MAGENTA'S GENERATION GUIDE

Magenta
FINANCIAL PLANNING
Planning with Passion

INTRODUCTION

In your 40s things start to change financially. You'll likely experience a rising salary - but also rising expenses. Many major life events occur during this time period. Moving to a larger house, possibly 2nd home purchases, children's school and university expenses, career changes, deaths of family members.

Your 20s were all about setting up your financial foundation and establishing good habits and then your 30s were full of life changes like getting married, having children, and starting to build a career.

The variances you experience in the decade of your 40s can be even more extreme. You may have growing teenage children, aging parents and also a high-flying career to juggle — and what you don't have is a lots of spare time.

There's a lot you can do in your 40s to protect your money and care for your family before you begin thinking about your later working years and retirement in your 50s or 60s.

1.PROTECT YOUR FAMILY WITH INSURANCE

As you enter your high earning years, don't forget to protect yourself and your family in case something happens to you.

If you have debt and high earnings, you will likely want to explore life insurance and potentially critical illness / health insurance. If you have a mortgage, credit cards or car loans, child care or school fees, and are the main provider of income for your family, how will they go on financially if you were to die or become disabled?

Review all your insurance policies. The younger and healthier you are, the easier (and generally less expensive) it is to secure insurance and increase the cover.

2. SAVE LIKE YOU'VE NEVER SAVED BEFORE

You may be underestimating how much money you will need in retirement. Just think of how much money you will need just to eat in retirement! For two people, you could reasonably expect to spend at least £8,000 a year on food – that's £250,000 over a 30 year retirement period and that's possibly under estimating!

Additionally, try to avoid "lifestyle creep" during this phase of your life. Lifestyle creep is when expenses rise when your income rises. Some people find that they have doubled their incomes, but have also double their expenses, saving very little along the way.

3. THINK ABOUT YOUR MORTGAGE

Consider reviewing your mortgage when the rate expires and think about how you can repay this quicker. If you can, pay a little more each more and consider if you can reduce your mortgage term, to pay less interest in the longer term and avoid having a mortgage in your 60s (when you may want to work less).

How much more?
If you have a £250,000 mortgage, you could get a 30-year term and would pay around £1,489 per month (based on a 5.94% rate). Instead a 15-year mortgage with a 5.94% interest rate would have a monthly payment of £2,102.

If affordable, the choice of a reduced term and spending the increased £600 per month will be the better choice, as for the longer term mortgage you would actually spend a further £65k over the term of the mortgage on interest payments!

4. MAKE SURE YOU HAVE A SUFFICIENT EMERGENCY FUND

When you were 25 a sufficient emergency fund was probably around £3,000 – because you had only yourself to support and probably no mortgage. Now you may have a family or a higher income and more responsibilities - owning a home, having a few cars and children makes the potential for unexpected expenses high and the stakes are higher too - imagine losing your job when you have a £1,800 monthly mortgage payment, two car payments, a stay-at-home spouse and two children!

Give yourself peace of mind. Keep 3-6 months of living expenses in your emergency fund and invest the excess in a longer term account which you could pull from if you were out of work for an extended period of time.

5. NOT MAKING A WILL

We find it's pretty typical that in your 20's and maybe even your 30s you haven't liked to think about your death too much and you've probably had little by way of assets, but in your 40s this will have changed and it's time to face reality.

1 in 2 people in the UK born after 1960 will be diagnosed with some form of cancer during their lifetime. There's a pretty high chance that this will be you or your partner and even though survival rates are going up, it is vital that you discuss what would happen and appoint executors to deal with your affairs, to support your loved ones if the worst happens.

6. BE CHILDREN SPEND SAVVY

Keeping up with your peers (who all have different levels of income and resource) can be expensive!

It's easy to spend out on tutors, travel, sports, competitive dance classes and gymnastics, private school tuition, summer school and it's hard to say no! Sometimes, that's not just because you love your kids, but because their friends' parents are your friends, peers and neighbours, and there's pressure for you to fit in and 'keep up'. It's very much how modern society works.

This is a good time to reassess your money values and teach your kids about creating their own value system. That way, the whole family is spending money and time on what really matters to each of you, instead of what your neighbours are doing and "keeping up with the Joneses".

7. DON'T SAVE FOR CHILDREN'S UNIVERSITY FEES BEFORE YOUR RETIREMENT

Many parents we meet say one of their objectives is to save for their children's university costs. It's natural to say you would want to help your children to get the best education and today's press certainly makes it seem like that's what people should be doing.

However, try and weigh up what's available from the student loans for tuition and what you may need to fund for their living expenses.

It's widely publicised now that Student Loans should be considered 'good debt'. They don't impact your child's ability to have a mortgage and usually are repaid very slowly, if ever at all. It's usually advisable to max out the tuition loan and why not get the maximum possible for their living allowances too?

The rules vary in England and Wales, but typically the maximum living maintenance loan is c £7-9,000 per annum although for a family with a combined parental income of over £25,000, this starts to be reduced and if you earn more than £60,000 will typically be capped at 50% of the maximum. Work out how much they could expect to get and then just save the difference, not the whole amount!

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 retirement first, and then save for their college educations second.

More information about student loans and education costs can be found here.

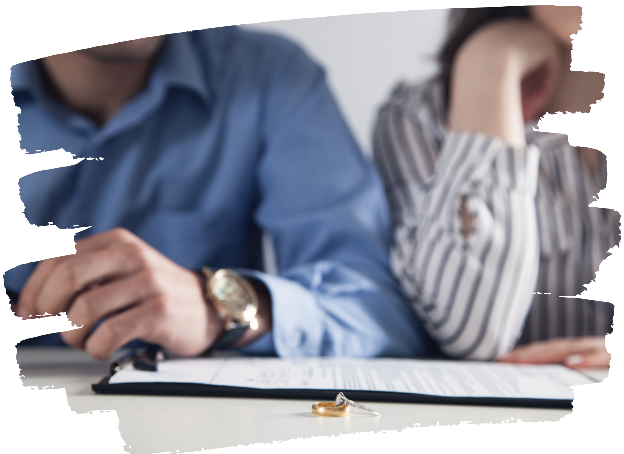
8. PROTECT YOURSELF IN THE EVENT OF DIVORCE

Unfortunately, divorce is a reality for many families, and it can be financially devastating, especially for women.

This is why it’s vital for both partners to be active in understanding your finances and financial planning. 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 both know what’s going on.

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 things a financial planner and divorce solicitor will ask you about



9. TALK TO YOUR PARENTS ABOUT MONEY

If you haven't already, make sure you know about your parents financial situation and what their wishes are.

Are they going to be secure throughout their life or will they need help from you?

Would they want to stay in their own home if they are ill or move into a home?

As your parents, they are likely to become more vulnerable to financial scams because they have always had the confidence of managing their own money, but don't necessarily understand modern money management, or fall for 'too good to be true' deals.

Increasingly we are also seeing more people experiencing some cognitive decline, so it helps to have you on their side as they make financial choices and that they feel confident talking to you about their circumstances.

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