MAGENTA'S GENERATION GUIDE

Magenta
FINANCIAL PLANNING
Planning with Passion

INTRODUCTION

In this stage of your life, good and bad habits are formed.

You've been working for a while, so you might finally feel more financially stable than ever before - but you are likely to have competing financial priorities.

At this stage you're probably juggling your career prospects, relationships, starting a family, and significant life purchases - this makes for a very busy time.

Ideally, you'll have already started to save for retirement and emergencies, you may have purchased your first house or be saving for one, you'll have hopefully thought about insurance and possibly made some progress on paying down your student loans.

Your 30s are the time when you start to realise you need to start thinking about your future finances seriously, and, to do that we've put together this guide to help you avoid mistakes and start thinking about your financial planning.

1. UNDERSTAND YOUR CREDIT

Building a solid credit score takes time and due diligence. Understanding the components of your credit score will be vital for your long-term credit health.

Good or bad credit practices will follow you for the rest of your life—and it will be difficult to qualify for a good mortgage or car loan without good credit.
Below are the six main components of your credit score.

Your available credit. This is how much credit you have available to you, compared to how much you are using. You typically want to have a lot of available credit and little in use.

Your payment history. Just one or two late payments can have a very negative effect on your credit score.

Derogatory remarks. This includes any bankruptcies, foreclosures, or collections on an account. Any of these can destroy your credit for a long period of time. If you are late on rent or utilities, this can generally show up here and have a potentially negative effect.

Credit inquiries. A “hard credit inquiry” is when a financial company checks your credit to approve or deny credit to you. Multiple hard credit inquiries in a short period of time can affect your score adversely. Always be aware of when companies will run a credit check.

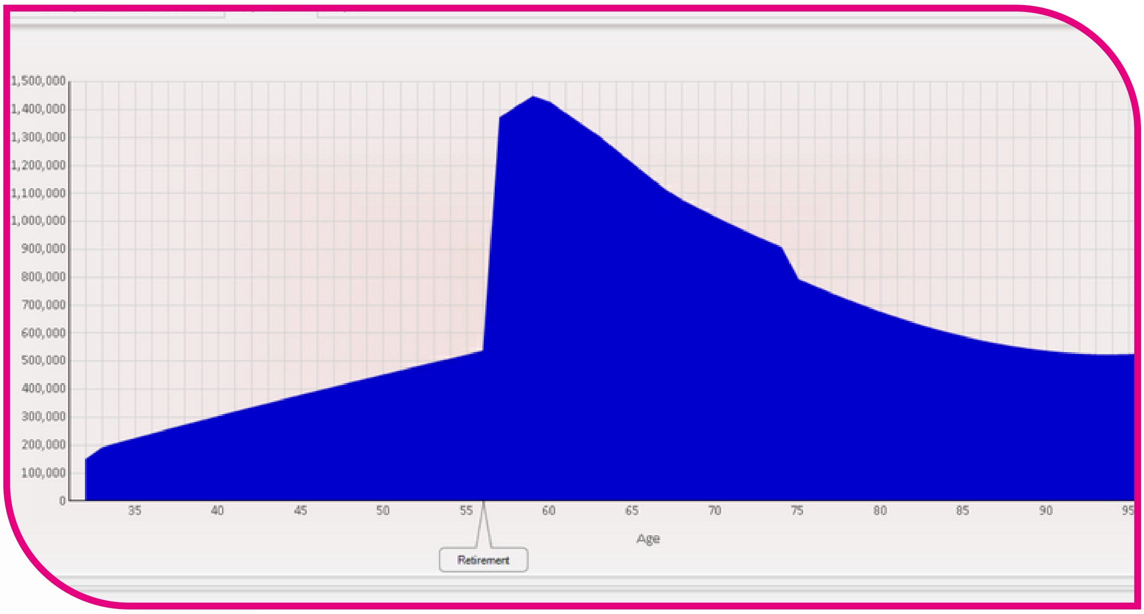
2. SAVE AS MUCH AS YOU CAN – STARTING EARLY AND OFTEN

Time is very much on your side when you are young. You have many years for your money to grow and to ride out fluctuations in the markets.

Try to save at least 10% of your income and contribute enough to your pension to get an employer match as a starting point. You should aim to save more aggressively as your income increases – the reality is 10% won't be enough.

Utilise pensions and other tax free options first, like Individual Savings Accounts, potentially using the Lifetime ISA if suitable for your planning.

Here is an example of how starting to save early will pay off in the long run.
Starting to save at age 25 instead of age 35, can translate to thousands more in retirement savings: £144,900 at age 65, vs. £79,700. Those two savings scenarios assume that you save £100 a month, with an 5% annual return after any costs/charges.



3. TALK TO YOUR PARTNER

As relationships become more serious and you begin to talk about moving in together or getting married, you need to have serious money conversations with your significant other.

Money is one of the top issues couples argue about, and while you may never match each other's spending and saving styles, you can create a mutually agreeable system for handling your household finances.

Don't assume that "everything will just work out on its own" if you begin combining your finances without talking about money first. Once you have joint assets, your financial decisions affect each other in a big way.

Sadly, it's also vital that you both know what's going on in case things don't work out – after all, over 40% of marriages end in divorce.

Make sure you both know how things stand, what you have and where it is, so you know how to handle things if your relationship fails.

4. PROTECT YOURSELF - INSURANCE

No one likes paying for insurance, but it is the best and cheapest way of transferring the risk of being ill or dying prematurely to someone else – i.e. an insurance company. As soon as you have enough savings to look after yourself and your family, you won't need insurance any more.

Firstly, make sure you have sufficient insurance to cover any significant debts, both in the event of serious ill health and death. This will include a mortgage, car loan, big furniture credit etc.

Then think about your ongoing lifestyle and what would happen if you couldn't work due to illness (for longer than your company sick pay will last) and obtain some income protection insurance if there is no other income source. One of your biggest assets when you're young is your ability to earn an income and this helps protect that asset. You may be able to get insurance through your employer, but if not, you can purchase your own policies quite cheaply at this age.

Quotations are easy to obtain online but depending on the amount of cover and your health history you may have to go through medical underwriting. It's good to do this while you're young and guarantee the premiums for a few decades.

Look carefully at what the policy will cover and remember that the cheapest is not necessarily the best!

5. BE THOUGHTFUL ABOUT YOUR CAREER

By this time you will have probably been working for 10+ years and feeling things are pretty steady. It's likely you could've changed career or not be doing anything related to your degree or initial plans!

However, don't get complacent in your career. Keep learning new skills, keep looking for growth opportunities, and if your current job can't offer you this, consider a change. Moving jobs is a great opportunity to negotiate a higher salary and/or more responsibility and better prospects.

If you are considering a move, now is the time to consider serious things like the benefits on offer, like health insurance, life insurance, pension, and to negotiate for these to be included in your new package. You should also take time to consider your work/life balance and the effect this will have on your health and your family.

"A GOAL WITHOUT A PLAN IS JUST A WISH"
- ANTOINE DE SAINT-EXUPÉRY

6. IF YOU WANT CHILDREN, PREPARE FOR THE HUGE EXPENSE AND LIFE CHANGE

If having children is in your life plan, make sure they feature in your financial planning now.

Research the options for childcare and maternity/paternity pay and consider the impact having time off or working reduced hours may have on your career and earning ability. Whilst flexible working is required to be considered by employers, it's our experience (and statistics prove) that this WILL impact of your career opportunities and future earning potential – especially for women.

As your children grow up the costs will change, but they will be involved in after-school activities, want to go on trips and eat a lot! You may have to move to a new house for more space and take on increased mortgage debt. Make sure you think about these additional costs and forecast these as much as you can into a plan.

If you are interested in private education, you should definitely be looking at the affordability of this. On average this can be more than £250,000 for each child from age 4 to 18, with university costs on top.

Children will completely change your financial picture and priorities in ways you can never predict before you have them – but it never hurts to prepare!

7. DON'T SUCCUMB TO LIFESTYLE UPGRADE EXCESS

You may find you have extra money now! First on the list may be a nice summer holiday, new car and maybe buying more champagne than cheap vodka!

Yes, it's a great feeling to be able to do all of those things, but try and keep a level head. It's so easy to inflate your lifestyle with each pay rise or bonus, to the point where you might actually be saving less money even though you're earning more. Be aware that if things don't go well and you lose your job, it is very difficult to downgrade your lifestyle and cut back on the things you have started to take for granted.

Use your extra income to increase your savings for long-term goals like retirement, or medium-term goals like buying a house, before you spend money on upgrading every part of your life. Remember the 10% rule and ensure you increase your savings with every pay rise.

This will be a period of huge life changes: promotions, marriage, children, property purchase and more. You will be making some big financial decisions.

This is a good time to begin enlisting the help of a financial planner and an accountant. As your situation becomes more complicated, they can help you with investing, tax planning and reaching those big goals and dreams. They can also stop you from making some big financial mistakes!

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