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FACTSHEET

10 tips to achieving your financial goals

Time to diagnose your money situation with a financial health check?

Even if you have a solid financial plan in place, it still needs to be updated regularly to ensure it reflects any life changes. But what should your priorities focus on now? Is it time to turn your attention to your pension, your ISA, your mortgage, or something else?

Should you be thinking about investing more for your children's education or putting an estate plan in place? And then there are those previous company pension schemes to review – is it three, four…or was it five?

If you're unsure what diagnosis to give your current money situation, maybe it's time to have a financial health check. But where do you start?

1. REDUCE DEBTS

You need to know exactly how much you owe, how much interest you are paying, and to whom. If you already have a credit card or loan with a company, it is unlikely to allow you to take out a further loan or credit card to consolidate your debts – and you could end up with a rejection footprint on your credit record that will deter other lenders. If your debts are restricted to one or two credit cards which are incurring interest, the cheapest option is probably to transfer the balances to a zero-interest credit card deal.

If your debts are too large to move to one credit card account, you could move as much as possible to a zero-interest credit card deal, pay the minimum allowed on this account, and concentrate on paying the more expensive debt that you were unable to transfer. Alternatively, you could apply for a personal loan to cover the entire amount. Once you have added up all the debt, work out how much you can reasonably afford to pay off each month.

2. TRACK YOUR SPENDING

Without a budget to monitor your spending, you won't be able to track where your money is going. When you feel financially out of control, the knee-jerk reaction is to cut back. Your budget will make sure that your money is doing what you're telling it to do. Tracking your finances gives you a baseline to help track your progress and helps you to see spending mistakes before they become disastrous personal finance problems. Once you get into the habit of tracking your expenses, you'll find that the process makes you more mindful of the spending choices you make throughout the day.

One of the biggest sources of financial stress for some people is the eternal question of where all the money went. By tracking all of your expenses rather than feeling as though everything is out of control, you can transform the question into one of personal decision-making – something that's far less stressful. In short, tracking your expenses returns the sense of control over your finances to you. You're no longer just along for the ride on a financial roller coaster. There are a number of different iOS and Android budgeting apps that have been designed to help you keep track of your finances from your phone.

3. USE TAX ALLOWANCES

For the 2020/21 tax year, there are a number of allowances to make use of – the tax year runs from 6 April to 5 April. The Income Tax personal allowance, which is the amount you can earn tax-free before you start paying Income Tax, is £12,500.

The tax-free dividend allowance is £2,000 for the 2020/21 tax year. On dividends received above the £2,000 threshold, basic-rate taxpayers pay 7.5% tax and higher-rate taxpayers pay 32.5%. Additional-rate taxpayers will be charged 38.1% tax on dividend income over the allowance. The dividend tax does not apply to investments held in an Individual Savings Account (ISA) or a pension.

Every year you can take advantage of your Capital Gains Tax allowance. In this current 2020/21 tax year you can make gains of £12,300 before you start paying Capital Gains Tax. Lower-rate taxpayers pay 10% tax on capital gains, and higher and additional-rate taxpayers pay 20%. The only exception is for second properties, including buy-to-let investments. Capital gains on these investments will be taxed at 18% for basic-rate taxpayers and 28% for higher and additional-rate taxpayers.

Pension contributions receive full Income Tax relief; this means it costs basic-rate (20%) taxpayers £80 to save £100 into their pension, while higher-rate (40%) taxpayers only need to pay £60 to save £100. The lifetime pensions allowance for the 2020/21 tax year, in line with inflation (Consumer Price Index), now stands at £1,073,100.

Most people are allowed to contribute up to £40,000 into their pension in 2020/21, known as the 'annual allowance'. For the ultra-high earners who earn an 'adjusted income' of over £240,000, the annual allowance tapers by £1 for every £2 of income, to a minimum of £4,000 per year – the taper threshold is currently £240,000.

You can save a total of £20,000 in an Individual Savings Account (ISA) this tax year, where all your earnings will be tax-efficient. You won't pay Income Tax, dividend tax or Capital Gains Tax on any investments you hold in an ISA. The limit applies to Cash ISAs, Stocks & Shares ISAs and Innovative Finance ISAs, and the allowance can be spread among the three types.

You can save £4,000 a year into a Lifetime ISA, and this can be used towards the cost of buying a first home or for retirement. If you're looking to buy a home, there's also the Help to Buy: ISA, but this is no longer available for new savers. Those who opened a Help to Buy: ISA before the ISA closed to new savers in December 2019 can save up to £3,400 in the first year and then £2,400 each year afterwards.

The Junior ISA allowance for the 2020/21 tax year is £9,000. This same limit applies to Child Trust Funds (CTFs). It has previously risen every year in line with inflation.

Basic-rate taxpayers can now earn £1,000 from savings before they start paying Income Tax on savings income. Higher-rate taxpayers start paying tax on savings income over £500. There is no savings allowance for additional-rate taxpayers.

4. START A NEW HABIT

Regular monthly investing promotes the discipline of saving, whereby a small amount invested every

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month over several years can build into a sizeable nest egg. Regular contributions are generally the route taken by people who don't have a large amount to invest at one time, or by those who are more cautious about investing a lump sum and prefer to drip feed their money into the markets.

Investing monthly can also be a particularly effective way of investing through times of volatile markets, as we've been experiencing this year. A monthly direct debit takes the emotion out of investing, which can be invaluable at times of extreme volatility. Investing monthly also means that you don't see the value of your investment change so dramatically, which can help you stay focused on your long-term goals.

When there is a market correction, your regular payment will acquire more units. And when the market rises, you will acquire fewer units, but the units you bought in previous months will be worth more. This smoothing out of investment returns is known as 'pound-cost averaging'. As your circumstances change, you can adjust the amount of your regular savings. Ideally, you should look to increase the amount as your salary increases, but you have the flexibility to reduce it should your income fall.

5. TOP UP YOUR PENSION

To get the income you want during retirement, it's important to regularly review the amount you're contributing towards your pension savings. However, you need to be aware that over time, inflation can steadily erode the value of your contributions, so it's important to review them regularly.

A pension is one of the most tax-efficient ways to save. Topping up your pension will help towards improving your financial security in retirement, and saving a bit more now could make a big difference to your future. The way in which the tax relief is given will depend on the type of pension scheme you're in, and also whether or not you use salary sacrifice.

Many pensions allow you to choose to automatically increase your payments each year, say by 3–5%. It's likely that they'll stay in line with inflation without you having to worry about it. You should consider a larger increase if you receive a pay rise.

6. FOCUS ON YOUR GOALS

Failing to plan is planning to fail. How often do you set goals? How often do you revisit your list of goals? We all know that setting goals is important, but we often don't realise how important they are as we continue to move through life. Focusing on your goals can help ensure you aren't distracted by current daily events, so that they don't prompt you to veer off course.

Financial planning is essentially about setting short, medium and long-term financial goals and putting together a plan to meet them. It's important to have a solid understanding of your finances and how to reach your goals. Setting goals helps trigger new behaviours, helps guide your focus, and helps you sustain that momentum in life.

How will your life be different in a year? Do you have the security of knowing where you're heading financially? Are you going to be able to maintain your current lifestyle once you stop working? Have you made sufficient financial plans to live the life you want and not run out of money? Do you have a complete understanding of your financial position? What is 'your number' to make your current and future lifestyle secure? When you keep your focus on what you want to achieve in life, you are much more likely to reach your goals.

7. STICK IT OUT

Don't let the coronavirus (COVID-19) pandemic derail your financial plans. There will always be some bumps along the way as you invest for your future, but as volatility emerges and emotional anxiety sets in, this can lead you to veer towards 'flight' instead of 'fight'.

Now is the time to take steps to improve your relationship with money and the role it plays in your life, with a view to seeking a happier, more fulfilled existence. Instead of making knee-jerk reactions, it's important to take time to consider your long-term plans and take deliberate steps that can further your long-term goals.

8. BROADEN YOUR INVESTMENTS

Take the time to review your investments, and look for opportunities to diversify. Your investment strategy now could determine your financial success for years to come, which is why it's important to have a broad diversified spread of investments. Diversification can be neatly summed up as: 'Don't put all your eggs in one basket'. The idea is that if one investment loses money, the other investments will make up for those losses.

You diversify by investing your money across different asset classes, such as equities, bonds (also referred to as 'fixed income'), property and cash. Then, you diversify across the different options within each asset class. Diversification lowers your portfolio's risk because different asset classes do well at different times. It is your best defence against a single investment failing or one asset class performing poorly. Having a variety of investments with different risks will balance out the overall risk of a portfolio.

9. KEEP EMOTIONS IN CHECK

Remember, as the old investment adage goes, it is 'time in the market, not timing the market' which is typically key to long-term gains. Shock events such as the COVID-19 outbreak and related stock market volatility can cause investors to act on their emotions.

Putting a plan in place when markets turn south and reviewing that plan when emotions are running high can temper this impulse. Although short-term volatility swings can be difficult to stomach, it's important for long-term investors to persevere.

While it may be tempting to pull out of investment markets, you may miss out on a potential market rebound and opportunity for gains while you're on the sidelines. During any period of volatility, thinking about your reasons for investing and what you ultimately plan to do with your money is important.

10. REINVEST DIVIDENDS

Reinvesting dividends is one of the most powerful tools available for boosting returns over time. When you reinvest dividends, you can dramatically increase your annual returns and total wealth. At the point an investment you own pays dividends, you have two options: either take the money and use it as you would any other income, or reinvest it.

Although having the extra money on hand may be appealing, reinvesting your dividends can really pay off in the long run. When you eventually reach the stage where you'd prefer to use your dividends to supplement your income, you can simply stop reinvesting the dividends and start spending them! ■

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