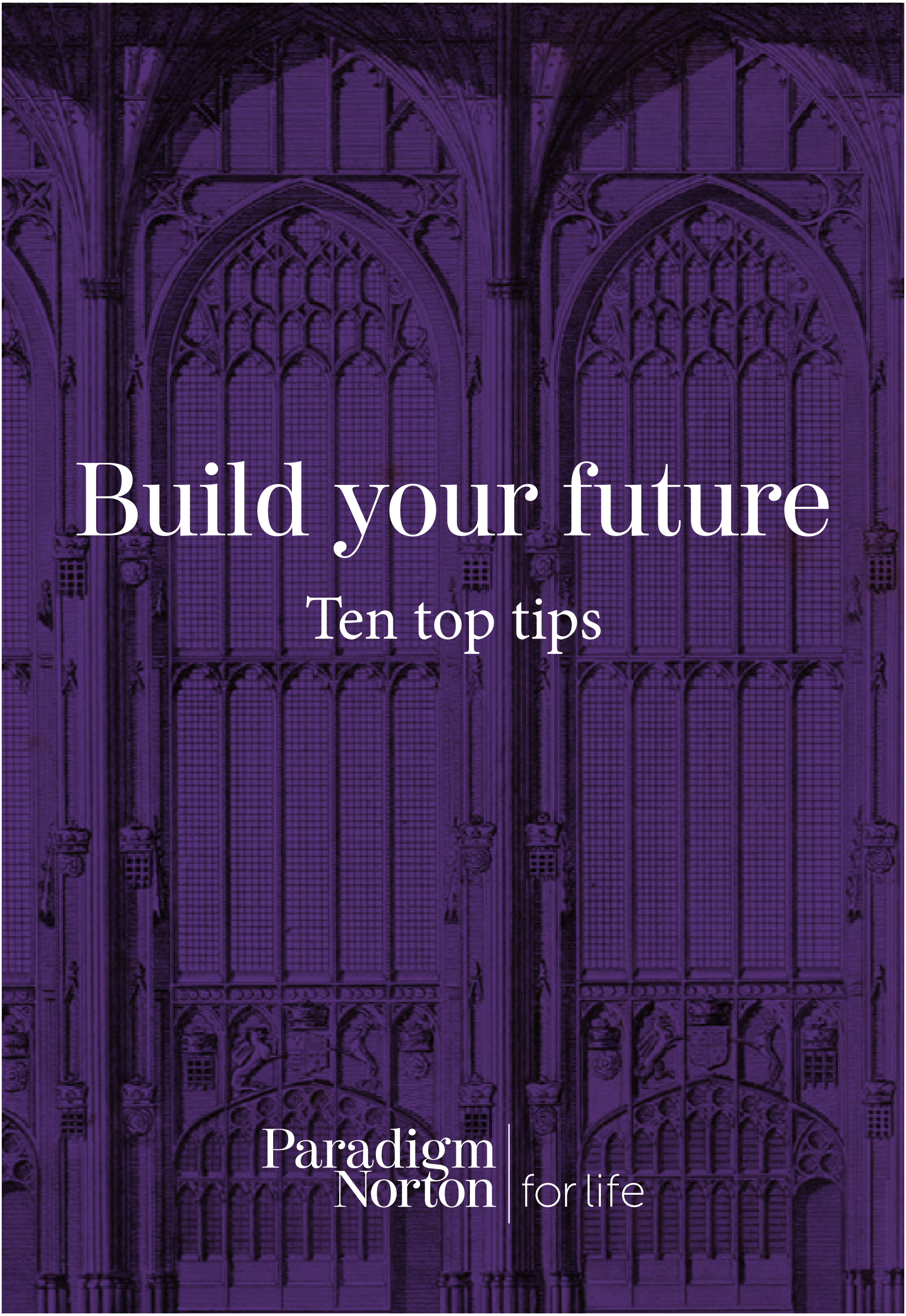
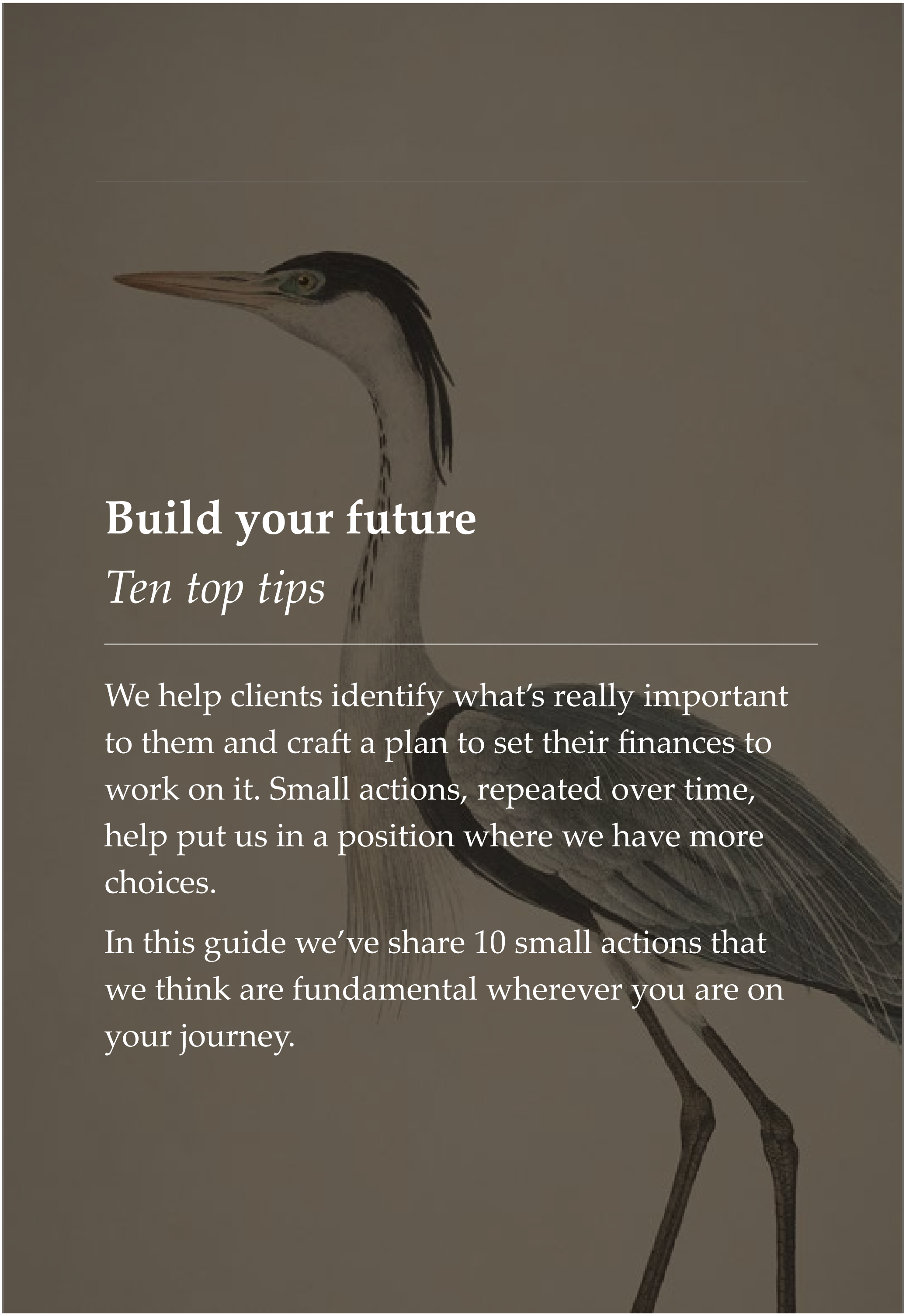


Build your future

Ten top tips

Paradigm Norton | for life



Build your future

Ten top tips

We help clients identify what's really important to them and craft a plan to set their finances to work on it. Small actions, repeated over time, help put us in a position where we have more choices.

In this guide we've share 10 small actions that we think are fundamental wherever you are on your journey.

1. **Spend less than you earn.** It sounds obvious but this mantra is your key to success. It's amazing how many people really do believe there is a money tree out there or, worse still, that the 'state' will come to their rescue. Face reality; it's down to you.

2. **Pay yourself first - draw up a budget and stick to it!** This does not need to be overly fancy or complex, a note book or spreadsheet will do. There are also some great free apps that can help you with this discipline. A budget will help you identify what and where you are currently spending money and where you are able to save to meet your short, medium and longer term goals. Treat your pensions and savings as part of your normal monthly outgoings, not that thing that (might) be left at the end of the month. Of course life is for living and it's OK to treat yourself from time to time but don't forget the opportunity cost of spending money now rather than sticking to your plan. It may feel like you deserve that impulse purchase but budget for your treats as well as your savings.

3. **Protect who you care about – starting with you.** What happens if you die? Or cannot work due to ill health? Who would suffer? We all think that 'it' will never happen to us but bad stuff happens so prepare for it, just in case. Income protection is important for single people who have no-one else to pay the bills if they cannot work due to ill health. Income protection and life assurance is important to those with partners and children if they are the breadwinner, are at home looking after the children (the value of which is often overlooked) or have a mortgage.

4. Build your 'cushion' (or disaster fund). This is the cash that you should have to hand in case of an unforeseen event… losing your job, the car dying a death, the roof blowing off; you get the gist. There is no magic number for this cushion but a good rule of thumb is 3-6 months net salary. This should be held in an instant access cash account.

5. Join your employer's workplace pension. This means that you are going to get 'free' money. Think of it as additional salary that you cannot get your hands on it until you are 55 plus. You should have been Auto Enrolled into your employer's workplace pension, a government initiative that has set minimum levels for you and your employer to pay to a workplace pension scheme. You need to pay 4% of your 'qualifying earnings' (earnings from c£6,000 to c£50,000 a year) and your employer 3%. With tax relief this amounts to 8%. A great start. Top tip – do not opt out! See number 7 below about the magic of compound interest. A great website to review for further details is The Pensions Advisory Service (TPAS).

6. Savings strategy. Once you have your 'cushion' in place and joined your employer's workplace pension the next thing to do is start to build a savings strategy for the short, medium and long term. We like to call it your '3 Pots':

a. *The **Short Term Pot** is money you will need in the next 1-2 years*

b. *The **Medium Term Pot** is money you may need in say 3-5 years*

c. *and the **Long Term Pot** is money for 5 to 10 years plus, typically for when you wish to reduce or stop working.*

The short term pot should be limited to cash as you do not want to risk a fall in the value of your money just when you need it. You should consider notice accounts or 1 to 2 year term deposits.

The medium term pot should be cash 'like'. That is, longer term cash deposits or very high quality short dated investment bonds. You would generally expect to get a higher return from these savings types because you are either locking the money away for longer (in the case of term deposits) or exposing the capital invested in bonds to the risk of moving down as well as up particularly over short terms.

The long term pot is where you should accept some investment risk by investing into low cost, broadly diversified funds made up of company shares (equities) and bonds (money lent to companies and governments). The aim is to make sure that your long term savings get a return over inflation. You should expect your long term to go up and down in value hence why we are calling them 'long' term. This is the pot to focus on to make sure you end up with enough money to achieve the type of lifestyle post work that you desire.

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7. **Start now.** Don't delay. Procrastination really is a thief not just of time but YOUR money. By way of example if you start to save £500 a month at age 30 (perhaps a combination of your and your employer's pension contributions) which increases each year with inflation (at say 3%) and achieves an average return of say 6.5% a year (see note 1 below) by age 65 you will have amassed a fund of about £1.1million. If you delay to age 40 your potential fund is reduced to about £485,000. A staggering difference of nearly £600,000! Nudge your monthly savings up each time you get a salary increase by at least the percentage increase in earnings and save half your bonus.

8. **Use the tax breaks available to increase what you save.** A tax-efficient 'wrapper' improves your returns by saving you income tax or capital gains tax or sometimes both. Tax 'wrappers' include pensions (see point 5 above) and includes ISAs (and LISAs for the under 40s). The 'wrappers' do not change your underlying investment choice which can be cash, bonds or shares but they will save you tax meaning improved returns. You have an annual ISA allowance of £20,000 in 2020/21. Try to use at least part of it even if to hold your cash 'cushion' (see point 4 above). LISAs need a bit more explanation!

9. **Write a will.** Even if you feel like you do not have much, if you die intestate (a fancy word meaning dying with no will) your money and the things you own (your 'estate') will automatically pass according to the Rules of Intestacy. The rules favour spouses/civil partners and your children which may be fine if you are married or in a civil partnership. However for single people or unmarried couples possessions will pass to your parents or if they are not alive brothers and sisters. Is that what you really want? A simple and inexpensive will allows you to decide who you want to leave your worldly goods to.

10. **Get this guide out of the drawer and review it regularly**. Guides and plans are only of value if you regularly review them. Dust this down at least every six months just to check that you are sticking to these (admittedly) unexciting but proven tips to get you in good shape to achieve the future that you desire.

Notes:

(1) This return is based on an investment 80% into a Global tracker fund indexed to the MSCI World and 20% Citi World Government Bond Index hedged to sterling after making an allowance for fund costs.

Other notes and risk warnings

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Past performance is not indicative of future results and no representation is made that the stated results will be replicated. The value of an investment and the income from it could go down as well as up. The return at the end of the investment period is not guaranteed and you may get back less than you originally invested.

The Financial Conduct Authority does not regulate Wills

Tax treatment depends on the individual circumstances and may be subject to change in future'

Errors and omissions excepted.

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