 100% accurate because there are always costs that creep in but a "best guess" basis with allowances for unseen costs will be good enough for this exercise.

You might like to do it in two parts: what you are spending now and what you will spend if you live your ideal lifestyle.

If you would like an expenditure questionnaire to help you with this then please do email me.

In my experience people are often surprised quite how much they do spend when they analyse it. Direct debits have a habit of building up and those unexpected and unwanted costs (new parts following the car service, boiler breakdowns etc.) catch you unawares.

You can work out your **current disposable income** by subtracting your monthly income after tax from your outgoings. This will act as a good sense check for whether your expenditure analysis previously completed was accurate; if your estimated disposable income is greater than what remains in your bank account each month after all costs you will have underestimated your lifestyle costs. A simple formula to work to is:

(Monthly Salary/Dividends + Bonuses + Other Income (e.g. rental)) – (Tax + Regular Savings + Whatever Is Left Each Month) = Monthly Expenditure

If your monthly expenditure figure is negative it would appear you are overspending and building up debt each month. Not a good place to be in if your priority is for financial independence.

I'm a big believer in values based spending; that is, you happily spend money on anything that is consistent with your values and lifetime priorities[1] but forgo the discretionary items that you don't value but add up over time (daily Starbucks, Amazon Prime anyone?).

While you are at it you could also re-negotiate certain packages that you have. Insurers and TV/Broadband providers like to sneak in large annual increases because they know most people either don't notice or act on it. However, taking a few minutes to challenge the cost and threaten to switch providers can usually lead to reductions because they also know keeping a customer is cheaper than finding a new one.

"OK, I've Got All the Information. Now What?"

The information you requested from the various products providers has come back in and you have populated your spreadsheet. Now is the time to make sense of it.

You can work out your **Net Worth** by adding up all your assets (including the value of any property) you have and deduct from that the total outstanding debts you have.

The value of your **liquid assets** is an important figure to know because it is the money you can get your hands on if you need it (you can't sell a brick in your home if you have an income shortfall). Your liquid assets will be made up of bank accounts, savings, Share ISAs, investment portfolios, direct shares, Premium Bonds and pension funds (if you are over 55 years old).

Your pension providers will have probably provided a projection of what income you may receive from your accrued pension funds at the chosen retirement age. There are a few points to bear in mind with these figures:

1. They are only indicative and make assumptions about future growth rates, inflation and annuity rates.
2. The assumptions are set by the Financial Conduct Authority (FCA) to allow comparisons between providers.
3. You don't have to purchase an annuity with the fund, there are other options which I cover in this video.
4. Neither must you purchase an annuity with the incumbent pension provider, you may get a better rate (income) in retirement by shopping around.

Taking the above into account you can begin to get an idea of what your pension income will look like.

If you are lucky enough to have been a member of a Final Salary pension scheme you will be able to see what annual income you will receive from the scheme's retirement date. A word of warning is also needed here too: the projection may not allow for future membership if you are an active member of the scheme or inflationary increases between now and retirement if you are a deferred member (i.e. it relates to a previous employment).

It may also be possible to take the pension benefits earlier than the default retirement age but, probably, at a reduced rate.

[1] Within reason, you don't want to spend it all today to have to sacrifice it tomorrow.

Private pension funds (i.e. personal pensions and Stakeholder pensions) don't automatically provide an income that increases in line with inflation so you will need to be aware of this when working out your retirement income.

You can also now add into the mix any savings and investments you have because they can all help to supplement retirement income to support your desired lifestyle. Where you have investment portfolios you can allow for the income that it generates (known as the yield) and expectations for capital growth.

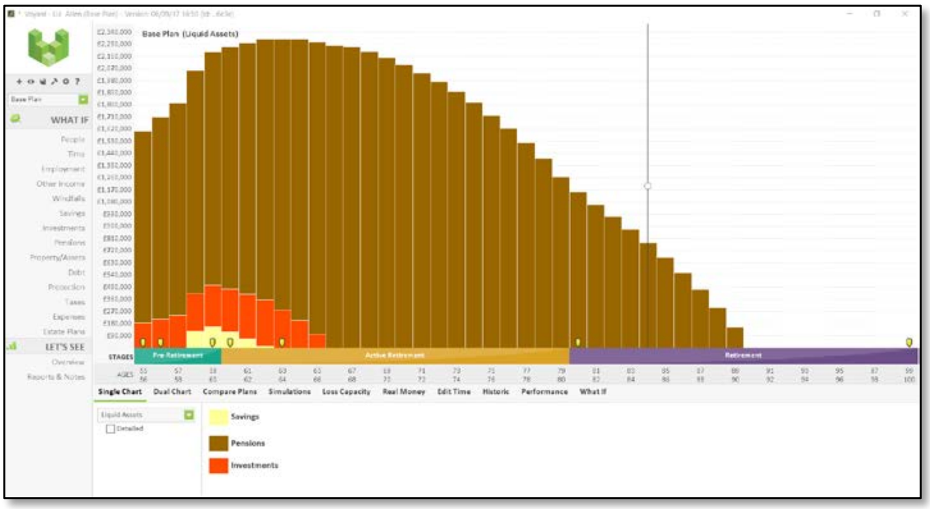
From here you can re-visit the formula we looked at earlier but amend it for your retirement years:

(Projected Pension income + Investment Income + Other Income (e.g. rental)) – (Tax + Desired Lifestyle Costs) = Will We Have Enough?

A positive figure here suggests that you will have enough money to live the retirement lifestyle you wish. A negative one suggests that your desired lifestyle will be unobtainable based on your income options and you will need to draw on savings and investment capital.

If, while reading this guide, you are thinking "OMG, I don't know where to start with this" or "It all feels a bit too much, I'll leave it to chance.", don't worry you are not alone. Most people don't tackle their finances because they don't know where to start and it all feels a bit too complicated. However, tackling it is important if you want to live the lifestyle that is important to you. Help is at hand so just drop me a line.

Financial Planners used sophisticated software to project the effect of the income to expenditure relationship on liquid assets over the long term. An example of the output is shown in the image below. However, you could create a spreadsheet to get a 'rough and ready' idea.



[2]

You should allow for one off expenditures (mortgage repayment, new cars, weddings, deposits for children's houses for example) and capital receipts (downsizing, inheritances, asset sales) that will have an impact upon your liquid assets, either positively or negatively.

[2] Image taken from Voyant software.

This analysis is very important because it helps determine whether you will have enough money to live the life you wish without money worries. And, depending upon the outcome what actions you need to take.

When doing your forecast, you will need to make certain assumptions to make it as meaningful as possible. Key assumptions should include: inflation, asset growth and life expectancy. The more prudent they are the more realistic they will also be. For example, I plan for my clients to live to age 100 because more people are doing so and it is better to assume a longer life expectancy than find you are still alive but your money has all gone!

Too Much or Not Enough?

Once you have found out whether you are likely to have too much or not enough, or hopefully be just right, you are in a stronger position to take appropriate action.

If you find you are in the 'Too Much' camp. Good News! You can decide whether you stop work sooner, work part time and, perhaps, give capital to children sooner, if that is a priority for you.

If you are in the 'Not Enough' camp you will need to consider some remedial action. This will be one or a combination of the following:

- Save more into pensions and investments,
- Take more investment risk with your liquid assets,
- Reduce mortgage debt sooner,
- Prepare to work for longer,
- Prepare to spend less now and in retirement.

Considering the following questions will help you decide on your priorities:

- Are you prepared to forgo discretionary expenditure in the short term to save more for long term expenditure?
- Are you willing to work longer so that you can maintain your lifestyle now and in retirement?
- Is it appropriate to take more investment risk with your liquid assets?

Life is a Roller Coaster

"Life is a roller coaster" sang Ronan Keating. OK, it's not quite Bob Dylan but it helps me make a point: we don't know what is around the corner and sometimes things can come along that knock us off track.

This forecasting can help us see what impact events such death, illness or redundancy can have on our lifetime priorities. By factoring in relevant 'What If?' scenarios into the planning process it is possible to identify gaps to be filled and risks to manage. For example, you may wish to see the effect of a loss of income following redundancy or ill-health or the impact that a substantial ad-hoc expenditure such as a new car would have on your long-term finances.

If you identify potential income or capital shortfalls in any 'What If?' scenario it may be that a life assurance policy that either pays a capital sum or income in the event of a claim is required.

Establishing an emergency fund that acts as a buffer should the unexpected occur is also good practice. An emergency fund should be an immediately accessible savings account with a, rule-of-thumb, balance of between three to six months essential expenditure. This should provide sufficient resource should income be temporarily lost or a large expenditure suddenly be required.

Other Actions to Consider

Having considered your priorities you can now make tactical decisions that will help your overall retirement strategy.

If you have many accrued pension schemes or investment pots you may benefit from consolidating them into one. The benefit of doing so can be to:

1. reduce the charges you are paying (and so keep more of the annual returns to yourself),
2. simplify the paperwork you receive,
3. increase your financial clarity and,
4. apply a more appropriate and consistent investment approach aligned to your objectives and timeframe.

However, care does need to be taken when transferring pension funds particularly. Older pension plans can have valuable features that would be lost on transfer. These include:

- Guaranteed growth rates,
- Guaranteed annuity rates that are greater than you would receive on the open market,
- Protected Tax-Free Cash figures greater than 25% (*it is possible to take 25% of the pension fund as a tax-free lump sum on retirement).*

It is also possible that pension funds have penalties that would be levied on transfer so care would need to be taken for them not to be applied.

You may have read about the rise in popularity in people transferring their defined benefit pension schemes. There are reasons why this may be advantageous to do but it is not without considerable risk. This video explains more about it.

Now would also be a good time to review any life assurance policies that you have. Often, they were established to cover a mortgage debt that might have been paid off or reduced or to ensure financial security for children who are now financially independent and so may no longer be required. Alternatively, you may find more cover is needed should death, disability or a critical illness occur.

If you haven't reviewed your will (or don't even have one) this can be done now too whilst you are in the mindset of reviewing your finances.

Into the Clearing

Once you have completed the financial review you should have much greater clarity on what you have and where you are heading financially. You should now be able to see the woods for the trees.

The challenge then becomes one of maintaining this clarity and taking those tactical actions to make sure your finances remain in order and on track to achieve your lifetime priorities.

The financial review process is ongoing. It is good practice to conduct a review each year so that you can adapt to any changes that might otherwise knock you off course. Changes might be in your personal life or external to you resulting from legal, economic or political issues. Whatever the influence, keeping on top of your financial situation gives you the greatest chance of you having financial freedom and security when you want it.

A Final Word

Reviewing and understanding your financial position can be a daunting task and is a reason why many people, to their detriment, put off doing anything about it. However, time spent doing it will only serve you well in the future. As the US based retirement coaching expert, Mitch Anthony puts it:

"Time spent in preparation avoids time in reparation"

Or to put it another way:

"A stitch in time saves nine"

If, however, you are so lost in the woods and would value the help of a personal guide (or tracker to continue the wood analogy) to help put in place the processes described in this report I would be delighted to help. Simply drop me a line.

About the Author

Andrew Neligan is part of a small group of financial planners in the UK who are both Chartered Financial Planners and Certified Financial Planners^{TM}. He has been in the financial services profession since 2001 where he started working in the City for a UK based, global financial services company selling their products to IFAs. In 2008 Andrew decided that his skills and values where more suited to the client side and he joined a highly regarded, family run firm of Chartered Financial Planners in Cranleigh, Surrey.
He was soon invited to the board as Financial Planning Director and helped grow the firm's client base by providing comprehensive, fee based financial planning services.

The birth of their son led Andrew and his wife, Carol, to evaluate their situation and in 2016 they moved back to Devon where Andrew grew up.

The re-location coincided with the establishment of Neligan Financial, which was set up by Andrew to help couples who are within ten years of retirement understand what is important to them while providing clarity on their financial futures so that they may enjoy a successful retirement.

Andrew's vision for the business is to provide his clients with the lifestyle they desire so that he can provide his family with the life he enjoyed growing up in Exeter.

When he is not working with his clients Andrew can either be found with his family enjoying all that the East Devon countryside offers or running, cycling and swimming in it.

Appendices

Request for Pension Information

Provider Address

Date

To whom it may concern,

Re: Insert the Client Reference/Policy Numbers

I would like to understand more about the pension plan I have with you. Please can you provide me with the following information?:

- Current valuation and transfer value
- Current portfolio breakdown
- Investment options
- Plan start date
- Plan NRD
- Current contributions (employer and employee)
- Charges relating to the plan
- Guaranteed Annuity and/or Guaranteed Growth Rate details
- Protected Tax-Free Cash details
- Any other relevant benefits
- Death benefit options
- Retirement income options

Yours sincerely,

Request for Defined Benefit Pension Information

Administrator Address

Date

To whom it may concern,

Re: *Insert Scheme Pension Name & Your National Insurance Number*

I would like to understand more about the benefits I am entitled from the above Defined Benefit pension scheme. Please can you provide me with the following information?:

- Scheme retirement age
- Employer and employee contributions basis (if current)
- Most recent annual statement
- PCLS entitlement and commutation options
- Scheme accrual basis
- Projection of benefits at NRD
- Ill health and death benefits
- Early retirement reduction factors
- Date of joining scheme
- Date of leaving scheme (if member is deferred) and final salary at date of leaving
- Revaluation and indexation basis
- Cash Transfer Value

Yours sincerely,

Request for Investment Information

Provider Address

Date

To whom it may concern,

Re: Insert the Client Reference/Policy Numbers

I would like to understand more about the investment I have with you. Please can you provide me with the following information?

- Current valuation and surrender value (where applicable)
- Current portfolio breakdown
- Investment Options
- Plan start date
- Charges relating to the plan
- Withdrawals received to date
- Chargeable gains made to date (for life assurance investment bonds only).
- Number of segments (for life assurance investment bonds only).
- With Profits annual bonus history and current terminal bonus (for life assurance investment bonds only).

Yours sincerely,

Request for Life Assurance Information

Administrator Address

Date

To whom it may concern,

Re: *Insert Name & Policy Numbers*

I would like to understand more about the policy I have with you. Please can you provide me with the following information?

- Policy type
- Sum assured
- Start date
- Remaining term
- Surrender value (where applicable)
- Death Benefit
- Benefits payable on claim
- Current Premiums & whether level or increasing

Yours sincerely,