Bespoke financial planning

As our life goals change, it makes sense to re-evaluate our financial situation to reflect these changes, says Suzanne Allen, who offers some ways of doing this.

Whenever we hear the term work-life balance it is usually from a lifestyle guru or coach insisting that a meaningful life must fit some well-balanced agenda for work, rest and play. That may well be true for some folk, but not everyone feels the same way.

As individuals, we take different approaches to life and no one way is necessarily any better than another. Some of us like to work hard early on hoping to enjoy an early retirement. Some want to continue working regardless of retirement age. Others want to work enough to maintain a good standard of living throughout life.

The point is that no matter your individual choice, the most important aspect of your approach is that it follows a well-considered and planned methodology. We devote so much of our time to earning money but how much do we actually devote to looking after it? Formulated plans make us review our finances regularly and that’s the best way to check we are on target to achieve our goals in the short, medium and long term.

As we move through life our values and goals change. It would seem reasonable then that our portfolio of investments should reflect these changes. Single living, starting a family, building a business, planning for retirement – each phase will undoubtedly impact our attitude towards finances and influence the decisions we take.

Yet regardless of the original purpose of the investment, a well-structured investment portfolio should have the flexibility to be able to adapt to all future, unknown needs. For example, savings for school fees may not be required for their original purpose and can be geared to university fees, or retirement, or even the purchase of a holiday home!

The investment life cycle of a dentist

It is never too early to commence retirement planning, but the priorities of a young, recently qualified dentist are more likely to be geared towards repaying student loans, buying a car, and sooner or later, the first home. Thanks to the credit crunch, a 10 per cent deposit is now required by many lenders so the first investment is likely to be in cash savings.

Yet almost by default, most dentists still commence their pension planning early on as VDPs and young associates often work within the NHS contract and will enter the NHS pension scheme, which continues to offer excellent value for money.

All dentists should build a cash buffer equivalent to three months drawings to provide for unexpected contingencies such as a failing car or school fees. This should be in addition to, and definitely not instead of, income protection insurance.

Planning a family

£45,000 is how much parents spend on each child by the time they have reached 18. If you add education costs it could stretch...
to as much as £180,000, (Sources 1The Family Circle/Maestro Family Spending Report 2006 and 2Financial Services Authority, September 2006)

By planning ahead you ensure to provide for your children in the way you had envisaged without having to change your work/life approach significantly. Consider an investment scheme at your child’s birth that builds up capital effectively and tax efficiently. Cash ISAs for the early years and equity ISAs for later stages would be indicative of such a scheme. Should these savings not be required for say, their education, they can be used as a deposit on their first home, or your dream holiday! Remember it’s not a ‘one size fits all’ approach!

Saving for retirement
For most dentists, a personal pension is an excellent means of funding retirement. They are extremely tax efficient, afford a wide investment choice and provide considerable flexibility. Dentists should commence their personal pension planning as early as possible, even if the initial contributions are minimal.

Pensions alone will almost certainly not fund all retirement. Here’s a statistic to consider: to fund a pension of half your income at age 65, with contributions starting at age 20, will cost around 14 per cent of earnings. Defer payment until age 40 and equity ISAs for later stages would be indicative of such a scheme. Should these savings not be required for say, their education, they can be used as a deposit on their first home, or your dream holiday! Remember it’s not a ‘one size fits all’ approach!

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