PICO
FINANCIAL PLANNING

Protecting your future - 7 good financial habits for business owners

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Introduction

As a business owner, you're rightly focused on developing and growing your company, seeing it as integral to your current and future financial wellbeing.

It's understandable if this focus has meant losing sight of your wider financial position. Your financial planning up to now may have simply been transactional – mortgage, life insurance, maybe previous pension arrangements without any overarching plan or strategy.

Here at Pico, we've been in the same position as you – starting a business and building it up over the years, so we can speak with some experience and understanding of the issues and challenges you face.

With the end of the Covid-19 pandemic now very much in sight, it looks as though 2021 could be a far less financially turbulent year than 2020. This means that now could be the ideal time to take stock and put some organisation and structure around your financial arrangements.

In this guide, you will find plenty to think about when it comes to the importance of financial planning and how having clear plans in place can help both your financial and mental well-being.

You'll also find seven key financial habits that we would strongly recommend you adopt to help put you on the right financial track, leaving you more time to devote to both your business, your family, and yourself.

Who you are

Let's start with you.

It's likely that you're aged 30-45, and you're working hard in your business that you've set up from scratch.

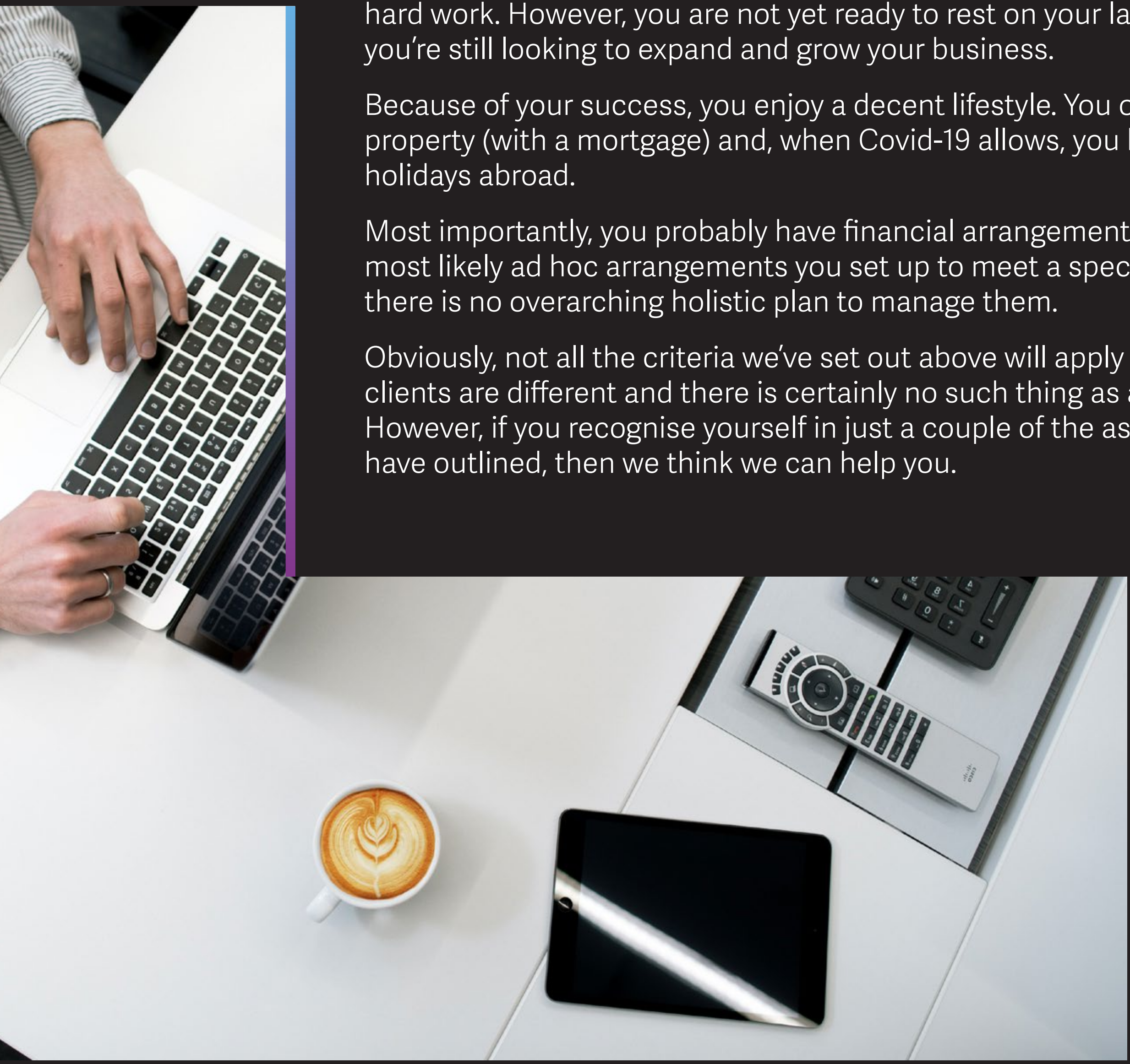
On the financial life journey, you are still very much on the upward 'accumulation' phase, building up assets and still some years away from retirement. In an ideal scenario the phase you're currently in will reach a peak around age 50 to 55 when you'll start actively thinking about, and planning for, your retirement.

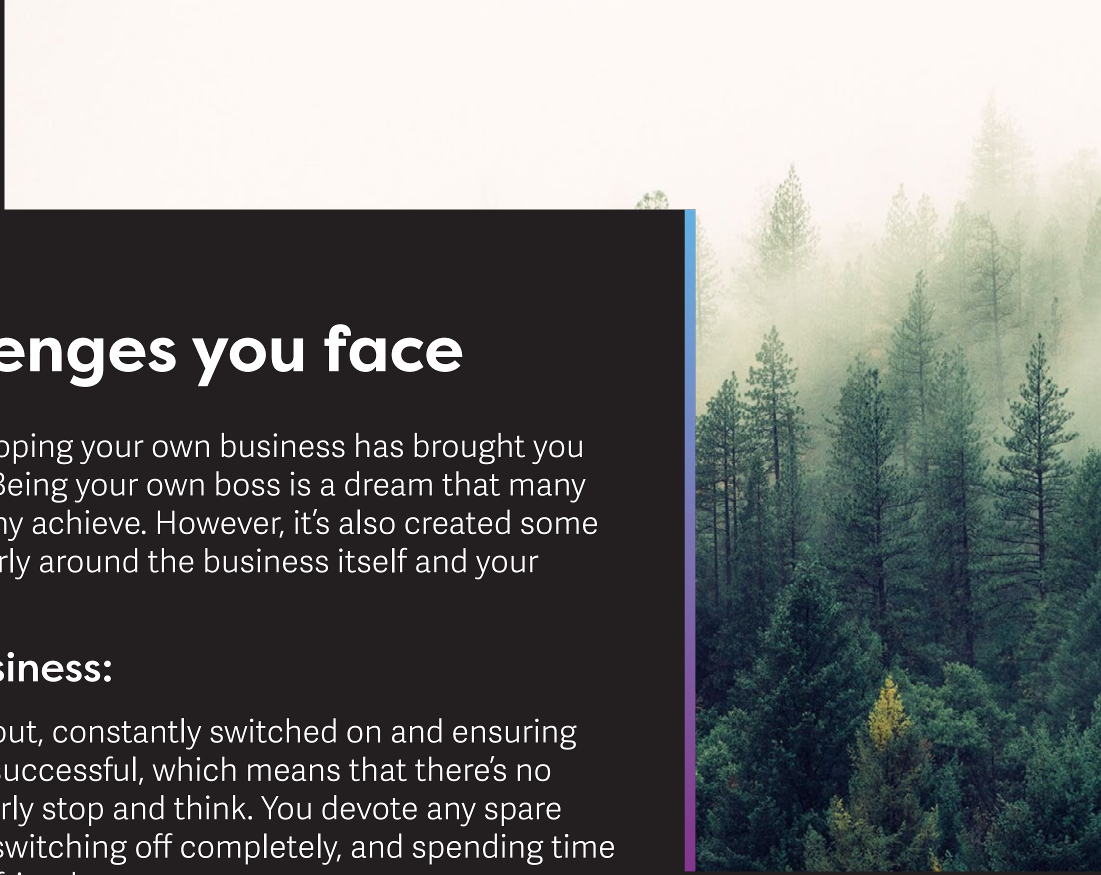
To build your business, you've sacrificed a lot – both in terms of time and money. Happily, the business is now starting to show the benefits of your hard work. However, you are not yet ready to rest on your laurels and you're still looking to expand and grow your business.

Because of your success, you enjoy a decent lifestyle. You own your own property (with a mortgage) and, when Covid-19 allows, you have decent holidays abroad.

Most importantly, you probably have financial arrangements in place, most likely ad hoc arrangements you set up to meet a specific need, but there is no overarching holistic plan to manage them.

Obviously, not all the criteria we've set out above will apply to you. All clients are different and there is certainly no such thing as a typical client! However, if you recognise yourself in just a couple of the assumptions we have outlined, then we think we can help you.





The challenges you face

Setting up and developing your own business has brought you a lot of satisfaction. Being your own boss is a dream that many aspire to but not many achieve. However, it's also created some challenges, particularly around the business itself and your money.

- With your business:

You are working flat out, constantly switched on and ensuring your business stays successful, which means that there's no time for you to properly stop and think. You devote any spare time you do have to switching off completely, and spending time with your family and friends.

- With your money:

You do not know if you are doing the right thing with your money or if the existing arrangements are the right ones for you.

What you want

Your wellbeing is important, as is making sure you get the correct balance between work and home.

You will have seen, and read about, people becoming so obsessed with their work/life balance that their health suffers, along with their relationship with their family. You want to avoid that at all costs.

You recognise the importance of down time – spending time with your family and following your hobbies, but you feel you would enjoy these far more if you knew that your finances were secure.

Above all, you're looking for a structured financial plan which can give you the reassurance that everything is under control and your business and personal priorities are aligned.

The importance of planning

Your business and family mean everything to you, so it's essential to have coherent and robust financial plans in place for both.

'My business is my pension' is an adage we hear a lot. There is nothing wrong with it as an objective at all – looking to sell your successful business to fund your retirement is a very worthy aspiration. But what happens to your business when you retire should really be just a part of a much wider retirement plan to ensure you'll be able to live a comfortable life when you do finally stop work.

You also need to consider 'what if?' scenarios to make sure you have a plan in place if the unexpected happens and you're no longer able to work to provide for your family. We do appreciate that such considerations can be awkward, especially when it comes to talking about them with your loved ones, but grasping the nettle now can help avoid possibly insurmountable problems further down the road.

Once firm plans are in place, you've done a lot of the hard work. Going forward, all you will need to do is review it – probably annually, to check you're still on course, and make changes as required. It's also advisable to review your plans in the event of big changes to your business or changes in your family set-up.

We have a wealth of experience when it comes to helping businesses with their financial planning. You can find out more on **our website**, or call us on 01507 607711

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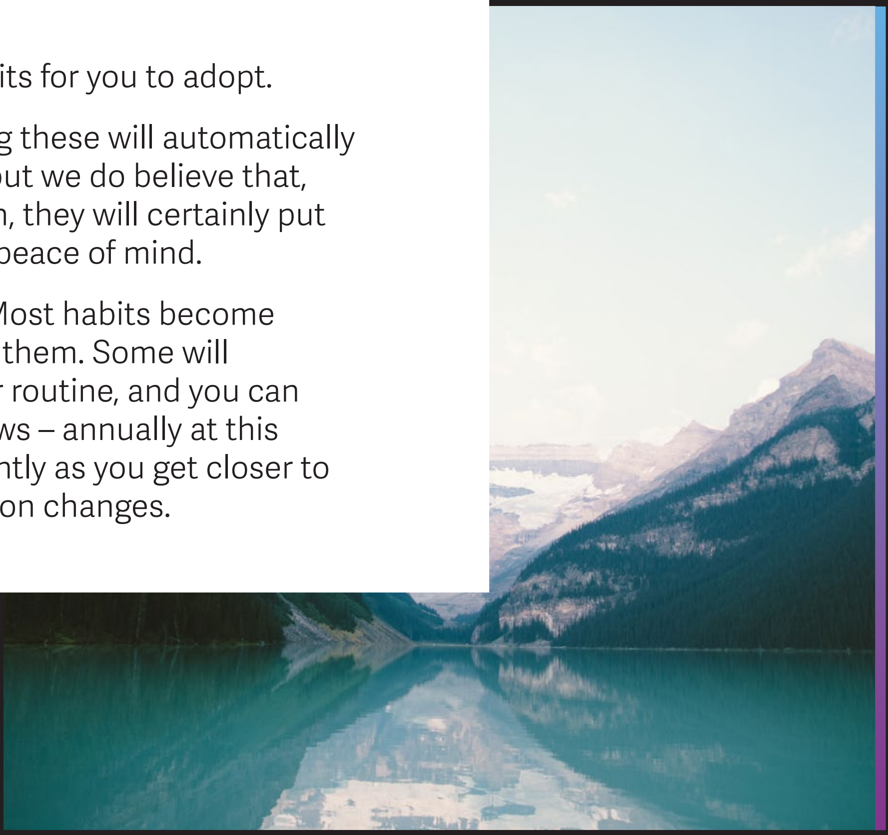
7 good financial habits you should adopt

Here are seven good financial habits for you to adopt.

We're not suggesting that following these will automatically solve all your financial problems, but we do believe that, along with a detailed financial plan, they will certainly put you on the right track to financial peace of mind.

They should not be too onerous. Most habits become second nature once you establish them. Some will automatically become part of your routine, and you can maintain others with regular reviews – annually at this stage, but potentially more frequently as you get closer to retirement or your financial situation changes.



1

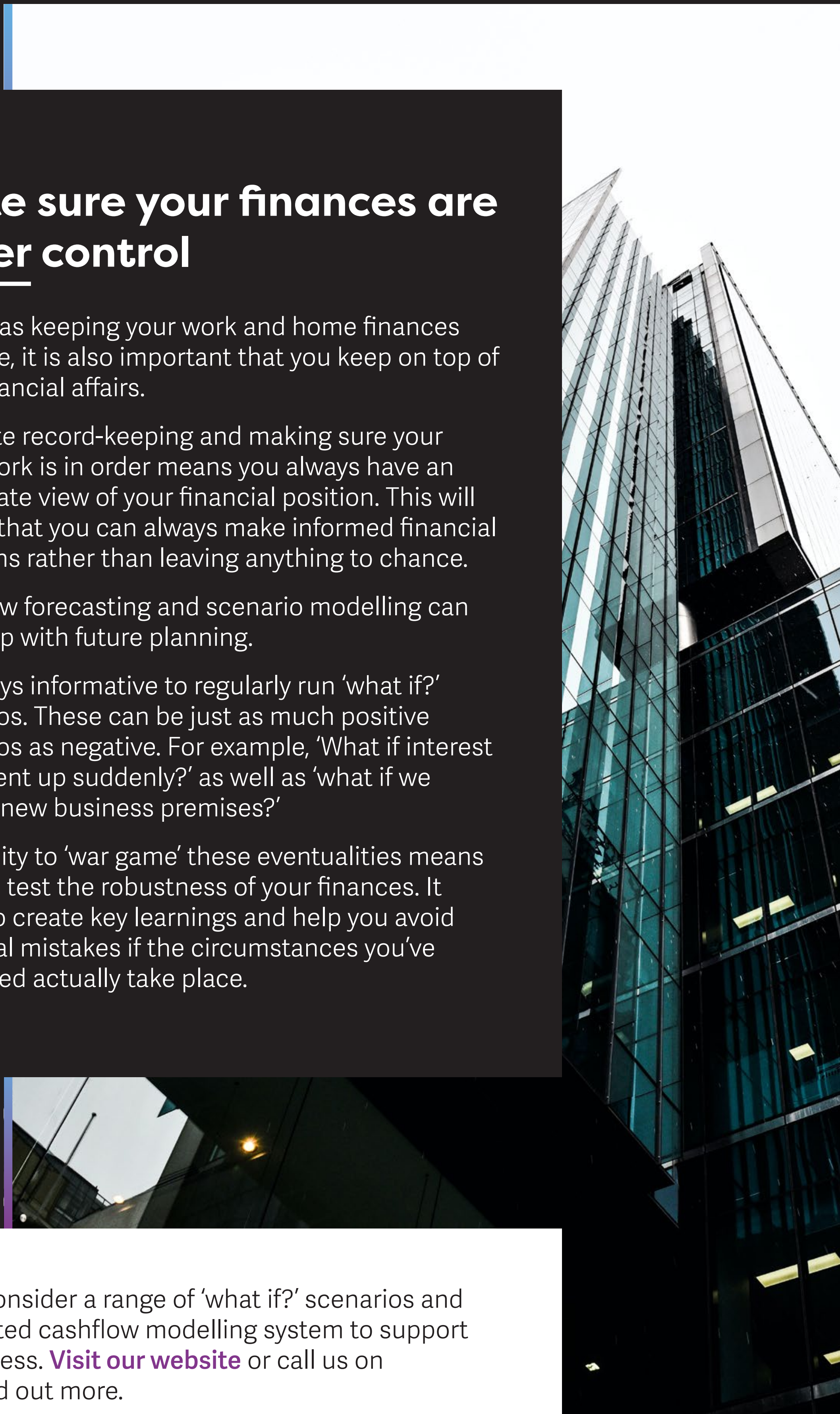
Keep your home and work finances separate

Because of the time and effort you've invested in your business, it's inevitable that you'll want to prioritise this when it comes to financial decision-making.

This makes sense. After all, your business is the engine of all your other finances, so its success is essential to your future. However, it is important not to overlook your personal financial situation and make sure that you don't neglect your own and your family's finances.

You should ensure you're paying yourself a regular wage that is sufficient to cover all your essential outgoings and the necessary amount to safeguard your future. Your financial adviser or your accountant will be able to help you ensure you do this as tax efficiently as possible.

You should also make sure you keep your work and home finances separate, with different bank accounts and credit cards – even if you are a sole trader.



2

Make sure your finances are under control

As well as keeping your work and home finances separate, it is also important that you keep on top of your financial affairs.

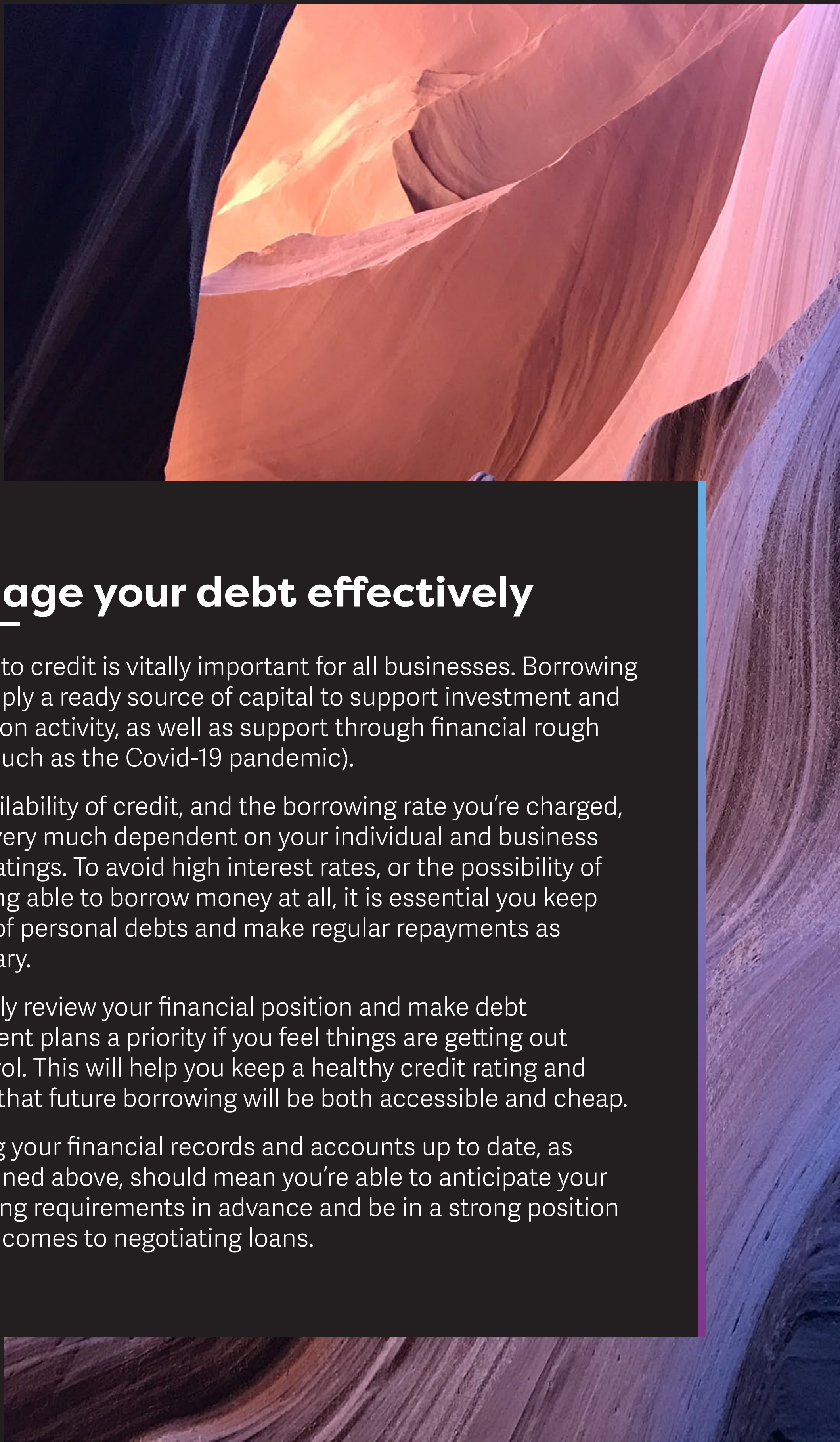
Accurate record-keeping and making sure your paperwork is in order means you always have an up-to-date view of your financial position. This will ensure that you can always make informed financial decisions rather than leaving anything to chance.

Cashflow forecasting and scenario modelling can also help with future planning.

It's always informative to regularly run 'what if?' scenarios. These can be just as much positive scenarios as negative. For example, 'What if interest rates went up suddenly?' as well as 'what if we bought new business premises?'

The ability to 'war game' these eventualities means you can test the robustness of your finances. It can also create key learnings and help you avoid potential mistakes if the circumstances you've envisaged actually take place.

We can help you consider a range of 'what if?' scenarios and use our sophisticated cashflow modelling system to support your planning process. **Visit our website** or call us on **01507 617711** to find out more.



3

Manage your debt effectively

Access to credit is vitally important for all businesses. Borrowing can supply a ready source of capital to support investment and expansion activity, as well as support through financial rough spots (such as the Covid-19 pandemic).

The availability of credit, and the borrowing rate you're charged, will be very much dependent on your individual and business credit ratings. To avoid high interest rates, or the possibility of not being able to borrow money at all, it is essential you keep on top of personal debts and make regular repayments as necessary.

Regularly review your financial position and make debt repayment plans a priority if you feel things are getting out of control. This will help you keep a healthy credit rating and ensure that future borrowing will be both accessible and cheap.

Keeping your financial records and accounts up to date, as we outlined above, should mean you're able to anticipate your borrowing requirements in advance and be in a strong position when it comes to negotiating loans.

4

Maximise your pension contributions

As we have already discussed, there's no reason why your business can't form part of your pension arrangements, but it's important to look beyond that.

Time in the market

It's never too soon to start saving for your retirement and, if you're already saving, you should always be looking to increase the regular amount you're putting away – or adding additional one-off sums.

Tax relief on pension contributions makes them one of the most efficient ways of saving money, with the government adding an extra 20% to any amount you personally contribute if you are a basic rate taxpayer – that's an immediate growth of 20% without you having to do anything. Higher and additional rate tax relief makes pensions equally attractive for those earning more than £50,000 per year.

So, if you haven't started putting money into a pension already, you should make it a priority - regardless of your age. Compounding – effectively growth on growth – and time in the market means money put into pension now will work hard for you over a long period.

This table shows the value of a £500 per month investment over different terms to age 65, assuming 5% investment growth each year.

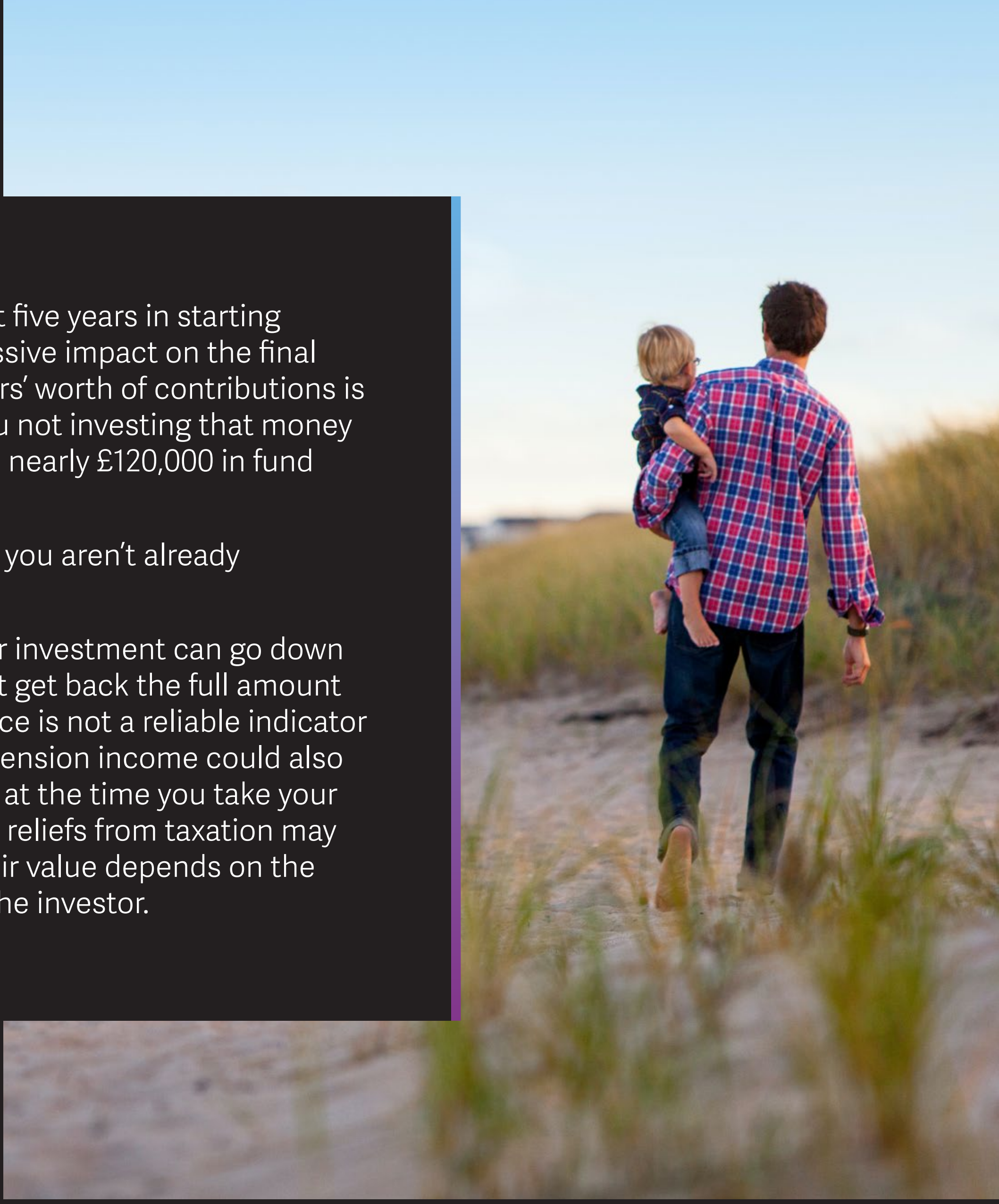
Starting age	Value at age 65
35	£417,863
40	£298,995
45	£206,373

Source – Calculatorsite.com

As you can see, a delay of just five years in starting contributions can have a massive impact on the final fund. In this example, five years' worth of contributions is £30,000, yet the impact of you not investing that money would mean a drop of around nearly £120,000 in fund value at age 65.

So, there's no time to waste if you aren't already contributing.

Please note: The value of your investment 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. Your pension income could also be affected the interest rates at the time you take your benefits. Levels, bases of and reliefs from taxation may be subject to change and their value depends on the individual circumstances of the investor.



Your business property

As well as making regular contributions into your pension, you could also consider taking advantage of either a Self-Invested Personal Pension (SIPP) or Small Self-Administered Scheme (SSAS), both of which provide the option of using your pension to buy your business premises so that they become an asset of your pension scheme.

This could be a particularly attractive choice if you're currently renting your business premises. By owning your premises through a pension arrangement, any rental payments you made would go straight into the pension scheme and therefore increase the scheme value.

There are also tax and business advantages to this kind of arrangement.

Setting up a SIPP or a SSAS is not necessarily a straightforward process, and mistakes can prove costly, so you should speak to your financial planner about this.

Pension consolidation

As well as ensuring that you're paying regularly into a pension, you should also review any existing pension arrangements you may already have. These could include contributions made during a previous employment, or a personal pension arrangement you may have set up yourself.

Consolidating all the pensions you have into a single arrangement will make your pension easier to manage as you'll just have one plan to track rather than several. It could also save you money each month through lower charges and give you a wider choice of investment funds.

However, you should be aware than pension consolidation is not necessarily the best option. You could lose access to valuable guaranteed benefits, or discounted charges that some employers negotiate with scheme providers. It is therefore important to get financial advice before considering this.

As pension specialists, we're in a great position to help you plan for your retirement. You can find more details **on our website**, or give us a call on **01507 617711**

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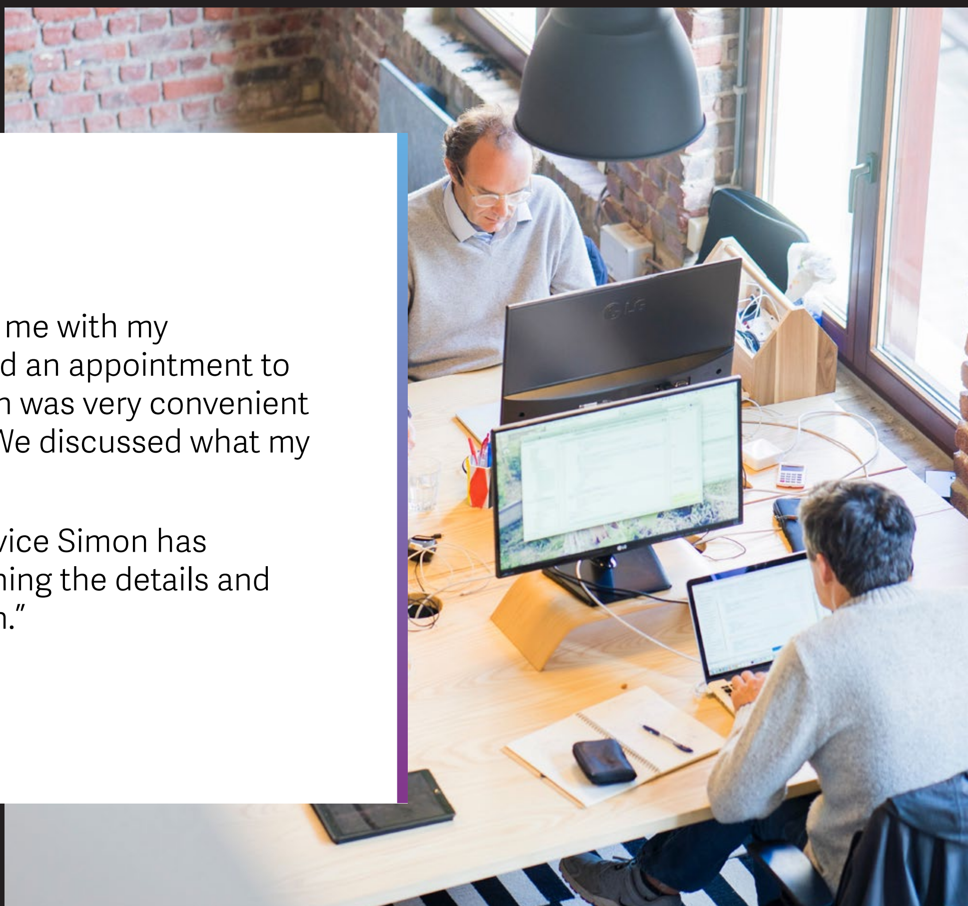
Regularly review your savings and investments

How you invest is important. Making the right investment decisions can make a big difference to the size of fund you build up.

You should see your pension investments very much over the long term with a timespan of at least 15 to 20 years before you retire. Even if markets do suffer a downturn during this period, there's time for recovery. This means that you could consider higher risk investments with a higher potential for investment growth – more in stocks and shares and less in low-risk options such as government bonds and fixed interest.

Of course, the value of your investment can go down as well as up and you may not get back the full amount you invested. Additionally, past performance is not a reliable indicator of future performance. However, data shows that, in the long-term, stock markets typically provide a better return than lower risk investment options.

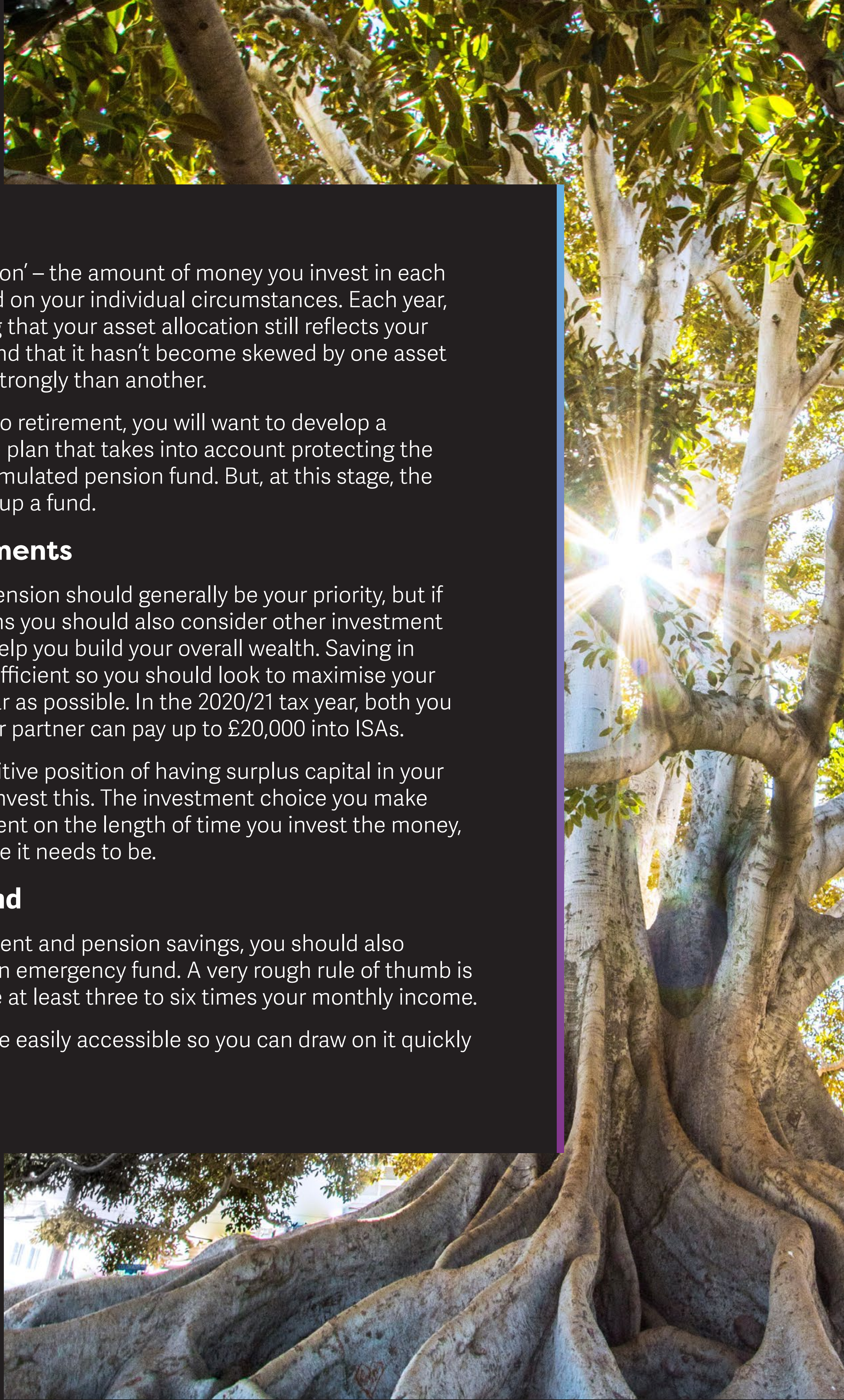


A satisfied client

"I wanted a financial adviser to help me with my retirement planning. Simon arranged an appointment to visit me at home one evening, which was very convenient as I'm busy at work during the day. We discussed what my options were.

"I've been very pleased with the service Simon has provided. He is patient when explaining the details and has never rushed me into a decision."

Steve from Alfreton (July 2018)



Your 'asset allocation' – the amount of money you invest in each asset – will depend on your individual circumstances. Each year, it's worth checking that your asset allocation still reflects your needs and goals and that it hasn't become skewed by one asset performing more strongly than another.

As you get closer to retirement, you will want to develop a retirement income plan that takes into account protecting the value of your accumulated pension fund. But, at this stage, the priority is building up a fund.

Other investments

Saving into your pension should generally be your priority, but if you have the means you should also consider other investment options that can help you build your overall wealth. Saving in an ISA is very tax efficient so you should look to maximise your contributions as far as possible. In the 2020/21 tax year, both you and your spouse or partner can pay up to £20,000 into ISAs.

If you're in the positive position of having surplus capital in your business, look to invest this. The investment choice you make should be dependent on the length of time you invest the money, and how accessible it needs to be.

Emergency fund

Alongside investment and pension savings, you should also ensure you build an emergency fund. A very rough rule of thumb is that this should be at least three to six times your monthly income.

This fund should be easily accessible so you can draw on it quickly if necessary.

6

Make sure your family and business are protected should the worst happen

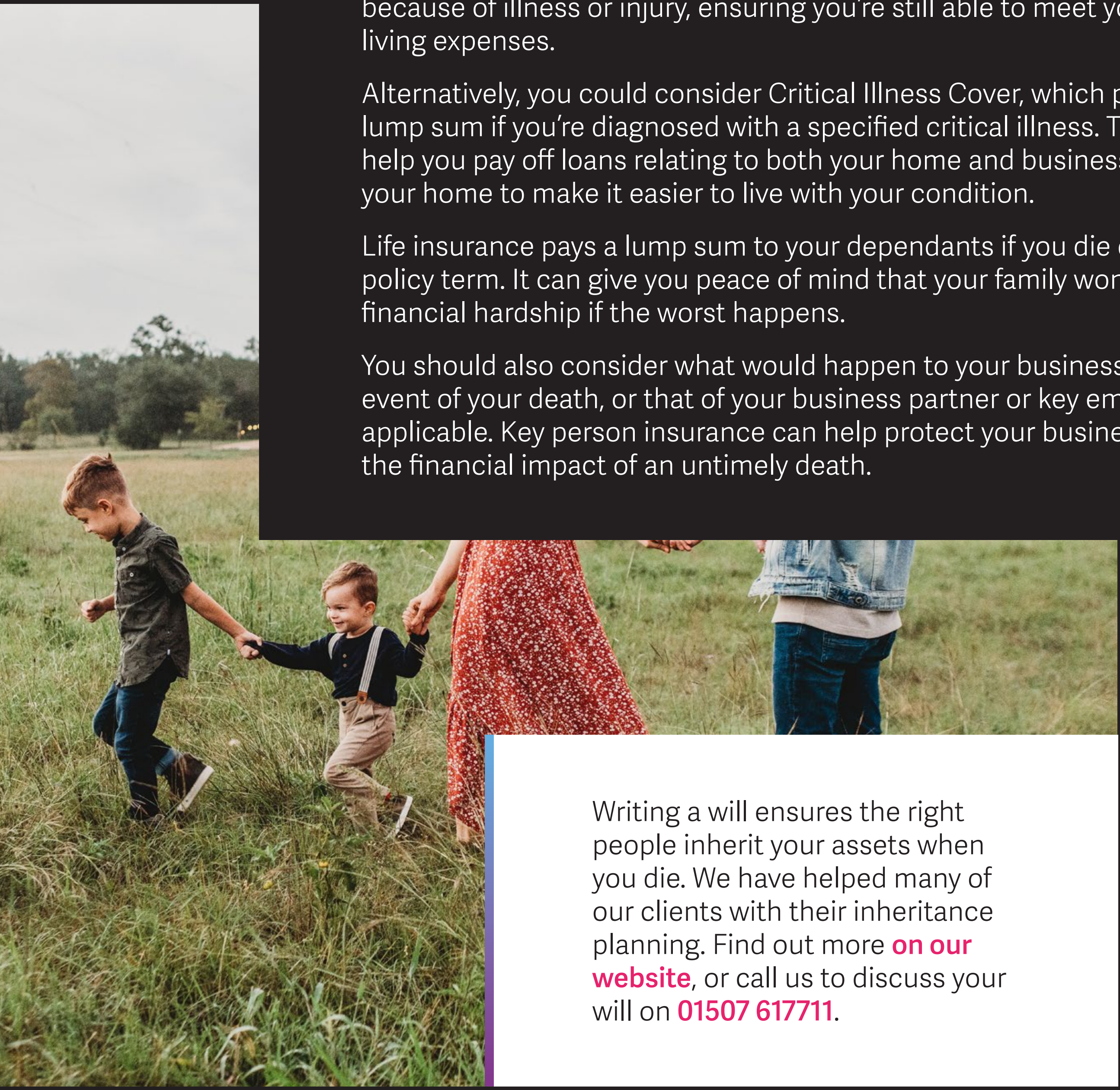
Although we cannot usually prevent illness or death, it is possible to reduce their impact on both your family and business finances.

Recent research by Legal & General suggests the average household's savings would last just 24 days if they lost their income. Income Protection can provide a monthly payout if you're unable to work because of illness or injury, ensuring you're still able to meet your daily living expenses.

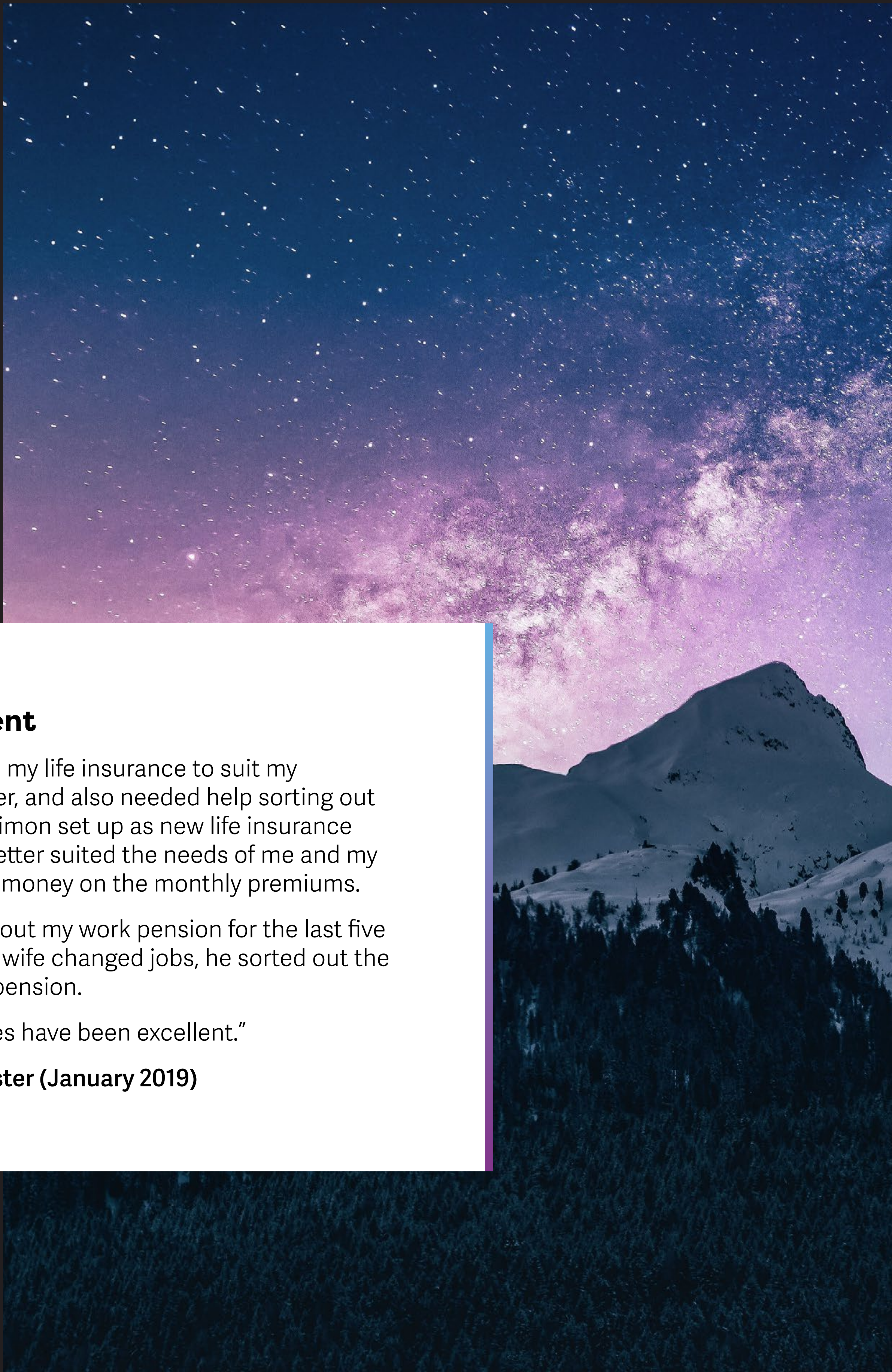
Alternatively, you could consider Critical Illness Cover, which pays out a lump sum if you're diagnosed with a specified critical illness. This could help you pay off loans relating to both your home and business or adapt your home to make it easier to live with your condition.

Life insurance pays a lump sum to your dependants if you die during the policy term. It can give you peace of mind that your family won't suffer financial hardship if the worst happens.

You should also consider what would happen to your business in the event of your death, or that of your business partner or key employee if applicable. Key person insurance can help protect your business from the financial impact of an untimely death.



Writing a will ensures the right people inherit your assets when you die. We have helped many of our clients with their inheritance planning. Find out more **on our website**, or call us to discuss your will on **01507 617711**.



A satisfied client

“I needed to change my life insurance to suit my circumstances better, and also needed help sorting out my wife’s pension. Simon set up as new life insurance policy for me that better suited the needs of me and my family and saved us money on the monthly premiums.

“He has also sorted out my work pension for the last five years and, when my wife changed jobs, he sorted out the best option for her pension.

“So far, the outcomes have been excellent.”

Richard from Leicester (January 2019)

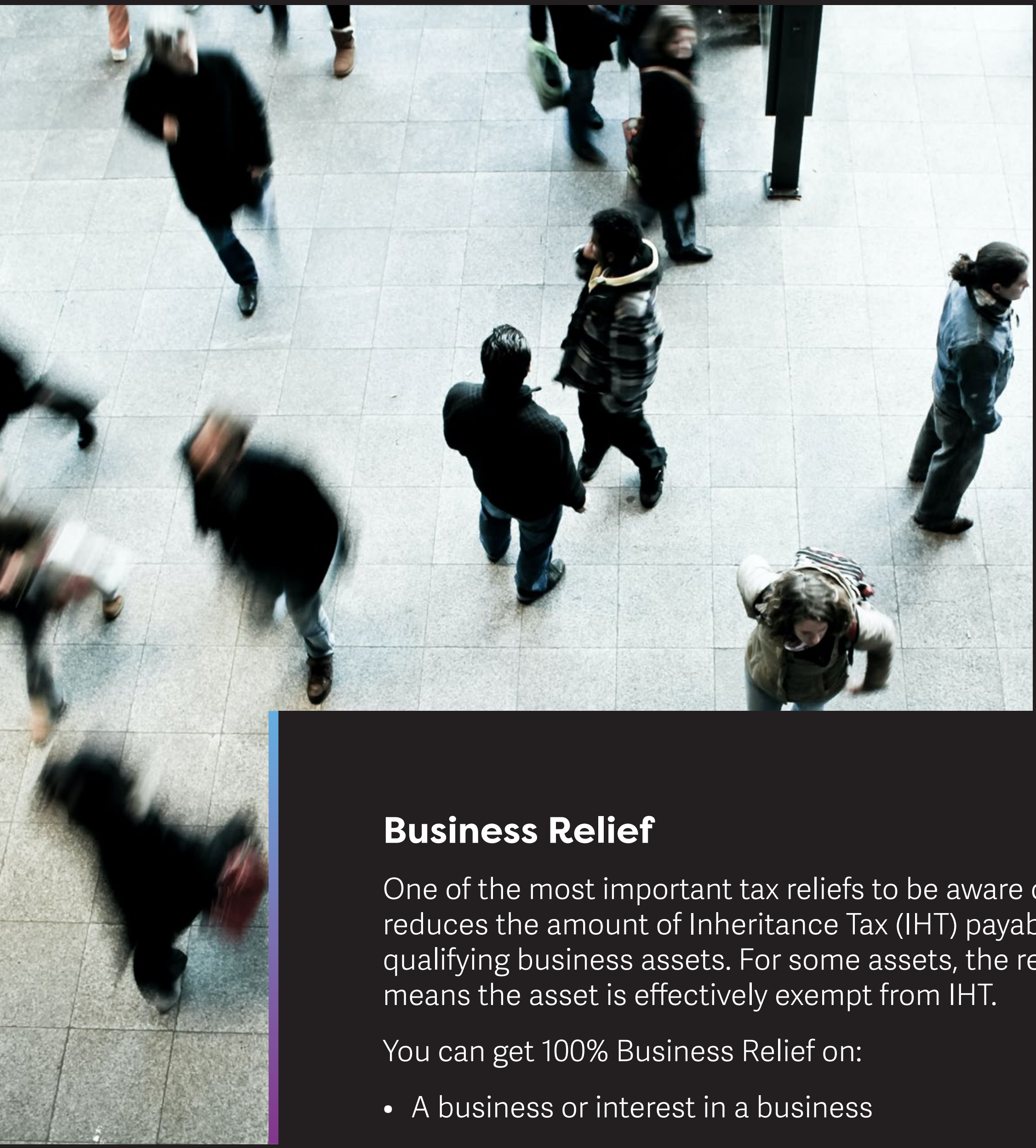
7

Ensure you have a robust succession plan in place

Understandably, most business owners don't like to think about what would happen to their company if they became ill or passed away. But not putting a succession plan in place could see your hard work go down the drain and your loved ones facing a huge tax bill.

The simplest legacy planning tool is a will. This lets you specify how your personal and business assets will be distributed when you die and who will handle disbursing them. Even if you already have a will in place, it's worth reviewing it as there might be valuable tax planning opportunities that you haven't taken full advantage of.

There are also two tax reliefs you should always be aware of when it comes to your business finances.=a hefty tax charge. A financial planner will take a thorough look at your personal and business assets to advise you on the best ways to protect your hard-earned wealth and property.



Business Relief

One of the most important tax reliefs to be aware of is Business Relief. This reduces the amount of Inheritance Tax (IHT) payable on the transfer of qualifying business assets. For some assets, the reduction is 100%, which means the asset is effectively exempt from IHT.

You can get 100% Business Relief on:

- A business or interest in a business
- Shares in an unlisted company.

Business Asset Disposal Relief

You might also qualify for Business Asset Disposal Relief. This used to be known as Entrepreneur's Relief.

This reduces the amount of Capital Gains Tax you must pay when you sell all or part of your business. If you qualify, you'll pay tax at 10% on all gains on qualifying assets. You can claim a total of £1 million in Business Asset Disposal Relief over your lifetime.

Planning in advance will give you the best chance of avoiding a hefty tax charge. A financial planner will take a thorough look at your personal and business assets to advise you on the best ways to protect your hard-earned wealth and property.

Pico Financial Planning

At Pico Financial Planning we understand the issues you face as a business owner, because we're business owners ourselves.

It's a busy, complex role, and lots of people depend on you. As tempting as it can be to succumb to short-term thinking, it's so important to ensure you have a proper plan for the future.

We can help you plan for the future of your family and your business simultaneously and design the future you want to achieve.

Want to know more?

You can **find out more** about what we do and the services we offer.
If you would like to talk about your own circumstances and how you think we can help you, please give us call on **01507 617711**.