MAGENTA'S GENERATION GUIDE

50

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FINANCIAL PLANNING
Planning with Passion

INTRODUCTION

As you enter your later career period, you are likely to find that your children are leaving home and that, realistically, this will be your last working decade. Generally, this is when many families realise they are behind in their retirement and desired lifestyle savings.

Luckily, your salary is probably the highest it has ever been and so there is still plenty of time and earning potential before you decide to reduce hours and travel more or even stop work all together.

There are some key things to review and almost certainly some planning to undertake as you hit 50-55, to ensure all your ducks are in a row for your 'golden' years!

1. UPDATE YOUR FINANCIAL PLAN AND MAKE ANY NECESSARY ADJUSTMENTS

How much will you spend in retirement?
Where will you live?
How much will you have saved by then?
Would potential long-term healthcare/nursing care expenses reduce your asset base to a level where you're unable to achieve your goals?

Consider doing a retirement drill and rehearsal. Being retired is like being unemployed for 30 years. People are living much longer today than they were just a decade ago and everyone must be financially prepared for a longer than expected retirement.

2. DON'T GET TOO CONSERVATIVE WITH YOUR INVESTMENTS

You may very well live to be over 100. For many people, it does not make sense to become very conservatively invested before you retire. You will have many years in which you need your money to work for you. New pension freedoms mean that more often than not, your retirement savings will remain invested and you will 'drawdown' what you need, requiring ongoing monitoring and investment.

Think about inflation and how your expenses will rise in retirement. How much did it cost to go the cinema when you were 20 years old? How about now? Inflation and longevity are why we need to keep investing a portion of the portfolio in stocks and shares. Ongoing growth will ensure that you remain comfortable and don't have to worry about spending what you want on the things you enjoy.

3. TURBO-CHARGE YOUR RETIREMENT SAVINGS

When your income is higher than ever before, and your children are leaving home – maybe even your mortgage is paid off or well under control – now is the time to boost your savings.

It can be tempting to spend your new-found surplus cash flow on travel, upgrading your house or cars – and no one would begrudge you a little splurge to celebrate - but don't neglect prioritising your future dreams and lifestyle. If you put in the effort now, maybe you can stop working sooner than you think.

Max out your tax allowances in ISAs and pensions and really plan for the true costs of your long retirement years.

4. TOO MUCH (OR TOO LITTLE) INSURANCE

Now is the time to review your insurances. Maybe you no longer need insurance if you have enough liquid assets - if your children are no longer financially dependent on you and your debts are under control, maybe those costly insurance premiums can be used for something more enjoyable.

If you still have dependents and debt – or now you have the reverse position and have an estate valued over the Inheritance Tax Free Allowance (the Nil Rate Band) then the need for some insurance will likely remain.

Make sure you think of all the catastrophe scenarios and have the right amount of insurance cover in place, in the event of death, disability and a long-term illness.

5. PUT YOUR FUTURE SAVING FIRST AND FOREMOST (EVEN ABOVE UNIVERSITY COSTS)

It's natural to want to help your children, but if you put their university and education costs before your own retirement and lifestyle savings, ultimately, you are going to restrict your own future lifestyle.

The reality is that your children can borrow money for college, but you can't borrow money for retirement. You're setting your children up to have to support you in your old age, right when they have young children of their own. This can become a huge burden for them in the future. A true gift to your kids is to prepare adequately for your own retirement first, and then save for their college education second.

Don't fall into the trap that you'll need to fund all the costs. Try and weigh up what's available from student loans, bursaries and scholarships and what you may need to fund their living expenses.

There's more information about this in the generational guide before this one (In Your 40s) and also you can read more about student loans and education costs here.

6. PAY OFF THE RIGHT DEBT

It’s often the go-to objective for many soon-to-be retirees – paying off the mortgage before you retire. But whilst this is a great objective to focus on, don’t neglect other loans that have higher interest rates and will ultimately cost you more.

Lots of people who are thinking about retiring want to tackle the mortgage first because it usually has the biggest capital balance, but due to smaller interest rates it poses less of a threat. Instead, credit cards, personal loans, and some student loans all come with much larger interest rates.

Instead of focusing all your efforts on one of your debts, take a snowball or avalanche approach and set yourself the task of becoming debt-free by 60, instead of just mortgage-free. If you are more proactive in your 50s, you can save every penny you make in 60s and end up with a larger cushion for when you retire.

7. STRUCTURING YOUR FINANCES TO OPTIMISE TAX SAVINGS

Too often we meet clients with all their assets in one person's name with little or no consideration given to reducing tax or asset protection. This can result in a large inheritance tax bill being paid to the government instead of your family.

By taking a closer look at your assets and income and strategically structuring your finances, you can better protect your family's wealth and ensure you don't pay more tax than you have to.
This is likely to involve having a more equal asset split, income-yielding investments held in the person's name who is earning the least, utilising Individual Savings Accounts (ISA) limits and maximising pension contributions (even for a non-earning spouse).

8. HAVE AN EXIT STRATEGY

Whether you are employed or a business owner, thinking about your 'exit' is vital.
As a business owner, you will have dedicated your life to creating and growing a company with a strong vision and great service standards. The time and effort you have devoted in your business has become a significant portion of who and what you are. Because of this, it's vital to dedicate enough time, well in advance, to best position yourself for your eventual exit from the business. If you don't, this can result in additional tax and a sub-optimal result for your personal finances and your future lifestyle

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If the business is to be sold, either to a business partner or external third party, this can take time and effort and you'll need to consider grooming the business to maximise returns on sale.

If you don't own the business, but are a senior staff member with significant responsibility you will still care about the job, your colleagues and the ongoing success of the company. In this situation it's equally important to plan and discuss your exit, so that you can negotiate a good deal, maybe exchanging training new people in your skill set, for an agreed 'golden handshake' at the end of your career.

9. PROTECT YOURSELF IN THE EVENT OF DIVORCE

Unfortunately, divorce is a reality for many families, and it can be financially devastating, especially for women. Statistics show that the rate of divorce and separation that affects people in their 50s and 60s has dramatically increased in the past 20 years – it's been coined 'Grey Divorce'.

It is vital for both partners to be active in understanding the finances and financial planning, even more so as your wealth increases and there's more to lose.

Too often, one spouse handles all the money — and the other spouse is in for some nasty surprises if the marriage ends.
It's not that you shouldn't trust one another or share everything you have, just that you should both know what's going on with the family finances.

If your marriage is at risk, find out where things stand financially and keep a detailed inventory of your assets, income and expenditure – this is the first thing a financial planner and divorce solicitor will ask you about.

10. TAKE CARE OF YOUR HEALTH

This remains constant for any age, however, once you're in your 50s, health is critical.
Any small health problem can escalate into a bigger one due to age – which means potentially more time off work and more expenses to bear in the longer run.
Lifestyle choices can catch up with you, metabolism slows and for women, menopause can have a significant impact on life and your lifestyle.

Keep in mind these changes can impact your mental health too and consequently your ability or inclination to manage your finances.

Keep up with your exercise, whatever suits you, walking, running, dancing, yoga…. It all helps your overall wellbeing and lifestyle in the later years.

11. MAKE SURE YOU HAVE A VALID WILL AND LASTING POWER OF ATTORNEY

By the time you reach your 50s its more common to have written a will than not, but it's also really important that you check it's valid, current and legally binding.
Ensuring this will help remove the burden on your loved ones and avoid any confusion on death about how you want your assets to be distributed.
If you decide to make your own will, make sure it is checked by a solicitor, otherwise your beneficiaries may not be entitled to receive any of your estate.

Also, check your appointed executor knows exactly where your personal documents are kept and that they are aware of their responsibilities.
Our Magenta Manual can help you to keep all this valuable information together.
The other important, but lesser-known document is the Lasting Power of Attorney (LPA).
A lasting power of attorney (LPA) is a legal document that lets you appoint one or more people (known as 'attorneys') to help you make decisions or to make decisions on your behalf.
This gives you more control over what happens to you if, for example, you have an accident or an illness.
There are two different types of LPA and you can choose to make one or both of these:
A health and welfare LPA gives an attorney the power to make decisions about things like your daily routine, medical care, moving into a care home or life-sustaining treatment. It can only be used when you're unable to make your own decisions.
A property and financial affairs LPA gives an attorney the power to make decisions about money and property for you, for example managing a bank account, paying bills, collecting benefits or selling your home. It can be used as soon as it's registered, with your permission.

Neither of these are expensive to do and are easy to arrange. The security they will give you and your family is invaluable.

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