



Protecting your earning potential

Developed by Liberty Life Group Advisory Services

Your earning potential is your greatest asset.
Make sure you protect it for the future.

If you are just starting your career you may feel that you have very little to show in terms of what you own or money risks you have taken to prove your financial ability. Many financial institutions would agree. However, what they and many young people don't realise is that "future potential income" is the greatest asset of all.

This is the income you will earn over the course of your working life and it gets less and less over time. If you want to retire at a comfortable standard of living, you need to convert your potential income into real financial assets that will eventually be your only source of income after retirement. You also need to ensure that you have adequate protection for this asset.

We can split our financial lives into roughly three phases:

1. **Education:** we invest in our ability and skills to start earning an income. Generally speaking, the greater our education or investment in future earnings, the greater our future earning potential.
2. **Earnings:** we use the knowledge and skills we have built to generate our 'future potential income'. For most of us starting out in life, unless we inherit a large sum of money, our future potential income is large while our financial capital is small. Hopefully, this reverses over time if we have been successful at saving.
3. **Retirement:** we no longer have an income from working and we rely on any financial assets we have built up over time to fund our retirement.

We will face different risks in each phase and this has implications on how we plan financially. According to research published by The Research Foundation of CFA Institute, the main problem in financial planning for individuals is how to spread the income we earn during our working life to the rest of our life – and our working years are roughly half of our entire lives! Putting money away now does not necessarily mean that we will have enough money later when we need it.

At the beginning of our careers, our future potential income asset is at its greatest so must be protected against life's risks, otherwise we run the chance that death or disability will rob both ourselves and our dependants of our most valuable asset: our future potential income. The consequences of a life-changing event are greater for younger people because the size of our potential income is larger when we are younger. If we are unable to realise this asset, it will have a devastating effect on the rest of our life.

The need for disability and dread disease protection (alongside healthcare or medical aids) is greater for younger individuals. As we build our families or others become dependent on us, so life insurance becomes more important. It is just as important to save for our retirement as it is to insure our future earnings.

This is not to say that life insurance is not important when we retire. Although for older individuals it may be unaffordable or the individual may be uninsurable, if we have not managed to build financial assets and we want to leave a legacy for our dependants, the need for life insurance may be high.

Whatever your stage of life, make sure that your hard-earned money works for you in the future by investing now and protecting your future earning potential.