Building Firm Foundations

Paradigm Norton | for life

Uncompromisingly life-focused financial planning

Spend.
Defend.
Prepare.

Money matters but life matters more

Money is a topic that many of us find hard. It might feel overwhelming or out of control. Equally, you might feel comfortable, but want to start planning for the future.

We think there are three pillars for building firm foundations:

- Spend
- Defend
- Prepare

Together they help us manage our finances responsibly and balance this with spending time enjoying life. At Paradigm Norton we believe that having lots of money is not the goal. Money is a tool to enable us to live a life aligned with what we value and enjoy, it provides us freedom to make choices.

1. Be Intentional

We think there is a spectrum of spending.

The spectrum of spending

Good — Empty — Neutral — Bad

Bad spending: Addictive, out of control spending behaviours, leading to spiralling debt

Neutral spending: Necessary things like utility bills, rent, mortgage, food.

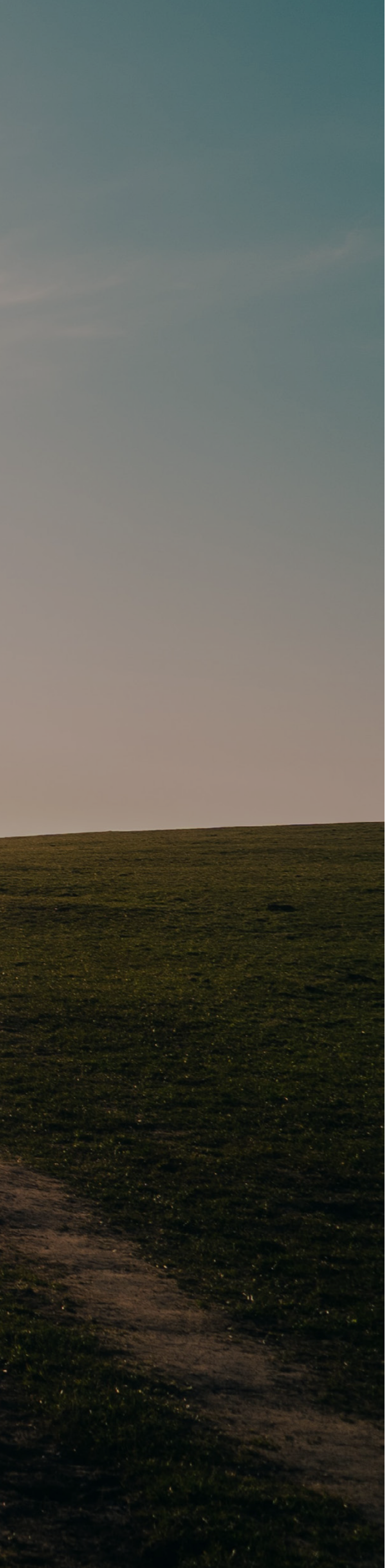
Empty spending: Temporarily makes us happy in the moment but doesn't have a lasting impact.

Good spending: Brings lasting happiness, lined up with the things you find important.

Where possible spend on things that bring you, and others, lasting happiness. Experiences tend to do this better than buying things. Supporting others (with your time, energy, or money) can also bring lasting happiness.

Action

Review where your money goes each month and use these categories. Choose to divert empty spending towards good spending. Address bad spending and get help if necessary. Make sure your neutral spending is good value (compare prices, shop around).



2. Pay yourself first

It can be very easy to spend all your money and not have anything left to save. For some people, simply having the money to spend means that it **WILL** get spent. This doesn't mean that the spending wasn't good, but we need to have an eye on the future.

Our **Defend** and **Prepare** pillars rely on us putting money aside. If we've spent all our money we will not be able to do this. However, if we set this money aside before we start spending, we are more likely to succeed.

Action

Move money into savings as soon as you have been paid. You might find it helpful to set up a standing order at your bank. In the Prepare pillar we will also suggest that you ask your employer to put money into your pension before they pay you.

3. Spend less than you earn

If we spend every last penny, every month, we won't have room for flexibility. Any extra spending will need to come from our savings. Having a bit of flexibility means you can take advantage of that opportunity to eat out with a distant friend who is just passing through. It makes it less painful when bills, such as your mobile phone, go up!

If you can't quite afford to buy something today, you could use this flexibility to save up rather than use a credit card. Whilst you wait you can reflect on whether you really want it and check if you are getting a good deal!

Action

Turn your spending review into a spending plan (also known as a budget).

Write down your intentions.

Aim to allow around 10% for flexibility. If you don't spend it, you can always save it!

4. Protect what matters

Sometimes things happen which are unexpected and unpleasant. Often this will cost money to resolve. To help reduce the impact we take out insurance. Car insurance, house insurance, pet insurance, or even wedding insurance.

If we are unable to earn money this will prevent us from funding our spending or putting money aside for the future. A change in your health might mean that you are unable to work for a period of time, or even permanently. You might need to change pace or make adaptations. If you were to die, your family might need to consider things such as extra childcare and perhaps repaying debt.

Your employer might have something in place to help. A Death In Service scheme is quite common. Some employers might provide a Group Income Protection benefit too. Others provide access to benefits such as Private Medical Insurance or a Cash Plan.

Whilst the State provides some support, it might not be enough to protect what matters to you. It might be necessary to take out more cover to reduce the impact on your plans, family, and commitments.

You might need to change pace or make adaptions.

Action

Find out what benefits your employer provides and check if you have bought any extra policies. Consider the financial impact if you were no longer able to work or were to die.

Do you have enough insurance? Together with our protection partners at Lifesearch Expert we can help you answer this important question.

5. Be ready for unexpected events

Your washing machine stops working, your car needs a new tyre, you lose your job, or perhaps your garden fence blows down in a storm.

They aren't things that we tend to anticipate in our spending plan, but when they arise, we have to deal with them straight away. We need money quickly to cover them.

We often do not have (or cannot buy) insurance to cover these events. It's possible that we might not be able to even imagine that they might occur. Having money set aside for these emergencies is important. Most people should aim to have 3 - 6 months of spending covered.

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Action

Work out how much money you should have in your emergency fund. Make sure it is in a separate bank or savings account, and that you can get access within a day or so.

If you need to grow your emergency fund start using your 'pay yourself first' money to do so – make it your top priority!

6. Have a voice when things go wrong

Many people will be familiar with the idea of having a Will. It sets out what you want to happen to you, and the things you own, when you die. If you have children, your Will can set out who should look after them. Not having a Will makes it more complicated (especially if you are not married to your partner) and things might not happen the way you would like them to. Your wishes may change over time, so it is important to review it regularly or if something major changes in your life (e.g. Marriage, Children, Divorce). Your Will is your voice beyond the grave.

There are times when we can't make practical decisions or undertake everyday tasks. You might be stranded out of the country, seriously injured, or suffering from a mental capacity limiting condition.

It can be helpful to delegate to other people using a Lasting Power of Attorney (LPA).

This provides your authority (with appropriate controls and limits) to act on your behalf in your best interest.

One type of LPA enables decisions to be made about your property and financial affairs, either immediately, with your permission, or if you lose mental capacity. The other type of LPA provides authority to make health and welfare decisions if you lose mental capacity.

Prior to the introduction of LPAs people used Ordinary and Enduring Powers of Attorney to achieve similar things. In some circumstances it might be appropriate to supplement or replace them with a more flexible LPA.

Action

Does your Will need to be reviewed?

If you don't have a Will you should look to arrange one.

Whilst LPAs are often thought of as primarily for older people we think that even younger adults should consider putting this in place.

A number of our clients have worked with a firm called Kinherit to receive advice and assistance putting Wills and LPAs in place.

They offer a free Will review service.

Your Will is your voice beyond the grave.

7. Don’t delay

There are some big expenses which we need to save for. It might be a deposit to buy a home, to pay for a special holiday, or to fund life after work! When we give our money time to work it compounds – we earn interest on the interest on the interest on the interest…

Very quickly our savings or investments can grow.

Delaying can have a big impact on our ability to achieve these big goals. The chart on the next page shows the difference between starting saving for retirement at age 30 versus age 40 (assuming a 6% p.a. return). By the time you reach age 65 starting 10 years early (and saving 30% more in total) could give you double the fund compared to starting at age 40!

It’s been said that

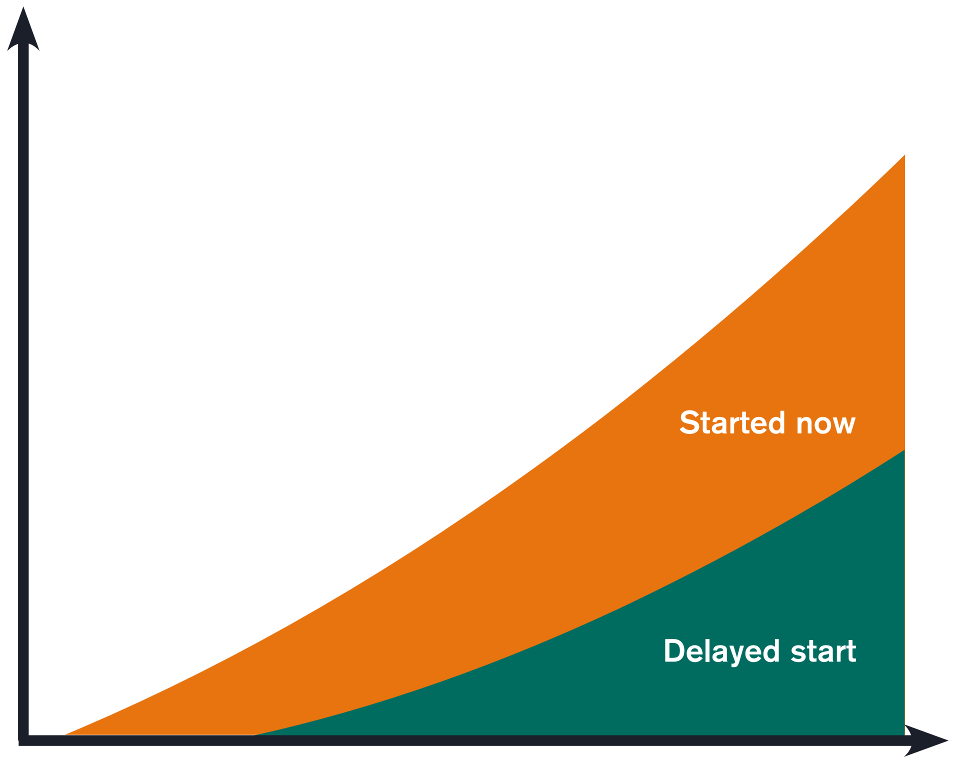
“the best time to plant a tree was 20 years ago. The second-best time is now”.

Don’t wait until you are clear on what you are saving for - start today.

Action

Start saving today!

Starting now could help you achieve even bigger goals!



8. Save tax efficiently

By saving diligently you provide yourself with options for the future. Once you have established your emergency fund the products you use will become more important. The two main products are **ISAs** and **Pensions**. The money inside of these grow free from most taxes. Which one (or for most people, ones) you use will depend on when you plan to access the money, how much you plan to save, and what your earnings are.

Most ISAs can be accessed tax free at any time without penalty. This makes them a great product to use if you plan to spend it before retirement. You can split your allowance of £20,000 across cash, investment, and innovative finance ISAs.

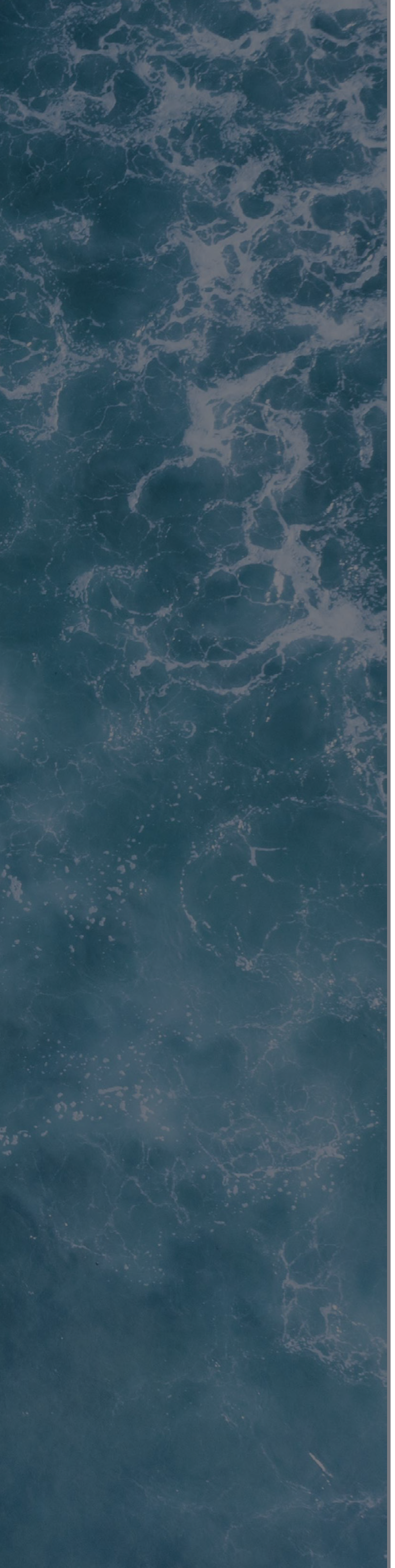
There are exceptions:

- **Junior ISAs** (separate £9,000 allowance per child, accessible from age 18),
- **Lifetime ISAs** (£4,000 allowance forms part of your main allowance, you must be under 40 when you open the account, accessible from age 60 unless used to buy a home),
- **Help to Buy ISAs** (a legacy type of ISA with complex rules, must be used to buy a home).

If you do not need access to the money until age 57 (under current rules) a pension benefits from tax relief on your contributions. For a basic rate taxpayer this turns an £80 contribution into £100. When you take money out of the pension up to 25% can be taken tax free (subject to limits/rules outside of the scope of this document) with anything else subject to income tax.

Action

Identify how much you plan to save or invest. Consider when you are likely to need to access this money. This will help you work out how much to direct to an ISA and how much to contribute to a pension.



9. Don’t miss out on ‘free money’!

Employers are required to automatically enrol most employees into a workplace pension scheme. As part of this your employer will make a contribution to your pension scheme. Many employers contribute more than the 3% minimum. Some companies offer matching contributions or the ability to make contributions before tax through Salary Sacrifice.

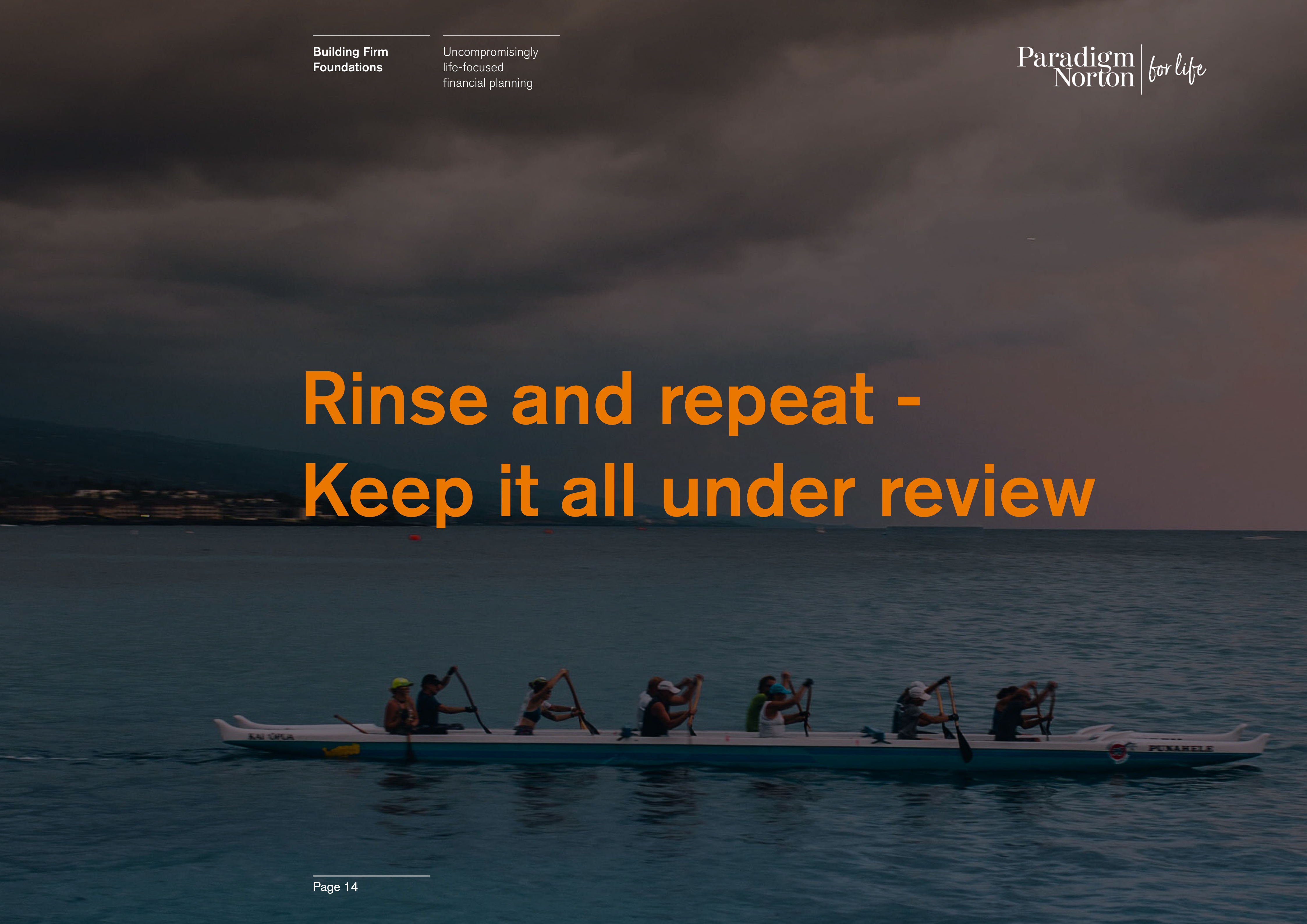
This is a great way to boost your pension savings. However, you will only receive this ‘free money’ if you also contribute.

This is a great way to boost your pension savings.

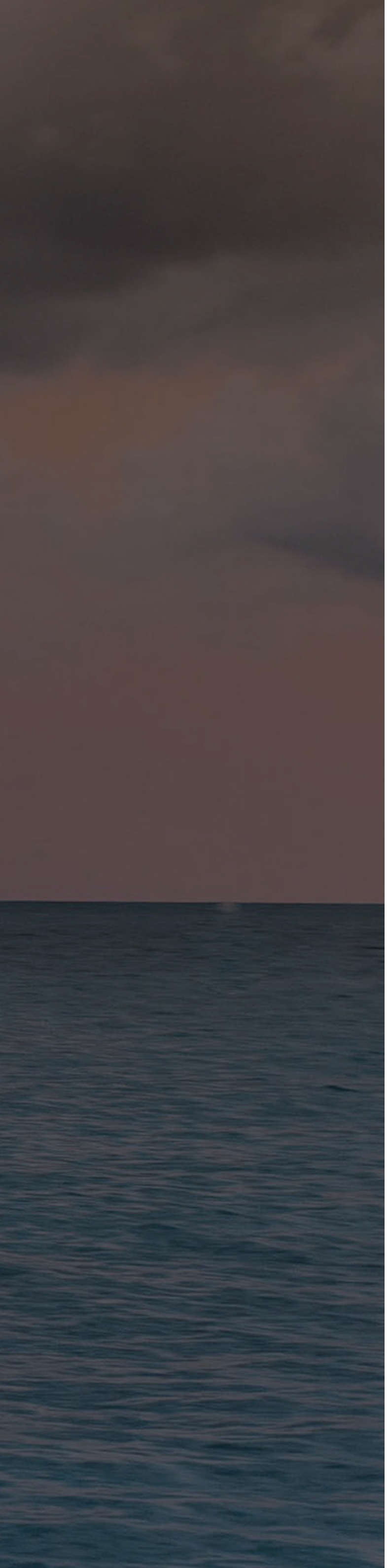
Action

Find out how your workplace pension scheme works. Identify any opportunities for matched contributions.

Ask whether Salary Sacrifice is available to you.



Rinse and repeat - Keep it all under review



Helpful resources

- Paradigm Norton Spending Audit
- Lifesearch Expert - 0203 764 0223 or contact us for an email introduction
- Kinherit (Will & Trust Planning)
- Moneyhelper (UK Government website)
- StepChange Debt Charity

LifeSearch kinherit

Need some advice?

Contact our team today and start your journey to financial freedom.

If you would like to arrange a no-obligation meeting to discuss your financial planning needs, or if you would like a second opinion on your existing financial planning, then we are here to help.

info@pnfp.co.uk or **020 7269 7960**

Please note, the contents of this guide are provided for educational purposes only and should not be considered as a personal recommendation of any kind. Paradigm Norton does not provide advice on general insurance.

Investing places your capital at risk and investments may fall or rise in value. You should seek competent advice before taking any action.