

Top 10 tips to spring clean your finances

Ray Prince provides a guide to getting your finances back on track from the ground up

I am sure you will have heard of the expression, 'fail to plan and plan to fail'. After 15 years helping NHS and private dentists make the right choices for their financial futures, I believe this has never been more important.

I frequently meet new clients who have not been given the essential guidance they need to give them the best chance to optimise their finances. The good news is that it is worth spending the time getting it right, and could potentially save you tens of thousands of pounds over the longer term.

Therefore, my aim over the following ten tips is to:

- Provide you with a 'must do' list of vital items to action, and why;
- Give you peace of mind and increased confidence when making financial decisions.

1. Goals & values

This is where you should start. What is it that you really want to achieve with the rest of your life? What makes your heart sing? Why not do more of this?

Write them down, and the timescale in which you want to achieve them.

If you don't know where you are today, and you don't know where you are going, how will you know when you've arrived?

2. Your expenditure

Do you know, with reasonable accuracy, how much money you will need to support your lifestyle when you stop earning an income from work? Or how much your family would need if you died? Or how much you'd need if your partner or spouse died? Or if either of you were ill or had an accident and couldn't earn a living?

If not, write down where you are spending your money and split it into separate categories. Then, as a starting point, think about which of your expenses will continue for the rest of your life (council tax, utilities etc) and how much discretionary money you'll need. I've found that many clients want to spend more on travelling and holidays, particularly during the first 10 years after giving up work. Doing this in a computer programme, such as Excel, is probably the easiest way.

3. Your pension projections

If you do not have recent

information on your NHS, state and personal pensions, then ask for these now. You can request the NHS forecast from Fleetwood (allow 6-8 weeks), complete form BR19 for the state pension and write to your personal pension provider and instruct them what ages you want the projections to.

4. Existing policies & investments

Dentists tend to build up a collection of policies over the years such as protection plans, investments and pensions.

Do you know what these are designed to do? Do they match the figures in your expenditure? Are they still relevant and good quality? Do you still need as much life assurance etc?

Remember that your NHS death-in-service benefits (twice your NHS pensionable income) can be considerable and should be built into what you require.

5. Your own financial sat-nav

All the above points rely on your being able to measure where you are now to where you want to be in the future, and a context to be able to make important decisions. After all, you can't spend the same pound twice, so where should it be spent?

Questions to ask yourself include: If we downsize our home and sell the practice, do we really need more income from pensions in the future? What is the impact on my finances if I go part-time at age 55? Will I need more income between the ages of 60 and 75, rather than after age 75?

If you do not have your own sat-nav (financial projection) that compares your assets and income to your measured goals in life, then ask your financial adviser (presuming you use one) why not? If you have no success here, find a fee-based financial planner who does. This is absolutely crucial – you should diagnose before you prescribe.

6. Type of investments

Studies have shown that active fund management (where the fund manager tries to beat the market return) does not work over the longer term, yet many dentists hold their money in these funds. They will also tend to have a collection of policies rather than a proper risk assessed portfolio. It is vital to understand what is 'under the bonnet' of your investments,

whether it be ISAs or pensions.

Use an adviser who has an 'investment philosophy', and uses passive indexed funds that aim to give you the market return for the level of risk you wish to take. They will also properly diversify your investments for you and explain the importance of asset allocation and rebalancing etc. Alternatively, educate yourself on how to invest your money in line with these principles (you should only attempt this if you can dedicate enough time to 'learn the ropes').

7. Cost of investments

You may well be investing with traditional insurance companies and fund managers, and effectively be paying 'retail', as well as not knowing about hidden charges. Again, use an adviser who will effectively allow you to buy 'wholesale', and help you avoid the hidden charges. This could also reduce your paperwork by a huge degree!

8. Inheritance tax

Some ideas include:

- Ensure that any life assurance policies are written under trust
- Nominate your children to receive any NHS death-in-service lump sums if your partner does not need these monies. A form called a DB2 from the NHS does this for you
- If you have children, then look to gift monies when appropriate, using your sat-nav to show that this is affordable.

9. Wills & lasting powers of attorney

Do you have a will? If not it is sensible to set one up and ensure that it reflects your wishes.

It is also important to have a lasting power of attorney in case you become incapacitated and can't run your affairs.

10. Do you need to protect your NHS pension?

There is now a Lifetime Allowance limit on the amount of pension pot you are allowed to have from all sources except the state pension. Do you know how you stand here? The deadline to apply for protection if required is 5 April 2009.

This is vital to get right. Go to <http://tinyurl.com/9gccg7> and take action if required.

Summary

Even implementing some of these tips should help improve your awareness of where you stand today and how your future may look. You'll then be able to make important financial decisions with the confidence that you've laid solid foundations.



Ray Prince is a fee-based impartial financial planner with Rutherford Wilkinson, and helps dentists plan towards their ideal retirement, as well as getting the best deals on mortgages, protection and investments. You can contact him on 0191 217 3340 or ray.prince@rwpfg.co.uk. Rutherford Wilkinson is authorised and regulated by the Financial Services Authority.