Penguin Bitesize Guides to Better Money Management

Guide #4

Five Top Tips on How to Protect Your Wealth

People become 'wealthy' through many different means. Some through an accumulation of savings, some from an inheritance, some from their work over many years, some from starting and building a business. Some people through a combination of one or more of these.

One person's wealth definition may not be the same as another's.

Whatever *your* definition, and your position, protecting what you have, going forwards not backwards, is a common objective.

We want to make sure what we have is preserved and protected.

This guide looks at 5 top tips on things you need to be thinking about when it comes to protecting your wealth...

1 Understand the accumulation /decumulation relationship

One of the least talked about, but most important, financial concepts relates to decumulation.

This is the stage of life when an individual or couple spends what they have saved. This is a broad description, because it can include going from a contributor, for example to the government finances through National Insurance, to a receiver, through the State Pension.

At a simple level, decumulation is the drawing down of income, from whatever sources, to fund expenditure in the retirement years.

There will come a point in most financial journey's when the dynamic shifts from accumulating to decumulating.

Understanding when this point arises is very important. As is the understanding of *what this means*.

It entails approaching one's finances in a different way and potentially altering the way one thinks about their money and their future.

For example, all of these will probably change between the accumulation and decumulation stages:

How and where you invest

How you view risks on invested money

The value to you of guaranteed income sources

Your tax planning

Your access to and use of insurances

The balance of preserving your lifetime income versus your legacy wishes

Each aspect will shift in some way. If you continue to manage your finances in the second stage, as if you were still in the first stage, this can lead to expensive and damaging mistakes. And, as a consequence, losses.

Focus on finding the best process and the best people to work with and you will radically alter your prospects and the chances of hitting your financial goals.

Penguin's advice:

Try and think of when you will (or did) shift from an accumulator to a decumulator - and then be conscious of the way you will need to manage your money differently.

2

Look at the biggest risks and understand how to take steps in advance to manage them

The hallmark of a great financial plan is twofold:

1

Preparation

2

Management

Being prepared involves anticipating the risks that may disrupt your plan, and in advance having organised means to take the risk down.

Examples would include things like having your invested money, in all areas, diversified so that any one investment that takes a hit does not devastate your wealth. Or ensuring you are not invested in such a way that unexpectedly inflation ravages your returns and reduces your wealth.

Your plan should answer all questions around "what if?"

"What if this risk actually happens?" insert anything you can think of for 'what risk' – good examples are "What if the UK stock market loses 40% of its value over the next 5 years?" or "What happens if one of us needs to go into care?".

Doing this, in conjunction with your financial planner, will produce an answer as to whether your plan caters for those risks.

If it does not, you can take steps to adjust or plug the gaps. By diversifying more, or changing your portfolio or funds, or through introducing insurance. Or whatever other solutions works.

The important element is *to prepare*. Then, if you are prepared, your success will be in terms of how well everything is managed from that point on.

Penguin's advice:

Use financial planning as the basis for managing all the various risks that can disrupt your finances.

3 Learn about longevity

Longevity describes the duration of life in terms of living a long time. This is one of the most important things to properly understand in terms of preserving/protecting wealth.

There are numerous aspects to this, far too many to cover in this short guide, but a couple of key points are:

- Most people are unaware of their likelihood of living to a very old age. Part of this is down to quoted life expectancies. If you watch a news report or read an article which says something like 'a 60 year old man has a life expectancy of 82.8' it anchors into one's mind the fact that ***on average*** all 60 year old men are going to live to that age. However that tells you virtually nothing about how many of those 60 year old's will live to 90, or 95 or 100.

- Without a deep and broad understanding of the subject, anyone could be forgiven for thinking age 82.3 is the probable age they need to be planning for. Yet, many 60 year old's will live to age 90, quite a decent proportion to age 95 and a surprisingly high number to 100. And no 60 year old will know which camp they are in. so all 60 year old's, from a planning point of view, have to consider "what if I live to 100?".

This leads onto Longevity Insurance, an aspect of this subject which is understand even less than the one mentioned in the first point. Why? Because longevity insurance describes the value that can be derived from anything that provides *certainty of income in retirement, however long one may live.*

Take the State Pension as a good example. This pays out from age 65 through to death, so someone who lives to 100 gets fantastic value from this. Someone who dies at 66 very poor value.

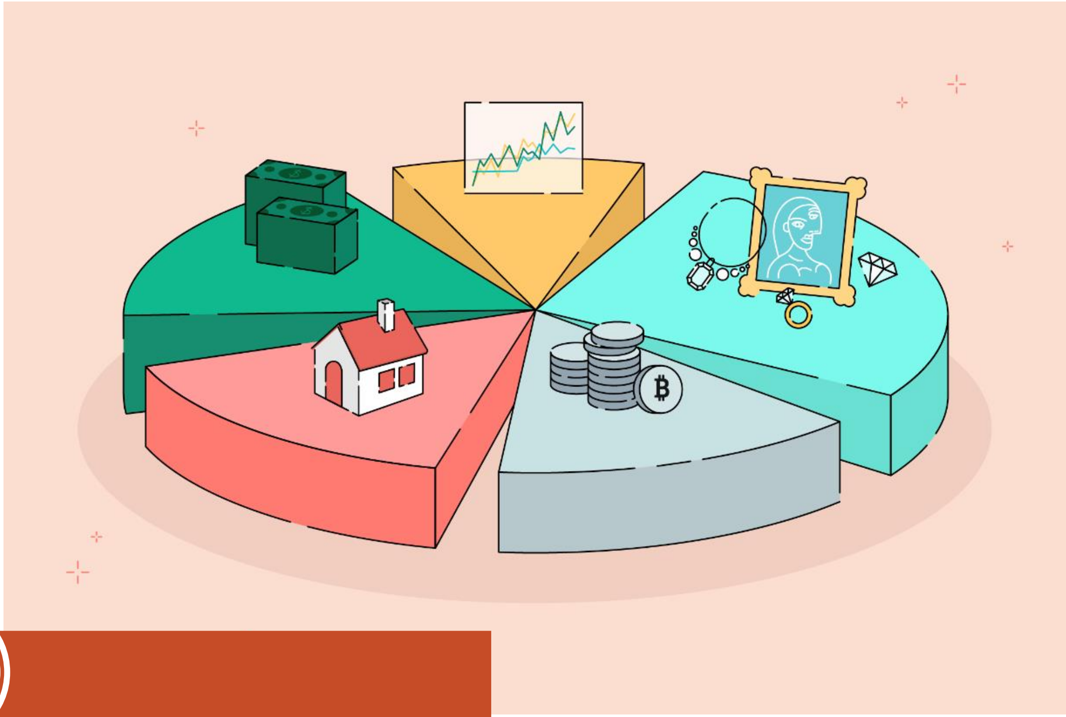
The State Pension provides effective insurance against longevity. Any financial product which can sustain an income through to death, regardless of how long away this is, has an added value over and above its base value.

Anything you can do to more fully understand longevity, longevity insurance and how to secure your income forever – is a potent weapon in defending against loss of wealth.

Reliable estimates suggest that for a couple in good health, who are both age 65, there is a 1 in 2 chance at least one of them will be alive at age 95).

Penguin's advice:

Make sure your plans are sustainable for a long duration in retirement, and focus on anything that provides certainty of income for life.



4

Diversify

Diversification is the principle of spreading one's risk by having a mixed bag of investments. The idea being that if one area performs poorly, this will be offset by better performing areas.

This is the classical purpose of diversifying and although normally associated with investment portfolios, it can be extended to all forms of wealth management.

For example, in retirement income planning, using a mix of guaranteed income products and investment-led income products might be a wise move.

A guaranteed income product, such as an annuity may have the advantage of providing certainty of income for life, but the disadvantage of losing capital (to buy the income) and producing a lower income.

An investment-led product, such as a drawdown, may keep the capital intact and produce a higher income (its main advantages) but it is carrying greater risk and it is possible the capital may reduce in value, leading to lower income or even running out of money.

Often this type of choice is framed as an either/or, or 'which is better'? But the reality is that in many cases combining them and diversifying so that both are used as part of a broader plan, is the smartest solution.

Another example is where an individual commits to a strategy of committing to one financial plan of action which exposes them to unreasonable risk. The buy-to-let investor who ignores their pension plan, and any other form of savings or investment, except their buy-to-let portfolio is failing to diversify. They are relying on everything working with their property portfolio. However, if the law changes, or the market changes and property starts to fall in value, interest rates rise and tenants stop paying rents and refuse to move out, things can unwind very quickly.

That individual has put all their eggs into the one basket and has no fallback.

Not Diversified

Diversified

Penguin's advice:

In just about every aspect of your finances and your planning, having a high regard for diversifying, wherever possible, is going to help you reduce risk and this will help protect your previously accumulated wealth.

5

Get your 'paperwork' sorted and spot on

The big threats to wealth are:

- Making poor financial decisions;
- Incurring heavy losses on invested monies;
- Inflation;
- Serious illness;
- Incapacity;
- Needing care;
- Divorce within the family unit.

In every case, there are measures that can be taken to either mitigate or reduce these risks, or to insure against them.

One factor, that can easily be overlooked, is how much can be achieved by getting the right 'paperwork' in place.

This means – where appropriate – having the following documents produced and kept up to date:

- ✓ A Will
- ✓ Power of Attorney
- ✓ Family Trust

Each of these has a separate function and provides security against some of the common threats referred to above.

Incapacity, needing care, and divorces can all be reduced in impact or managed successfully (or better) with a Power Of Attorney or Family Trusts.

Penguin's advice:

Put in place a Will, a Power of Attorney and explore Family Trusts and how they can work for your family situation.

About Penguin Wealth

We are a Cardiff-based Financial Planning firm formed in 2010 by a group of Financial Planners who share the same vision and love for what we do. Our processes, support team and the accreditation we have achieved all reflect our principles and prove that we are best placed to help you live the life you deserve with peace of mind.

Our Mission Statement

Helping People Live their Best Lives, by Making Smarter Financial Decisions.

Core Values

- At Penguin we Commit to our Words, Actions and Results
- Clients' Needs 1st – Always
- Communication is key
- Have Penguin Positivity

Providing the highest standard of advice is at the heart of what we do, and we are always extremely excited to see what we can help you to achieve in the future!

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