THE GOOD GUIDE TO FINANCES AT 40

GOOD WITH MONEY

MORE MONEY, FEWER PROBLEMS

About Good With Money

Good With Money is a personal finance website with a difference: it focuses on ways you can get value with values or profit with principles from your savings, pensions, current accounts and even credit cards. Because deals that look after people and planet as well as your pocket are SO much more rewarding for everyone.

Guide in association with:

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When we're young death seems so remote. But in your middle years, it starts moving closer. Coming into focus. Becoming real. After that moment in the kitchen, death started doing weird things in my head. It kept merging with maths. I was adding and subtracting, calculating how long I had left, how little time I had to do what I thought I had to do. Earn money. Fulfil my potential. Do whatever it was I should be doing, rather than worrying about my age and my life and what that meant.

Death maths. I was doing my death maths and I didn't like the way the sums were adding up. One day, when I was meant to be doing something else, I bothered to look up the stats. I saw the true death maths, and the death maths was clear. If you were born in the UK between the late 60s and late 70s, and you're a man, then all the research says that your life expectancy is 80. If you're a woman, it's 83...

it was the death maths that did for me, the pinpointing of the years left. It started a revving in my brain, a pain behind my eyes, a loss of nerve so strong I could barely move."

***Out of Time*, Miranda Sawyer**

Introduction

40 years ago, Elton John and Kiki Dee were pleading ***Don't Go Breaking My Heart***, while inflation and temperatures reached record highs. If you happened to be born in 1976, then you are either now 40 or close to it.

Amidst the slow realisation of your own death maths, as Miranda Sawyer describes on the previous page, it is also possible you are paying more attention than usual to your money.

40: a tipping point

In financial services marketing, the group of people at or approaching 40 is sometimes referred to as the "Oh shit" demographic.

Everyone is different, but there are a few cliches that are true and the 40-year old who suddenly looks at their finances and works out that their garden, and their children's gardens, might not be all that rosy if they don't sort out their you know what, is a stereotype based in truth. IFAs say that at or around 40 is a common age for new clients to arrive at their door.

Some common things that IFAs hear from customers around this age are:

"Now that we aren't shelling out so much for childcare, we are worried that we aren't saving enough for retirement. We need a plan!"

"Retirement doesn't seem that far away these days, what do we need to save?"

"I don't want to wait until the State Pension age to retire – and it might be further postponed until my 70s – I'll be knackered by then! What do I need to do to retire early?"

"We tend to spend what we earn, and we like nice holidays, but are panicking about whether we'll have enough to live on when we are old"

"Will my work pension be enough to live on?" (NB The answer is usually no!)

What do a 40-year old's finances look like?

Already, we are straying from norms, because it depends if you are a man or a woman and also where you live.

By 40, women will have passed their peak earnings (which was £538.20 a week gross when they were 30 to 39) but falls to £521.70 in the 40 to 49 age bracket), according to 2015 figures from Office for National Statistics (ONS). That's about £27,000 a year.

However, men's earnings peak between 40 and 49 at £653.40 compared with £584.80 when they are in their 30s. That means they typically earn just under £34,000 annually between 40 and 49 – about 30 per cent more than women in the same age bracket.

We'll save gender income inequality for another day, but let's say the average 40-year old earns **£30,500**, based on these figures.

Debts at 40?

Well, yes. The funny thing about turning 40 is you are likely to have built up debts during your 30s that you are now potentially in a better position to pay off thanks to higher earnings and usually lower outgoings. However, creditors also see you as a better risk, so you are also likely to be batting away dozens of tempting offers from credit card and personal loan providers, all keen on charging you interest.

According to Step Change, the debt charity, most of its customers are in the 25 to 39 category, indicating that if you are nearly 40, then the worst of your debt worries are probably now behind you.

However, Step Change's figures also show that the average outstanding debt among its clients in the 40 to 59-year old age bracket is far higher – at £17,785 than that for 25 to 39-year olds, which is £12,637, suggesting that although they are managing their debts better, 40-somethings who find themselves struggling with debt have significantly more of it.

Table 4. Outstanding Debt by Age, Step Change figures

	2014	2015	2016
Under 25	£4,786	£5,151	£5,833
25-39	£13,090	£12,364	£12,637
40-59	£19,015	£18,152	£17,785
60 and over	£18,624	£18,976	£18,351

Are 40-year olds saving for their children?

There are no specific figures on this, but more and more parents of any age are saving for their children through tax-free junior ISAs.

740,000 Junior ISA accounts were subscribed to in 2015-16, up from 510,000 in 2014-15, according to HM Revenue & Customs figures, an increase of nearly 50 per cent.

However, the majority of these were saved in poorer-paying cash rather than stocks and shares accounts, suggesting that parents are risk averse when it comes to saving for kids, when in reality, they can probably afford to take on more risk, especially for very young children.

Junior ISAs were introduced in 2011, so some people approaching 40 with older children may still have child trust funds, the previous tax-free children's savings vehicle.

It's hard to know how much people pay into their children's ISAs. Most banks and platforms suggest a minimum of £50. How much you are able to save is likely to vary greatly depending on how old your children are. See the Saving for your Children section on page 17 for more on how to build up a nest egg.

How about average pensions savings?

According to PensionBee, the average pension pot of a woman between 35 and 40 is £15,753, while for men, it's £18,403.

This doesn't mean much in isolation. It only becomes meaningful when you look at what sort of income this pot of money might get you in retirement. You can turn to the PENSIONS section on page 21 for more brutal facts from the future.

The Good Money Girls say:

*"If you are reading these average stats and thinking: "Oh s***"", don't panic. If you are 40, time is still on your side, believe it or not.*

*No matter how old you feel, you probably won't retire for another 27 years, which is still a lot of time to make gains through regular investing and sensible money management (preferably in funds and vehicles that are responsible, if you please. You can check out our Good Guide to Stocks and Shares ISA investing **here**).*

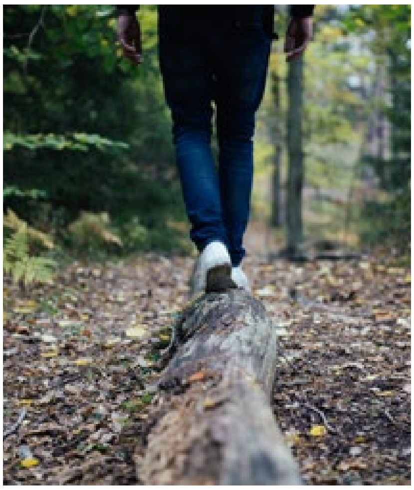
Don't look back. You are still winning."

“Retirement worries me a lot”

Insights into 40-yr old finances, by Matthew Calthorpe, 39 (nearly 40), Brighton

“My parents were very thrifty and careful with money. In an effort to rebel I was exactly the opposite through my teens and twenties – there were lots of times I’d buy CDs ‘n booze and then live off Cup a Soup for the rest of the month. I was definitely what Geoff Dyer calls ‘a gulper not a sipper’, and not really interested in anything resembling a ‘career’.

“Luckily, in my late twenties I met someone who was a saver, not a spender. Even when we were totally skint, she’d put something by. We’ve been together ever since and over the years this has rubbed off on me too – so now I’m approaching 40 (my birthday’s this November) my relationship to money is healthier. In fact, she was recently out of work for six months and it was me who was busy drawing up budgets and working out how we could cut down on expenses.



"Part of this is being freelance – you learn very fast that you need to keep some of your cash for the tax-person. It's also down to having a child: **I'd like my daughter to have a life that's reasonably stable.**

"Retirement worries me a lot. People of the previous generation often had the same job all their lives, and expected a (fairly) comfortable retirement at the end. For us it's going to be totally different.

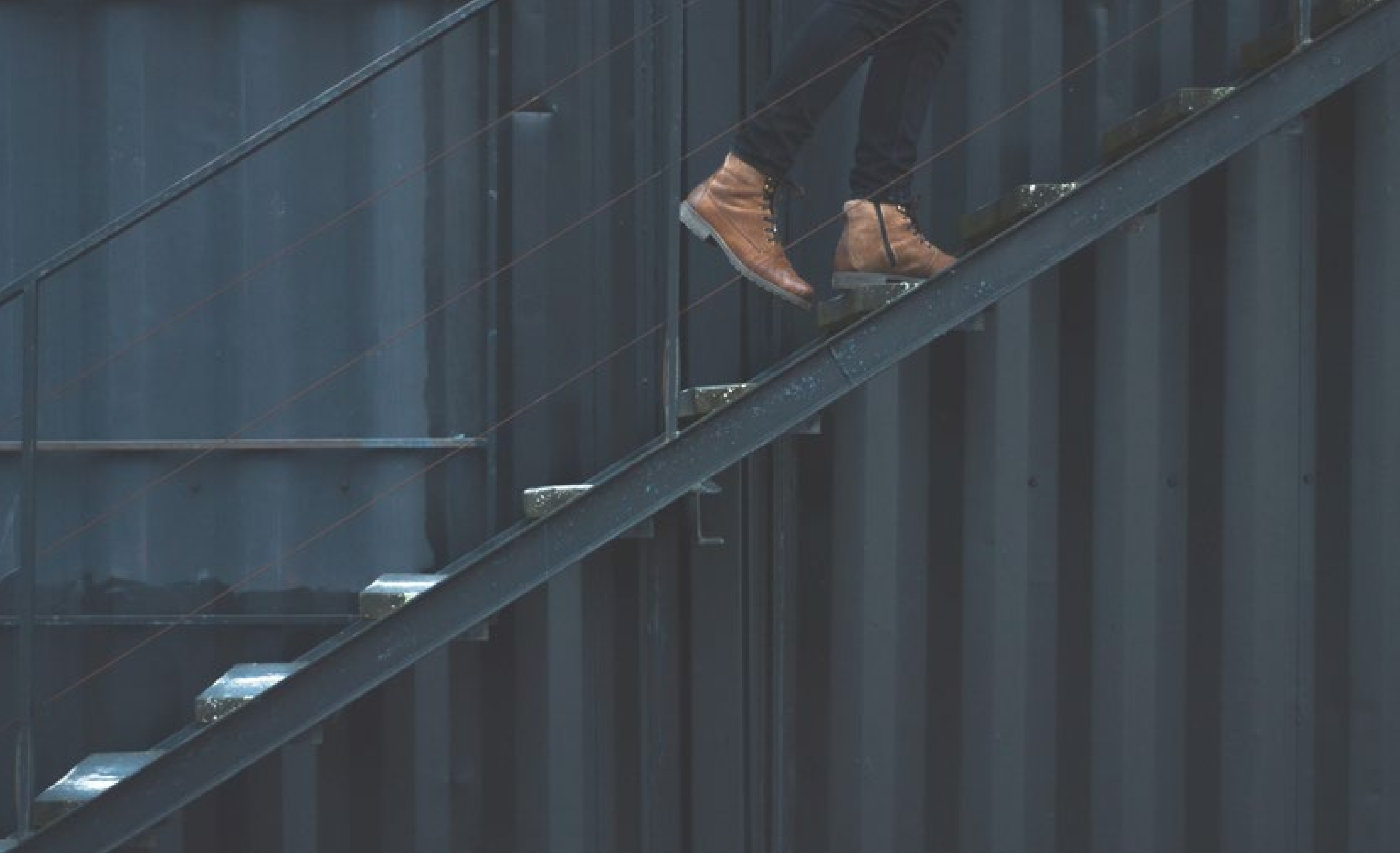
"I get that people live longer, and that they want more flexible careers, but the way that companies have offloaded their pension responsibilities has been shameful. Just look at BHS. In the past company pensions were considered payment in lieu. Today, they're viewed as unaffordable extras by the board.

"In some ways, retirement has already changed. Some of the happiest retired people I know have carried on working part-time into their 80s. It gives them a real sense of purpose and connection. As long as I'm healthy enough, that's what I'd like for myself. I'm lucky enough to do a job I love and I just can't see myself sitting around all day doing nothing.

"In the 90s I worked for a major pension provider where I learned about how pensions worked firsthand – and saw how little customers understood about them. Often they thought their contributions were happily generating interest when in reality they were being eroded by the stock market and fees. I'd hear from a lot of people who thought they had salted away a healthy nest egg, only to be told they had virtually nothing by the end.

"Because of that experience, I'm very suspicious of pensions overall. I did have a vague idea of saving up for a buy-to-let. But now the law has changed it's not worth it. Also, I wouldn't feel right making cash out of the housing shortage.

"So, basically **I'm just trying to put something aside each month**. It's hardly spectacular, but it feels like a start."



How to get out of debt

By 40, a mortgage is normal. In fact you're probably not that long since on the housing ladder: the average age of a first-time buyer is 37.

You are unlikely to still be repaying student loans, but you might feel guilty if you still have credit card, personal loan or car finance debt.

You shouldn't. It is normal to have some debt. £3,683 is the average consumer credit borrowing per UK adult, according to the Money Charity.

The older and higher income you are, the more likely you are to have credit extended to you. So by 40, rather than having paid it all off, you are in fact likely to have more, even if it isn't troubling you.

Whether this is comfortable for you or not depends on your personal goals. If you are thinking about saving more for your children and retirement, then annoying credit card and loan repayments can really get in the way.

The good news is that you don't have to pay off all your debts before you can start saving or investing - a common misconception.

The low interest rate environment, coupled with relatively strong stock market growth, is another reason to not let debt hold you back now, as long as you are managing the repayments.

Here are **3 top tips** on resolving debts from Olivia Bowen, partner at Castlefield, the responsible IFA:

1. Make sure you **aren't paying more interest** than you need to

2. **Don't necessarily wait until your mortgage & other debts are paid off before starting to save** – money invested over decades will do much better for you than money invested nearer retirement, as it has time to grow (caveat – there is no guarantee that investments will grow at a greater rate than the interest you pay on debts)

3. With interest rates so low, **don't sit on too much money in cash** – either pay off your debts or start to invest (caveat – everyone should keep some money in cash as an emergency fund, the amount will depend upon your personal circumstances)

Positive impact approach can attract new investors

By Jeannie Boyle, Director & Chartered Financial Planner at EQ Investors

According to HMRC, 80 per cent of ISA accounts subscribed to in 2015/16 were in cash, with £58.7bn saved. Can the growth of impact investing produce a new generation of investors?

Why cash isn't always king

The humble cash ISA has long reigned supreme. And while keeping an emergency fund or saving for a down payment on a house in cash make sense, an over-abundance of cash in the current climate could actually lose you money.

As at July 2016, the Retail Price Index was running at 1.9%, whereas the average Cash ISA now pays 0.99%. At these rates £100,000 would be worth £91,420 after ten years as inflation eats away at your savings.

Furthermore, the Bank of England's decision to cut interest rates to an all-time low of 0.25% last month is likely to see saving rates fall further, meaning even lower returns.

The longer term prospects of the stock market are simply far more attractive than below inflation interest rate returns. But many people struggle to understand their investment options and worry about what they are actually investing in.

Aligning your social values with your money

One option is to embrace different motivations and invest in what you believe in. In recent years, more and more people are looking for their money to 'do good while doing well'.

The emergence of impact investing – financial investments that produce significant social or environmental benefits, alongside an attractive financial return provides an opportunity for people to become reconnected. Not just to their money, but also to the social and environmental impacts that this has.

So far this has taken many forms for retail investors; charity bonds, crowdfunding for community based-initiatives and specialist funds from the likes of Impax Asset Management.

Global issues, global opportunities

One previous criticism of investing ethically is that returns had to be sacrificed. However, this assumption is increasingly being challenged. Indeed, a recent benchmark study from Cambridge Associates shows the opposite to be true.

The positive impact approach leads to selecting companies that are bringing solutions to real social and environmental problems to market, and actively trying to run their businesses in a sustainable manner.

Such companies tend to avoid fines and other penalties, and have stronger relationships with their customers, suppliers and staff. They also tend to operate in emerging sectors with high-growth potential.

Increasing availability

Of course, identifying these companies is time consuming and that's where EQ can help. We provide 'positive impact' portfolios on a discretionary basis. This means our expert team does all the researches and monitors the investments so you don't have to.

Over the course of the last twelve months we've increased availability to retail investors via our low cost Simply EQ service with a choice of ISA, SIPP or Junior ISA accounts.

Saving for your children

Your kids will have a lot to pay for as adults. University education costs, currently £27,000 in tuition fees alone for a typical 3-year degree, will be even higher and so will house prices, which are currently increasing at a rate of about 5 per cent a year.

Starting salaries, on the other hand, if they follow recent trends, are unlikely to have kept up with the increases in outgoings for young adults. They have increased by just about 3 per cent in the last six years, according to High Fliers.

The odds are stacked against them. Naturally, you want to help as much as you possibly can. But you might be surprised/ horrified at the kind of contribution that is required from you to build up a meaningful contribution for them in later life.

To pay for university tuition fees at their current amount of £27,000, you would need to be investing **£125 a month** for a five-year old for 13 years until they are 18 to generate enough to cover them completely. x2 if you want to do the same for your next child, and x3 if you have three.

A lot of money to set aside, definitely, but possibly the best present you will ever give them if you can manage it.

The more you can afford to save, the more difference it makes to them, of course, but every little really does help and £50 a month from birth over 18 years will generate £17,460. Not to be sniffed at.

Olivia's top 4 tips on investing for children are:

1. Think about whether you would be happy for your child to automatically gain access to funds age 18 – you don't know how responsible they will be then! This is the disadvantage of Child Trust Funds/Junior ISAs. A bare trust will enable the child to demand access to the funds at age 18, but a discretionary trust provides greater control to trustees, although there are tax considerations to be aware of.

2. As most of us can't afford to invest the full ISA allowance each year £15,240 (rising to £20,000 next tax year!), then think about earmarking one parent's allowance as the savings for children, thereby retaining control as well as tax-efficiency.

3. Don't hold money in cash if you have a 5 year+ time horizon, it will languish there and lose money in real terms (ie struggle to keep pace with inflation), so invest instead. Think about reducing investment risk as your children approach the age where you may need to access the funds.

4. Investing and saving ethically on behalf of your children will provide a useful introduction to them of the impact money has in the wider world, where profits come from, and being responsible citizens and investors.

Grab the grandparents

by Calum Bennie, savings specialist at Scottish Friendly Assurance

The current prolonged period of low interest rates and rising costs mean a challenging time ahead for young people. Parents, and less financially-stretched grandparents, can help them get off to a good start in life.

Kids, eh? Don't know they're born, do they? They treat their parents' home like a hotel and think of them as a taxi driver. They've the life of Reilly, don't they? Well, actually, no. For all we cajole about how they take advantage of the Bank of Mum and Dad, the reality is children of today are set to have a more constrained financial future upon adulthood than their parents and, even more so, their grandparents, ever did.

For the past three years, Scottish Friendly has conducted a quarterly survey, the Scottish Friendly Disposable Income Index, to provide a unique insight into the financial health of the UK population.

Age matters in terms of disposable income. The Scottish Friendly Disposable Income Index shows that younger age groups are much more likely to be in a situation where their expenditure on essentials is actually higher than their incomes.

On the other hand, the average UK retiree has significantly more cash left over after buying housing and essentials than someone in full-time work.

While the loose monetary policy of recent years has kept house prices high, to the benefit of those at the older end of life, the big deposits now required to obtain a mortgage are even harder for young people to accumulate when returns on savings are so low.

Student debt, too, is something the parents and certainly not the grandparents of today's children had to contend with. It's a grim thought that the children of today could be paying off student debt well into their working life.

Parents do what they can of course to help but it's and grandparents that have the time and the cash to help their grandchildren get off to a good or better start in life by putting money aside for them on a regular basis.

Find out more about investing for your child or grandchild. Visit **www.scottishfriendly.co.uk**

More information on Scottish Friendly's Disposable Income Index can be found at **www.scottishfriendly.co.uk/my-insights**

Time is a powerful ally for those investing on behalf of children as long time-scales sharply reduce the risk of getting back less than you invest when it comes to stocks and shares whilst at the same time increasing potential returns. Grandparents are often better placed to help with putting money aside for their grandchildren and using their own ISA is a good place to start.

With Scottish Friendly's Investment ISA, grandparents can invest in their name from as little as £10 a month as long as you're not already investing in an investment ISA and remain within your £15,240 ISA allowance. You can, however, have another type of ISA like a cash ISA.

The Scottish Friendly ISA lets you set up separate policies – or pots – within your plan that you can name for each of your grandchildren and track your investments into them.

By investing for them in your ISA, you stay in charge of the money. So you can surprise them with a lump sum when you think they need it most – for instance to help with a deposit for their first home.

As with all stock market investments, your investments can go down as well as up so you could get back less than you have paid in. Tax treatment depends on individual circumstances which may change in the future.

The Good Money Girls say:

"If you are saving for your children's future, there are lots of reasons to consider investments that also look after the future of the planet they will live on the society they will live in. 'There's no money to be made on a dead planet', as they say. And where their money is invested will be a nice thing to tell the children when they start to be interested in that sort of thing.

*Look for the words "sustainable", "responsible", "ESG (Environmental Social Governance)" and "SRI – Socially Responsible Investing)". As a rule, mutual organisations such as building societies and friendly societies, tend to be better behaved than large banks. B Corp organisations such as EQ Investors are the gold standard. You can check out some of the best junior ISA options for meeting Environmental Social Governance criteria in our **junior ISA guide**.*

Saving for your pension

Normally, a pension pot buys a product called an annuity, which pays you an income until death.

Now for the scary bit. That £15,753 we mentioned in the introduction as the average pot of a 40-ish-year old would generate an income in retirement of about **£800** a year. £18,403 would generate a little over **£900** a year.

Clearly, your pot would grow between your 40th birthday and when you retire and you are also likely to be making further contributions, but even assuming growth of 5 per cent a year over 25 years, the woman's pot would be worth £54,840.77, giving **£2,700** a year, while the man's would be worth £64,066, giving **£3,200** annually.

Whether you are a man or a woman, if you remain "average", **your monthly income would be less than £300 when you retire.**

Eeek, as they say.

So let's get ambitious.

If you want to earn £20,000 a year in retirement, your fund size when you do retire would have to be **£400,000.**

This means that from now on, you would have to save **£670 a month** for 25 years into something paying 5 per cent to generate your £20,000 a year retirement income.

If this doesn't sound realistic, there may be alternative investments that pay higher rate of return (for more risk) that you might wish to consider.

Many people choose buy to let properties as a way of generating income in retirement, however, tax changes coming into force from next year will make buy to let less lucrative for income seekers, so if this is part of your strategy, you might need to check your sums.

Inherited some money?

If you have received a lump sum from a relative, there may be different options available to you than those for regular monthly saving. It will depend on the amount you have received and your intended use of the funds.

"Some people choose to use this cash to draw an income if they are working part-time or in a period of unemployment, but most want to use it for their long-term future", ***says Olivia Bowen of Castlefield.***

Olivia’s top 4 tips for retirement saving:

1. You should aim to save a minimum of 15 per cent of salary throughout your working life – usually in a combination of ISAs and Pensions

Make sure you will have paid enough National Savings to qualify for the new full State Pension (currently £155.65 per week) – 35 full years needed.

2. If you are a higher or additional rate taxpayer you can reduce the income tax you pay (and possibly only pay basic rate income tax) by saving as much of the amount you earn over the basic rate income tax threshold as possible into pension.

3. Although pensions are very tax-efficient when you pay money in, you will probably pay tax on 75 per cent of the income you receive from them in retirement. ISAs, on the other hand, don’t offer up front tax relief, but will provide tax-free income in retirement.

4. This means a balanced approach between the two can be beneficial. In addition, ISAs are available for you to draw on at any time, whereas you have to wait until age 55 to access your pension. (Caveat – there are other tax implications that may be relevant to your circumstances, and advice should be taken)

Let's face it. Long-term saving isn't much fun. There are thousands more exciting things to do with your money. You won't get much immediate enjoyment from squirreling it away, but equally there's not much fun to be had as a penniless pensioner.

It really can pay to put some money into a pension. What with tax relief and contribution matching, it can be a lucrative way to save. So what are the steps you need to take to get your pension on track?

4 steps to tackling your pension

by Romi Savova, chief executive at PensionBee

Step one: ensure you're automatically enrolled

The state pension is unlikely to be enough to support you in later life, as the maximum you'll currently receive is only £155.65 per week - so £8,092 per year. What's more the pension age is rising (it's expected to be 68 for those poor souls in their 20s) so there could be a longer wait than you anticipate to actually claim it. With this in mind it's vital to take up the extra pension options available.

What you can do

The new auto-enrolment rules compel your workplace to contribute towards your pension, as long as you're paying into the scheme. The employer minimum contribution is currently 1 per cent of your annual salary, but many workplaces offer 'contribution matching', which means they'll increase their contributions if you increase yours. Ensure your employer's got you enrolled and up your own contribution if you can afford it. Self-employed? Check out the PensionBee self-employed guide to pensions (once you've finished this one).

Step two: find and combine your old pensions

Chances are you've worked in quite a few places by the time you reach your 40s, so you're likely to have a few forgotten pensions dotted around. This could have a real impact on your savings, so it's wise to find out where they all are.

This is because this dormant cash could be sitting in a poorly-performing fund or in a scheme with horrendously high fees. Let it stay where it is and you could be damaging your pension prospects, and short-changing yourself needlessly. Although some schemes do come with valuable benefits such as guarantees – you will need to check this before moving your pot.

What you can do

Plug alert - at PensionBee we put your old pensions all into one place with our Tracker, Match and Tailored plans. Don't know where your old pensions are? We can help you find and combine them. Alternatively, the Pension Tracing Service can give you a hand.

Step three: get an online account

Clarity is key when it comes to saving, so it's important to check your pension as much as possible so you know where you stand. You need to know which funds are performing, but it's often easier said than done - many pension providers have a preference for posting documents that are tricky to decipher.

What you can do
Bit by bit the pension industry is moving into the 21st century, and there's more online options available that really do simplify saving. Look for something that'll easily tell you how much money is in your pension pot, as well as how your funds are performing and how much you'll receive on retirement. This'll make the next step infinitely easier...

Step four: keep on top of your contributions

What you're putting into your pension now will shape your later life drastically, so it's important to find the right level of contributions and keep them up every month. Around 15 per cent of salary is a good idea, but ultimately there's or no right or wrong sum.

What you can do
Consider at least the following when coming to your contribution level:

- The balance of your existing pension(s) (should you have some pension pots from previous jobs)
- Your planned retirement age
- Your ideal retirement income

This should then give you a ballpark figure to start aiming at. Don't believe the doom-mongers, **you can still build a decent pension from your 40s**.

As with all pensions, capital is at risk.

The Good Money Girls say:

"No more messing about, it's time to make your pension saving a priority. It's hard, because the benefits are not immediately visible and delayed gratification is a tough discipline to practice in a life full of stuff to spend money on, but look, you just have to. Forget keeping up with the Joneses, by the time your 70, the Joneses will be long gone and you won't be feeling nearly as competitive.

"While we're at it, sustainable investments tend to be well-suited to pension saving because they involve long-term, patient growth rather than smash and grab profit raids. So your choice of pension can also be a way to do your bit for the saving of the planet."

Want to get in touch with us or any of the providers in this guide?

Good With Money
www.good-with-money.com
rebecca@good-with-money.com

EQ Investors
www.eqinvestors.co.uk
learnmore@eqinvestors.co.uk
020 7488 7147

Scottish Friendly
www.scottishfriendly.co.uk
0333 323 5433

PensionBee
www.pensionbee.com
contact@pensionbee.com
0203 457 8444