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4 Ways of Looking at Money – What They Mean for Your Financial Plan

Money means different things to different people. Some people feel it is simply a tool to get by. Others see it as a way of achieving their goals and building their desired lifestyle.

Your view on money will depend on your circumstances and life stage. Below, we look at the different ways of thinking about your money and how this affects your financial plan.

Practical

When you are in the early stages of your career, or if you have a young family, it's likely that your view on money will be mostly practical.

Your priority will be making sure the bills are paid and that you have enough to live on. Many people don't have the budget or the mental energy to think beyond the day-to-day.

At this stage in your life, there are many things you can do to enhance your financial plan:

- Create a budget so you know exactly how much is coming in and going out every month.
- Shop around to cut costs and think of ways to earn extra money.
- Aim for 3–6 months of essential expenses in an accessible savings account.
- Make sure you have enough financial protection to provide for your family in the event of death or illness.
- Make sure you join your workplace pension. If you're eligible, you'll usually be automatically enrolled; if not, you can ask to join.

Emotional

Money can evoke strong feelings, particularly if you are struggling financially or if you are managing your money for the first time.

Overspending on treats and luxuries can give instant gratification, but if you don't have the budget to maintain this, the result can be debt and financial hardship.

To overcome emotional spending and avoid expensive debt:

- Create a plan for your money that allocates a portion of your income to bills, saving, debt reduction, and spending.
- Make a plan to clear expensive debt and avoid taking on more. If you have problem debt, a charity such as StepChange can offer free advice and practical help.
- Make sure there is space for 'fun money' within your budget.
- Find ways to treat yourself within your budget, for example, by taking up a new hobby.

Getting started with investing can also have emotional implications. For example:

- Investing in high-risk assets for the thrill of seeking high returns.
- Buying trendy or heavily advertised investments.
- Selling investments during a downturn to avoid further losses.

Investing emotionally can cause you to make erratic decisions, which will damage your long-term returns. A successful investment plan should:

- Work for the long-term.
- Fit around your goals and circumstances, not hot stocks or celebrity endorsements.
- Invest in a diverse range of assets at an appropriate risk level.

- Avoid buying and selling based on every news event or market fluctuation.

Aspirational

Ideally, financial planning is a process that should be started early in your working life. But as outlined above, there are usually other priorities.

Many people don’t start financial planning until they are well-established in their careers, their children are a little older, and they have a reasonable budget and savings pot already.

It’s never too early to start thinking about your goals, whether this means getting on the property ladder, moving abroad or planning your ideal retirement.

Once you start thinking about money as a tool to achieve your desired lifestyle, it becomes more meaningful.

To get started with financial planning:

- Create some goals. These should be SMART – specific, measurable, achievable, relevant and time-bound.
- Establish how much money you need to achieve your goals, and how much you need to start saving now.
- Consider the level of risk you will need to take with your investments and which assets to invest in.
- Optimise your plan for tax efficiency, for example, by utilising your ISA, pension and capital gains allowances.

When you know what you want to achieve and build a plan around this, your decisions become easier. A financial adviser can help you work out the best options.

Altruistic

Once you have enough money to meet your own needs, you may start thinking about how you can use it to help others.

This could involve making gifts to family, donating to charity, or undertaking philanthropic projects. You may also be considering how to pass on your estate to the next generation in an effective manner.

To make the best use of your assets from an altruistic point of view:

- Create a cash flow plan. This can help you establish how much money you require for your own needs and how much you can give away.
- Make use of your gifting allowances. You can give away up to £3,000 each tax year, which is immediately outside your estate. Larger gifts, assuming they don’t qualify for any exemptions, drop out of your estate after seven years. Making regular gifts can reduce the value of your estate (and eventual Inheritance Tax bill).
- Make a will and ensure you have powers of attorney in place.
- Consider setting up trusts, as this allows you to pass on wealth to your beneficiaries without giving up full control.
- Make charitable donations, either during your lifetime or via your will. There are significant advantages in terms of income, capital gains, and inheritance tax to making charitable gifts.

However you look at money, creating a financial plan can ensure your immediate needs are met, while setting you on the right path for the future.

Please don’t hesitate to contact a member of the team to find out more about financial planning.

Please note:

This article is for general information only and does not constitute tax, legal or financial advice. You should seek independent advice tailored to your circumstances before taking any action. Tax treatment depends on individual circumstances and current legislation, which may change. Pension and investment values can go down as well as up, and you may not get back the amount invested. Past performance is not a reliable indicator of future results. Pension benefits, including tax-free cash, are subject to HMRC rules and may change in future. Director's loans, bonuses, dividends and other profit extraction methods can carry tax implications and may not be appropriate in all situations. Professional advice should be obtained before implementing any financial or tax planning strategies.

Corellia Financial Services Limited
Arena Offices - 2F02, 100 Berkshire Place Winnersh, RG41 5RD Berkshire **t:** +44 20 3375 1584. **m:** +44 7801 549274.
e: ganesh@corelliafs.com **w:** corelliafs.com Corellia Financial Services Limited is authorised and regulated by the Financial Conduct Authority (FCA) No: 793798
Company Reg. No. 10984380.