# Personal finance 101 – advice for children and friends

*by Mohammed Amin*

For those unfamiliar with American English, part "101" of any college course aims to cover the absolute basics.

UKSA members of course don't need to learn personal finance 101; all of us should already know it. However, many have children, and most are also likely to have friends who occasionally ask for financial advice.

At that point, as well as the common-sense risk of giving advice that might turn out badly and lose a friend, the law severely inhibits what you can say to people without falling foul of financial services regulations.

With my own children, I operate on the basis that I can say what I want to them. If the law wants to get involved, Iwill take my chance to become a regulatory martyr!

However, with anyone outside the family I just have to say that I cannot help them, beyond suggesting some good quality reading material.

UKSA emphasised how current rules prevent the sharing of basic common-sense knowledge in its recent response to the FCA consultation on the Consumer Investments Market. As part of my collaboration on that response, I wrote down what I regard as the absolute basics of personal finance, which we should be able to share with anyone. Unfortunately, what the law stops us doing is naming any names of suitable products, even when the choices are obvious.

Below is what I wrote, which became the key part of Appendix 2 of the UKSA submission, since readers may wish to share this with family and friends who approach them.

The following points are numbered because they follow a strict order of priority:

1. Repay expensive debt, which would normally mean all debt apart from mortgages.

2. If you have any dependants, after considering employer-provided death cover, ensure that you have about 20 times your annual income in term insurance before you other financial products.

3. If an employer pension scheme is available, join it.

4. Maximise your employee pension contributions up to the largest amount for which your employer will make matching contributions. Invest 100% of this in a global developed countries' market capitalisation weighted ETF (exchange traded fund), or the nearest equivalent out of the employer's scheme's investment choices. However, in the UK be aware of taxation's annual and lifetime limits.

5. After taking into account your confidence in finding other employment if you lose your job, and any other relevant family circumstances, ensure that you have the equivalent of several years' worth of essential expenditure, perhaps as many as five, incash or near-cashbefore youbuy any long-term investments suchas equity orproperty linked investment products.

6.If you are young enough to qualify, the next step after the ones above should be to put your savings into a Lifetime ISA (individual savings account), invested in the same ETF as mentioned above.

7.Any further savings should be put into an ISA or SIPP (self-invested personal pension plan) subject to the limits allowed, with the choice of priority depending on your forecast of current and future tax rates. If in doubt about future tax rates, ISA first and then SIPP.

8.Be very aware of the importance of costs in investment, including the costs charged by providers such as investment platforms, the explicit costs of the managers of any collective investment funds, and the implicit cost that have to be met by collective investment funds including the costs of trading.

9.Unless and until you attain sufficient confidence to make judgements about company financial reports, business models and competitive environments, do not venture into individual company shares.

*Editor's note: Although Amin is a member of UKSA's Policy Team, he writes for The Private Investor in a personal capacity. He is a retired PricewaterhouseCoopers tax partner.*

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