Begin

Your hierarchy of financial needs

Bank of Ireland

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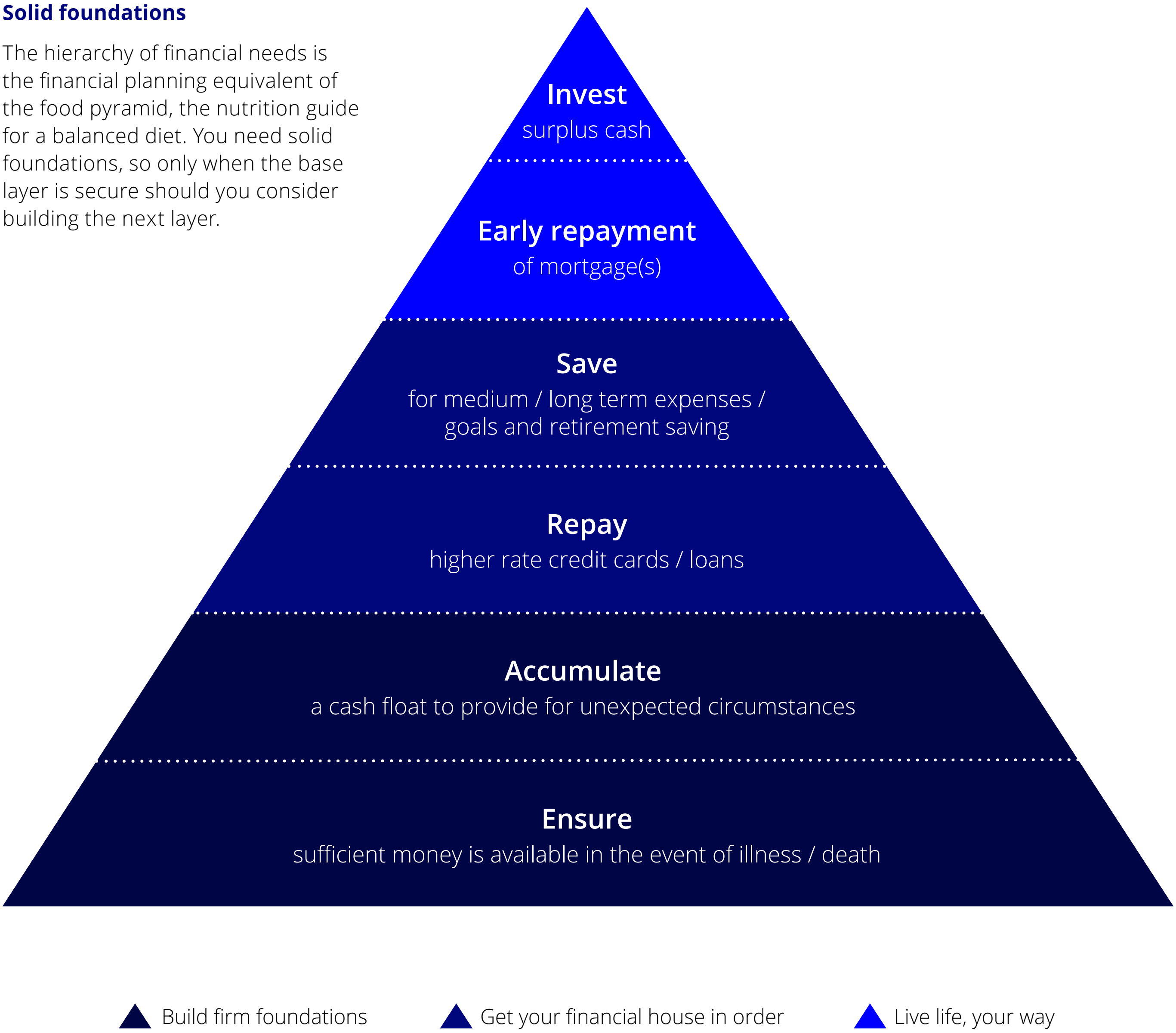
Each of us is unique, with different personal and financial circumstances and at different stages of life – starting out, working hard or winding down. So it makes sense that no two financial plans will be the same. However, every plan should follow the same hierarchy of financial needs.

Solid foundations

The hierarchy of financial needs is the financial planning equivalent of the food pyramid, the nutrition guide for a balanced diet. You need solid foundations, so only when the base layer is secure should you consider building the next layer.



1. Build firm foundations

Ensure to protect yourself and your family

You may want to protect your income in case the unthinkable happens. Insurance can plug the financial gap in case of sickness, death or disability and ensure that your plans and goals can still be achieved. Simply having the right policies in place can give you peace of mind.

Things to consider:

How would your earning capacity and income be impacted if you became sick or disabled?

Have you sufficient insurance in place over your key possessions – property, jewellery, art, collectibles etc.

What arrangements do you have in place to provide for your spouse or your children in the event of you dying or becoming seriously ill?

Accumulate an emergency fund

Could you meet the sudden cost of a medical emergency, unforeseen repairs to your house or an unexpected problem with your car?

If you have existing savings in an emergency fund, you may be able to cover these kinds of costs. If not you might have to use a credit card or an overdraft to cover them. Although there will be fees and interest costs associated with these options, it is important to have some level of access to emergency funds and avoid missing a rent, mortgage or utility payment. Remember, these sources of funds are for emergencies, and shouldn't be used to meet day-to-day living expenses.

Handy hint: Save your first €1,000

This is a great first goal. Not only does it provide the first level of a safety net but is an achievable goal that can help you build momentum towards more ambitious goals.

Handy hint: Make ends meet

In order to build a solid financial foundation, you should make sure that your outgoings (expenses) do not exceed your income.

Spending more than you earn leads to debt, which means you have to use part of your income to repay debt and interest, rather than for spending purposes.

On the other hand, spending less than you earn leads to savings, which leads to greater capacity to meet future goals and spending plans.

Budgeting will help, whether you create your own spreadsheet or use one of the many budgeting tools available online or from your bank.

Visit the Bank of Ireland financial wellbeing centre at https://personalbanking.bankofireland.com/financial-wellbeing/ and take a 2-minute financial health check.

Things to consider:

How much money do you have available on a regular basis?

What sick pay or illness benefits does your employer offer?

2. Get your financial house in order

Repay higher rate credit cards and loans

In most cases, you should look to pay down higher interest debt such as credit cards and short term loans before you start to build up savings or investments. Investing generally does not make financial sense when interest rates on your outstanding loans are higher than the likely return on a deposit account or investment fund.

However, some people prefer to pay for larger items such as a new car, TV or suite of furniture by borrowing, whilst at the same time saving for specific goals such as a child's college fund. That's fine, even if it's not the most efficient use of spare cash.

Things to consider:

What regular debt outgoings do you have other than your mortgage?

What interest rates and fees are you paying?

Do you pay off your credit card bill every month?

Are there restrictions in the credit agreement to prevent you paying it back early?

Things to consider:

How much are you saving, regularly, at the moment?

What are your plans for that money?

What big events have you coming up in the next 10 years that will require an outlay from you?

Would you like to extend your home and, if so, how do you plan to pay for it?

Would you like to see how you could achieve your goals by redirecting surplus income?

Save money to meet your medium-term expenses

If you have the capacity for extra savings, or you have surplus income, you may be in the position to save for a big celebration or a dream holiday; to replace the car; save for kids' college fees or start paying into a retirement fund.

3. Live your life, your way

Early repayment of your mortgage

You may want to become debt-free by reducing your remaining mortgage balance sooner than planned. You can do this by either increasing your monthly repayments or making one-off, lump-sum payments (depending on the terms & conditions of your mortgage). It's important to consider the best way to do this depending on whether you are paying a fixed, variable or tracker interest rate - so make sure to get professional advice.

Is it better to accelerate mortgage payments and hold-off funding future goals until after the mortgage is cleared? While there may be some benefits to paying down your mortgage as quickly as possible (particularly if you do not have a low-interest, tracker mortgage), this may not be the best outcome in every case. It really depends on the other goals that you need to save for, the returns you could earn or, in the case of retirement planning, the tax benefits available.

So this is an area where professional financial advice and scenario testing through life planning is needed.

Things to consider:

When would you like to clear off your mortgage?

What interest rate are you paying?

Are there any restrictions in your mortgage terms to prevent you from over-paying?

Would you like to see an analysis showing the impact of early repayment on your future finances?

Would you like to compare the impact on your financial future of paying down debt compared to paying into your retirement fund?

Invest surplus cash

If you have the capacity for extra savings, or you have surplus income, you may be in the position to use this surplus to achieve the personal or lifestyle goals that matter most to you and your family. For example, do you want to upgrade your home or pay for your kids' education?

There are sound reasons to start, or increase, your savings into your retirement fund because:

- The tax benefits of pension contributions can be substantial;
- Paying into a retirement fund maximizes the benefits of compounding returns;
- Directing a portion of income to a retirement fund at an early stage gives you a sense of the amount you will need to accumulate to live comfortably when you retire.

Things to consider:

When do you hope to retire?

What are the pension arrangements with your current employer?

Do you have any pension arrangements from previous employments?

If you were retiring today, what level of income would you like to have?

Do you know whether your current retirement pot will be sufficient to enable you to live comfortably in retirement?

Things to consider:

How are your current investments performing?

Do you know the fees and charges you are paying?

What is your attitude to risk?

Do you know your capacity for loss?

Will your investments be sufficient to meet the goals you want to achieve?

Are you getting the best return on that money?

The amount you should invest and the approach to risk depends on your specific circumstances. Make sure to seek professional advice before making any investment, and review your existing investments regularly.

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