

Financial Planning for Tech Employees

5 Key decisions to make

Humboldt is a financial planning firm that specialise in helping tech employees manage their financial affairs .

This guide identifies the key challenges faced by tech employees and provides a strategy for making the most of the opportunity

The problem & opportunity

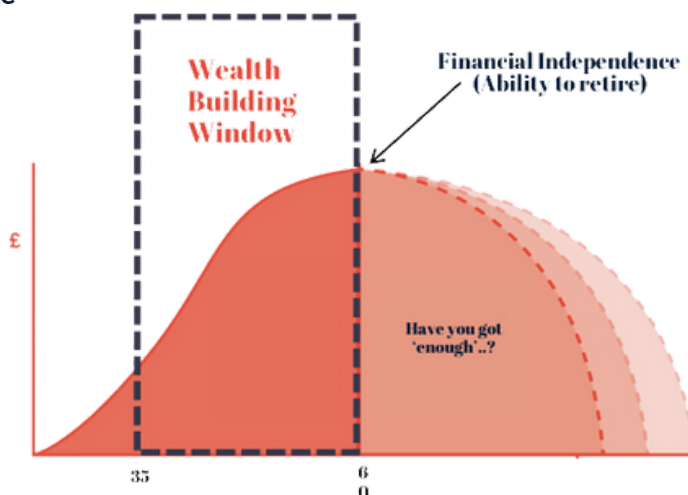
As a tech employee, your financial situation is unique

Your position has several interesting financial planning implications: competitive salary, multiple bonus types, employee stock purchase plans, stock awards, matched pension funding, multiple benefit options, etc.

You receive a wide-ranging compensation package, yet many people in your position are too busy to examine how to get the most out of these benefits and avoid some of the pitfalls.

Building your wealth efficiently involves making smart decisions and managing many moving parts. It's a difficult juggling act when you're working so hard.

So what do you need to know?



1. How to minimise the tax burden?

Tax management is a serious priority. Left unchecked, it can be a major drag on building your wealth. It's likely that tax is your biggest expense, so what are some of the strategies that can help you minimise the burden?

Pension planning

Your pension is often the most tax-efficient pot to invest money. For many tech employees £1,000 pension contribution can cost just £480, due to tax relief.

Optimising your pension contributions while ensuring you do not breach your Annual Allowance can make a huge difference to your growing net worth and financial future.

Stock management

A large part of your compensation is probably in MS stock. Both the ESPP & Stock Plans need careful management to ensure you're not growing a hefty Capital Gains Tax charge or receiving dividend income, tax - inefficiently.

Useful strategies can include selling newly vested shares, managing a 'sell' plan for stock you've held for a long period & potentially even transferring some stock to your spouse to use their allowances too. This can often save you £1,000's in taxes.

Tax-advantaged accounts

The use of tax-advantaged investment accounts allows your money to work harder for you without a 'tax drag'.

While investment performance isn't something you can control, the avoidance of paying unnecessary tax by holding the 'wrong' type of investment pot can drastically eat into your returns.

Avoiding 'tax traps'

Optimisation is one thing, but on your compensation the most impactful action you can take is to proactively avoid getting stung with large tax bills in the first place.

Here are the most common culprits:

- × The Tapered Annual Allowance
- × Lifetime Allowance
- × The 60% tax trap
- × Annual bonuses taken as income
- × Capital Gains Tax on Vested Stock Units

2. How to manage risk?

The opportunity to achieve your financial goals is high. Based on your career trajectory things should be okay.

But what if they aren't?

Financial safety-net

There are 2 major events in life that are unforeseeable and can result in financial catastrophe: premature death and long-term illness.

If you're highly dependent on future earnings you must consider protecting against losing them. Without this, your financial planning is built on sand. Ensuring you choose the right benefit levels gives you and your family financial security and peace of mind.

Investment Risk

The question of how much risk you should take depends on how comfortable you are with uncertainty, your need for returns and your ability to absorb negative outcomes.

3. How should you invest?

You have the ability to grow your wealth at a very high rate.

Investment Mix

Whether it's your pension, ISA, or any other investment: the most important determinant of how fast you can grow your money is how you allocate it between stocks and bonds.

There is a clear trade-off: allocating more of your portfolio to riskier assets increases your long-term expected returns, but also increases the volatility of those returns and the range of potential outcomes.

For example, many people find that the 'default' strategy in their pension is moving to a lower risk (and return) portfolio sooner than they'd actually choose.

Diversify

How much of your current and future financial wealth is tied up in tech? Think salary and stock options. That's a lot of eggs to have in one basket! Most tech employees have benefited greatly from their concentrated position.

Of course, not taking enough risk with your investments can be just as risky – i.e. not making your money work hard enough for you to achieve your long-term objectives.



It's likely that a large proportion of your wealth is tied up in investments in one form or another – your pension, your house, your tech stock and any other assets you have.

Choose your benefits wisely

tech has an exceptional benefits package that incorporates both a financial safety net and wide investment options and it is important to get the right balance for you.

Matching your benefits with what you really need (and adapting this as time goes by) is a critical step in protecting against risk.

However, they also recognise that it makes sense to spread their wealth and put more eggs in different baskets. Having a plan to gradually diversify is a very important part of risk management.

Stay low-cost


The impact of costs on performance are often underrated and understated, especially when considering the compounding effects over long periods of time.

Do you know the total charges you pay out of your investments?

Keep calm when markets drop

Study after study shows that one of the most important factors determining whether you're a successful investor is how you react when your investments drop.

This isn't an 'if', it's a 'when', and great individual investors understand that keeping calm and sitting tight through volatile periods has shown to vastly improve returns than aiming to buy & sell.



Start by listing **everything** of value your salary, stocks, skills, and network. Then, create a plan to grow and protect it.

4. How much is enough?

You are incredibly busy and there aren't enough hours in the day. But what's it all for?

What future are you trying to create?

Your financial plan

A financial plan encompasses your future spending, income and available capital. It helps you shed light on whether or not you are 'on track' for the future you're working so hard for.

It may be overwhelming to try and map out your financial future with all the moving parts, but thinking about these key questions is a great way to start:

What are the big milestones you want to achieve in the next 5 years?

When is the earliest you could retire and maintain the lifestyle you want? What are the 3 actions you can take now to improve your finances in the future? Do you have a framework for making smart, financial decisions that benefit you over

**“Make choices today
that set your future
self up for success.”**

Financial independence

Retirement might not be your goal, but understanding how long you have to continue working for is incredibly powerful.

Knowing when you'll become financially independent (i.e. when work becomes optional) will give you confidence and clarity. This isn't about retiring as soon as possible, it's about having the option to continue working, without the pressure, which often makes work a lot more enjoyable!

What's your number?

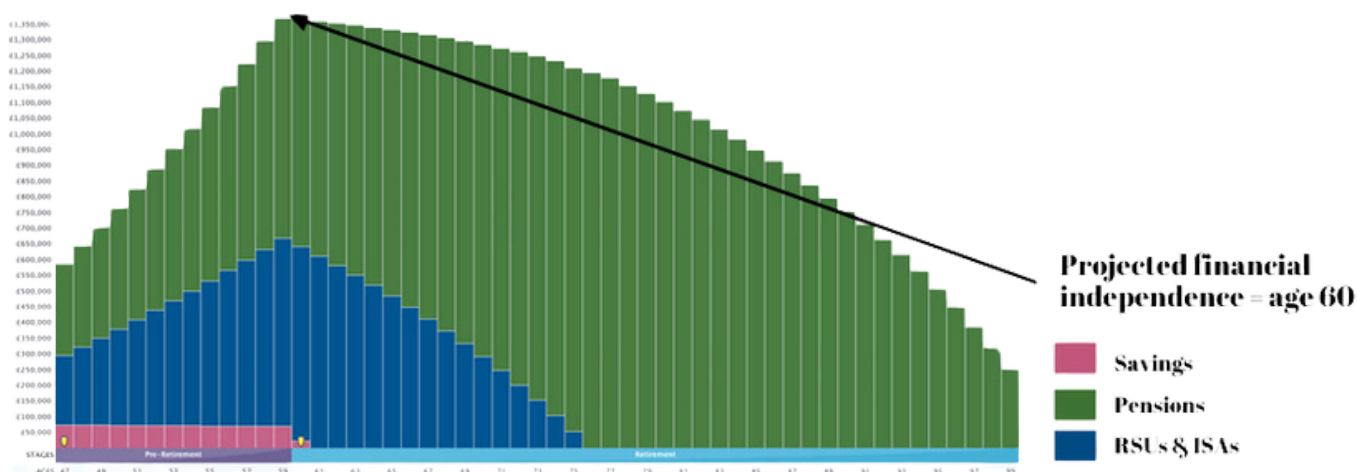
Everyone has a number, whether they know it or not.

Your number = the amount of money you need to provide the income you want for the rest of your life.

The 'right' way to answer this is to use financial planning software to model your family's net worth (see below) from now until the end of your life. This includes your expected income, regular outgoings, one-off expenses and investments.

With prudent assumptions it can provide a visual representation of your financial future, as well as helping to answer big questions like:

- “Can I afford to pay for my kids to go to private school / University?”
- “How much house can we afford?”
- “What if we plan on downsizing?”
- “How much can we spend if we retire X years earlier?”



5. A case study...

John's Story...

When we were approached by John last year, We reviewed John's insurance cover, including wanted some help getting his finances in order. his tech benefits and private insurances. Here's what we did... We structured the insurance to better meet his (and his family's) needs and reduce the costs

1. Total tax savings

- We restructured John's finances to help save income tax, capital gains tax and future inheritance tax.

2. Portfolio optimisation

- With 50% of John's net worth tied up in tech stock options, the risk was too high given his attitude to risk. We diversified his portfolio, creating a globally balanced strategy while retaining exposure to tech stock for growth potential.

3. Organisation & time-saving

- John had six pensions from previous employers, making management a challenge. Humboldt consolidated these pensions into a single, streamlined structure, freeing John from the administrative burden.

4. Financial safety-net

- John lacked a cash safety net and relied heavily on tech stock. Additionally, he had only workplace benefits in place. We explored private protection options to secure his financial future and meet his family's needs.

5. Financial independence

- John's initial plan to retire at age 60 seemed out of reach he expected to work until age 66. By restructuring his finances, we demonstrated how he could achieve his goal of retiring at 60 while maintaining his desired lifestyle.

6. Summary

- £15,000 saved in income tax
- UK allowances fully utilised to reduce CGT exposure
- Consolidated pensions for easier management
- Balanced, globally diversified portfolio
- A clear plan for the future
- Peace of Mind

6. Should you work with an adviser?

Our team help people like you

Our bias on this topic is obvious. Still, we are in a unique position to help answer this question specifically for tech executives, so let's attempt to do so.

1. Do-it-yourself?

If you really enjoy personal finance & reading through HMRC tax manuals on Sundays then I would encourage you to do that. Cover each area of this guide & create your own financial plan.

2. Consult with an adviser?

If you feel your time would be better spent on your career, family, etc. and attempting to juggle these financial areas would be burdensome, then finding the right adviser is crucial.

A good adviser that understands your unique situation will deliver value above & beyond their cost. Ultimately, helping you get a handle on every area of your finances.

3. H-I-T-S?

Of course, some people choose the 'Head- In The- Sand' option. Hopefully this guide has given you some insight into why you're likely to be losing out by adopting this approach

Our Offer

Humboldt offers a relaxed, initial consultation with one of our professional advisers.

With no cost and no commitment, this meeting is to get to know each other.

Book Initial Consultation