

Spring clean your finances

September ushers in spring, with the anticipation of new and beautiful things in the air. The month also brings with it National Financial Planning Week (7 to 11 September) and is therefore a great reminder to consult a financial planner and look at spring cleaning your finances.



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"Financial planning is the process of arranging your financial affairs optimally to address the financial risks you face and works towards the goals you have," says Riaan Strydom, Financial Adviser at PSG Wealth, Mill Park, Port Elizabeth, and PSG's Financial Planner of the Year for 2015.

Here are five tips to consider when spring cleaning your finances.

1. Prioritise

The main risk we all face is losing our income, or at least the ability to earn an income. This can occur due to death, temporary or permanent disability, contracting a severe illness, or once retirement rolls around. "It is important to clearly identify your priorities when structuring a financial plan, as the objective is to allocate money to addressing the risks you and your family face," Strydom says.

2. Assess

Once you have identified your priorities, you need to assess the potential impact of the abovementioned risks occurring. Would there be debts to settle? How much of your income would need to be replaced and for how long? Do you need to provide for future expenses, such as for your children's education, or estate duty upon your death? "Answers to these questions will influence how your financial planner goes about doing your financial needs analysis," Strydom adds. "The results of this analysis will show you how much additional risk cover or savings you will need - or, in other words, how much it will cost to fix any problems or shortfalls in your plan."

3. Budget

Once you know how much it will cost, you need to allocate funds from your budget to addressing your financial needs and goals. Strydom says the importance of a budget cannot be stressed enough. "Many people I consult with have absolutely no idea what they are spending their money on. A proper budget will guide you through your day-to-day financial decisions, as well as provide a framework to make provision for the goals set out in your financial plan." It might not be affordable to implement all the recommendations at once, so deal with them in order of importance.

4. Review

The responsibility of both monitoring and reviewing your financial plan lies jointly with you and your financial planner. "A good financial plan only needs to be amended if your circumstances change," says Strydom. "There is no way for your financial planner to know this if you do not inform him or her, so make sure that communication between you runs both ways." The best plans can become ineffective or even obsolete if you, for example, change your occupation or start smoking without informing your insurer as required by your contract. This could lead to claims being declined, or a smaller amount being paid out than you planned for.

5. Saving

Retirement is the one event we all hope we will be able to afford one day, so sufficient retirement savings are crucial. "Saving is what you do before you spend, not what you do with the little bit of money that is left over at the end of the month." This calls for a structured and disciplined approach within the framework of your financial plan. As already mentioned, you only amend your financial plan if your circumstances have changed. The same can be said for your long-term investment strategy. The recent volatility in world markets has us once again questioning the appropriateness of our investment strategies. "However, a well thought out investment strategy makes provision for these types of events, so stick to your plan and you will be rewarded," Strydom concludes.

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