

# Guide to Financial Planning



## Important note

This guide is a distillation of the author's experience of providing financial advice since 1971 and, of necessity, is generic. You should not act based on this guide alone without personalised advice.

## Introduction

I am a Registered Trust & Estate Practitioner and have been advising on Wills, Trusts, Probate, and Estate Planning since 1971. As a qualified member of the Society of Trust & Estate Practitioners (STEP), I comply with their Code of Professional Conduct. I am a former Chair of STEP Yorkshire.

As a chartered and certified Financial Planner, I have been accredited by the Society of Later Life Advisers since 2010. As the name implies, it's the "gold standard" for later life financial planning.

## What is financial planning?

I liken it to using the satellite navigation in your car for a journey.

You alone know the destination. If you don't, we're in Cheshire Cat (Alice in Wonderland) territory, "If you don't know where you want to go, then it doesn't matter which path you take"!

The Financial Planner's role is then to fine-tune the destination, plot the route for your journey, considering all the potential obstacles along that route.

A change in your circumstances, destination, arrival time, and/or obstacles along the route can derail your financial plan. Consequently, I recommend you pay for an ongoing review service.

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## Important note

Several risk considerations need to be kept in mind. You must be aware of these.

### *General*

This guide is based on the author's understanding of current law and HMRC practice at the time of publication, both of which may be subject to change in the future. Changes to the law and/or HMRC practice may reduce the effectiveness of any advice given

### *Investment Related*

- You must not rely on the guidance here as investment advice based on your circumstances, nor as a recommendation to enter into any investment service or invest in any investment product.
- Past performance is no guarantee of future returns
- There is no guarantee that the performance of your investment will achieve the growth rate required
- If growth is low, charges may eat into the capital invested

## What are your goals?

It doesn't matter where you are on life's journey; you need financial goals.

- If you're starting out in life and aspire to own a home one day, your main goal is likely to be saving enough for a deposit and covering the other costs of buying a home.
- If you have bought your home and, perhaps, started a family, you probably need to juggle the demands of day-to-day living with beginning to save for the future.
- If your family is growing up, that juggling act is still there, but the demands are different – university costs, getting the children started on their independent journey, and still saving for your future.
- If you're an "empty nester" your focus may be more on enjoying life now whilst keeping an eye on the future.
- If you're at retirement you need to marshal your resources to provide a replacement income.
- If you are post-retirement, you still need to marshal your resources, but your thoughts may be turning to the need for care and/or passing on wealth to the next generations.

Wherever you are on life's journey, your goals need to be "SMART":

- **Specific**
- **Measurable**
- **Attainable**
- **Realistic**
- **Trackable**

## How do I make my goals SMART?

At the heart of any financial plan is income and expenditure. What is that now? What will I need in the future? What can I afford to spend to achieve that future goal?

Generally, whilst you are at the first four stages of the journey outlined above, your income is likely to be finite. Consequently, budgeting is about allocating that income effectively.

Particularly, in the final stage, you may be supplementing income from your savings and investments, but that needs to be in a controlled fashion.

The starting point, therefore, is a robust, realistic budget. Ask me for a copy of my Budget Planner. Don't worry if you haven't access to Microsoft Excel, which is what I use, [Open Office](#) is a free resource compatible with Microsoft products.

This is a terrific opportunity to bring some discipline to your budgeting, as follows:

- Used properly, the spreadsheet will show you the peaks and troughs in your expenditure.
- Operate with a two or three account system – two if it's just you, or three if there's two of you – a personal account to which you mandate your income, and a budget account for all your expenditure.
- Transfer from your personal account to the budget account the monthly equivalent of your annual expenditure as shown by the spreadsheet. If there's two of you, the relative proportions need to be agreed.
- Depending on your circumstances, either seed the budget account with sufficient funds to ensure the account remains in credit despite the deepest predicted trough. Otherwise, have a pre-arranged overdraft limit.
- What's left in your personal account is for unbudgeted, personal expenditure.

From this exercise, you can then begin to extrapolate several things:

- What can you afford to spend to achieve your goals?
- What will happen if your income reduces or stops? What income will you have? What economies can you make?
- What expenditure won't continue – mortgage, commuting, other work-related expenditure - when you retire?

- What expenditure will increase – holidays, leisure, fuel – when you retire?

If you have cash available to meet your goals, how much of this should you invest? Let me introduce you to another acronym to help with this – “CHEMIST”, which is a part of my Budget Planner.

- **C**ar
- **H**oliday
- **E**quipment
- **M**aintenance
- **I**ntergenerational
- **S**ustainability
- **T**ransition

Just to explain, you need to consider the question of when and how much, as follows:

- Will your **car** need replacing? Is it more efficient to pay this out of income than savings?
- Are you planning to take a one-off special **holiday**?
- Do your white goods and other household **equipment** need replacing?
- Is there any exceptional **maintenance** needed around the home or garden.
- Are you considering gifts or loans to the family as a part of your **intergenerational** planning?
- What cash reserve you need for comfortable **sustainability**; a hedge against unforeseeable eventualities?
- Will the **transition** between life stages be an expense or cash generative – downsizing, for example?

A calculation along these lines will help to show what surplus savings there are to help meet your goals. Crucially, it’ll stop you investing funds you may need access to in the short to medium term; you should be taking a minimum 3-year view.

Taking your surplus income and savings together and adding to this your own life stages, with dates, you’re beginning to have SMART goals.

## What will stop me achieving goals?

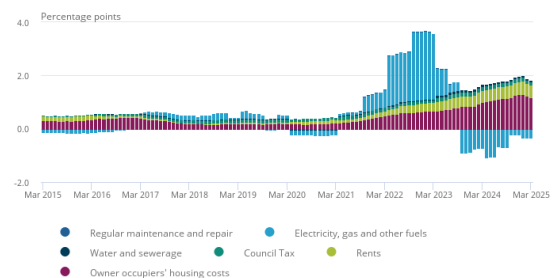
Without financial planning advice, the three most common problems which people underestimate are:

- Inflation
- Short-termism
- Longevity

### Inflation

The spike in inflation in 2022 and 2023 has demonstrated to us all the impact inflation can have on prices, but do you know what your personal rate of inflation is?

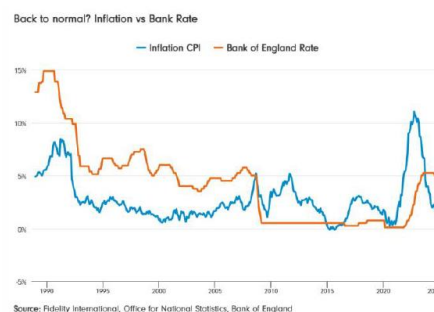
The following chart shows the impact some of the key contributors to inflation can have. Pensioners are usually on a lower income and are more affected by these as they represent a sizeable proportion of their expenditure.



Source: Consumer price inflation from the Office for National Statistics

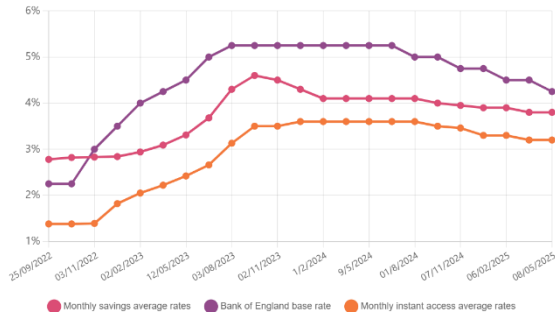
When you have completed the budget exercise, you can use the [ONS](#) personal inflation rate calculator for a better insight.

There have been periods when the Bank of England Base Rate has exceeded inflation, as the following chart shows, but few recently.



Source: Fidelity International, Office for National Statistics, Bank of England

However, the following chart shows that the rate of interest you are probably earning on your savings tends to be less than Bank of England base rate. Consequently, less than inflation, especially if you have tax to pay.



The following chart shows that, taking a medium to longer-term view, and accepting some degree of investment risk can beat inflation.



The key is:

- A = IA Mixed Investment 0-35% shares for a “cautious” portfolio
- B = IA Mixed Investment 20-60% for a “balanced” portfolio
- C = IA Mixed Investment 40-85% for a “growth” portfolio
- D = IA Flexible for an “aggressive” portfolio.
- E = UK CPI (Consumer Price Inflation)

Taking one extreme example, my client’s aunt bought him Premium Bonds to the value of £50 when they were first launched in November 1956. At the time, a new Morris Minor saloon car would have cost a little over £600. My client still has his Premium Bonds and has never won a prize!

Had his aunt invested the £50 in the US Dow Jones Industrial Average, excluding dividends, his £50 would now be worth some £18,452!

### Short-termism

The adage in the world of investment which is most relevant is, “It’s time in the market, not timing the market”.

If we take the investment vs inflation chart above and look at 2020, which was the start of the pandemic, we can see that some Investors panicked and sold causing markets to fall rapidly.

Those that didn’t were at least back to parity, if not further ahead, about 1-year later.

The higher risk portfolios have continued in strong positive territory despite Russia’s invasion of Ukraine, and Trump’s “Russian roulette” with Trade Tariffs.

The balanced and cautious portfolios struggled in 2022 and 2023 because of higher interest rates at the time, which had a negative impact on the value of fixed interest securities, which are used more widely in such portfolios.

With a robust approach to the “CHEMIST” test, you wouldn’t have invested money you needed to access in the short-term or at short notice. Consequently, you wouldn’t have panicked because you would have a high capacity for loss – the ability to weather market volatility.

### Longevity

Someone retiring today aged 66 has a normal life expectancy of 19-years (male) and 22-years (female), according to the Office for National Statistics, with a 25% chance of that being 26-years and 28-years, respectively.

Even if inflation is held at the Bank of England target rate of just 2% per annum, £100 today is worth just £57.44 in 28-years’ time. So, it is critically important to consider the impact of inflation on your income and savings, particularly in retirement.

## What are the other obstacles?

### Tax and charges

Failing to take advantage of tax allowances or exemptions, paying too much tax, or paying excessive investment charges, are certainly obstacles to avoid.

### Loss of income

If you are of working age, and unlikely to be bailed out by the “Bank of Mum & Dad” in the event of illness or injury preventing you from working for a prolonged period, then your financial plan is going to suffer. When your employer/business stops paying you, State benefits are hardly going to maintain your basic standard of living, let alone allow you save for the future.

In my experience, it’s commonplace to meet new working age clients with no protection, other than what their employer offers. This may only be Statutory Sick Pay, which is £118.75 per week. How far towards your budget commitments does this go?

If new working age clients have additional cover, it’s generally life assurance. This is as “cheap as chips” for good reason, as the following chart shows:



Royal London’s underwriting suggests that a 43-year-old female, so halfway through a 50-year working life, has a 4% chance of dying, a 14% chance of suffering a critical illness, and a 34% chance of being off work for more than 2-months.

### Poor investment performance

Particularly since the advent of autoenrollment and the demise, outside the public sector, of the salary-linked pension, many people are building up substantial pension savings.

A recent report by *Investment Insiders* published by FT Adviser in November 2024 said, “Savers are being let down by their pension funds after research shows almost 90% have underperformed against standard benchmarks”.

### Service

The financial planner needs a thorough understanding of all things financial – protection, investment, pensions, taxation, Wills, and Trusts being the principal areas. It may well be that you need the services of a specialist, such as an investment manager, accountant, Will writer, etc., but the financial planner will draw all these threads together into a coherent financial plan.

The starting point is always a deep dive into your circumstances, requirements, needs, experience, and attitudes before making a detailed personal recommendation.

With your goals, the analysis will use the sophisticated cashflow planning tools available, including the addition of “what ifs”, to thoroughly test that those goals are robust, attainable and realistic.

If your goals appear too demanding, there may be a need for some fine tuning. Perhaps, needing to accept a greater degree of volatility in exchange for the prospect of better investment performance, or adopting a later retirement date, for example.

If your plan is likely to be derailed by death or earlier serious illness, the financial planner will research and recommend the most suitable protection plan(s) within the available budget.

With the investment element of the plan, whether it's in a pension, ISA, or some other plan, the financial adviser will have sophisticated research tools available to recommend, and then continuously monitor, suitable solutions.

Most professional financial planners offer an at-cost review service; as previously stated, this should be subscribed to. Plotting the route is one thing, but keeping you on that route, adapting to changing obstacles, and staying with you until you reach your destination is critical.

## Conclusion

Of necessity, this guide is generic, so it is essential to take personalised advice before acting on anything.

As companions to this guide, others are dealing with Wills, Inheritance Tax, Powers of Attorney, and Care Fees. If any of these areas are relevant, please ask me for a copy.

## Can the author help with other matters?

Personally, and in conjunction with trusted partners, there are several legal and other matters I can help with, including:

- Wills
- Deeds of Variation
- Applications for Probate
- Lasting Powers of Attorney (LPAs)
- Advance Directives
- Lifetime Trusts for gifts and loans
- Registering a Trust with HMRC
- Trust Administration
- Trust Investment
- Mitigating Inheritance Tax
- Care fees planning

The above list isn't exhaustive, so if you have a question on any matter raised in this guide, or any other financial matter, please ask. Remember, the only dumb questions are the ones you don't ask when you have the chance!

Contact me for help and advice on any of these and other related services. An initial consultation is without obligation, at my expense and your convenience.

