

Article

# How to Ensure Your Financial Plan Works Together

When most people think of financial planning, they might think about investments or pensions. But these are simply the tools we use to work towards your goals, not the end result.

A good financial plan is made up of many working parts which should all fit together seamlessly. It combines risk management, investment planning and tax efficiency - all woven into a comprehensive strategy.

Addressing one of these areas without considering the others is like going on a journey without a map. You may still get where you need to be, but it will take a lot longer, and it will be easier to miss things along the way.

In this guide, we examine how the different parts of your plan can work together and why this is important.

## **Set Your Goals**

The first step in any financial plan is to understand what you would like to achieve. Perhaps a comfortable retirement is your main goal, or you have other milestones you would like to accomplish first.

The process of cashflow planning may use some sophisticated tools, but the basic steps are quite simple:

- a) Work out where you are today
- b) Establish what you would like to do and how much it will cost
- c) Develop some options for getting from (a) to (b), ideally in the fewest number of steps
- d) Revisit the plan regularly to determine if you are still on track

Some goals are easily achievable, while others are more ambitious. By creating a financial plan, you will have a clear idea of whether your goals are realistic and whether any adjustments are needed.

Only when your goals are clear can the rest of your plan fall into place.

## **Address the Risks**

Now that you have planned for your best-case scenario, it is also sensible to plan for the worst. Ill health, redundancy and bereavement can derail a financial plan, creating additional stress at an already difficult time.

We manage risks by putting contingencies in place, such as:

- Ensuring you have an emergency fund of at least 3-6 months' essential expenses. This means you are covered if you have an unexpected bill or are unable to work for a short period.
- Insuring your income so that you can cover your costs even if your health deteriorates.
- Setting up life insurance and critical illness cover to provide a lump sum in the event of death or serious illness.

While no one likes to think about illness or death, taking a few simple steps to address these risks can prevent significant hardship further down the line.

## **Diversify Your Assets**

A sensible investment plan is the cornerstone of any financial plan. But performance, benchmarks, and quartile rankings form only part of the picture. Seeking high returns without a strategy in place can be counterproductive.

The first step in planning your investments is to understand not only the risk you can tolerate but also the risk you need to take.

While building up cash in a bank account might seem like a safe option, you should also consider inflation. After all, cash is unlikely to hold its real value over the long term, especially at current interest rates.

A strong investment plan has the following features:

- It invests in a wide range of securities across different asset classes, geographical regions and business sectors.
- It holds an appropriate amount of higher-risk 'growth' assets relative to lower-risk 'stable' assets. The actual allocation will depend on the agreed-upon risk level.
- It is generally designed for the long term and should be reviewed periodically to ensure it remains aligned with your objectives and risk tolerance. Investment decisions are not based on emotion or made in response to world events.
- The investments are held in suitable tax wrappers, and any withdrawals are planned in advance.

## Save Tax

Saving tax should be a consequence of good financial planning, not a goal in itself. Although certain investments can save substantial tax, they should be considered only in the context of a wider plan.

Some examples of sensible tax planning are:

- Using your ISA allowance, as returns are free of tax. Stocks and Shares ISAs can make the most efficient use of the tax advantages as they can produce both income and capital growth.
- Contributing to your pension. Not only do you receive tax relief on your contributions, but any growth or income generated within the fund is also tax-free. 25% of the fund can be withdrawn free of tax at your minimum retirement age, while the remainder can be drawn flexibly and taxed at your marginal rate.
- Making use of your capital gains exemptions. You can realise gains of up to £3,000 (2026/2027) without paying any capital gains tax. This can be used, for example, to contribute to your ISA from taxable accounts or to switch into a different fund. This can help make your portfolio more tax-efficient over time by avoiding large gains from rolling up and becoming taxable later.

## Give to Others

Providing for a family or leaving a legacy are important financial goals for many people. By incorporating this into your financial plan, you can ensure that more of your money ends up with those you intended. For example:

- Making regular, affordable gifts as determined by your cashflow plan. In many cases, these are immediately outside your estate for inheritance tax purposes.
- Making larger, one-off gifts. These will normally remain in your estate for seven years.
- Placing money in trust. This is a complex area, and while trust planning can save tax, it can also increase it. Legal advice is recommended.
- Setting up a whole-of-life plan to ring-fence a legacy for your beneficiaries.
- Ensuring your Will is valid and up to date.
- Giving money to charity, either during your lifetime or as part of your Will. Charitable donations are immediately outside your estate for IHT purposes. Charitable bequests via a Will can result

in a 10% IHT discount on your residual estate, providing at least 10% of your estate value is donated.

A financial plan should put your goals first. It is only when all the different aspects work together that the best results can be achieved.

Please do not hesitate to contact a member of the team to find out more about financial planning.

**Please note:**

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