

GET INFO FREE · FREE GUIDE

Planning: goals, retirement, common mistakes

Course 3 and the articles on supplementary pensions, debt, risk profile and advice.

GETINFOFREE.CO · UPDATED 2026-10-06

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Course 3 — Planning: goals, retirement, common mistakes

Five lessons on thinking in terms of goals, what diversification is, how a pension system is built, which behavioural mistakes are most frequent and how to recognise scams.

Lesson 1. Goals and time horizon

A financial plan does not start from the question "what do I invest in?" but from "what do I need this money for, and when?". A well-defined goal has an amount, a date and a priority: the emergency reserve, a major purchase in three years, children's education in ten, topping up a pension in thirty. Different goals have different timescales, and timescales change everything.

The time left before a goal is called the time horizon. Over a short horizon what matters most is not losing: if the money is needed in a year, a market fall might not have time to be recovered. Over a long horizon short-term swings weigh less and inflation becomes more relevant. That is why the same instrument can be reasonable for one goal and unsuitable for another.

Writing goals down has a practical benefit: it forces you to do the sums. How much would I need to set aside each month? Is that compatible with my income and expenses? If not, you can move the date, lower the amount or review your spending. The calculators on this site are for trials of this kind; their results are indicative and depend on the assumptions entered.

Goals change with life: a new job, a child, a home. A plan is not a document written once and for all, but something to look at again from time to time. And when decisions become important, a written plan is also the best starting point for talking to an authorised adviser, who is required by law to assess your personal situation before recommending anything.

In three points

- Start from goals (amount, date, priority), not from instruments.
- The time horizon determines which risk makes sense to consider.
- A plan should be written down, checked against the numbers and reviewed when circumstances change.

Lesson 2. Diversification: not depending on one thing

Diversifying means spreading money across different instruments so that the overall result does not depend on the fortunes of just one. If all your savings are in the shares of a single company, one piece of bad news about that company puts them at risk. If they are spread across many companies, sectors and countries, bad news affects only a small part.

You can diversify on several levels. Across issuers: many companies instead of one. Across sectors: not only banks or only technology. Across regions: not only your own country, where your job and home are often

already concentrated. Across instrument types: shares, bonds and cash react differently to the same events. And over time: paying in at regular intervals avoids concentrating everything at a single moment.

Diversification reduces specific risk, the risk tied to a single issuer or sector. It does not remove general market risk: in a crisis many instruments fall together. And it has a practical limit: owning ten funds that hold the same securities is not diversifying, it is duplicating. What counts is what is inside, not the number of products.

Over time the parts of a set of investments grow at different rates and the initial mix drifts: whatever has grown most weighs more than before, and so does its risk. Periodically bringing the proportions back to those originally chosen is called rebalancing. It is a discipline technique, not a guarantee of results, and like any transaction it may have costs and tax consequences.

In three points

- Diversifying means not letting the result depend on one issuer, sector, country or moment.
- It reduces specific risk, not general market risk.
- Content counts, not the number of products; rebalancing keeps the chosen proportions over time.

Lesson 3. Retirement: how the system is built

In many countries the pension system is described with the image of three pillars. The first is the compulsory state pension, financed by contributions paid during working life. The second is collective supplementary provision linked to employment, such as workplace or occupational pension schemes. The third is individual supplementary provision, joined by personal choice. The rules of each pillar differ from country to country.

A useful concept is the replacement rate: the ratio between the first pension and the last income from work. If it is 60%, someone earning 2,000 a month will receive a pension of about 1,200. In several countries, because of population ageing and reforms, estimates point to lower future replacement rates than those enjoyed by previous generations, especially for people with interrupted careers.

Supplementary pensions exist to fill part of this gap. Contributions are invested and eventually turned into an income or, within certain limits, a lump sum. Many legal systems provide tax advantages and, for employees, an employer contribution. They are, however, long-term products, with restrictions on early withdrawal and a result that depends on investment performance and on costs.

The subject matters most to those far from retirement, because time is the variable that weighs most. The first step is to get informed: in many countries the state pension body provides an estimate of your future pension, and pension schemes must supply a document with costs and projections. These are estimates based on assumptions, but they let you reason on numbers rather than impressions.

In three points

- Three pillars: compulsory state pension, collective supplementary, individual supplementary.
- The replacement rate shows how much of your last income the pension will cover.
- Supplementary pensions are long-term products with advantages, restrictions, costs and risks to understand.

Lesson 4. The most common behavioural mistakes

Behavioural finance studies how people really make economic decisions, which is often different from how they think they make them. The first phenomenon is loss aversion: a loss hurts more than a gain of the same size pleases. The typical consequence is selling in a hurry when prices fall, to stop the pain, turning a temporary decline into a permanent loss.

The second is herd behaviour: doing what others do. When everyone is talking about something that is rising, fear of missing out pushes people to buy, often when prices are already high. When everyone sells, fear pushes people to sell. The result is buying dear and selling cheap, the opposite of what one would want.

The third is overconfidence: believing you know more than others or can pick the right moment. Studies show that those who buy and sell very often tend to obtain worse results, partly because of the cost of each transaction. Added to these are the habit of seeking only news that confirms one's own view and the tendency to give too much weight to the most recent events.

Nobody is immune, and knowing these mechanisms exist is not enough to remove them. Some habits help: deciding the rules beforehand, with a cool head, and writing them down; automating contributions, so as not to decide every time; checking performance less often; distrusting urgency, your own and above all that imposed by others. A serious financial decision can always wait a day.

In three points

- Losses weigh more than gains: that is why people tend to sell at the worst moments.
- Following the crowd and believing you can time the market often lead to buying dear and selling cheap.
- Rules decided in advance, automatic contributions and distrust of urgency are the simplest defences.

Lesson 5. Recognising financial scams

Financial scams change shape, but the signs look alike. The first is the promise: high, safe and quick gains. The second is haste: "the offer ends today", "only a few places left". The third is unsolicited contact: a call, a message, an advert leading to an "adviser" you have never met. The fourth is the request to move money to foreign accounts, digital wallets or unknown platforms.

There is also a very common pattern: at first a small sum is requested, and a professional-looking platform shows gains that keep growing. Convinced, the person pays in more. When they try to withdraw, taxes or fees to be paid in advance appear, and then nothing. The gains shown on screen never existed. A second scam often follows, from someone promising to recover the lost money in return for a payment.

The most important check is a single one, and it is free: verify that whoever is offering an investment is authorised. In every country the supervisory authority publishes registers of authorised firms and warnings about unauthorised ones. A polished website, a licence number at the bottom of a page or a prestigious address prove nothing: they must be checked against the official register, found by yourself and not through the link supplied by the person making the offer.

Other simple rules: never give anyone remote control of your computer or phone; never share codes and passwords; do not let yourself be rushed; talk to someone you trust before paying. And if doubt comes afterwards, act at once: contact your bank, report it to the police and notify the supervisory authority. Shame is the scammers' best ally: it happens to people of every age and level of education.

In three points

- Typical signs: high and safe gains, haste, unsolicited contact, money sent to unknown accounts or platforms.
- The decisive check is to verify on the supervisory authority's official register that the firm is authorised.
- Never grant remote control of your devices; if in doubt, stop and ask; if it has happened, act at once and report it.

Institutional sources for further reading

- ESMA — Investor Corner — <https://www.esma.europa.eu/investor-corner>
- Financial Conduct Authority (UK) — Consumers — <https://www.fca.org.uk/consumers>
- Autorité des marchés financiers (France) — <https://www.amf-france.org/en>
- CNMV (Spain) — <https://www.cnmv.es/portal/home.aspx?lang=en>
- FINMA (Switzerland) — <https://www.finma.ch/en/>
- Finansinspektionen (Sweden) — <https://www.fi.se/en/>
- Finanssivalvonta (Finland) — <https://www.finanssivalvonta.fi/en/>

The household budget in four steps

Knowing what comes in and what goes out is the starting point of any decision about money. A simple method that needs no special tools.

Why start here

Any reasoning about saving and investing rests on a piece of information many people do not have: how much they really spend each month. Not roughly, but item by item. Without this number you cannot know how much you can set aside, how large your emergency reserve should be, or whether a goal is realistic.

A household budget is not an exercise in giving things up. It is a snapshot: it shows where the money goes, so you can decide knowingly what to keep and what to change.

Steps 1 and 2: income and spending

The first step is to list net income: salaries, pensions, self-employment income, rent received. For irregular income it is better to use a cautious average of the last twelve months, not the best month.

The second step is to record spending for at least two or three months. It helps to split it into three groups. Fixed costs: rent or mortgage payment, utilities, insurance, subscriptions. Necessary variable costs: food, transport, health. Discretionary spending: leisure, eating out, non-essential purchases. Bank statements and banking apps do much of the work; cash should be noted separately, because it is what slips away most easily.

Do not forget costs that arrive once a year, such as taxes, car insurance or maintenance: divide them by twelve and treat them as a monthly amount.

Step 3: the balance

Income minus spending gives the monthly balance. If it is positive, that is your capacity to save. If it is close to zero or negative, the budget is telling you that you are living at or beyond your means, and that an unexpected event would turn into debt.

A useful indicator is the savings rate: savings divided by income. There is no percentage that is right for everyone: it depends on income, age and household composition. The direction over time matters more than comparison with others.

Step 4: deciding

With the numbers in front of you, concrete decisions become possible. People usually look at fixed costs first, because they are paid every month without thinking: an unused subscription or a contract that is no longer good value is worth more than many small sacrifices.

Then a priority is set for savings: first the emergency reserve, then paying off the most expensive debts, then longer-term goals. Making saving automatic, with a scheduled transfer right after income arrives, is the device that works best, because it removes the monthly decision.

The budget should be looked at again from time to time, and always when something important changes: job, home, family.

Institutional sources for further reading

- Financial Conduct Authority (UK) — Consumers — <https://www.fca.org.uk/consumers>
- ESMA — Investor Corner — <https://www.esma.europa.eu/investor-corner>

How to read the key information document (KID)

Three standardised pages that accompany funds, investment-based insurance and other products. What they contain and what to look out for.

What it is and what it is for

In the European Union, anyone offering "packaged" investment products to the public, such as investment funds, ETFs, insurance-based investment products and structured products, must provide a short document before purchase called the KID, the Key Information Document. The United Kingdom and other countries have similar standardised disclosure documents under their own rules.

It has the same structure for all products, which is exactly why it allows comparison. It is not marketing material: it is a disclosure required by law, and its content must be accurate and not misleading.

The risk indicator

The first thing that stands out is a scale from 1 to 7, the summary risk indicator. A value of 1 corresponds to the lowest risk, 7 to the highest. It takes into account how much the value of the product may fluctuate and the possibility that the issuer is unable to pay.

Two caveats. The scale assumes the product is held for the recommended holding period stated in the document: leaving earlier can change the outcome considerably. And the lowest value does not mean no risk: no step on the scale guarantees that.

Performance scenarios

The document shows what could happen to an invested sum under four scenarios: stress, unfavourable, moderate and favourable, over several time horizons. These are estimates built with a methodology set by regulation, based on past data.

They should be read for what they are: a way of getting a sense of the range of possible outcomes, not a forecast. The moderate scenario is not "what will happen". The most instructive column is often the unfavourable scenario, because it forces you to ask whether that result would be bearable.

Costs

The costs section separates one-off costs, on entry and exit, from ongoing costs, such as management fees and transaction costs, and from any incidental costs such as performance fees.

The most useful figure is the impact of costs on the annual return: it shows by how much costs reduce the result each year, assuming the product is held for the recommended period. It lets you compare products with different cost structures using a single number. Remember that the cost of the service provided by whoever sells or advises on the product may come on top of the costs shown.

Three questions before closing the document

Have I understood what this product invests in and who it is intended for? Is the recommended holding period compatible with when I will need the money? Do I know how much it costs in total, every year, including the cost of the service?

If the answer to any of these is no, the reasonable thing is to ask for clarification before signing. The KID was designed to be understood by people outside the profession: if it is not clear, that is not the reader's fault.

Institutional sources for further reading

- ESMA — Investor Corner — <https://www.esma.europa.eu/investor-corner>
- Financial Conduct Authority (UK) — Consumers — <https://www.fca.org.uk/consumers>

The suitability questionnaire: why your bank asks so many questions

Before recommending an investment, a firm must know its client. What the questionnaire is for and why it pays to answer honestly.

An obligation that protects the client

Anyone who approaches a bank or an adviser to invest is handed a questionnaire, sometimes a long one. It is not bureaucracy for its own sake: investment services rules in the European Union, the United Kingdom and many other countries require firms to gather information about the client before giving advice or managing a portfolio, so that they recommend only what suits that person.

This assessment is called suitability. If the information is missing, the firm cannot provide those services.

The three areas of questions

The first area is knowledge and experience: which instruments you know, which transactions you have already carried out, what your education or profession is. It helps establish whether you are able to understand the risks of what is being proposed.

The second is your financial situation: income, assets, commitments and debts. It helps establish how much loss you would materially be able to bear without consequences for your standard of living.

The third is your objectives: how long you intend to keep the money invested, what it is for, what level of fluctuation you are willing to accept, and any sustainability preferences.

Why answer honestly

The temptation is twofold: to claim more expertise than you have, so as not to look foolish, or more appetite for risk, to gain access to products with a higher expected return. In both cases the result is a profile that does not match the person, and recommendations that do not suit them.

The profile that emerges from the questionnaire is the basis on which the firm answers for its conduct. An inflated profile weakens the very protection the questionnaire exists for. The reverse also applies: if the person across the desk suggests the "right" answers so that a product fits, that is a sign to take note of.

A profile is not for ever

The profile should be updated when your situation changes: a new job, the birth of a child, buying a home, approaching retirement. Firms are required to review it periodically, but it is in your interest to report significant changes.

Understanding your own profile is also useful if you decide alone. The same three questions, what do I know, how much can I afford to lose, for how long and for what purpose, are the ones to ask before every choice.

Institutional sources for further reading

- ESMA — Investor Corner — <https://www.esma.europa.eu/investor-corner>
- Financial Conduct Authority (UK) — Consumers — <https://www.fca.org.uk/consumers>

Debt and APR: reading the cost of a loan

The nominal rate and the annual percentage rate do not say the same thing. How to compare loans and why expensive debt comes before investing.

Nominal rate and APR are not synonyms

The nominal interest rate is the pure interest applied to the sum borrowed. It does not include other charges. The annual percentage rate, or APR, expresses the overall cost of the loan on a yearly basis: on top of interest it adds arrangement fees, payment collection charges, taxes and any insurance that is compulsory to obtain the credit.

To compare two offers, the number to look at is the APR. A loan advertised with a very low nominal rate, or even "zero interest", can have a noticeably higher APR because of the charges. Consumer credit rules in the European Union and the United Kingdom require the APR to be shown in advertising that quotes rates or figures and in pre-contract information.

The other things to look at

Besides the rate, the term and the total amount payable matter, that is, the sum of all the instalments. Lengthening the term lowers the monthly payment but increases the total interest paid: a "comfortable" instalment is not necessarily a good-value loan.

It is also worth reading the early repayment conditions, the charges for late payment and whether the rate is fixed or variable: with a variable rate the instalment can rise if market rates rise. Revolving credit on cards generally carries some of the highest rates on the market.

Debt and investing

There is a simple comparison that financial education materials often make. Paying off a debt on which you pay a given rate is, in economic terms, like earning that rate with certainty and without risk. That is why, when faced with high-rate debt, reducing it usually comes before any investment, whose result is uncertain.

Low-rate, long-term debts such as many home mortgages are a different matter: there the assessment depends on the overall situation and has no single answer.

When debt becomes a problem

A practical indicator is the ratio between total monthly repayments and net income. When repayments absorb a significant share of income, the room for the unexpected shrinks and the risk grows of having to take out new loans to pay the old ones.

If you find yourself in this situation, the first step is to talk to the lender early, before missing a payment: renegotiation options often exist. Many countries also offer free, impartial debt advice services run or

endorsed by public bodies. What to avoid is anyone promising to wipe out your debts in exchange for an upfront payment.

Institutional sources for further reading

- Financial Conduct Authority (UK) — Consumers — <https://www.fca.org.uk/consumers>
- European Central Bank — Explainers — <https://www.ecb.europa.eu/ecb-and-you/explainers/html/index.en.html>

Supplementary pensions: six questions to ask

What to know before joining a pension scheme, and where to find the information to compare the alternatives.

1. How much will my state pension be?

This is the question to start from, because supplementary pensions are meant to top up the state pension, not replace it. In many countries the public pension body offers a forecast of your future pension based on the contributions paid so far and on some assumptions about your career. It is an estimate, but it gives an order of magnitude of the gap between your last income and your first pension.

2. Which schemes can I join?

The names differ from country to country, but there are generally workplace or occupational schemes, set up by employers or by collective agreements, and personal pensions, which anyone can open individually with a bank, insurer or asset manager. For employees, the workplace scheme often comes with an employer contribution that you would not otherwise receive: it is the first thing to check.

3. How much does it cost?

Costs weigh heavily on an investment that lasts for decades. Schemes must disclose their charges, and in several countries the supervisory authority or a public service publishes comparison tools. The differences between one scheme and another can be wide, and over thirty or forty years they translate into large differences in the final pot.

4. Which investment option?

Each scheme offers several options or funds with different levels of risk: from guaranteed and bond-based ones to balanced and equity ones. The choice depends mainly on how many years remain before retirement: with a long horizon fluctuations have more time to be absorbed, while closer to retirement stability matters more. Many schemes offer "lifestyle" or "target date" paths that reduce risk automatically with age. The option can usually be changed over time, within the scheme's rules.

5. Which tax advantages, and which restrictions?

Most countries grant tax relief on contributions, up to an annual limit, and favourable tax treatment of returns or benefits. The rules differ by country and change over time: check them on up-to-date official sources or with a professional.

In return there are restrictions: the money is meant for retirement, and before then it can be withdrawn only in the cases the law provides for, with limits and conditions. It is not a tool for short-term goals.

6. Where do I find the documents?

Every pension scheme must provide a document describing the features, costs and past results of each option, and send members a yearly statement with the accrued pot and an estimate of the future supplementary pension. Reading these two documents, and comparing costs using the tools provided by your country's authority, is the soundest way to form a view before deciding, alone or with an authorised adviser.

Institutional sources for further reading

- Financial Conduct Authority (UK) — Consumers — <https://www.fca.org.uk/consumers>
- ESMA — Investor Corner — <https://www.esma.europa.eu/investor-corner>

Financial advisers: who they are and how to check they are authorised

Who may give investment advice, how they are paid and which checks to make before entrusting them with your savings.

A regulated activity

Giving personal recommendations on financial instruments is, in the European Union, the United Kingdom, Switzerland, Canada and most other countries, an activity reserved for authorised and supervised firms and individuals. Anyone who is not authorised may not do it, whatever titles they give themselves.

This website, for example, does not give advice: it explains general concepts that are the same for everyone. Advice is something else, because it starts from one person's specific situation and ends with a recommendation that concerns them.

The register is the reference point

In every country the supervisory authority keeps a public register of authorised firms and, often, of individual advisers. In the United Kingdom it is the register kept by the Financial Conduct Authority; in the European Union each national authority has its own, and firms authorised in one member state may operate in others under specific rules; in Canada registration is checked through the provincial securities regulators.

Names and categories differ, but the principle is the same everywhere: there is an official list, and being on it is the precondition for giving advice.

How they are paid

This is a question to ask openly. An adviser may be paid directly by the client, through a fee, or indirectly, through the commissions on the products they place, part of which is passed on to them. In the second case there is a potential conflict of interest, which the rules require to be managed and disclosed. In some countries, including the United Kingdom, commissions on retail investment advice are banned.

Advice that describes itself as "independent" may not, as a rule, accept payments from product providers. In any case the client is entitled to know, beforehand and clearly, how much the service costs and how much the products cost, in money and as a percentage.

The checks to make

First: look up the adviser's name and the firm they work for in the official register, getting there yourself and not through a link you were sent. Second: check on the supervisory authority's website that they do not appear on the warning list of unauthorised firms. Third: never hand over cash or make transfers to an account in the person's own name: payments go to the firm.

And some questions a serious professional expects: with which firm are you registered, how are you paid, what are the total costs, what happens if I want to leave. The reaction to questions says a lot: someone in a hurry to close, or irritated by a request for clarification, is not acting in the client's interest.

Institutional sources for further reading

- Financial Conduct Authority (UK) — Consumers — <https://www.fca.org.uk/consumers>
- ESMA — Investor Corner — <https://www.esma.europa.eu/investor-corner>
- Autorité des marchés financiers (France) — <https://www.amf-france.org/en>
- CNMV (Spain) — <https://www.cnmv.es/portal/home.aspx?lang=en>
- FINMA (Switzerland) — <https://www.finma.ch/en/>
- Finansinspektionen (Sweden) — <https://www.fi.se/en/>
- Finanssivalvonta (Finland) — <https://www.finanssivalvonta.fi/en/>

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