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# The unique financial challenges facing investment banking professionals

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Financial Planning. For Professionals. By Professionals



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## **We get it – you’re a respected investment banker, maybe even a Director, you work in The City, so why on earth would you pay for financial advice?**

You trade your own account (within the strict compliance limits set by your firm, of course) and you tend to do ‘ok’. Well, in truth you’ve had some hits and some misses, but overall you’ve done pretty ‘ok’. You get regular, handsome bonuses from your employer and you save most of them, laying down a generous financial foundation for the tasteful, comfortable, fulfilled future you deserve. Well, you used to save most of it, but nowadays once you’ve waited out the 3 years to get your hands on it, there are school fees, house extensions and holidays waiting to chew it up. Maybe you don’t manage to put away quite as much as you used to...

We also get that you love the ‘lifestyle’, the early mornings, the late evening calls to the U.S. It’s all part of working in The City, being part of that elite club. You’re enjoying the buzz while you can, because lets face it, you’re not going to be doing this forever - at some (hazy) point in the future you’ll work in a more normal industry. But when will that be? How long do you plan to keep doing this? How long do you WANT to keep doing this? Maybe its time to take control of your financial future and make sure your future is more than just ‘ok’?

You’ve got a picture in your mind of what your future looks like – special times with family and friends in the South of France, perhaps restoring a beautifully proportioned country home, launching a new business, enjoying your classic cars, giving back through a charity close to your heart. Its great to have dreams, but its only through crystalising them and creating a plan to fund them, that they become reality. Will your dreams stay as dreams, or will you be one of the few who plan to make them reality?





## Working with an expert financial planner (even Federer has a tennis coach...)



In fact Roger, 20-time Grand Slam champion has not one but two tennis coaches. Lionel Messi works daily with a team of football coaches. Some of the world's most educated art collectors turn to Sotheby's to help build a personal collection of Chinese porcelain or Impressionist paintings, and elite wine connoisseurs who know their Chateau Margaux from their Chateau Lafite, will still enlist a personal sommelier to build out a wine cellar. The world's highest performers understand that the best results are achieved with expert external advice.

Working with a financial planner is far more macro and strategic than simply picking the right funds (we know you can do that already). Your financial planner brings the direct experience of building wealth for an elite portfolio of investment bankers like you, and they bring an expert external perspective that you simply can't have. Your personal financial planner is your deeply trusted sounding board, consultant, coach, sage.

Your planner will help you think on a strategic level about your career and your life. What is your career trajectory? Where will you be in 10, 20 years? What does your family look like? Where are you living? What are you doing? What does that comfortable, tasteful, fulfilled future actually look like? Working shoulder to shoulder, your planner will help you craft your long term plan, and more importantly, the short term decisions you need to get you there.



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## **Permanent Wealth Partners – City specialists who have been in your shoes**

At Permanent Wealth Partners we specialise in helping investment bankers and elite financial professionals to answer all those important questions and more. Our planners have worked at the top investment banks and hedge funds in the City. We've been there, we've walked in your shoes, we know how it feels – and we know exactly what kind of expert help you need.

Combining our own experiences with themes we see working with the investment bankers across the City, we've put together the 8 unique challenges you may be facing.



## You pay a lot of tax

Do we need to remind you? As an additional rate taxpayer, not only do you pay the top-rate of tax of 45% but you also lose out on your personal allowance (the first £12,500 of income is tax-free for most others). Moreover, you also have to pay back Child Benefit Allowance, amongst a number of other stealth taxes that hit the higher earners.

The bonus figure on the piece of paper that is passed to you each year is never what you actually receive, as a thick slice of tax is deducted before it hits your bank account.



Gross earnings of £600,000 per year means you will end up paying £271,722 of that in tax<sup>1</sup>.

**How efficiently have you constructed your investment holdings to minimise taxes and maximise growth?**

That's a hefty chunk. Tax is law, it's the rules. Tax relief is also law, and the rules are there to enable you to get tax relief – so take it. Everyone complains about paying taxes, but many of the smartest in the City don't actually fully utilise all the different tax reliefs available to them. Do you?

There are significant savings to be made by structuring your earnings and investments in a tax-efficient manner. There are many different financial products with different tax treatments – think ISAs, Pensions, Investment Bonds and VCTs. It's all about creating the right overall blend of asset holdings to meet the needs of your specific personal situation and long term view.

<sup>1</sup> based on the 2023/24 tax rules.

## You have a significant amount of your personal wealth tied up with your employer

How reliant financially are you on the sustainability of your employer? Most people don't realise exactly how reliant they really are. If you are like most people we talk to in the City, then your employer is responsible for the following:



Your pension contributions



Your pension management



Your life insurance



Your health insurance



Your income protection



Your car allowance



Your gym membership



Your childcare vouchers

**Is a large proportion of your wealth tied up with your employer? How wise do you think that is?**

And when you think about this list above, note the one thing we didn't even mention yet – salary.

It's when people understand how intrinsically intertwined their financial livelihoods are with their employer, that we like to gently question whether some diversification may make sense?

It is very common for senior employees to receive the bulk of their total compensation in their employer's stock. This stock tends to be deferred over a 3-5 year period. Plus, it is also common for banks and other employers to offer "deals" on using your salary to buy more stock at either discounted prices or with free options thrown in. Most investment banking professionals will have a significant portion of their total liquid wealth tied up in their employer's stock. And this is on top of all the other benefits listed above.

## You would like know when you can stop

To become a Director or equivalent in an international finance firm requires huge dedication and effort. You have worked very, very hard to get where you are and you deserve the stature and remuneration that being a Director provides. But have you ever stopped or even slightly paused to ask “What’s next?”. Without being too morbid, we’re pretty sure most people don’t plan to die at their desks - so planning for life beyond the City is a crucial step. You are in the fortunate position, that with a little bit of planning, you will have the financial resources to do exactly what you want to do. Carpe diem.

### **A little side story – the BBC pension scheme used to be the most well-funded pension scheme in the U.K.**

*<sup>2</sup>Why? Because if you think what journalists and newsrooms used to be like from the 1930s until the 1990s, they were hard-working, hard-drinking, hard-smoking places. There were a significant number of journalists (mostly male) who would retire at aged 60 (if they even made it that far), get their gold watch and be dead 5 years later. The pension scheme was all set to pay out for the rest of their normal life expectancy – but would rarely have to. Times have changed considerably since then and now with life expectancy increasing every year, there is every chance you will need to live of your pension assets for 30+ years. The moral of the story – your financial planning better be good, because its going to have to last.*



<sup>2</sup> <https://www.ftadviser.com/pensions/2017/08/23/bbc-to-pay-340m-to-fund-pension-scheme/>

## You would like to know when you can stop *continued*

For a number of clients, their key consideration is not necessarily retirement per se, but to understand when they can stop working or step-down to a simpler role. A lot of people want to know “their number” i.e. based on certain calculations, at what age can they take their foot off the gas, knowing they have enough assets and income to last the rest of their lives. Engaging with a financial planner on this subject can prompt a lot of thinking, so the dialogue tends to be an evolving discussion that takes place over months and years as the situation develops. Remember, we talked about your planner being your trusted sounding board, coach, sage – they’re with you for the journey.

Good financial advisers will use modern cashflow modelling software with clients, to support the discussion round ‘the number’. The process of building the model alone, and setting the assumptions behind the model, provides invaluable discussion and thinking time for clients to work out what is important to them in life post City.

Working backwards is sometimes a strategy used by advisers. Again, good advisers will do this and ask questions such as “What will you be doing in 20 years’ time? Where are you? What does your house cost? How much are you spending every month?” The planner will then work backwards from there to work out the cost of sustaining that particular lifestyle, and what level of finance is required at the outset to achieve it.

How thoroughly have you thought about what is truly important to you? Do you have a clear picture of what you want your life to be like in 10, 15 or 20 years?

**Are your goals, dreams and aspirations reflected in your pension and financial planning? If not – is now the time to get real?**



## You have no idea what you would do if you were made redundant.

“I’ll always be able to find another job” was what most people were thinking in 2006 when the markets were flying, as were plentiful job offers with guarantees. Not anymore. A research paper from Coalition estimated that in 2019 the 12 largest investment banks employed under 50,000 people, down from over 60,000 in 2013<sup>3</sup>. According to Financial News in 2019, consultancy Opimas predicted that the adoption of new technologies by financial services would lead to a reduction of 400,000 jobs in the coming decade, with trading and back office roles most at risk<sup>4</sup>.

Unfortunately, the market for emerging market equity derivatives (or something similarly obtuse) is not too healthy outside the City and once you leave, well then, you leave. What you do have though is a series of skills that can be very useful to non-City employers – such as sales skills, financial modelling skills, people skills. There is light...

Planning for potential redundancy can be unpleasant and unnerving. Sacrifices would have to be considered. But looking at possible redundancy head on, and planning for the scenario is a key step in building financial security and peace of mind. The plan can be left untouched and with a sign on it that says “Break Glass In Case of Emergency”. In our experience having this emergency plan will help you sleep easier at night, and very occasionally it can be a potential lifesaver in times of crisis.

**Do you have a plan in case you were made redundant?**

<sup>3</sup> [Investment bank research teams suffer deepest job cuts \(fnlondon.com\)](https://fnlondon.com/news/2019/02/27/investment-bank-research-teams-suffer-deepest-job-cuts/)

*Paul Clarke, Feb 27th 2019*

<sup>4</sup> [Headcount drops to new low at world's biggest investment banks - Financial News \(fnlondon.com\)](https://fnlondon.com/news/2019/05/30/headcount-drops-to-new-low-at-worlds-biggest-investment-banks/)

*Nell Mackenzie, May 30th, 2019*

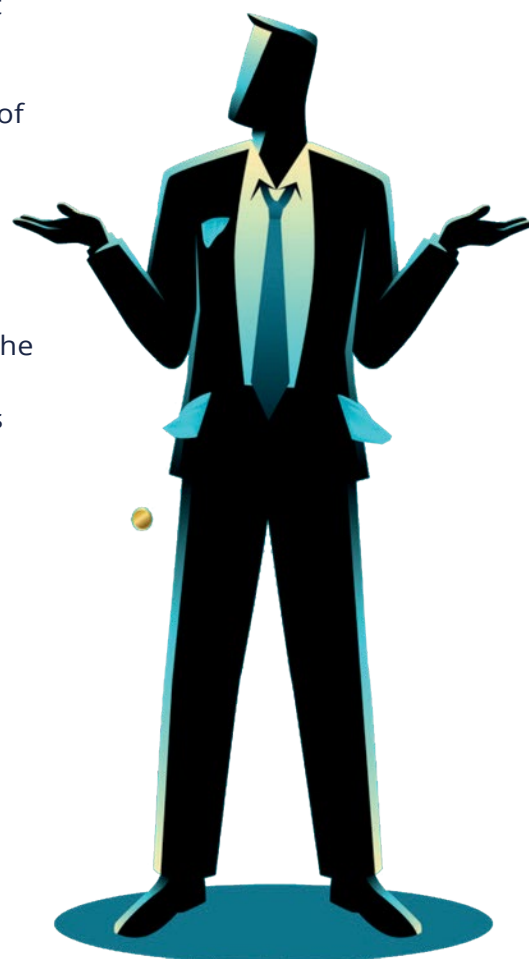
## You are comfortable with investment risk, but your portfolio is pretty disjointed

As someone who works in the City, you have a unique view on the inner workings of financial markets. You may even get access to restricted information which, rightly, you are restricted from acting upon. You have designed your ideal portfolio in your head, the portfolio equivalent of a sleek racehorse, or an exquisite timepiece. However, the problem we find, is that the nature of life at the top in the City and the restrictive nature of employer compliance procedures, means most client portfolios tend to be a patchwork of old stock tips, hunches, and other ill-advised investments - more camel than racehorse.

**Does your portfolio reflect your short, medium and longer term goals?**

Having a deep understanding of investment risk is a great, but you won't reap the benefits unless it is expressed properly through your portfolio. Many of our clients find that using a goals-based or time-based strategy to construct a portfolio of specific segments with specific target outcomes, is a very effective way to build out a portfolio that's precisely tailored to their individual needs.

Some clients enjoy managing their own funds – if that's you, then by all means do that for a portion of your funds and in the interests of diversification and optimisation, throw the rest 'over the wall' to be managed externally by a skilled adviser. This way each pot of money has different goals and different risk structures, but the key point is that the portfolio has been deeply considered, discussed, designed and agreed.



## Your pension is somewhat forgotten and under-performing against its potential

Here's another stealth tax that impacts just the higher earners in society. Once you have gross earnings above £360,000 then HMRC caps the amount you can put tax-effectively into your pension to just £10,000 per annum<sup>5</sup>. If you earn just below this figure, then there is a sliding scale in terms of calculating the correct limit. We find many senior bankers end up completely opting out of their employer pension scheme, and instead receive the contracted pension contribution due to them as part of their PAYE compensation. Whilst common practice, this may not be the best idea, not least of all because the original pension just gets forgotten about.

Now pensions are one of THE most tax effective investment vehicles available to anyone, and even more so for higher earners. Yes, there are limits in terms of contributions and total sums involved, but if you stay inside these limits, you stand to enjoy lucrative tax efficient growth opportunities. Yet what we see so regularly is that the annual pension statement arrives once per year, is fleetingly looked at (growth or not?) and then discarded with other papers to the draw to be filed. A missed opportunity.

If you are unlikely to access the funds from your pension for more than 10 years, have you considered all the options and whether a pension that's 100% equity tracker funds and growth focused is potentially a better fit? You are in the fortunate position that due to your healthy income (and therefore not needing to touch your pension) you can play the long game, and easily ride out any bear markets, enjoying much better long-term growth as a result.

**How well do you understand your pension scheme (or schemes) and are you maximising the growth potential?**

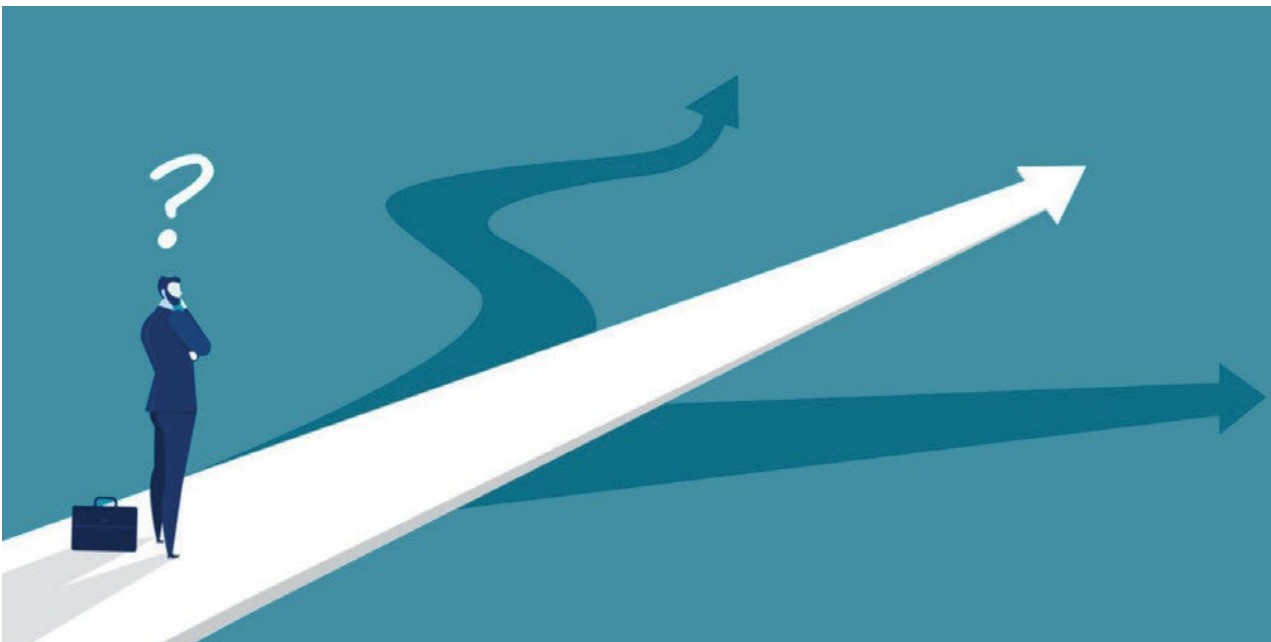
<sup>5</sup> based on the 2023/24 tax rules.

## You face significant financial risks if you want to move to another firm

Moving jobs is always fraught with risk. Not only is there risk around the culture you're moving to, the rebuilding of the internal networks, but there is also the financial and contract risk you face in the actual move itself.

Let's say you have amassed a substantial amount of stock over several years. Should you decide to move, most firms will try to replace your company stock on a 1:1 basis or similar. However, options are notoriously difficult to transfer or replicate and often end up being forfeited, similarly lock-up and clawback periods from your departing employer can also be problematic and need to be considered carefully. In evaluating a potential move, we help clients with scenario planning by building out formal financial models for both "stay" and "leave", so they can get a far more holistic view of both the overall risks and opportunities.

**Have you considered the true cost of moving firms?**



## You work in finance. Of course you can do it yourself – you’re a financial professional...

Remember Roger – 20 Grand Slams – and he still has two tennis coaches! Messi’s got a slew of football coaches, and elite performers at the top of their professional and sporting fields globally bring in experts to help them overachieve. Why? Because the expert brings knowledge, focus and a perspective that the individual just can’t see.

The myth that City professionals often fall for, is that they can do it by themselves when in reality they very rarely do. Ironically the investment banker’s intimate knowledge of the financial markets rarely translates into the advantages it should for their own investments, their own futures.

The truth is that the personalised, professional advice from a skilled financial planner can unlock all that value for you, and set you free. As we said earlier, working with a professional adviser for your personal finance means you have a sounding block, coach, consultant and sage. Your planner will partner with you long term, bring that external perspective that may help you see opportunities and risks you may have missed, and make sure you stay on the right track to achieve your complete independence. They will save you considerable time on administration, and most importantly deliver you absolute clarity in terms of your current and future financial situation. In short, working with a professional adviser will provide you with a wonderful sense of profound financial peace.

**Do you have the time and capacity to commit what is required to properly look after your family finances by yourself?**



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Permanent Wealth Partners is a specialist firm of financial planners, focusing on the needs of career professionals. All their financial planners have specific experience in management consulting, asset management, hedge funds and banking.

Financial Planning. For Professionals. By Professionals

To arrange a consultation please contact  
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