TOWN CLOSE
Financial Planning

Financial planning for 18 to 40 year olds

future proofing your finances

FINANCIAL PLANNING FOR 18 TO 40 YEAR OLDS

Setting the scene

Most people under 40 don't need detailed 'bells and whistles' financial planning (though you will do some time in your 40s or 50s). What you do need now is to be confident you are heading in the right direction and, at the moment, you probably won't know the questions you should be asking to ensure this is so.

Remember, if you're a degree or two off course early on, you'll be miles adrift 20 years later. Our aim is to help ensure you're on the right track without dropping any clangers!

Because we work with your parents / grandparents / aunt / uncle / cousin/ older sibling* (* delete as appropriate), we are pleased to be able to offer this guidance to you without charge. Our hope is that, when detailed planning is required, you will remember us as the good guys who helped you get started all those years ago and you'll get in touch with us again.

You are probably in one (or maybe more) of these four categories:

1. Just started work;
2. Settling down with a partner;
3. Buying a first property;
4. Starting a family.

These are the most common ones, but there are others that might apply including starting your own business, divorcing, relocating, etc. The TCFP team has been through each and every one of these, sometimes more than once.

Our aim, and the purpose of this note, is to help you become aware of what's important and what's not. And then provide some pointers on what feels like the major planning points you should be thinking about.

This is how we'd see that working out:

1. We have a decent chat / zoom / skype to discuss what is (and should be) on your mind;
2. We give you food for thought and/or direct you to good, sensible resources;
3. There you find what you need, and you get on with setting up whatever's needed;
4. Or you check in with us before setting anything up to reassure yourself that what you propose to do is coherent and makes sense in the context of the conversation we had;
5. You keep our contact details and get in touch whenever you want, for whatever you want;
6. Maybe you send us a bottle of Merlot to say thanks …..

And you might click here to sign up for our regular updates on all matters financial (in a completely "non-salesy" manner) https://www.townclosefp.co.uk/sign-up/

And you'd almost certainly want to make use of our host of additional resources, questionnaires, our thoughts on investing, etc., by clicking here: https:/www.townclosefp.co.uk/resources/

Some first thoughts

At first glance, getting yourself properly organised may seem daunting. The range of options and the decisions you need to make appear endless. How can you be sure you're doing the right thing?

Inertia sets in and you do nothing until you read or hear something that pricks your conscience. But it never looks less daunting, so a rather unhelpful cycle of getting geed up and doing nothing sets in.

It needn't be that way, and our simple guidance should give you the confidence to get on with doing what needs to be done or being comfortable that you are in good shape.

Typically, we don't need more than 30-40 minutes on the 'phone / zoom to simplify everything for you. We will do a mini-MOT and leave you with 3 or 4 simple, but very effective, things you can do to make a big difference.

All you need to do is take that first step and get in touch.

There is no magic wand, no shortcuts, only your desire to get on the right track to financial security – and the necessary sacrifices that entails – will get you there.

Which means it's down to you. Don't delay – the sooner you set off, the sooner you arrive. Just get started.

What's the target?

Ultimately, you're trying to reach the point where you are sure that you and your family will always have enough income to maintain your dignity and independence in retirement. You do this by saving and investing at a level that gives you a decent chance of achieving this. And by having insurances in place to make sure your family makes it in case you don't.

Unlike those in their 50s, you're not allocating and growing assets. You're allocating your income and working out how to grow that.

In today's money, you need about £1m to be able to fund a £40,000 pa / £3,300 pm lifestyle. (Equally, £20,000 pa needs a fund of £500,000 and £80,000 pa needs a fund of £2m). And that budget needs to pay for everything – the big holidays, changing the car, days out, helping the kids/grandkids, home improvements, everything.

Every 30 years, inflation halves the value of money. At 65 (if you're 35 today), you'll need £2m to safely get the equivalent of £3,300 pm today. That figure may seem daunting but, given a 40-odd year investing horizon, plus the magic of compounding, you should get there.

But you're not going to get there saving £100 pm, are you? Your saving habits and budgets are much more important than portfolio management (this fund being better than that) when you're young.

And regardless of what you do, you'll make mistakes; don't sweat them. If you keep faith in – and stick to – the plan, you will more or less end up where you hoped.

Abandon the plan and you have no hope. But, if you don't start, you'll never get there.

What next?

Probably the best and easiest thing you can do is get in touch and let's have a chat.

Otherwise, there are a few things on the next page to get your thinking started.

Or get our regular updates: https//www.townclosefp.co.uk/sign-up/

Or have a look at our Resources page: https://www.townclosefp.co.uk/resources

Wishing you every success!

Things to get your head around and easy things you can do to help yourself

(not all of which you will find palatable or easy, but the truth is the truth)

Keep learning, studying, training. Improve your earnings and save a good chunk of your salary increases. Become worth more to your employer and demand more income from them or move on. It's your ability to earn more, and save more, that's going to determine your outcome.

Do not pay interest on credit cards. Do live within your means.

Student loans are not debt. They are a credit facility to which you have to make a minimal contribution once you're earning a decent salary. It's a great scheme all told but don't pay back any more than you must. You get what you pay for, make sure you're getting the most out of your studies, and keep on learning; it will pay big dividends in the long run.

Spend less and save more. Save first and spend second. Your savings budget is the most important budget you have (other than perhaps your life insurance budget if you have young kids). Yes, before rent, food, utilities and holidays. How else do you expect to amass the sort of fund you need to retire comfortably and stay comfortably retired?

The property you live in is not an investment. It's a cost, a liability. You will always need a roof over your head, this money will be spent and remain spent. Forever. Bear that in mind when you're thinking about going all-in.

Really think about where you live. Blowing your budget just to live in London is daft. Mr Market is giving you a very clear and loud message – "You can't afford to live here." The provinces are cheap and booming and, with how working patters are changing, an eminently sensible choice. And in the UK, you've never that far away from the big smoke.

You can't rely on your parents. They've just spent 40+ years flogging their guts out, they want to enjoy their money. Plus they are likely to live into their 90s and might well need long-term care (which costs £50,000 pa these days). Do not, under any circumstances, rely on an inheritance coming your way.

You're almost immortal. Your parents and siblings are NOT a good indicator of how long you might live. Whichever way you cut it, you are staring down the barrel of living to at least 100 and for you to be active until 85 or so. And you'll need a whole heap of money to be able to maintain your dignity and independence.

Always sign up for your employer's pension scheme. And contribute whatever you must to get the most out of them – it's free money.

Make sure your NI record is up to date. There's about £8,500 pa for life on offer and it costs you next to nothing in National Insurance contributions. Check your record online and make sure you don't miss out.

You can't invest too aggressively. It's virtually impossible for younger workers to invest too aggressively (albeit diversely); your ability to earn and keep investing will simply overwhelm the short-term volatility of doing so.

Invest where the growth is. Up until age 40, your pension (and any ISAs invested for the long term, ie., 10 years+) should be invested 100% in equities. That will, over the long term, maximise your returns. Nothing else has ever (and we contend won't ever) get near to producing the sort of long-term inflation-beating returns you need. On that basis, money you invest today should double every 10 years on average.

We're not talking about picking individual companies. We're talking about picking a global equity tracker fund that makes you an owner of the 8,000 or so "Great Companies of the World". Those companies employ millions of people whose sole aim is to stay employed, something they achieve by producing goods and services they can sell around the world at a profit. It's those profits that feed their way back into your pension and/or investment ISA and make you richer. It's the only rational investment decision you can take.

The difference between an individual share and the stock market is chalk and cheese. Debenhams shares on their own are a rollercoaster ride that can end with them being worth £0. The 8,000 biggest and best global companies can never go to £0. Never.

You'll only ever, on average, get the market return. Whatever you do, don't try to play the market and expect to win. Or, to put it another way, you don't have any special investment insight on any level whatsoever (neither do we). Your safest bet is to buy the cheapest global equity index tracker you can find and stick with it, by forgetting about it. Then come up for air in your mid to late 40s and get some fuller planning advice.

"Target" or "Lifestyle" funds seem to be all the rage. And they are often the default option on staff pension schemes; the easy way for you to choose without any effort. We think there are much better and cheaper options available to you.

Get to grips with your employer's benefit. Often there is cheap life, health and other benefits available to you, on top of the pension contributions.

Using cash ISAs is mental. With interest rates at 1%, you're not saving any tax and you're earning less than inflation, ie., you're losing money. The only rational use of your ISA allowance is to use an investment ISA.

Even worse is putting cash into Junior ISAs. That's money that will be locked away for up to 18 years. You simply can't lose with an investment JISA. Whereas a cash JISA, because interest rates are less than inflation, means you're losing money. Every year. Surely you like your children more than that?

If you must have cash ready to hand – for example, as an emergency fund – use Premium Bonds. You are unlikely to do any worse than a savings account and you might win £1m (and remember who told you Premium Bonds were a good idea).

If you die tragically young, it's not your mortgage that needs paying off – it's your income that needs replacing. If you earn £50,000 pa and have dependants, you should be thinking of a minimum £500,000 life insurance to cover the 10 years' income that your dependants will not now receive. Unless of course you're okay with those dependants living on State benefits and/or being forced into a new relationship and/or having to sell the family home and rent/squat/move to a bedsit. I'm sure they will continue to honour your memory.

Wills – GET ONE! More than ten thousand 20-40 year olds died in the UK in 2017; that's 28 per day on average. Get a will – it costs next to nothing, there are even perfectly serviceable free templates available online.

And please, please, please don't read the financial press or listen to financial journalists. Their lives are dedicated to selling advertising space and they do that via clicks which means they need to keep feeding you scare stories. You (and I certainly couldn't) won't be able to resist acting on one of them at some point and doing yourself a serious mischief. Financial journalism is the devil.