Financial Planning for Your Inbetweeners

xentum

Life. Grab it. Live it. Love it

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Pave the way to a brighter future

Your growing children won't learn money management at school: it's down to you to teach them, another addition to the long list of parenting roles you need to fulfil!

For young people, thoughts of saving for a rainy day or starting a pension are often bottom of their list. When life is just opening up, it can be hard to think two weeks ahead, let alone 20 or 30 years.

That's why we've put together this short guide which you can share with your offspring. In the pages that follow, we explain the steps your young people should take – while they have time on their side - to create a stable financial future.

Much of this information will resonate with you: it may be advice you're already giving. But as parents ourselves, we know that advice from an outside source is much more likely to be listened to - so, save your breath and share this guide!

About us

Dominic Baldwin
CEO

For the people we work with, family comes first. That's why our service starts with WealthPlan™. WealthPlan™ is our unique approach where we help you get clear on your lifestyle priorities and goals, taking into account the needs and wishes of the whole family.

This 'you first/money second' approach makes all the difference to the people we work with and is the route to true financial freedom. Once we're clear on what you want from life, we can provide the appropriate financial advice and wealth management services to underpin your goals.

Find out more at xentum.co.uk.

Let's Get Started!

Many people think that financial planning is only for the wealthy. We're here to tell you that's not the case: financial planning is for everyone, and the sooner you start, the better!

The key to financial freedom isn't about earning some arbitrary figure. One of the things that will soon become apparent to you (if it hasn't already) is that the more money you have, the more you need.

That's not to say you shouldn't strive to enjoy a good income. It's true that money gives you freedom and choices. The problem is, many people think money first, then live life according to what they think they can afford to have/do/be.

We suggest you switch that thinking.

Put your life and goals first and work backwards from there to see how you can afford to live as you wish. You'll be surprised at how many more opportunities open up to you!

Finding clarity

When you want to buy things and go places, the first step is to earn money! Unfortunately, you can't get far without it.

When you're young, preparing for the future can be difficult as goals and long-term plans are often unclear and subject to change.

But even if your plans for the future are foggy, it's likely you have an idea of the sort of things you want to experience.

In the relatively short-term, that's likely to be a university education or the purchase of your own house. In the longer-term, perhaps you envision travelling the world or settling down in a big house in the country with a pool and a hot tub!

Or maybe your vision for the future is based on what you don't want: a 9-5 job in an office, perhaps, or to work until you're in your 60s or 70s.

Although you're young and you have your whole life ahead of you, what you do now will pave the way for your future life.

It's important to establish some clear goals with associated values, that way you can take positive steps in the right direction.

A financial plan will ensure you can spend money without worrying that you can't afford whatever it is you want to buy. That is true financial freedom.

Setting goals

Having an understanding of where you are trying to get to is so important when it comes to your personal finances.

Whether it's saving towards an emergency fund, for those unexpected and out-of-the-blue costs, or aiming to buy a house, doing some research and then putting a value to the goals is key. If you haven't put a value on where you're trying to get to, then it's hard to plan how to get there or hold yourself accountable.

Short-term

(0-5 years)

	Goal	Timeframe	Savings required
1			
2			
3			
4			

Medium-term

(5-10 years)

	Goal	Timeframe	Savings required
1			
2			
3			
4			

Long-term

(10+ years)

	Goal	Timeframe	Savings required
1			
2			
3			
4			

Good habits checklist

To help determine whether you have good financial habits, we'll start with a simple checklist.

Establishing these key practices now and sticking to them as your plans change will mean you can spend freely on what matters to you – nice things, experiences, people - knowing that you're financially secure.

	Yes	No
Do you budget every month – and stick to it?		
Do you spend less than you earn?		
Are you actively saving some of your money?		
Are you in control of your spending?		
Do you have an emergency fund?		
If working, have you opted into a pension scheme?		
Are you paying off any credit or store card debt?		
Do you have savings to last at least 3 months if you're unable to work?		
Is your income protected in the event of being sick or unable to work?		
Do you have an ISA?		
Have you mapped out a career path?		
Do you know when you will be able to buy your own home?		
Do you track your regular outgoings?		
Have you identified any unnecessary spending?		
Are you spending on the things that are most important to you?		
Have you got savings and current accounts that work for your lifestyle?		

Managing income vs expenditure

The key to making sure you have your spending in check is to be intentional.

If you work out what you want to save at the start of the month and then budget your discretionary spending accordingly, you will save much more than if you just save whatever is left at the end of the month.

Always work out what you can save first and then see if you can stick to that budget for your discretionary spending!

A good rule of thumb is 50/20/30 – and it's never been easier to track your spending, with several apps and web-based tools available (see our suggestions at the end of this document).

Monthly net income:

Monthly spending

Bills:

£

40%

Savings:

£

40%

Discretionary:

£

20%

Cash

Emergency fund

You should typically have an emergency fund in instant access cash deposits of at least 3-6 months of regular monthly expenditure, such as your monthly bills.

Based on the monthly bills figure above, your minimum emergency fund should be at least in the range of :

£

to

£

Amount in savings

£

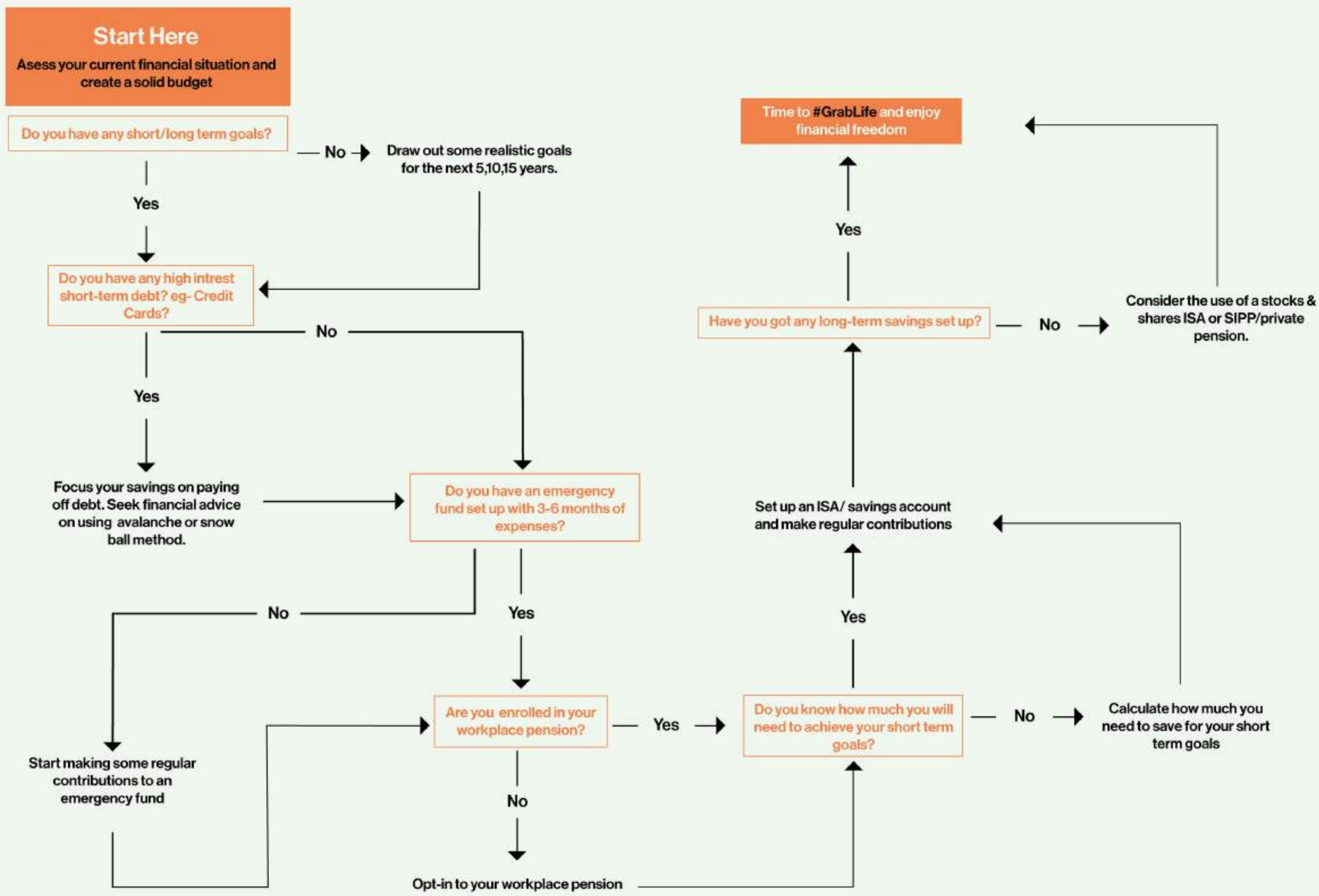
Surplus or Deficit?

If there is a deficit in your emergency fund, your first thought should be to put any surplus income towards building a sufficient fund.

Mapping the route to financial freedom

The only way you can be truly financially secure is to create an actionable plan to balance your priorities between what you want right now and what you want in your future.

This flowchart gives you a quick overview of the steps you can take now to create a financially secure future.



7 Simple Steps

1

Budget & set realistic goals

Before you can begin redirecting your finances, you need to know where your money is currently going.

Using our simple budget planner will give you a clear-cut view of your income vs your outgoings, helping you to make appropriate decisions about how much to save and how much is yours to play with. Get in the habit of doing regular budget reviews – it can be surprising how much you waste!

The next step is to set some realistic short- and long-term goals. Perhaps you want to take a gap year, move out to buy or rent a house, or you dream of setting up your own business one day.

Although these goals may change with time, having an outlined plan helps you visualise where your money might take you, motivating you to keep saving, investing, and planning strategically.

When you write things down, you're more likely to stick to them. So, use the goal planner at the start of this guide to help you.

2

Pay off any high-interest, short-term credit, or debts

If you have accrued any short-term debt, such as credit card loans, STOP! Don't use store cards and if you have a credit card, save it for emergencies.

Store and credit cards are a really expensive way to borrow money. Not only do they drain your finances every month, but this sort of debt can also affect your chances of getting more important loans like car finance or a mortgage meaning you may have to be more reliant on those around you for financial support.

Plan how you will pay off these debts as quickly as possible – be really disciplined until they're gone. There are various methods you can consider for debt repayment, such as the avalanche method, in which you pay off the debts with the highest interest first, and the snowball method, in which you pay off the smallest credit balance first. There are pros and cons to each method depending on your circumstances.

3

Create an emergency fund

An emergency fund is a pot of money you can access easily if you need it, but don't touch unless it's an emergency.

For most people, ISAs and savings accounts are the best places to keep an emergency fund, providing they don't charge for withdrawals within a certain timeframe.

When building your emergency fund, be strict with yourself. Save a predetermined percentage of your earnings every month until you have 3-6 months of expenses saved.

And make sure you only withdraw your savings in extreme situations such as redundancy or emergency home/vehicle repair.

"The trouble with money is that it costs too much." (Ralph Waldo Emerson)

4 Enrol in your workplace pension

If we really sit and think about it, most of us have a vision for our retirement, no matter how far off it may be.

Perhaps you want to cycle around the world or teach your grandchildren to sail. Whatever it is, your pension can go a long way in contributing to this version of your future.

We know it's dull, but as soon as you're eligible, enrol in your workplace pension. Although retirement and old age may feel like a mile away, it's never too early to begin preparing for the future.

All employers have to offer a pension scheme, but you don't have to opt-in. We strongly suggest you do opt-in. You'll be required to pay a minimum of 5% and your employer will pay a minimum of 3%. You don't pay tax on your pension contributions, so that's another good reason to have one!

One of the best things about enrolling in a pension early is the benefit of compound interest which basically means you earn interest on your interest, which can make a big difference after a decade or two! Money really does make money!

Compound Interest

See the effect compound interest has on £2,000 earning 1.6% net (2% gross/AER fixed) year on year over 5 years

Year 1		**Interest**		
£2,000.00	+	£32.00	=	**£2,032.00**
Year 2		**Interest**		
£2,032.00	+	£32.51	=	**£2,064.51**
Year 3		**Interest**		
£2,064.51	+	£33.03	=	**£2,097.54**
Year 4		**Interest**		
£2,097.54	+	£33.56	=	**£2,131.10**
Year 5		**Interest**		
£2,131.10	+	£34.10	=	**£2,165.20**

Many young people make the mistake of thinking their pension is some sort of cash-based savings product for the future and have very little idea of what the pension is invested. (Usually they are invested in the future profits of somewhere between 200 and 2000 businesses in the UK and beyond, and also make loans to governments in the form of bonds).

Think about where your money is being invested

In addition, you may want to change from the default fund when your employ enrols you into the pension scheme.

Most people don't understand that their pensions make small investments in many companies they would view as being opposed to their values. Take time to align your pension with your values. Nowadays, there are many pension options which take into account ESG (environmental, social, governance factors).

Get into the habit of checking your pension at least once a year, make sure you know what your fund is likely to be worth and when it will mature. It only takes 5 minutes but this awareness will help you to know where you stand further down the line.

5 Start saving for your short-term goals

Once you're out of debt, with an emergency fund set up, and enrolled in your workplace pension, the next thing to do is think about your short-term goals.

These should be goals you want to achieve within the next 5 years, such as moving out and renting or buying a house or saving for a car.

Whatever the goal, make sure you're clear on when you want to achieve it and how much it'll cost you, factoring in not only the price of the goal itself but any extra costs that stem from it. For example, when buying a house, you'll require solicitors' fees and budget for searches and valuations in addition to your deposit.

Once you have an idea of how much you'll need, then you can work backwards and begin saving for your future.

For short-term goals, we advise opening savings accounts or ISAs separate from your current account. Shop around for those that have high-interest rates, but don't keep your money locked in for a set period.

If you're purchasing a house, it may also be worth looking into the prospect of a Lifetime ISA or other Help-to-Buy schemes.

6 Consider long-term savings

Next, you should have a look at other long-term savings plans. These might seem like overkill when you haven't settled on your future goals, but there will come a time where you require a sum of money – and wouldn't it be nice if it was already accessible to you?

Getting into the habit of saving a portion of your income is no bad thing. If you don't have it, you don't miss it. Plus, you might find you enjoy seeing your sum build up over time!

Though interest rates are anything but exciting at present, it makes sense to shop around for a long-term savings account to put your money into.

Don't be afraid of savings accounts which tie you in, whilst you might like the idea of being able to access your money, you might need an incentive to leave it alone.

Use our goal planner at the front of this guide to help you build a vision for your future. Then take action to start saving for that vision so you can make it a reality.

7

Spend!

Could have a checklist again here with all the 'yes' boxes ticked. Now you've ticked all the boxes to a secure financial future, we will allow you to treat yourself.

There's no point squirrelling all your money away for the future without taking time to enjoy the present. As we've said, sensible financial planning is all about balancing your long- and short-term goals with spending that'll bring you instant gratification.

If you've budgeted correctly, you should have your money consistently trickling into various savings and ISAs, leaving you with a nice percentage of your monthly income to spend on yourself (and if there's nothing you need personally, you can always treat your parents!)

Our whole ethos is based on living life to the full. So, grab life now and do what makes you happy. But do so with the confidence that your future is secure, you're working towards your goals, and you don't have to worry!

"The art is not in making money, but in keeping it."

Helpful Resources

Further listening

- The High-Performance Podcast
- The Meaningful Money Podcast by Pete Matthew

Further reading

- The Xentum blog - xentum.co.uk/blog
- Enough? – Paul D Armson
- Rich Dad, Poor Dad – Robert Kiyosaki
- Broke Millennial – Erin Lowry
- Happy Money: The New Science of Smarter Spending by Elizabeth Dunn & Michael Norton
- The Richest Man in Babylon by George Clason
- The Power of Habits by Charles Duhigg

We hope you have found this guide helpful and wish you well in managing your money well on life's journey. Good luck from the Xentum team!

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