

# Wealth Wise

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## The importance of a financial plan

Welcome to the first edition of Wealth Wise, its aim is to focus on the wider issues that we all face with managing the wealth we have created. In this newsletter we won't discuss investments or get bogged down in technicalities. Instead I want to start off by considering the importance of a good financial plan. Bear with me, its more exciting than it sounds but before I do I want to define what wealth management actually means.

The best description I have found is 'wealth management done well organises and manages personal wealth so that all the components of your financial life work together towards one purpose; achieving the goals you want most for yourself, your family and the world around you.'

'Wealth management means having all of your personal financial issues and challenges addressed so that your entire economic situation is enhanced and improved. It goes beyond traditional investment

advice to encompass and solve the wide variety of complex problems and needs that wealthy families face throughout their lives.'

I have spent the last 30 years in the money business so it may not come as a surprise that I am passionate about money! Being passionate about money certainly does not mean that I believe in accumulating it at all costs nor that I worship it or believe that more is always better.

As the old cliché goes 'money does not buy happiness'; however it can buy freedom to choose and it can certainly be put to good use to make life a whole lot easier. Yet it can also cause stress, create confusion and lead to conflict.

So, when I say that I am passionate about money what I really mean is that I am passionate about maximising the wealth that people have and supporting, coaching

and guiding people to make better decisions around the assets that they have accumulated.

The most effective way to do that is to help people create their own unique financial plan. A great plan starts with the basic data of income, assets and expenditure which we then bring to life with a complex software system.

Whilst the system produces pretty graphic images and lots of useful numbers, it is at this stage one dimensional and about as satisfying as reading a set of accounts!

A financial plan needs to be three dimensional in order to truly bring it to life and the extra two dimensions are

the emotional and intellectual input.

It's about digging deep and using both your brain and your heart to work out what you want your money to do for you both now and in the future. It's about asking yourself difficult questions and resolving some of the inner conflict that may arise along with the disagreements that result from couples who have different ideas and visions.

It may be a challenging process but, as with many challenges, it can also be hugely rewarding when done well.

## Putting a plan into action

We need to identify in what extra ways your money can be utilised to make life easier in both small and big ways. If money was no object, then what would you do differently tomorrow? Would you go on more holidays? Move house? Put aside more for your children? Everyone is unique and the answers will vary.

I am currently helping a couple who sold their business at the end of 2014, following which they have been dependent on their portfolio of pension and non-pension assets to provide income.

In a recent meeting, the client explained that they would like to spend an extra £15,000 a year on travel for the next five years, make provisions for their grandchildren's education needs totalling £250,000 and gift their children a similar amount to help relieve their own financial pressures.

It is not going to be straightforward but with careful planning, I was confident we could demonstrate that they will still have enough to meet their needs throughout the rest of their lives whilst still helping the family today.

They could of course keep all the money and only pass it to the children on death. The problem here is that a significant portion of their estate would be lost by way of 40% inheritance tax (at current rates), and by the time the children inherit they are likely to be pensioners themselves.

As well as helping their family, we discussed the impact of leaving 10% of their taxable estate to charity on death and the final numbers surprised us all.

The charitable donation had the effect of reducing their taxable estate, restoring part of the main residence nil rate band and cutting the IHT rate from 40% to 36% (according to current tax legislation). The result was that they were able to leave a charity donation of £137,000 at a net cost to the beneficiaries of just £15,400. The icing on the cake!



Creating a coherent and practical financial plan has, in this case, given our clients the confidence to spend more today, give their family a potentially life-changing financial boost, reduced their IHT bill and created a substantial legacy on death.

Everyone is different, but a financial plan is crucial to anyone who wants to take control of their future. For help creating or reviewing your financial plan call us on **01614862250** or email **askus@eqllp.co.uk**.

In future editions of Wealth Wise I will be looking at where planning could go wrong, such as:

- Expenditure - the dangers of underestimating what you spend
- Longevity - why most people will live far longer than they are currently planning
- Children - the challenges and barriers to giving money away

#### And ideas that can make a positive difference

- Intergenerational planning - why it's important to look beyond the kids
- Tax - the magic of compound growth on tax deferral and why swallowing an elephant is painful
- Philanthropy - how you can create a legacy for less than you think

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