SUCCESSION WEALTH

Life Stage Guide

Financial Planning in your 30s and 40s

SUCCESSION
WEALTH

Welcome to Succession Wealth

Our Wealth Planners are here to help you take control of your finances and provide you with the confidence you need to go after the things that matter to you.

Succession Wealth Management Limited is a large national UK financial advice firm. Our teams of Wealth Planners deliver high quality independent advice to thousands of clients across the UK, and we're committed to helping people achieve more with their money.

Our clients are at the heart of everything we do and looking after their wealth journey is a privilege to us. The relationships we build last longer than a lifetime, and we are proud to provide advice across generations. When you choose to work with us, we promise to provide an exceptional personal service tailored to your unique financial aspirations.

Your 30s and 40s can be a busy time in life. You might be enjoying a higher income as you scale the career ladder or run your own business. Outside of work, perhaps you're thinking about buying your first home or moving up the property ladder, starting a family, or saving towards retirement.

As your priorities shift and you find yourself with a little less free time on your hands, the prospect of taking control of your finances can feel daunting.

This guide will help answer some of the questions you might have about managing your money in this important life stage. You'll also find some simple steps you can take today to set yourself up for a financially secure future.

In this guide, you'll find useful information about:

- Protecting your wealth from unexpected shocks
- Saving and investing to help you achieve your long-term goals
- Building wealth
- Mitigating your tax bill
- Starting to save for retirement

If you require more help with your finances, our experienced team here at Succession Wealth can provide support.

Email us at hello@successionwealth.co.uk or call us on 0800 051 4659 and we will arrange for someone to contact you.

Your 30s and 40s can be a busy time as your priorities shift

As you enter your 30s and 40s, life might look quite different than it did in your 20s. Often, this is a time when you begin to take on additional responsibilities, both at work and in your personal life.

Statistics show that your 30s are the time when most people achieve the traditional life milestones of getting married, buying their first home, or starting a family. In your 40s, you're likely to be progressing in your career and moving up the property ladder.

So, it's natural that you might be starting to think more seriously about your finances, both now and for the future. You might have begun contributing to a workplace pension, or maybe you've recently taken out a mortgage and want to ensure you can pay it off as soon as possible.

But with so many different responsibilities taking up your time, looking into your financial wellbeing might have fallen to the bottom of your to-do list. You want an easy and accessible way to ensure you make the most sensible financial decisions both today and for the future.

The following pages offer insights into five areas of your finances that could help you grow your wealth and work towards a more financially secure future.

What is the average age for these traditional milestones?

Moving out of the family home: 24

Moving in with a partner: 28

Having a child: 29

Getting married: 31

Buying a home: 36

Achieving your peak earnings: 47

Source: Office for National Statistics

1. Create a safety net to cover your costs in an emergency

When you enter your 30s and 40s, you may start to find yourself with more financial responsibilities. Perhaps you have a mortgage to pay or you may have children to support.

Whatever your responsibilities, you may be starting to consider the risks you could be exposed to if you were unable to work due to illness or injury. For example, how might you cover the cost of your mortgage or utility bills? Could you maintain your regular commitments and uphold you and your family's standard of living?

Although it's an unpleasant scenario to think about, sadly it's one that could happen to anyone. That's why it's sensible to put a financial safety net in place at this stage in life. As well as providing practical help if you do experience a drop in income, it also offers you valuable peace of mind that an illness or injury needn't be disruptive to your finances.

If you're unable to work due to illness or injury, you may be entitled to sick pay from your employer, but the amount of sick pay you'll receive depends on the company policy. If you're self-employed, you won't receive sick pay.

Even if you are only off work for a short time, you could still find that the loss of income can create significant challenges for you. For example, you might:

- Deplete your savings to cover the cost of your everyday essentials
- Run up debt if you need to borrow to cover your bills
- Pause your savings or pension contributions, affecting your ability to grow your wealth
- Accept a lower standard of living until you're able to recover your income.

So, it's sensible to put measures in place to protect your income in case you were to find yourself in this position.

Similarly, if you have loved ones, such as children, a partner, or other relatives, who depend on your income to cover debts (such as a mortgage), bills, or living expenses, then you should consider taking out life cover to provide some financial support to your family if you die.

Financial protection, such as income protection, critical illness cover, and life cover can help you create a financial safety net. If you suffer a loss of income due to illness or injury, you could receive a lump sum or regular monthly payouts to help you cover your costs. If you were to die your dependants would receive a lump sum to help them cope without you.

A financial planner can help you to identify which types of financial protection are most suitable for you.

2. Save and invest to build wealth and support your family's future goals

You may already have some savings set aside for the future, which is a fantastic start to growing your wealth.

If you have children, you may also have started saving for them. This could help you to cover the costs of things like driving lessons, university, and helping them to buy their first home in the future.

The Child Poverty Action Group has shared that, in 2023, the average cost of raising a child to the age of 18 was around £220,000 for a single parent, or £166,000 for a couple.

So, how can you ensure your money grows quickly enough to help you achieve your goals in the time frame you've set?

It's important to shop around to ensure you receive the most competitive interest rate on your cash savings as there can be a vast difference between the best and worst rates.

We recommend holding an emergency fund in an easily accessible cash savings account so that you can withdraw from it at short notice when needed.

Consider saving between three- and six-months' worth of expenses in your emergency fund to cover unexpected bills or a loss of income.

Over £43 billion is saved in ISAs paying less than 1.5% interest.

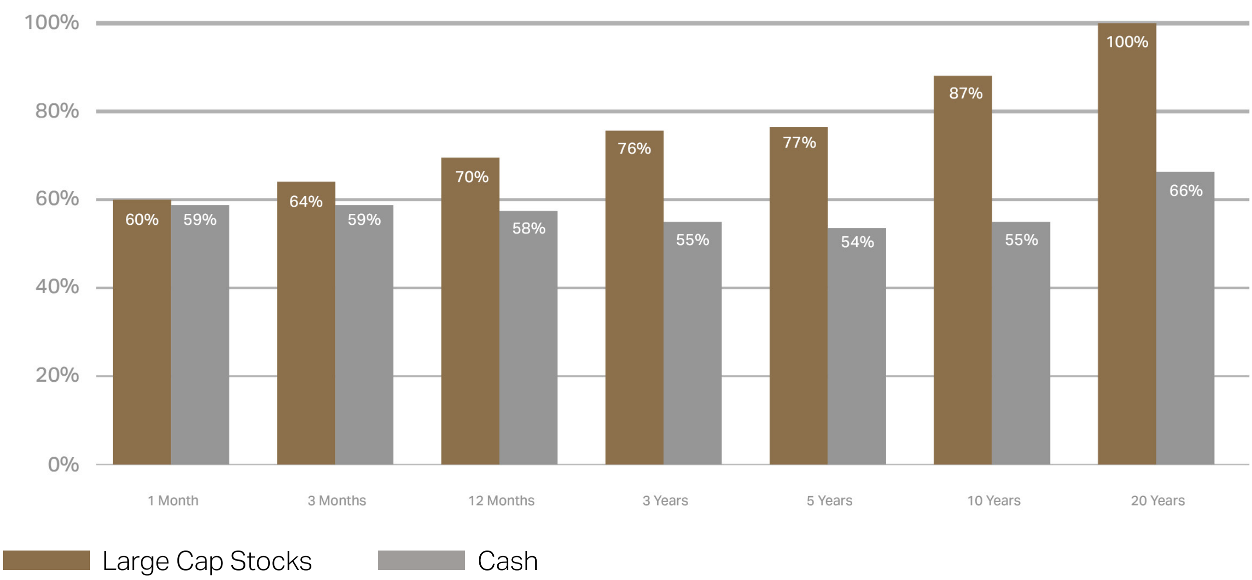
Source: Yorkshire Building Society

Inflation could reduce the buying power of your savings over time

Though shopping around could help you to find a higher interest rate for your cash savings, they might still struggle to keep pace with inflation. As such, over time, the spending power of your savings could fall, even if it is earning interest.

Investing in the stock market could help your wealth to grow above inflation, increasing your spending power. In the graph below, you can see the percentage of time periods in which stocks and cash have beaten inflation between 1926 and 2022.

It's important to remember that past performance doesn't guarantee future performance, and the stock market exposes your money to risk, so the value of your investments can fall as well as rise. But these historical trends can provide helpful insights into how the stock market could help you to grow your wealth over the long term.



Source: Schroders

The key principles of investing can help you to grow your wealth

Investing your money for the first time can be daunting, but these key principles can help you to stay on the right track:

1 Diversify your investments

You may have heard the phrase "Don't put all your eggs in one basket", and the same goes for your investments. If you only hold investments in one sector and that sector underperforms, you could find that the returns on all your investment suffer.

But, if you diversify your portfolio by investing in a range of different asset classes, sectors, and geographical locations, you can mitigate the risk that your wealth is exposed to, because if one type of investment underperforms, another might overperform.

2 Take a long-term view

The nature of the stock market means that the value of your investments can fluctuate. This is to be expected, but it does mean that investing is not suitable for any funds you need access to in the short term. We usually recommend holding investments for a minimum of five years so that they have a chance to ride out any periods of volatility.

3 Choose the most suitable investments for you

It can be tempting to follow the crowd, particularly if a stock is vastly overperforming. But remember that past performance doesn't guarantee future performance, and the stocks others have chosen may not be suitable for you. Instead, choose investments that are most likely to help you achieve your financial goals within the time frame you'd like.

4 Take an appropriate level of risk on your investments

Investing on the stock market does expose your money to risk, but you can tailor the level of risk that you take on your investments. The appropriate level of risk for you will depend on your circumstances, goals, and your attitude to risk as well as your capacity for loss.

While riskier investments could offer a higher potential rate of return, there is more chance that you could lose money. But taking too little risk could limit the potential returns that your money could achieve, potentially hindering your ability to achieve your goals.

3. Make the most of tax efficiencies so that you can grow your wealth more quickly

Paying taxes is an inevitable part of life, but by making the most of the tax efficiencies available to you, you could mitigate your tax bill and grow your wealth more quickly.

3 tax rules that could affect you as you grow your wealth

Personal Savings Allowance
Income Tax may be payable on any interest you earn on your savings that exceeds the Personal Savings Allowance (PSA).

Capital Gains Tax
If you sell certain assets, Capital Gains Tax (CGT) may be payable on the profit you make in excess of the CGT Annual Exempt Amount (currently £3,000 in the 2024/25 tax year). Assets which may incur a CGT charge include stocks and shares, business assets, property that isn't your home, and personal possessions above the value of £6,000 (other than your car).

Dividend Tax
If you take any income from dividends, you may need to pay Dividend Tax on any that exceeds the Dividend Allowance.

An Individual Savings Account (ISA) can shield your savings interest and investment returns from tax liability

An ISA is a tax-efficient wrapper that shields your investment returns or savings interest from tax liability. Each tax year, you can save or invest into a range of different ISAs up to the limit of your ISA allowance. These include the:

- Cash ISA
- Stocks and Shares ISA
- Lifetime ISA (LISA)
- Junior ISA

You don't pay any Income Tax, Capital Gains Tax, or Dividend Tax on the interest or returns you make from investing in an ISA. Consequently, this makes them a very tax-efficient way for you to build wealth.

Pension contributions can be another helpful way to mitigate your tax bill.

Up to a certain threshold, you will usually receive tax relief on the contributions you make to your pension at your marginal rate of Income Tax. This means that some of the Income Tax you have paid in that tax year will be returned to you, either as a pension contribution, as a tax rebate, or through your tax code, so you can put more of your income towards achieving your goals.

You can read more about the benefits of contributing to a pension in section 4.

3 ways to mitigate tax as a business owner

If you run your own business, tax planning can be even more complex as you must consider both your business and personal tax position. Here are three ways you could mitigate your tax bill as a business owner.

1. Claim tax relief on allowable expenses, such as training fees, raw materials, and accountancy fees, to mitigate your Corporation Tax bill.
2. Consult a financial planner to decide the most tax-efficient way to take an income from your business, for example as salary or dividends.
3. Consider using any surplus cash to make employer pension contributions. Businesses are not limited by the Annual Allowance and pension contributions are an allowable expense for tax purposes.

4. It's never too early to begin planning for your retirement

If you're in your 30s or 40s you may find that there are a lot of demands on your income, from your mortgage repayments to the costs of bringing up a family. So, thinking about your later years may be lower down your list of priorities.

However, even though it may be several decades away, it's never too early to begin planning for your retirement.

Indeed, the sooner you start, the more likely you are to be able to achieve your goals so that you can live the lifestyle you desire after you finish working.

This is because of something called "compounding".

Compounding happens when your pension generates investment returns on the total fund. Each year, your money will generate returns on your investment. The following year, you will generate returns on the total fund value, including the returns from the previous year. So, the longer you can leave your pension invested for, the more opportunity it has to grow.

The table below demonstrates how much of a difference you could make to your final pension pot by starting to contribute to it from an early age.

Age at which you start saving into your pension	Value of pension fund at age 68	Difference in value of total pot compared to if you had started saving at age 22
22	£459,000	N/A
27	£337,000	-£122,000
32	£243,000	-£216,000
37	£171,000	-£288,000
42	£117,000	-£342,000
47	£76,800	-£382,200

Source: Standard Life. This assumes; a starting salary of £25,000 a year with 3% employer and 5% employee monthly contributions at the age of 22, plus 3.5% salary growth per year. No earnings limits. Annual investment growth assumed to be 5% with 0.75% annual investment costs.

How much you contribute to your pension each month will differ depending on your goals and circumstances. But there are a few things you can do to help your pension pot grow more quickly.

Make the most of employer-matched contributions if you're eligible

Provided you meet certain criteria, your employer must enrol you into a workplace pension scheme (known as "auto-enrolment").

If you choose to remain enrolled, a minimum of 8% of your salary must go into the scheme. Normally this is split so that you pay 5% of your pre-tax salary (including tax relief) to the scheme and your employer contributes 3% of your pre-tax salary to it, on top of what they pay you.

Some companies contribute more than the minimum or may choose to match your contributions to a higher percentage. If this is the case, it can be a great way to secure more deposits into your pension.

Claim the correct amount of tax relief on your contributions

Most pension providers will add the basic rate of tax relief (20%) to your pension automatically, but if you are a higher- or additional-rate taxpayer, you may need to claim the rest of your tax relief separately, which would amount to a further 20% or 25%, respectively.

You can do this by completing your self-assessment tax return or by contacting HMRC directly.

Keep track of your pension pots to avoid losing funds.

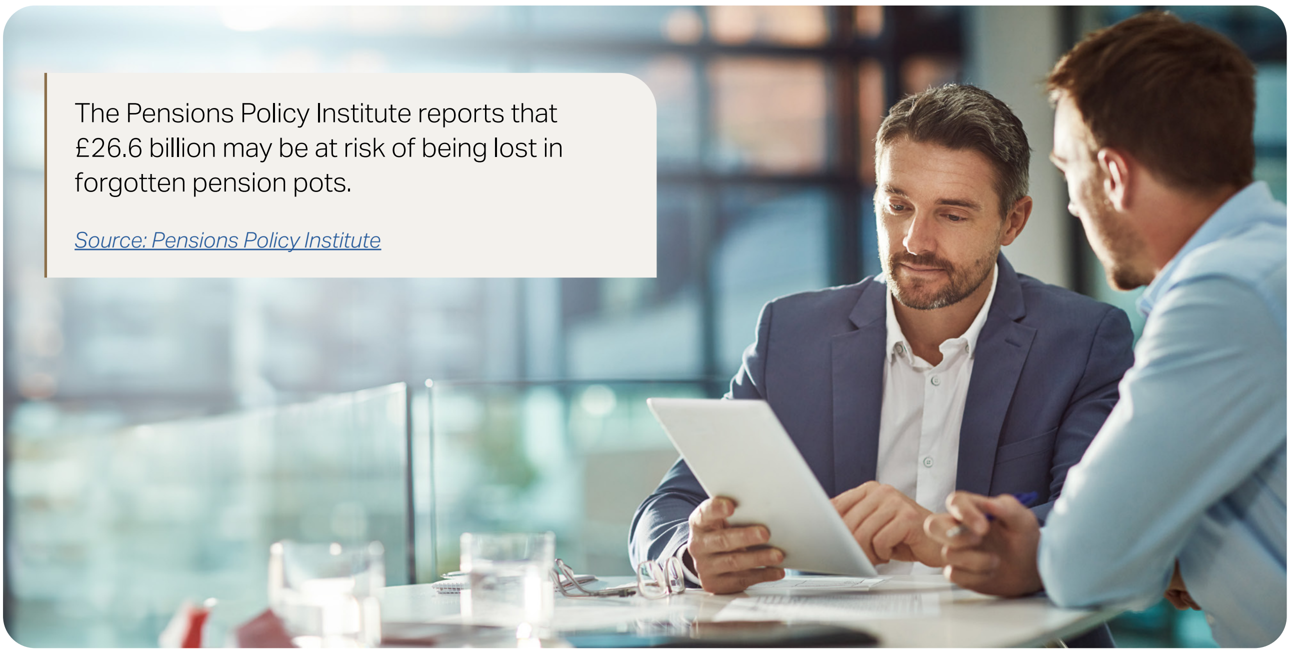
As a result of auto-enrolment, if you move jobs during your career you could end up with multiple pension pots. If you lose the details of old pensions, you could forget to factor these savings into your retirement plan.

So, make sure you update your contact details for each pension whenever you move home, change jobs, or otherwise have a change in circumstances.

Consider increasing your contributions when you receive a pay rise

It's easy to let your spending gradually increase as you earn more, a phenomenon known as "lifestyle creep". While it's nice to enjoy your income when you receive a pay rise, don't forget how it will feel to achieve your long-term goals as well.

One of the ways you might be able to achieve these faster is by directing additional income you receive from pay rises into your pension contributions. As well as boosting your pension pot further, you could also benefit from more tax relief on the larger contributions.



The Pensions Policy Institute reports that £26.6 billion may be at risk of being lost in forgotten pension pots.

Source: Pensions Policy Institute

5. Understand how different scenarios could affect your wealth over the course of your life

Life can be unpredictable, which can make planning ahead more challenging. Working with a financial planner can help you to be a little more prepared for life's twists and turns, thanks to a tool called "cashflow forecasting".

A cashflow forecast can help you to answer questions including:

- How much life insurance do I need to ensure my family could maintain their standard of living?
- How much should I contribute to my pension each month?
- How might a career break or change affect my finances?
- Will I be able to gift money to my children during my lifetime?
- When will I be able to retire?

A cashflow forecast is an illustration of your net worth over the course of your life. To create it, your planner will enter data about a range of factors, including:

- Your current income
- The value of your existing assets
- Your financial liabilities, such as your mortgage
- Your anticipated retirement date
- Your anticipated income needs in retirement
- Other significant dates, such as when you plan to sell your business or downsize your home.

They will also enter assumptions about investment returns and inflation over time.

Using this data, their software produces charts showing how the value of your assets could change over time – including property, investments, cash savings, and other income – and what your income needs are likely to be at different points in your life.

The software also allows you to model different scenarios to discover how they might affect your wealth. For example, you could see how an earlier retirement date or selling your business at a later date might affect your retirement savings.

We can help you to create a financially secure future for yourself and your family

Contact Us

Financial planning is a marathon, not a sprint. If you'd like to learn more about how we can support you at every step of the way, please get in touch..

0800 051 4659

hello@successionwealth.co.uk

www.successionwealth.co.uk

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The content was accurate at the time of writing, changes in circumstances, regulation and legislation after the time of publication may impact on the accuracy of the article.

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The Financial Conduct Authority does not regulate estate planning, cashflow planning, tax planning, or Will writing.

A pension is a long-term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Your pension income could also be affected by interest rates at the time you take your benefits.

Reducing earnings via salary sacrifice can impact entitlement to income related employer and Government benefits and may not be appropriate for some individuals.

The minimum pension age is due to increase from 55 to 57 by 2028.

This information is based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from, taxation are subject to change and tax implications will be based on your individual circumstances.

The value of your investment(s) and the income derived from it, can go down as well as up and you may not get back the full amount you invested.

Past performance is not a reliable indicator of future performance.

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