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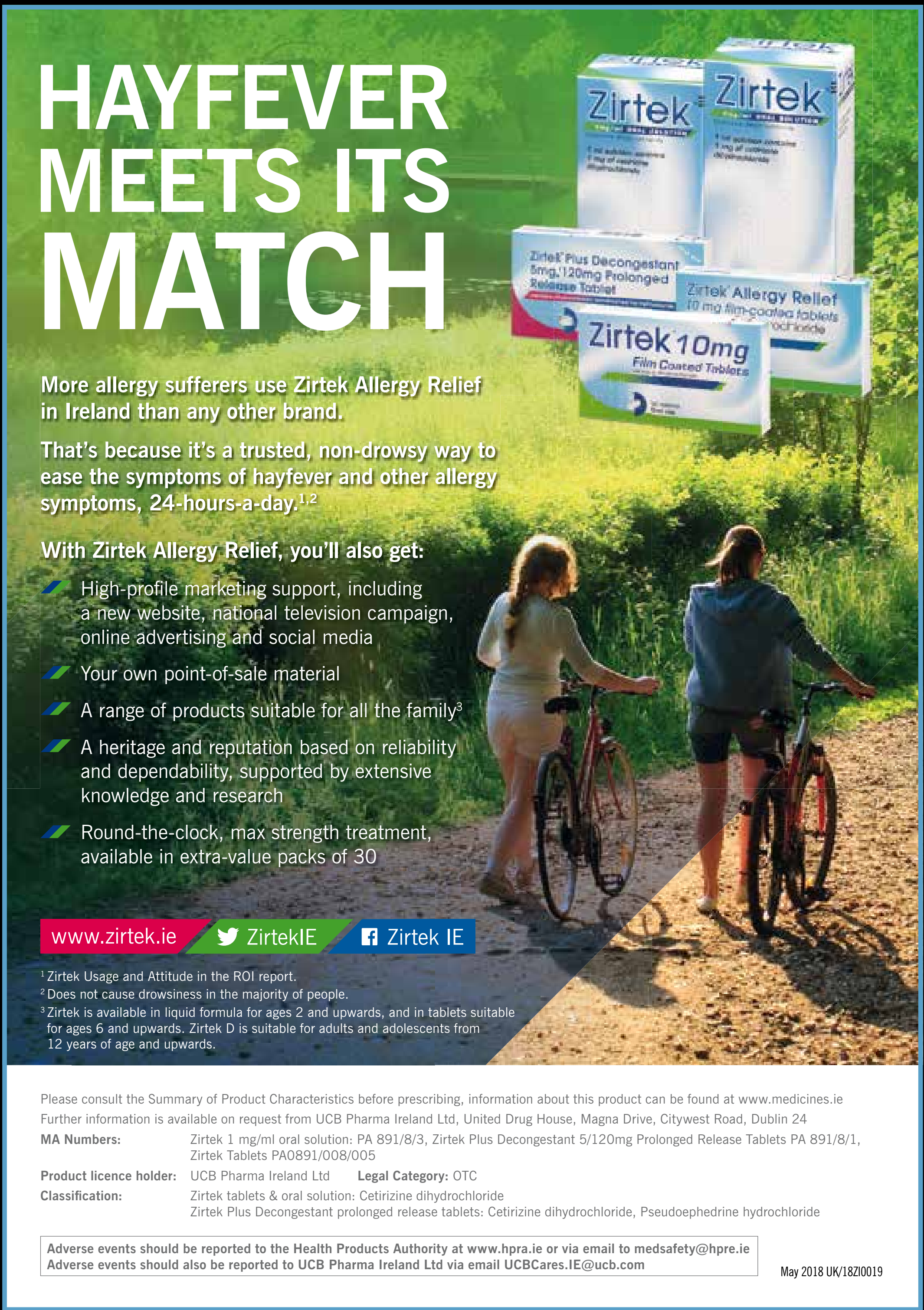
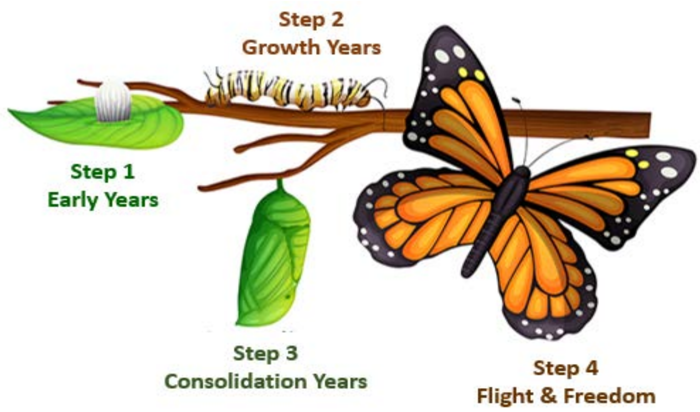


In this issue:

The financial lifecycle of the pharmacist

In the first of a six-part series, Robert McOwan explores the financial lifecycle of the community pharmacist. Using his experience in both the business and pharmacy sectors Robert works as a financial advisor offering both business and personal financial planning. This week he gives an overview of the four stages in a financial lifecycle.




Robert McOwan

Float like a butterfly

Wealth generation and the ability to create positive life choices are inextricably linked to business growth, career progression and financial aspirations. This statement is generally true for people working in all industries, including the very successful and dynamic pharmacy sector where business owners are provided with opportunities for revenue growth and employees see opportunities for motivational get-up-and-go career progression.

The four step financial cycle

Also intricately connected to the building of a business and a career is a four-step financial cycle. These cycles follow a logical pattern during our lives and arrive as individuals acquire new responsibilities alongside financial challenges that must be overcome in order ensure personal success and financial well-being during a busy working life.

The four steps fall into four distinct time frames. Age ranges for each financial step are indicative but not exact for everybody, however, the associated financial challenges in each cycle are likely to arise regardless of the age you begin any of the steps.

Step one

Early years: Age 21 to 35

Step two

Growth years: Age 36 to 50

Step three

Consolidation years: Age 51 to 65

Step four

Flight & freedom: Age 66 and over

Financial cycle variances

Financial cycles vary from person to person, for example a person who remains single will have different financial needs compared to a couple who live together without having children. Likewise, a couple who live together and have children will follow another cycle as their financial needs will be different from both of the above.

These variances caused by unique personal and/or business circumstances drive the need for both business owners and employees to be financially informed and aware of their specific needs as they move through each financial step.

A four-step financial cycle example: A couple with children

The financial circumstances outlined below are an overview of what may typically happen to a couple with children as they move through each of the steps; unless their life style is interrupted by an unplanned event, such as winning the lottery, death, serious illness, or they are lucky enough to inherit a small fortune.

Step one:
The early years, age 21-35

During this time you may be taking on the challenge of starting your own business or be very busy building a successful career as an employee. You are probably working long hours, managing deadlines, delivering superior service and meeting the needs of a growing number of customers. It is also when your headline income may see you have more disposable income at which time you may recall what your parents might have said, which is always sensible and great advice to follow;

"Don't spend everything at once"

"Now is a good time to save"

"Think about a deposit on a house"

"Save an emergency fund"

"What about marriage and starting a family."

Savings & Income

How much to save and where to save are important decisions. For example, if children arrive it would be wise to start saving as the latest estimates of paying for a child who is staying away from home in third level education is at least €12,000 per annum.

Source: DIT Cost of Living Guide Survey, June 2017.

But these early years of the financial cycle are not without risk. In spite of your youth and energy, death or a sudden illness can be indiscriminate in their occurrence. Such things can cause business failure, loss of all income and maybe erode any accumulated assets or savings. This is a financial risk to both business owners and employees as if either happens it can have a devastating impact on the financial well-being of a business or a family.

Consequently, a top priority in step one is to protect income as much as possible. A simple definition of protection is ensuring a capital sum is available to maintain lifestyle and income, for a specified period of time, in the event of death or a serious illness. The exact design of such a plan is not a one-size-fits all as people usually have different financial perspectives which need to be assessed carefully before any option could be considered fit for purpose.

Step one - early years summary

When you think about the volatility of life during step one it is probably the most financially and emotionally challenging of all four steps. Typically, this is the time of your life when you start a business, build a career, get married, have children, change your lifestyle, accumulate debt, acquire long term financial commitments and are willing and able to take on new risks and responsibilities. With all of this happening at such a fast pace, it's also probably a good time to begin having regular financial health check-ups.

Step two: growth years, age 36-50

Step one is over, business growth is on target or your career as an employee is trending upwards and on track. Revenue from business and income from employment is increasing. New business is developing, and promotion opportunities are being won and maybe bonuses are being earned. A downside is disposable income may not now not be keeping pace with headline income as the costs associated with children growing up and other major family expenses must be met.

However, some changes may occur. For example, the need for saving towards education might reduce or stop. This depends on ages of children, when savings started, how much was saved monthly and are your child or children likely to be away from home during third level education.

Saving for a child's education takes time. However, if savings start at the birth of a child, there may be enough time to reduce or stop saving before the funds are actually needed.

Growth years and new priorities

A fast approaching need now is to think about income needs when you stop working, for example, a male aged 47 today with 18 years to go before retiring at age 65 can reasonably expect to live for another 18 years after retirement*. A female aged 47 can reasonably expect to live for 21 years afterwards**.

*Source: CSO Irish Life Tables 08 July 2015. ** Source: CSO Irish Life Tables 08 July 2015

Currently, apart from any entitlement to a private, public, or state pension, regular income from employment usually stops at the end of cycle three, i.e. at age 65. One way to avoid any income gap at retirement is to save from regular income while working or use your business to create assets and wealth that may be converted into income post retirement.

Step two - growth years summary

Generally speaking, for most people, it is financially steady as you go during step two with no major changes to financial needs. There may be an opportunity to reduce saving for education and it may be an opportune time to start saving towards an income for retirement. You are now looking forward to step three, the consolidation years and hopefully there is less financial risk to worry about and potentially, a gradual increase in discretionary income.

Step three: consolidation years age 51-65

Moving into step three can often mean the good news is that the light at the end of the financial tunnel is not the train coming towards you. Some of the motivational reasons for this being the situation can be that one or more of the following statements is true for you;

1. Business is well established.
2. Career is stable and progressive.
3. Children are grown up.
4. Children probably building careers.
5. Children potentially moving into step one of their own financial cycle.
6. Mortgage reducing or fully repaid.
7. Short term loans not required or minimal

If this is your improving financial situation it is advisable to retain some protection while making your investments work hard and ensuring a plan is in place for a regular income post-retirement. Awareness of what to prioritise is still important as some financial needs may be moving targets and therefore need to be managed wisely to ensure risks are mitigated and any discretionary income is working hard for your benefit.

Step three - consolidation years summary

Planning to ensure income is available after stopping work either as a business owner or an employee is now a priority. Waiting until close to or the end of step three is usually too late for most people. Accumulating assets and wealth to be used to fund post retirement income should ideally happen throughout all of step three and begin in step two whenever possible.

Step four - flight and freedom aged 66 and over

Congratulations, you have built a successful business or career, own a home, maybe collected some savings and assets, raised a family and perhaps helped your children begin step one of the financial cycle. Lifestyle and income protection is no longer a priority, unless there is a need to pay inheritance tax or have a lump sum available in the event of a death or serious illness.

You can look back with satisfaction on successfully completing all of the four financial steps which helped ensure your business, family income and lifestyle were always protected; savings were aligned with goals, and the need for an exit strategy, business succession and securing a regular income when you stopped working was achieved on time.

In summary, you took responsibility for your financial well-being by having regular financial health check-ups to help with being aware of your financial priorities and needs. All of which has helped you to make the best financial decisions for your business and family throughout your working life.

Step four flight & freedom priorities

Taking centre stage now is the need to evaluate all accumulated business and personal wealth, think about how to convert these into assets to provide a regular income, now that you have stopped working and can afford to invest some quality time in hobbies and leisure activities.

Summary of the financial cycle

In the ideal financial world, everyone in both their business and personal lives, would tick all financial boxes at each of the four steps. However, this is not always possible and while an early start in understanding and prioritising needs usually works best, it's never too late to take control and make the right financial decisions.

The forthcoming articles in the series will provide greater detail on financial awareness for both business owners and employees on each of the steps

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About the Author

Rob McOwan is a Personal Financial Adviser with Acorn Life. He has a strong connection to the Pharma Industry having worked alongside numerous pharmaceutical organizations to assist with the design and launch of key brands. He has significant experiences creating, building, and supporting pharma companies within the Irish and European markets and in his current role is now ideally positioned to present financial advice within the pharmacy industry to owners and employees.