THE ROUGH GUIDE to

Money & Savings

THE PERSONAL FINANCE SERIES

In partnership with: Legal & General

A note from Sarah

"I've been a financial journalist for more than twenty years and during that time I've learnt that personal finance doesn't need to be intimidating or difficult. If you want to make your money go further, you will find that small changes can make a big difference to your finances.

This ebook is the second in **The Rough Guide to Personal Finance** *series. It's packed full of information that will, hopefully, help you to find your own way to improve your money management. Looking after your finances isn't necessarily about cutting down all your spending to the bare bones or going without treats. It's about working out what your priorities are and planning your finances so you're able to reach your goals. A little bit of effort here and there could mean a lot less to worry about."*

NAVIGATING THIS EBOOK
We've highlighted handy Top Tips, text boxes, visual aids and tables so you can pick out useful information that's relevant to you, or delve deeper by reading through each chapter. Any word or phrase that is coloured and underlined has a hyperlink, which takes you to other parts of the guide or to external websites for further information (see colour key below).

COLOUR KEY:
blue hyperlinks: Click to access useful resources for further guidance.
purple hyperlinks: Click to navigate to the Jargon Buster (pp.54–55).
orange text underlined: Click to move to other parts of the guide.

Note that words coloured orange but not underlined do not have hyperlinks.

☞ Visit www.roughguidefinance.com to subscribe to *The Rough Guide to Personal Finance* series.

THE ROUGH GUIDE TO

MONEY & SAVINGS

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Dr. Nigel Wilson, CEO, Legal & General

Foreword

Legal & General has teamed up with Rough Guides to create this new and much-needed book.

At first glance, travel and personal finance seem worlds apart, as do our two organizations. But dig a little deeper and a common purpose emerges: visiting new countries and sorting out personal finances are both, to greater or lesser extent, **journeys of discovery**.

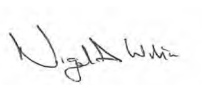
Over the past twenty years, Rough Guides has provided independent and reliable guides to countries and regions across the world. I and my family have used them on many occasions and have discovered and learned about new places as a result – they've enabled us do things which we might not otherwise have done, like visiting Myanmar (Burma) and South America.

We want ***The Rough Guide to Personal Finance*** series to achieve the same result by acting both as a **prompt to get started on the financial planning path** and to serve as a reference throughout the different stages of our lives.

We are ambitious – our intended audience is everyone. A young person's decision on the purchase of a pension plan is as important as how someone nearing retirement should spend and invest their pension pot. Too often, these crucial decisions are made with insufficient knowledge, information and guidance. Indeed, we devote more time and energy to planning holidays than our financial future.

The Rough Guide to Personal Finance series was commissioned to help fill that gap. The series will cover the key events of life and is firmly independent: the authors of each ebook have been selected by Rough Guides and are **respected personal finance writers**. They have been chosen for their expertise, personal experience and no-nonsense approach to financial planning.

At Legal & General we make a promise that every day we will help make financial security easier to achieve. This Rough Guide is an important new tool to help us fulfil that promise. It is designed to **help you take control of your finances and plan for the future**, whatever financial life stage you are at.



Dr. Nigel Wilson
CEO, Legal & General

CHAPTER ONE:

WHY FINANCIAL PLANNING IS SO IMPORTANT

Having a plan

You get far more done if you have a plan. Whether it's a project at work, renovating your house or going on holiday, it helps you know what you're supposed to do and by when. However, there's one area of our lives that many of us don't get round to planning – and that's our finances. Even a simple budget can help to relieve money worries and stress within rela tionships and between loved ones.

Easy ways to improve your finances

The good news is that whether or not you think you're a natural money manager, there are always ways you can improve your own finances. It doesn't have to mean that you spend hours filling out spreadsheets and you don't have to be wealthy to have a financial plan. In fact having a plan is as important, if not more so, when you don't have a lot of money.

- **Draw up a budget:** A budget is simply a record of how much money you have coming in and how much you spend. If you have a budget, you can see what you need to spend on the essentials and what's left over. The Citizens Advice budget tool is a good place to start.
- **Plan how to pay off your debts:** If you owe money, it's easier to pay off your debts after you've prioritized them and worked how much you can afford to pay each month.
- **Set a savings goal:** If you are saving for the first time, having a goal is likely to make you more disciplined in your approach to saving and so help you save more. If it's for something specific, such as a holiday or a deposit for a house, planning how much and how long you will need to save will help you stick with it when money is tight.
- **Work out how and when you would like to retire:** The earlier you start planning when you would like to stop work and how much money you would like to retire on, the more time you have to achieve your retirement goal.

☞ **TOP TIP** Draw up a simple plan listing the money coming in and the essential spending going out each month. Then you know how much you have left.

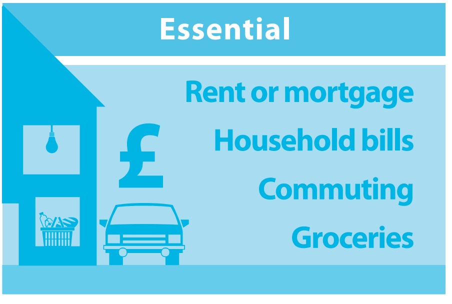
Starting young

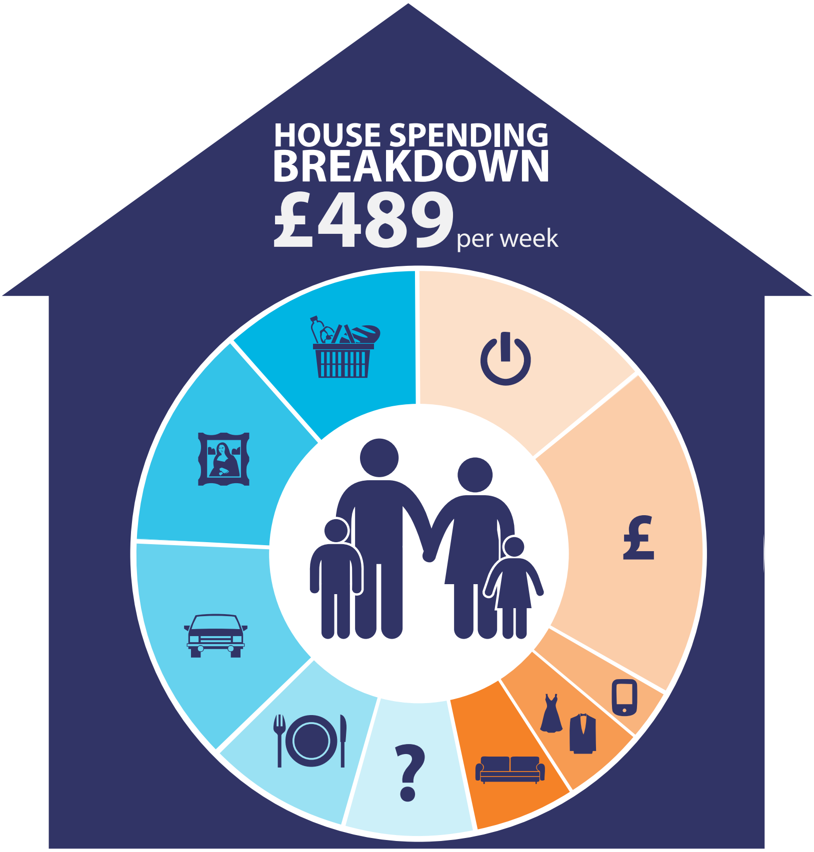
If you find it hard to manage your money, you could always blame your parents! Research shows that money habits are set at quite a young age. A study by the Money Advice Service, a free-to-use money information service, showed that some basic financial behaviour is set as young as the age of seven. Therefore, it's really important to talk about your finances openly with your family, even its youngest members.

Your spending and budgeting

If you are drawing up a budget for the first time, it's important to include all your spending. So start by getting out your bank statements and credit card statements or going online to check them. Get at least three months' statements so you have a fuller picture of your spending and don't miss anything out. Once you can see what you regularly spend, you can review where cuts can be made. There are likely to be some non-essential items that you can do without or cut back on.

This exercise is not only useful to see how much you spend on each aspect of your life, but it's also interesting to compare your spending with the average British household: see the chart opposite. You might find that your spending is more modest than you thought, or vice versa.





£56.80 Food and non-alcoholic drinks	**£28.50** Household goods
£61.50 Recreation and culture	**£23.40** Clothing and footwear
£64.10 Transport	**£13.80** Communication
£40.50 Restaurants and hotels	**£94.00** Other expenditure
£ 38.40 Other goods and services	**£68.00** Housing, fuel and power

Source: Office for National Statistics: Family Spending, 2013 Edition

Getting the most for your money

There are lots of useful online tools to help you create a budget that suits you (see the box below for suggestions). Alternatively, you can simply use pen and paper – it doesn't really matter how you create a budget; the important thing for your finances is that you have one.

Once you've set up your budget, you can see where your money goes. An easy way to make sure your income goes a little further is to shop around before you buy anything – and that rule applies whether you're doing your regular grocery shopping, taking out an insurance policy, signing up with an energy supplier or buying a holiday.

Online budgeting tools

Budget Planners

These let you fill in your own details about how much you spend on everything, from household bills to going out. Some budgeting tools allow you to print out or download the results. Try the simple and detailed budget planners on the Money Advice Service website. Citizens Advice also has a detailed budget tool.

Money Manager apps

Your bank may offer a **budgeting tool or app** that lets you put in details of all your accounts and get an overview of your spending. **Money managers** can be useful because they often come with user-friendly charts that show (all too clearly) where your money goes. These are not to be confused with online **money management apps** that let you see what you have in all your bank and savings accounts across different banks and building societies.

Don't confuse getting the cheapest with buying something that's the best value. So, for example, you could find that the cheapest travel insurance policy costs £10 for a two-week break in Europe, but it will only cover the contents of your luggage for up to £500. If what you're taking is of greater value than £500, this could be a false economy.

Similarly, if you want to buy a new washing machine, the cheapest model may not be very reliable. In every decision you make about your spending, it's important to weigh up how you get the best value.

Research, compare

It's now easier than ever before to compare prices online before you buy. There are a range of different tools that include:

- **Price comparison sites:** These can help you compare the prices of anything from energy to insurance.
- **Shopbots:** A shopbot (short for "shopping robot") is an online search tool that trawls the internet to find the cheapest prices.
- **Review sites:** Useful for checking out a retailer before you buy from them.
- **Voucher code sites:** You can get good discounts on many online shopping sites by using a promotional code obtained from a voucher code site. Simply enter the code when making a purchase and your bill is reduced.
- **Cashback sites:** These sites reward you for shopping with them.

☞ **TOP TIP** Don't confuse getting the cheapest with buying something that's the best value. When making a purchase online, always check the detail: what is included, how long it is guaranteed for and look at online reviews of the product or company.

CHAPTER TWO:
YOUR INCOME

Managing your income

At its most basic, income is money you receive. Not all money is income, however. For example, if you sell your own car, the money you get from selling it isn't classed as income, but if you have a business selling a car a week, you generate an income from that business. Most income above the income tax **personal allowance** threshold is taxable. The threshold rose from £10,000 to £10,600 in April 2015, so if your income is less than £10,600 in the financial year 2015–16, you won't have to pay any tax.

Here are the most common types of income:

- **Wages from your employer:** Paid with income tax already taken off.
- **Earnings if you are self-employed:** You're paid in full without income tax being taken off, but your income is taxable. That means you have to pay tax on it afterwards.
- **Rental income:** Money you receive from renting out a property or renting part of your home is taxable in most cases (although there is a government "Rent a Room" scheme that lets you earn tax-free rental income).
- **Interest from your savings:** Interest from bank or building society savings accounts is taxable and is normally paid with the basic rate of tax taken off. Interest from cash ISAs and some other tax-efficient products is tax-free.

What you earn and what is deducted

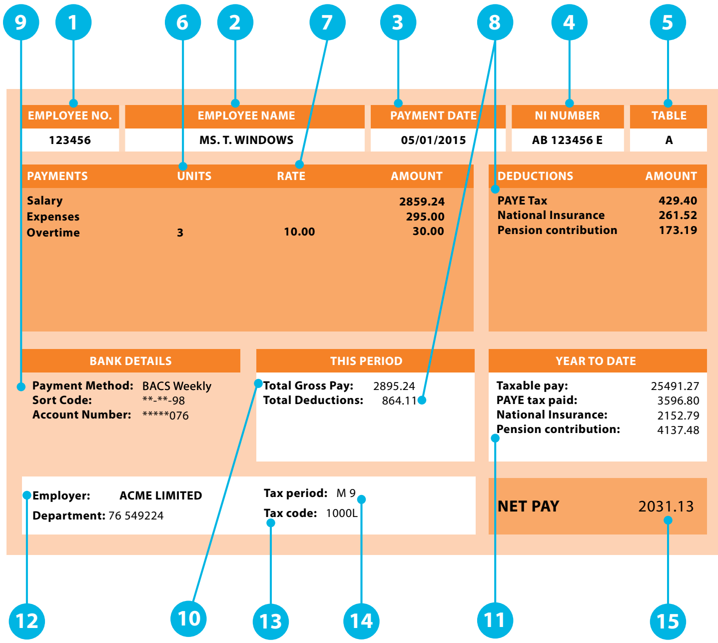
The **PAYE** (Pay as You Earn) system means that when you are paid your employer takes income tax and **National Insurance (NI)** from your salary and passes it to HM Revenue & Customs (**HMRC**), before paying you what remains.

The annual pay you earn is normally expressed as a "**gross**" figure, meaning the amount before income tax and NI are taken off. This is the figure that's used in job adverts.

However, as an employee you won't generally be paid that figure, because your salary will be paid "**net**" after income tax and NI have been taken off. Your payslip should show your gross salary, how much income tax and NI you've paid and how much you are left with – your net salary.

> ☞ **TOP TIP** Each **tax year** you are sent a P60 form which tells you how much you've been paid and how much has been deducted in income tax and NI. Always check this figure against your wage slips and use the HMRC tax checker to find out whether any mistakes have been made.

Understanding your payslip



1. **Employee number**
   Your personal payroll number.

2. **Employee name**
   Your name.

3. **Payment date**
   The date that your salary is paid.

4. **NI number**
   Your National Insurance number for recording payment of contributions.

5. **Table**
   A letter indicates how much National Insurance you need to pay. Most employees have letter A or D.

6. **Units**
   A unit is given pay, such as overtime, which is calculated at a set rate.

7. **Rate**
   The rate at which you will be paid for a number of units. It's left blank for salary payments.

8. **Deductions**
   Tax and other payments taken out of your pay during this pay period.

9. **Bank details**
   The account into which your salary will be paid. Many employers prefer to transfer money via "BACS" automatically.

10. **Gross pay**
    Your total earnings for the period, before tax and other deductions.

11. **Year to date**
    This section shows the total paid so far during the current tax year, which runs from April to March each year.

12. **Employer details**
    This section shows your employer's name and a code to identify your department.

13. **Tax code**
    This usually indicates the amount of tax-free earnings you can have. A letter K in the code shows that additional tax needs to be paid. For example, if you owe tax from previous years or own a company car.

14. **Pay period**
    The pay period shows whether the pay is weekly or monthly.

15. **Net pay**
    This is the amount that you will be paid for this period, after deductions have been taken off.

Understanding your tax code

Your employer knows how much income tax to take off your salary through your tax code. This normally consists of numbers with a letter at the end. HMRC issues everyone on the PAYE system with a tax code for the coming tax year, usually sending them out between January and March.

The numbers in your income tax code refer to the amount of money you're allowed to earn before you start paying tax. So, for example, if you get the full basic personal allowance (currently £10,600 for the tax year 2015–16), your tax code would have number 1060 on it. That's because the amount you can receive before tax is due is divided by 10 to generate the tax code number (£10,600 ÷ 10 = £1,060). People who receive the personal allowance in full would have the tax code 1060L. Codes are adjusted to take account of some workplace benefits, such as a company car.

Not everyone will get a tax code ending in L. See GOV.UK to find out what all the different codes mean. Always check your tax code when it arrives and if it is wrong, ask HMRC to correct it.

Tax credits and benefits

You may get some or all your income from benefits, or some of it from tax credits. The benefits system is currently going through a major shake-up, with Universal Credit replacing a number of individual benefits. So instead of a detailed account of benefits, here's a brief overview to help you find out if you're getting the benefits you're entitled to.

- **Unemployment benefits:** If you can't work you may be able to claim benefits such as Jobseeker's Allowance, Income Support or Employment and Support Allowance. If you lose your job or are made redundant, get in touch with your local Jobcentre Plus (or Jobcentre). Check you're not missing out on benefits by using the Turn2us benefits calculator.
- **Disability benefits:** You may be entitled to benefits to help you with the additional costs of being disabled. These include Disability Living Allowance, Personal Independence Payment, Attendance Allowance and help with the cost of transport. There's more information about benefits for the disabled on the GOV.UK website.
- **Tax credits:** There are two types of tax credits: **Working Tax Credits** and **Child Tax Credits**. To qualify for Working Tax Credits, you have to be in work and aged over 25 (unless you have a child with a disability, in which case you can claim Working Tax Credits from the age of 16). You may be able to claim child tax credits if you have one or more children. The amount will depend on how many children you have, your earnings, how much childcare you use and whether any of your children has a disability.

Self-employed earnings

If you work for yourself, the payment you receive comes from the people or companies you provide services or goods for; you then decide how much of that money you pay yourself. Your tax is worked out when you complete a tax return form online detailing your income for the year, less any expenses you've paid to carry out your business, such as travel costs or the cost of equipment. Be sure to tell **HMRC** about any untaxed earnings. Failure to disclose your income correctly may result in penalties, or even prosecution if you acted deliberately. It's a good idea to set money aside for future tax payments. See the HMRC calculator to help you do this.

☞ **TOP TIP** Keep records of your income, receipts and tax for six years from the end of the tax year they relate to if you're self-employed. For security, destroy any old forms by ripping them up throughly or using a shredder so that people can't see your personal details.

If you're starting to work for yourself – either through your own limited company or as a sole trader – make sure you tell HMRC. You should register for self-assessment by 5 October following the end of the **tax year** you need to do a tax return for. So, if you start working for yourself before 6 April this year, you'll need to contact HMRC by 5 October. You can register for self-assessment on the GOV.UK website. If you have lost your PAYE forms from previous employment, you may be able to get a replacement. Contact the employer or see GOV.UK.

Protecting your income

Nobody likes to anticipate ill health, but the fact is that every week thousands of people become ill and have to take time off work. If you are in regular employment and too ill to work, your employer must pay you Statutory Sick Pay (SSP) of £88.45 per week (**tax year** 2015–16) for up to 28 weeks (see GOV.UK). An employer may offer a more generous sick pay package, but that will run out sooner or later, and if you're self-employed your finances could be badly hit if your health deteriorates. Check with your employer before you

Deadline to the breadline

A recent report by Legal & General revealed how quickly money could run out when an individual loses his or her usual source of income. They have on average 29 days before becoming reliant on state benefits or help from family and friends for financial support. For working age families (18–64 year olds) this "Deadline to the Breadline" is just 14 days.

take out an individual policy, as they may offer subsidized income protection through the workplace.

Income protection insurance is designed to pay a percentage of your income if you're too ill to work. The amount you pay in **premiums** will depend on:

- **Your age:** The older you are when you take out the policy, the more you'll pay each month.
- **The deferred period:** This is the length of time between you falling ill and receiving payment. The longer the deferred period, the lower the premiums. Typically it's between one and 12 months.
- **Your health:** Your medical history will also be taken into account.
- **The job you do:** Some occupations have a higher sickness rate than others.
- **When the policy pays out:** Some policies will pay you if you can't do your own job, others if you can't do any job at all.

Topping up your income

These days, with budgets being squeezed and the cost of living rising, you may have to think about creative ways to increase your income – like the 1.2 million people in the UK who have second jobs. Here are some suggestions (but don't forget to tell the taxman about your additional earnings):

MYSTERY SHOPPING	Pose as a normal shopper in order to assess the quality of the service being offered, either by visiting the shop in person or by telephone. You normally have to be 18 years or older.
ONLINE SURVEYS	Always check the deal before you start, as company rates vary considerably: some pay less than others, some only pay with vouchers and most won't pay until you've done a few surveys.
DIRECT SELLING	Sell goods directly to customers, either door-to-door or in your home. You normally represent a company whose products you promote, paying a discounted price for the goods but selling them at full price.
FREELANCING	There are several websites that let freelancers list their skills – anything from web design to writing, translation and bookkeeping, or you can use a free classified ads site. Pay rates can be quite low on specialist freelance sites.
RENTING OUT A ROOM	Rent out your spare room and receive up to £4,250 a year in rental income without paying tax. If you get more than this, you'll have to pay tax on the rest. See GOV.UK for more about the rent-a-room scheme.
RENTING OUT YOUR DRIVEWAY	If you own a driveway, you could rent it out. Advertise on parking space websites such as JustPark.com. You normally pay a commission on the money you receive and you must tell your buildings insurer.

CHAPTER THREE:
YOUR SPENDING

Managing your spending

Once you've made sure you're getting the best income you can, the next stage is to tackle your spending. This includes household bills, money you have to spend on things like getting to and from work, and money you choose to spend on treats and going out. There are some easy steps you can take to make you feel more in control. Start by drawing up a budget (see also Easy ways to improve your finances) that itemizes all your **regular** and **essential spending** and budgets for **one-off expenses**. You can use a spreadsheet, a budgeting app, or a free budget planner (see Online budgeting tools box).

Essential spending

If you're like most people, you'll find paying for the essentials – such as your rent or mortgage, energy bills and food – eats up most of your salary or income. Although you obviously can't cut these out altogether, you may be able to make some big savings. Here are some tips:

- **Your mortgage:** If you're a homeowner this is likely to be your biggest monthly expense. If you're paying your mortgage lender's standard variable rate (SVR), you may be able to get a better deal by switching to one of your lender's own competitive deals or remortgaging to another bank or building

society. Lenders' standard variable rates vary widely – the SVR charged by different mortgage lenders varies by up to 2%. Pick a couple of different **mortgage** comparison sites, or talk to a mortgage **broker**, to find out what's available. Start by typing "compare mortgages" or "mortgage comparison" into a search engine. Be aware that since the rules on qualifying for a mortgage were tightened up in April 2014 it's a lot harder to get one.

- **Rent:** A good time to try and save money is when you're looking to rent or when your existing tenancy comes up for renewal. If you've been a reliable tenant, you *may* be able to negotiate a lower rent. It will depend on levels of demand in the local market and whether your rent is competitive. You'd have to be prepared to move out or pay the existing rent if the landlord won't budge. If you have some savings, you may be able to get a lower rent for paying several months' rent upfront.
- **Gas and electricity:** You may be able to cut your energy bills by switching to a different gas and/or electricity supplier. If you rent your home, you can switch unless you pay for your gas and electricity as part of your rent. You can also switch to a different gas or electricity company if you pay by prepayment meter. Check if you're getting the best deal from your existing provider, or if you could save more by, for example, taking out an internet-based tariff. A good starting point is the website goenergyshopping.co.uk created by the energy regulator, Ofgem.

> ☞ **TOP TIP** Before shopping around for a new supplier, note what you spent on gas and electricity in the last 12 months so that you know how much you'll save.

- **Food shopping:** Look for ways to reduce your shopping bills – see below for ideas that might help.


FOOD SHOPPING
Always make a list and stick to it
Plan a meal menu each week
AVOID BUYING TOO MUCH FRUIT AND VEG
See lovefoodhatewaste.com for tips on using up leftovers
TRY supermarket own brands and value ranges
SHOP LOCALLY
Make use of special offers and deals
Learn to ♥ your freezer
Find out about discounts on mysupermarket.com

Non-essential spending

Whether you're the kind of person who loves to splurge on treats or you are frugal in your spending, it's likely there are some cutbacks you can make either by not buying things in the first place or by paying less for them. To work out what your regular spending is costing you – large or small – use the handy habit cost calculator from Legal & General.

Don't think of this as "going without". Try instead to focus on what you'll be able to do with the money you save. For example, you could give something you rarely wear a new lease of life by buying some stylish buttons. If you're not going to wear it, sell it and put the money you raise into your saving account.

Here are some more areas where you can make some savings:

- **Mobile phone, landline and broadband contracts:** You can bundle together your mobile phone, landline, TV package and broadband to save money. There may be cheaper deals for infrequent or off-peak users. When it comes to broadband, the price is important, but so is the service – the speed you're promised, what kind of support you'll get if there's a problem and how it's rated by existing customers. Use a price comparison site that's accredited by the regulator Ofcom, which has a list of these accredited sites.
- **Gym membership:** Going to the gym can be a great way of getting fit, but contracts can be quite inflexible. Fortunately, an increasing number of gyms now offer a "pay as you go" system, which means you're not tied into a 12-month contract so you can cancel your membership whenever you want to. Some gyms, particularly local leisure centres, may have budget-friendly options.

> ☞ **TOP TIP** Free or cheap broadband is often available if you take out a mobile phone contract or a pay TV package. Always check the speed, how much data you can download and how long the deal locks you in for.

> ☞ **TOP TIP** If you find it hard to keep your spending in check, calculate how long you'd have to work to pay for a purchase. That must-have dress or gadget may not be quite so important if it costs a week's wages!

CLOTHES SHOPPING

› **Clothes buying:** There are lots of ways you can spend less on clothes. The simplest is to stop buying them. It's not such a ridiculous idea – type "a year without buying new clothes" into a search engine and you'll see that quite a few people have tried it. If that's too drastic, try these money-saving ideas:

› Wait 48 hours before you buy – you'll probably find you can live without it.

› Rummage through your wardrobe to see if there are any unloved clothes you'd like to wear again.

› Get the best deals you can by using voucher code, shopping comparison and cashback sites.

› Make money by selling items on sites such as eBay or Preloved or on specialist second-hand designer wear websites.

One-off expenses

It's not just your regular expenses that you can cut down on. If you're planning home improvements, buying a new car or a family holiday, you can make the most of the money you spend.

- **Home improvements:** Use websites such as TrustATrader, Rated People and Checkatrade to look for a reputable trader. Local firms are often cheaper than national chains because they don't have the same overheads. When doing up your kitchen, save money by replacing the worktops and doors but leaving the shelves and walls of the units in place. Use your own carpenter to fit them rather than the one the store recommends.
- **New car:** When you buy a new car, or a second-hand one, it's not just the purchase price that you should think about. Running costs are also important. Legal & General provide helpful tips on how to pay for a car and the Money Advice Service has a useful car costs calculator. Type in the number plate of the car you're thinking of buying and it estimates the running costs.
- **Holidays:** Doing your research can cut the cost of your holiday dramatically. Read up about your destination on the Rough Guides website. You can get cheap flights if you book very early (several months in advance) or at the last minute. Don't assume that a do-it-yourself trip will be cheaper than a package holiday – and try haggling to get a good deal. Pick when you travel carefully: avoid school summer holidays if you possibly can.

☞ **TOP TIP** Booking direct with a hotel can be cheaper than going through a travel price comparison site. You can also save on your travel money by ordering it in advance.

Bill shocks

No matter how carefully you've shopped around, you can still get caught out if you haven't set aside money for unexpected expenses or bigger than expected bills. Don't despair – there are things you can do to reduce the effects of any shocks to your finances.

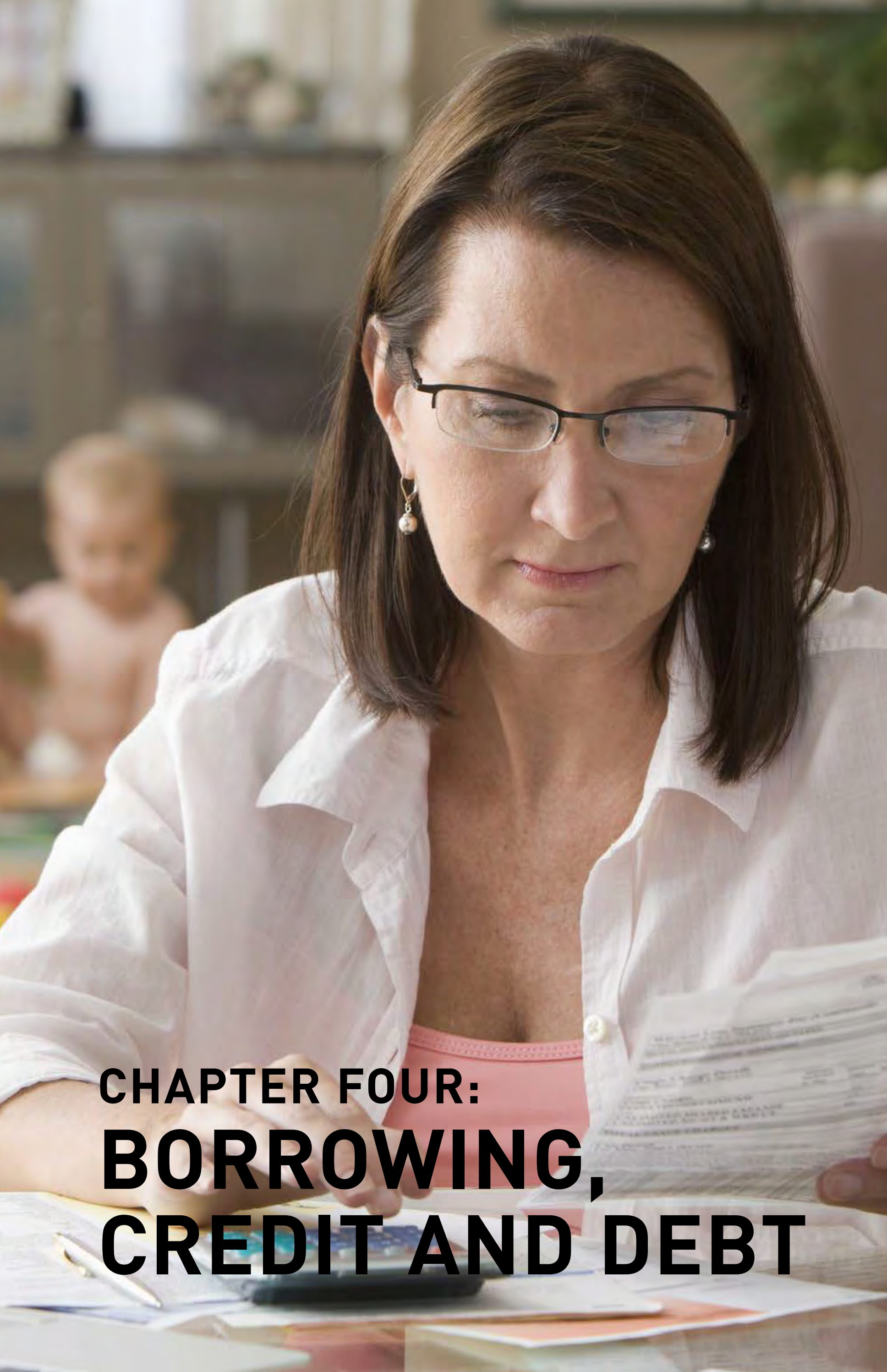
- **Unexpected bills:** Some companies may give you a discount if you pay by direct debit, but the disadvantage is that you don't get to control which day money leaves your account and you don't know how much money will be taken from your account until afterwards. An alternative to direct debit is to set aside money every week or month in a savings account and pay bills when they come in. How you pay your bills is a personal choice. What's important is that you have enough money to do so.

☞ **TOP TIP** Some bank accounts or utility subscriptions include insurance for products as part of the service.

- **Boiler breakdown:** You can reduce the risk of your boiler breaking down by getting it serviced regularly to make sure it is working efficiently or spot any problems early. But boilers do break down from time to time. If a repair bill would cause you problems you could buy boiler breakdown cover, but make sure you check exactly what's included in your policy and what's not. Some policies only cover the boiler itself, while others cover the controls and the central heating system. Most policies won't include the cost of repairs from sludge build-up and some exclude limescale damage (which is a particular issue in hard water areas).

Rainy day fund

It's worth thinking about having some money in a savings account – a "rainy day fund" – as a way of cushioning the blow of unexpected bills. You may wonder if there's any point in saving when interest rates on savings are low. The answer is a resounding "yes", not least because if you have some savings, you will be able to cope with those unexpected bills without going into the red or having to borrow on your credit card.



CHAPTER FOUR: BORROWING, CREDIT AND DEBT

Good and bad debt

Over the last few years, particularly since the financial crisis, a lot has been written about debt. Most of it describes debt in negative terms, but not all debt is bad. Few of us would be able to buy our home without a **mortgage**, and the majority of students wouldn't be able to study without a loan to pay for their university tuition fees. Although there are lots of different ways you can borrow money, there are two different types of credit: **unsecured borrowing** and **secured borrowing**. Use each type in ways that suit you. So, for example, if you know that you're not a disciplined spender, you should avoid using credit cards. But if you know you're good at paying money back, a credit card has a number of benefits.

Unsecured borrowing

An unsecured loan is one that is not guaranteed by an asset or capital such as property. You borrow money from a lender which you pay back within a set period (or, with credit cards, you are able to borrow up to a certain limit). This includes personal loans, credit cards, charge cards and **payday loans**. Unsecured loans are a bigger risk for a lender and therefore interest may be charged at a much higher rate.

Credit cards

The first credit card in the UK was issued in 1966 and, according to a report by the UK Cards Association, around 60% of adults in the UK now have at least one. When you take out a credit card you are given a "credit limit", which is the

maximum amount you're able to borrow. Before you start using a credit card you should be aware of the following:

- **Interest rate:** Credit cards will normally charge interest if you don't pay your bill within a certain period. Typically, this rate will be between 15.9% and 18.9% a year. This means that if you were to buy something costing £1,000 and not pay for it until 12 months later, you could be charged an extra 18.9% in interest (£189). In reality, you'd pay less interest because all credit cards require you to make a minimum payment. If you only pay part of your credit card bill by the due date you'll be charged interest on *all* the money you owe, not just the part you didn't pay off.
- **Annual percentage rate:** By law, credit card companies and other lenders (such as banks, building societies and payday loan providers) have to display the interest rate they are going to charge you in terms of an annual percentage rate (APR). It includes all the costs you would have to pay – such as the interest, arrangement fees or set-up costs – expressed as an annual figure.
- **Minimum payment:** This is the minimum amount you must pay the credit card company every month to keep within the terms of your credit card agreement. It can be up to 3% of the amount you owe or £5 – whichever is the highest. Paying the minimum amount means it will take much longer to clear your credit card debt and you could be charged a lot in interest. Get in the habit of paying the balance in full, if it is possible.
- **Interest-free period:** Credit cards normally give you a period of several weeks during which you don't have to pay interest. As long as you pay your bill in full by the payment due date, you won't be charged any interest at all.
- **Interest-free deal:** This is different to the interest-free period. From time to time, card companies will offer credit cards that charge no interest for a limited period – typically between three and 30 months. This means that you won't pay any interest during that period.

Credit card consumer protection

If you buy something costing between £100 and £30,000 using your credit card, you may be able to make a claim against the credit card provider if there's a problem, such as the goods don't arrive, the retailer goes bust or your purchase isn't how it's been described. If you buy something for less than £100 by credit or debit card and there's a problem, you may be able to claim a refund using something called "chargeback". It's not a legal right, but a process by which you can ask the bank or credit card company to try and get your money back for you.

Why use a credit card?

PROS

✔ You won't pay any interest if you pay off your bill in full every month.

✔ You may get free consumer protection on your purchases.

✔ You may be able to take out a 0% interest on purchases deal, which enables you to spread the cost of your purchase over several months and still pay no interest.

✔ You get a detailed breakdown of your spending every month on your credit card statement.

✔ You can spread the cost of paying for something expensive, such as new furniture or household appliances.

CONS

✘ Having a credit card may encourage you to spend more than you can afford.

✘ The interest rate is not fixed and your credit card provider may choose to raise it. Find out more about credit card interest rate rises on the UK Cards Association website.

✘ You may take a long time to pay off your credit card bill, and if you are tempted to make only minimum payments it could get very expensive!

Balance transfer credit cards

If you can't pay off the money you owe on your credit card in, say, two or three months, it may be worth applying for a balance transfer credit card. These cards normally charge 0% interest on the balance (the debt) that you transfer from an existing credit card, for a **fixed period** – typically between 12 and 30 months. This can give you breathing space and help you get back on top of your finances without racking up interest charges. The balance of the original card can only be transferred to a balance transfer card provided by another card company.

Credit card companies tend to turn down quite a high percentage of applications for 0% balance transfer credit cards. If you have a very good credit rating (see **Your credit history**), you are more likely to qualify for one of these deals. If you qualify, you will be charged a balance transfer fee by your new card provider, which is typically 3% of the amount you transfer. So, for example, if you transfer a balance of £2,000, you will pay a balance transfer fee of £60.

Personal loans

When you take out a personal loan, you borrow a set amount of money for a specific length of time (typically up to five years) and pay it back at a fixed interest rate. You can normally borrow between £1,000 and £25,000. The interest rate you pay depends on a range of factors, such as:

- **Who your lender is:** Some supermarket banks may be more competitive than some of the high street banks.
- **How much you borrow:** Interest rates on personal loans differ depending on how much you borrow. You're normally charged a lower interest rate the more you want to borrow.
- **The repayment period:** The longer your personal loan lasts, the more interest you pay. If you take out a loan for £5,000 over five years with a loan charging 12%, you will pay more in interest than if you repaid the same loan at the same interest rate over three years.
- **Your credit rating:** Some personal loan providers charge a lower rate of interest to people they believe are a good credit risk (see Your credit history).

Personal loan interest rates are fixed. This means that you know how much you will have to pay each month and it lessens the temptation to borrow more. You can choose a repayment term that suits you – generally from one to five years – and if you wish to make an overpayment, you can do with no or low early repayment charges (up to £8,000 in any one year on loans taken out since February 2011). With a personal loan you may be charged a higher interest rate if you borrow smaller amounts, such as less than £3,000, and you don't get the same consumer protection if you buy something using a personal loan as you would if you paid with a credit card.

Payday loans

In recent years, payday lending has become much more popular, in part as people have struggled to make their wages last. **Payday loans** are designed to be short-term loans that typically last up to 31 days. As the name suggests, you pay them back when you next get paid. The huge expense of these loans has proved controversial and led to a financial regulator imposing a cap on how much payday lenders can charge. These can now be no more than 0.8% a day, which is an extra £24 for every £100 you borrow over 30 days. Fees and interest will add up to no more than twice the amount borrowed. If you are late repaying your payday loan or you get into difficulty, that is likely to affect your **credit rating** and even if you make all your payments in full, it could mean some lenders are more likely to turn you down. For more information, see the Money Advice Service website.

Credit unions

You can get a less expensive short-term loan if you borrow from a credit union, a not-for-profit organization that's owned by and run for its members. Credit unions can be a lifeline for people who can't get an ordinary bank account. Members save small amounts of money and borrow relatively small loans (typically £100–£400).

The maximum interest rate the credit unions can charge by law is 3% a month – which works out at 42.6% **APR** (compared to up to 1500% APR for payday lenders). If you borrowed £100 over 30 days from a credit union, you would pay no more than £3 a month in interest.

Secured borrowing

Secured borrowing is when you take out a loan that is "secured" against something valuable. For example, if you take out a **mortgage** it's secured against the property you're buying, and until you've made the last payment on your mortgage, you don't own the property. If you get behind with your payments or are unable to make them, the mortgage lender could repossess the property and sell it to get back the money you owe. Secured lending is generally less risky for the lender (so interest rates are lower) but potentially riskier for the borrower.

Mortgages

There are two types of **mortgage**: repayment (sometimes called capital and interest) and interest-only.

- **Repayment:** Each month you pay interest plus part of the original amount you borrowed (the "capital"). As long as you keep up the repayments, you are guaranteed to pay off the mortgage at the end of the term. This is the most popular type of mortgage.
- **Interest-only:** Each month you only pay the interest charged on your loan amount, so you're not actually reducing the loan itself. It's important to have a feasible repayment strategy in place to repay your loan at the end of the term – for example, **investments** and savings. Many lenders have restrictions on how much you can borrow or what you can use to repay this type of mortgage.

☞ **TOP TIP** Very few savings plans and **investments** are guaranteed to repay your **mortgage** in full, and if they don't cover the full amount, you will be responsible for paying the difference.

Second mortgages

It's often possible to borrow at a lower interest rate if the loan is secured. For that reason, some people who have bank loans, credit card borrowing or other debts are tempted to apply for what's called a "second mortgage" or a "consolidation loan". You should be very wary of doing this. Increasing your **mortgage** by consolidating your existing bank loans means that you could put your home at risk of being repossessed if you can't keep up the payments on your higher mortgage amount.

An alternative, for homeowners who are 55 years old or over, is equity release. This allows you to release the cash tied up in your house without moving. Usually, if you have made a profit on your home you can't use this "equity" until you sell. Equity release schemes allow you to do this, but they can be very expensive, inflexible and have drawbacks. See the Money Advice Service website for details.

Dealing with debt

If you find you are struggling to keep up your repayments, pay for your day-to-day costs, or are finding that the amount you owe never seems to decrease, it's probably time to get some help.

It's always a good idea to contact the company you owe money to as soon as you have difficulty making your payments. They may be able to help, for example, by giving you longer to pay back what you owe, and may suggest you get debt advice as well. Here are four useful steps to take:

- **Don't pay for debt advice:** Instead contact a debt advice charity, which will give you free debt advice, such as National Debtline, Stepchange or Citizens Advice, which has separate websites in England and Wales, in Scotland and in Northern Ireland.
- **Try to pay your "priority debts" first:** These are debts where, if you don't keep up with your repayments, the consequences could be serious. Priority debts include your rent or **mortgage**, gas and electricity bills, council tax, income tax and/or VAT, child maintenance and court fines.
- **Try to boost your income and cut back spending:** Tips on topping up your income are outlined in Chapter Two. You may be entitled to state benefits that you're not currently claiming. Check the website Turn2us for information about benefits and grants that are available.
- **Don't borrow from one lender to pay another:** This is only likely to add to your debt problem rather than solve it.

Your credit history

How you are rated in terms of credit worthiness is an important part of everybody's financial life, but it's one that many people ignore or are unaware of until something goes wrong. It can affect not just things like getting a **mortgage** but also whether you can get a monthly mobile phone contract or are able to pay for your car insurance by monthly direct debit, rather than up front.

Understanding your credit history

Your credit file has information about how much you've borrowed, how much you owe now and whether your payments are up to date. Every month, banks, credit card companies and other lenders supply payment information to the **credit reference agencies**. All agencies have to provide a copy of your credit report for £2. You can also get this free if you sign up to a trial with Equifax or Experian (you must give your card details and if you don't cancel within 30 days you'll get charged). Alternatively, you can get your credit report free for life from Noddle.

This data, along with other information about you, is compiled into a **credit file**, which includes addresses you've lived in over the past six years, whether you've ever defaulted on a loan or other credit agreement and whether you have been declared bankrupt (called a sequestration in Scotland). It records any county court judgment (CCJ) registered against you for unpaid debts (a decree in Scotland). A credit file provides the source material for a **credit report**, which is a snapshot of your borrowing history.

Your credit rating

Also called a credit score, a **credit rating** is something that's calculated by banks and other lenders to help them work out whether to lend to you, how much to lend and, in some cases, how much interest to charge you. When you apply for credit – whether it's for a mobile phone contract, a car loan or a **mortgage** – a lender will assess your credit rating by checking your **credit file**, which you could think of as being a bit like your financial CV or passport.

> ☞ **TOP TIP** Sign up to the electoral register to improve your credit rating. You can find out how to register on the GOV.UK website or on the Electoral Office for Northern Ireland website.

Your credit report

It's worth getting hold of a copy of your **credit report**; firstly to see what information is being held about you and secondly to check there are no mistakes. Many people are nervous of asking for a copy because they're convinced that it will show that they're a bad risk. But whether you see it or not won't change what's on it. Companies will be using that information to make decisions about whether to let you **borrow money**, so you may as well find out what they're basing their decision on.

If there is a mistake on your credit report, you can get it corrected. And if the information about you is correct but shows you've had problems repaying money you've borrowed, you can put an explanation on your file that companies have to read before they can check anything else on your file. So it's definitely worth checking. It's easy to get hold of a copy of your credit report and it's something you have a **legal right** to do. The easiest way to do this is to apply to each of the three credit reference agencies listed above.

CREDIT REPORT

PROFILE INFORMATION

Name: Mr Benedict Sky

Address: 14 Millfield Place
Northalm
East Yorkshire
HU12 4PQ

DATE OF BIRTH

1 July 1978

DATE REPORT CREATED

27 February 2015

ADDRESS HISTORY

Address 1: 21 Docklands Road
Hull
HU1 7AN

Length of residency: 4 years 3 months

Address 2: 134 Warrington Road
Northalm
East Yorkshire, HU15 7TP

Length of residency: 1 year 9 months

Linked addresses: 23 Fern Avenue, Huddersfield, HD12
Source of link: ABC Bank
Date of information: 19/05/2009

OPEN ACCOUNTS

Account Number:	Date Opened:	Account Type:	Balance:	Monthly Payments:	Status:
HSBC Mortgage *********1234	06/03/2003	MTG	£139,914	£550	Up to date
AmEx *********0000	27/06/2008	CREDIT CARD	£3610.17	£150	Up to date

CLOSED ACCOUNTS

Account Number:	Date Opened:	Account Type:	Balance:	Monthly Payments:	Status:
Natwest *********0892	07/10/2002	PRSNL LOAN	£0	Account Closed 10/10/2013	Up to date

PUBLIC RECORD INFORMATION

Type of information:	Status:	Case number:	Date:	Amount:	Court name:
Bankruptcies and insolvencies	None	n/a	n/a	n/a	n/a
County Court judgements	Active	X123	19/09/2007	£650	Hullside

1 **Profile information**
Your full name, current address and date of birth.

2 **Address history**
This section shows your previous addresses during the past six years and how long you lived at each address. Older addresses appear as 'linked' addresses.

3 **Open accounts**
This section shows details of your bank accounts, credit cards, mortgages and personal loans. It shows whether you have made repayments on time.

4 **Closed accounts**
This section shows details of any closed accounts.

5 **Public record information**
Records of any bankruptcies, insolvencies or court judgements are shown here.

Other information
A credit report may also include details of people financially linked to you, whether you are on the electoral register and whether you have committed fraud. Your religion, salary and criminal record are not kept on file.

CHAPTER FIVE: SAVING AND INVESTING

What's the difference?

Once you've got your finances in shape and have some money to spare, now's the time to think about saving and investing. This is the first step towards starting to take care of your future. If you have a pension or own property, you're already an investor. There are some risks involved, however, so it's important that you know what you're doing and seek professional advice when necessary.

People in the finance industry often talk about saving and investing in the same breath, but there's a fundamental difference between the two terms.

- **Saving:** This means paying money into a bank or building society account, either as a one-off lump sum or a regular monthly payment. The bank or building society then pays you interest on your savings. You can take money out of your savings account, although – depending on what kind of account it is – the bank or building society may limit access.
- **Investing:** When you invest your money, you use it to buy "assets", such as shares in companies, or bonds. The important difference between investing and saving is that the value of investments can fall as well as rise, whereas savings should steadily grow, as long as interest payments don't drop too low.

How to save

Banks and building societies offer hundreds of savings accounts under different names, but there are really only a handful of different types of account. The two main types of account are:

- **Ordinary savings account:** Any interest you receive from this type of account is paid with income tax taken off, always at the basic rate of 20%. If you pay tax at a higher rate, you'll owe some extra tax on the interest, which can be paid when you complete a tax return. If you're not a taxpayer, you can avoid having tax deducted by filling out a form called R85, which is downloadable at the GOV.UK website. From April 2016, interest on savings will be paid without the tax taken off and people on the basic tax rate will be able to earn the first £1000 of interest tax-free, or £500 if you're a 40% taxpayer.
- **Cash Individual Savings Accounts (cash ISAs):** These accounts are offered by a wide range of banks and building societies to anyone aged 16 or over. They are tax-free, so you don't pay income tax on the interest your savings earn, unlike other savings accounts. Although there's no tax to pay, there are limits on how much you can put into your cash ISA every year. For the tax year (2015–16), it's £15,240. Once you've paid in the maximum ISA allowance, you can't pay into an ISA again in that tax year, even if you've taken some money out.

There are different types of cash ISA and ordinary savings accounts. The table below shows the points to consider for the three main types:

	ACCESS	LIMITS
REGULAR SAVER	• Some accounts restrict withdrawals. • Some accounts may penalize you if you miss a monthly payment.	• You pay a fixed monthly sum. • Minimum payments: around £10 a month. • Maximum payments: typically, up to £500 a month.
EASY ACCESS	• Allow you to take out your money easily. • Some are online only, some are branch-based and others come with a card to use at cash machines.	• Easy access cash ISAs will have the same limits as any other cash ISA. • Easy access ordinary savings accounts may have no limits.
NOTICE	• You have to give notice in advance if you wish to take money out. • Notice periods vary, often from 30 days to six months or longer.	• Limits may vary between banks or building societies and some may have no limit.

Interest rates

There are two basic choices: **variable** and **fixed**. With a **variable rate**, the interest rate you earn can rise or fall and there's no guarantee that the rate advertised when you open the account will last. Banks and building societies can change the interest rate as and when they choose. Variable rate accounts can include different features. For example, some accounts pay a bonus rate, an extra bit of interest that you receive for a limited time (typically one year). After that, the interest rate on the account drops – and can drop sharply.

A **fixed-rate interest account** does what it says on the tin. The bank or building society pays you a fixed rate of interest that's guaranteed to remain unchanged for the length of the fixed rate deal (typically a term of between one and five years). The idea is that you earn more interest in return for "locking away" your money, rather than being able to have easy access to it. When interest rates are very low, it may not be a good time to lock into a fixed rate. But, if you need every penny of interest – perhaps to increase your income – it may be the best available option.

Shopping around for an account

Once you've worked out what kind of savings account you'd like, start shopping around. If you're planning to save a regular amount each month, don't put off starting to save because you're worried about not getting the best rate. Of course, it's great to get both, but the most important thing is to start saving regularly. If you are happy to run savings accounts online, you are likely to get a better interest rate than if you opt for a postal or branch-based account, although this is not always the case. Compare what's on offer by looking at a number of savings comparison websites, such as Moneyfacts.co.uk, Savingschampion.co.uk and Moneysavingexpert.com.

How to invest

Many of us are investors without realizing. If you contribute to a pension or you have a stocks and shares **ISA**, or perhaps you've inherited some **shares**, you're an investor. There's a range of assets you can put your money into (invest in), shares (also called "equities" or "stocks") being the most well-known. If you're thinking about investing for the first time, a number of options are available to you, which can be arranged through a financial adviser. Here's a quick rundown of the basics:

Shares

When you buy **shares**, you buy a stake in a company. Not all businesses let people buy shares in them, but it's possible to buy shares in many of the biggest companies in the UK.

PROS

✔ If the company's shares grow in value you will make a profit.

✔ You can receive an income if the company pays a dividend (a share of the profits).

✔ In most cases you can sell the shares easily if you need to, although you may get back less than you paid for them.

CONS

✘ If you buy shares in just one or two companies, you could be taking on a lot of risk.

✘ There's no guarantee that the share price will rise or that the company will pay a dividend.

✘ The value of your investment could fall – and fall sharply.

Bonds

These are also referred to as **fixed interest securities** and are essentially IOUs for a loan issued by a government or company. **Bonds** promise to pay back the amount borrowed at the end of the term. Your return comes from the interest the company or government pays. Be aware that the market value can fall as well as rise.

PROS

✔ They pay interest at a fixed rate, which is useful if you want an income.

✔ You should get back the full value of the bond if you hold it until it matures.

✔ They are generally less risky than shares.

CONS

✘ There is no guarantee that the company or government will be able to pay back the loan.

✘ If the loan is not repaid you could lose all your money.

✘ If you don't hold the bond until it matures you may get back less than you paid for it.

Property

Investing in property could mean buying a property that you rent out to someone else (a "buy-to-let"), or you could invest in a fund that invests in property. You may think property is an easier option than investing in shares, but it still has its risks.

PROS

✔ You can see what you're buying (if you buy a property, rather than a fund).

✔ You can manage the property yourself or pay someone to do it.

✔ If you choose to buy in an area that becomes popular, you may find the property increases in value significantly.

CONS

✘ If you need to sell in a hurry, you may have to reduce the price.

✘ It might be difficult to rent out and you're not guaranteed a constant income as tenants may leave.

✘ It could be hard to get a mortgage, or **mortgage rates** may rise and property prices could fall.

Commodities

These are bought and sold by dealers in a similar way to shares. Commodities include oil and crops, such as cocoa, coffee and sugar. Many people think of gold as a safe investment and it is something that people traditionally invest in when the economy is uncertain. However, it can still be very risky.

PROS

✔ Some commodities, such as gold, can be seen as an "insurance policy" against economic and political uncertainty.

✔ You are investing in a physical object (whether it's gold, silver or oil).

CONS

✘ You won't get an income from a commodity.

✘ The price of some commodities is very volatile.

Investing in funds and investment bonds

Most people who invest in shares don't buy the shares of only one or two companies. Instead, they put their money into share- or bond-based funds.

The table below sets out the basics of investing, but it's only designed to be a starting point. You'll need to do some more research and, before you invest, it could be a good idea to take some advice from an independent financial adviser (see Help and advice). There are also lots of sources of information about investing online, including the Money Advice Service.

Types of funds and investment bonds

TYPE OF INVESTMENT	WHAT IT IS	BENEFITS	CONSIDERATIONS
SHARE-BASED FUNDS	There are different types of share-based funds, but they all work in a similar way: investing your money, along with money from other investors, in shares from a range of different companies.	• Your money is invested in shares in a variety of companies. • Your risk is reduced because your money is spread around.	• You don't have direct control over which companies the fund invests in. • There will be charges to pay for someone to manage the fund and these could be high.
BOND-BASED FUNDS	Bond-based funds work in a similar way to share-based funds, but they buy bonds from different companies (or governments) instead of shares.	• Your money is invested in bonds in a variety of companies. • Your risk is reduced because your money is spread around.	• As with share-based funds, you don't have direct control over which bonds the fund invests in. • There will also be charges to pay for someone to manage the fund, which could be high.
INVESTMENT BONDS	These are life insurance policies that let you put your money into a range of funds investing in a variety of different assets. You generally have to be prepared to invest for several years.	• You can take up to 5% of the original investment out each year and not pay income tax at the time.	• There can be several charges involved, including initial charges and cash-in charges.

Please note: It is important to remember that investments and savings, as described here, are different. Unlike money held on deposit, the value of an investment can fall as well as rise and you could get back less than you invest. Although most investments don't have a fixed term, you should generally be prepared to invest your money for the medium to long term of preferably ten years plus, but five as an absolute minimum.

Income in retirement

Putting money away for retirement is becoming increasingly important, as the state won't necessarily look after you in old age. We often talk about saving for retirement, but strictly speaking most of us invest rather than save, and it's important to understand what putting money into a pension involves.

Workplace pensions

If you're employed or contracted by a company but don't already have a company pension and are aged between 22 and state pension age, you're likely to be automatically enrolled into your workplace pension scheme. That means you'll be signed up for the scheme without you having to do anything.

> ☞ **TOP TIP** If you earn more than £10,600 a year from one employer in the **tax year** 2015–16, you will be automatically enrolled into your workplace pension. If you earn between £5,824 and £10,600 a year (tax year 2015–16), you can ask to join your employer's pension scheme and they must pay into it for you.

It's a relatively new initiative that was designed to get more of us saving for our retirement. The biggest firms have had to enrol their workers first, with smaller ones following over the next few years. The idea is that you will pay **4% of your salary** into your pension, your employer will pay in approximately **3% of your salary** and you will get tax relief from the government that adds another 1%. Tax relief means that some of the tax you'd pay the government goes into your pension. At the moment, people who've been automatically enrolled are paying much less than this but contributions will increase in the next few years.

Some companies already offer a pension scheme for their workers to join, but many others, especially smaller firms, don't. The big change with automatic enrolment is that firms will have to offer a pension scheme and sign up their workers without them having to do anything and – importantly – the employer will have to pay into it. You won't be forced to stay in your employer's pension scheme once you've been automatically enrolled, but if you do leave, you should ask yourself this question before you opt out: "If I don't save through my workplace pension, will I be able to save enough for my retirement in other ways?"

> ☞ **TOP TIP** How much should you pay into your pension? As a general rule you should put aside half your age as a percentage of your salary (including any employer contributions). If you start paying in when you're 20 years old, you should pay in 10% of your salary for the rest of your working life; if you start at 40, pay in 20%, and so on.

Types of workplace pension

There are different types of workplace pension – these are the main two:

Defined benefit pension

This includes **final salary** and other salary-related pensions. The pension you receive when you retire is linked to how much you earn – either at retirement or throughout your time with that employer.

Defined contribution pension

Also referred to as a **money purchase scheme**. Your employer agrees to pay a percentage of your salary into your pension and so do you. You can choose where your pension money is invested and the pension "pot" you're paying into should grow over the years. The amount you get when you stop working and retire will depend on how much you and your employer have paid in, and how much your pension pot has grown by. A type of money purchase scheme some employers use is actually a personal pension called "group personal pensions" (GPP). The easiest way to think about them is as a bulk-buy deal on personal pensions, organized by your employer.

Personal pension plans

If you're self-employed, or an employee without a workplace pension, you can always take out a personal pension; either buying it directly from a pension company, or after taking advice from an independent financial adviser. Personal pensions work in a similar way to workplace "defined contribution" pensions. You can choose how much to pay into it and where the money is invested.

Defined contribution pension plans, personal pension plans and stakeholder pensions all ask you to choose where you would like your money invested to grow your pension pot. All **investments** involve some risk and it's important to make sure you understand the level of risk you are taking on before you invest and that you regularly review your pensions to ensure you're not taking too much risk.

Stakeholder pensions

This is a type of personal pension plan that has to meet certain minimum standards set by government. These include: limited charges, low minimum contributions, flexible contributions (the ability to start and stop), penalty free transfers and a default investment fund, where your money will be invested if you don't want to choose a specific fund.

Any money you invest into a pension scheme cannot be accessed until you retire. For **defined contribution** schemes this is generally any age from 55 onwards. So this is a long-term commitment, and you should be sure which type of pension plan is best for you before you commit to one. Defined contribution pension plans, personal pension plans and stakeholder pensions all require you to select where you would like your money to be invested to grow your pension pot. Bear in mind that all investments involve some risk and you may not get back what you expect. The value of investments can fall as well as rise, and your final pension pot may be less than you paid in.

Source: Legal & General

CHAPTER SIX:

ACCESSING AND PROTECTING YOUR MONEY

Practicalities

It's important for you to understand the practicalities of accessing and handling your money. How you manage it largely depends on what you want and what your bank or building society has to offer. But there are plenty of other financial experts out there to support you – from accountants to mortgage advisors – should you feel you need it, and there are strict rules governing how they should behave.

Managing your money

Gone are the days when having a bank account meant going to your local branch to take money out, pay bills or transfer money between accounts. Internet banking has been around for years and telephone banking even longer. According to the BBA, a trade association for the UK banking sector, there were 6.3 billion online transactions in 2013 and over 14 million banking apps were downloaded.

Accessing your account

There are various ways you can pay money into or take money out of a bank or building society account. Visiting your **local branch** is becoming less common as branches continue to be shut down, and even when you get to a branch you won't necessarily speak to a cashier as most banks and building societies encourage customers to do much of their basic banking through cash and paying-in machines. Many people access their **bank accounts online**. The advantage of this is that you can see exactly how much money you have in a particular account at any one time and easily move money between accounts. You can also make transactions via your mobile phone. Most of the big banks have signed up to a mobile payment app called Paym, which enables you to make payments to other people via their mobile numbers.

Beware of Fraudsters

Your bank may ask you to download its own **anti-virus software** and/or will issue you with a card reader or a number generator, designed to increase security. Be very careful if someone calls you and wants information about your bank accounts. Unfortunately, fraudsters are thinking of very sophisticated ways of parting us from our money and are targeting people who bank online or use mobile banking. The **BBA** has a useful leaflet called Know Fraud, No Fraud that warns about some of the fraudsters' tactics.

☞ **TOP TIP** When banking online or downloading a banking app do not use wifi networks that may not be secure, such as in cafés or other public places. Always keep your smartphone software updated, especially if extra security features are released, and make sure your passwords and PIN numbers aren't obvious.

Is your money protected?

In the unlikely event of your bank going bust, the money in your accounts is protected, up to a limit of £85,000 per person per bank (or banking group), building society or credit union. There are also rules and regulations about how banks and financial firms should behave. Here's an outline of the key schemes and regulators you can turn to:

- **Financial Conduct Authority (FCA):** The FCA is the main regulator of financial firms and it sets out the rules that they have to abide by. If the FCA thinks firms aren't sticking to the rules, it can take action against them, including fining them.
- **Financial Ombudsman Service:** If you're unhappy with a financial company – a bank or company you have **investments** with – you should complain. If you're unsatisfied by how your complaint is handled, contact the free-to-use and independent Financial Ombudsman Service (FOS) which will look into your complaint before deciding whether there is a case to answer. If there is, the FOS can ask the financial company to give you some or all of your money back and pay you compensation.
- **Financial Services Compensation Scheme (FSCS):** All financial companies that are regulated by one or both financial regulators (the Financial Conduct Authority or the Prudential Regulation Authority) must sign up to the FSCS. That means that if the bank, insurer or **investment** company were to go bust, you may be able to make a claim to the FSCS for some or all of the money you lost.

☞ **TOP TIP** To check whether your savings are covered go to the FSCS website and type in the names of all the banks and building societies that you have savings with. The FSCS's Protection Checker will then tell you how much of your money is protected.

Help and advice

You don't have to get a professional to help you with your finances. If you're happy making decisions on your own – with a bit of help from friends and/or online resources – that's fine. But it's useful to know what's out there and how much you may have to pay for it. Here are some of the professionals you may wish, at some point, to approach.

Accountant

An accountant can help you prepare your tax return and can give you advice about, for example, any tax you may have to pay if you own a second property. If your tax affairs are straightforward you probably don't need an accountant, but if not it's worth paying someone to sort out your tax returns for you. Fees will vary: some online accountancy services charge a small fixed fee for preparing and filing tax returns while others offer a personalized service with regular meetings, which will cost several hundred pounds (or more) per year.

Financial adviser

A financial adviser can advise you with most aspects of your finances. For example, they can review your existing **investments** and pension plans and make suggestions about what, if any, changes you should make. They could also advise you on how to invest a windfall or an inheritance. Only an independent financial adviser can offer advice on the full range of products and providers available. You can find an independent financial adviser on a financial directory website, such as Unbiased.co.uk or the review site Vouchedfor.co.uk.

Insurance broker

There are different types of insurance **brokers**: those that can help you find car or home insurance and those that can recommend policies if you want to protect your income. The advantage of using a broker is that when you come to make a claim, the broker can help you do that and, if you're advised to buy the wrong policy, you can complain about the advice you've been given. Choosing the wrong policy on a price comparison site won't give you the same protection.

Insurance brokers get paid a commission by the insurer (which ultimately comes out of your **premiums**) and you may be charged a small administration fee by the broker. Price comparison websites also get a referral fee or a commission. You can search for a broker using the British Insurance Brokers' Association website.

Mortgage broker

A good **broker** can help you work out such things as whether to go for a **mortgage** with a low **headline rate** or one with a higher rate but low or no fees. If you've recently changed jobs, been self-employed for less than three years, or your **credit rating** isn't good, you may struggle to get a mortgage. A mortgage broker will know which mortgage lenders are more likely to take you on and what information you will need to provide. If you decide to use a mortgage broker, check whether they charge a fee – some don't but instead take a commission from the mortgage lender they recommend. You can find a mortgage broker on the Unbiased.co.uk website.

☞ **TOP TIP** Only use a mortgage **broker** who considers mortgages from most providers and, if possible, all of them. Some mortgage brokers only look at a limited amount of lenders, so you could miss out on the best deals.

Next steps

So where to go from here? The next step is to make a plan, work out your budget and look at ways of cutting back on non-essential expenses. Then assess your account options. Is there a savings account that offers a better rate? Are you ready to invest? If so, speak to a financial adviser who can help you set up the right kind of investment. It's important to reassess regularly. Don't do all that work setting up some accounts and investments, then never look at your finances again. Economic situations change and inflation rises and falls, so keep an eye on whether your money is still in the best place. Maintain your budget chart so you always know what you can afford and when you can splash out. Once you've taken control of your money, you can relax and have fun.

☞ Visit www.roughguidefinance.com to subscribe to *The Rough Guide to Personal Finance* series.

Useful links

ADVICE & CHARITIES

- Citizens Advice

England/Wales: citizensadvice.org.uk
Scotland: cas.org.uk
Northern Ireland: citizensadvice.co.uk

- The Money Advice Service: moneyadviceservice.org.uk
- National Debtline: nationaldebtline.org
- StepChange Debt Charity: stepchange.org
- Turn2us: turn2us.org.uk

BROKERS AND FINANCIAL ADVISORS

- British Insurance Brokers' Association: biba.org.uk
- Unbiased.co.uk: unbiased.co.uk
- Vouchedfor.co.uk: vouchedfor.co.uk

CREDIT AGENCIES

- Call Credit: callcredit.co.uk
- Equifax: equifax.co.uk
- Experian: experian.co.uk

GOVERNMENT & PUBLIC BODIES

- Electoral Office for Northern Ireland: nidirect.gov.uk
- GOV.UK: gov.uk
- HM Revenue & Customs: hmrc.gov.uk
- Ofcom: ofcom.org.uk

FINANCE

- The British Bankers' Association: bba.org.uk
- Financial Ombudsman Service: financial-ombudsman.org.uk
- Financial Services Compensation Scheme: fscs.org.uk
- Legal & General: legalandgeneral.com
- Moneyfacts.co.uk: moneyfacts.co.uk
- MoneySavingExpert.com: moneysavingexpert.com
- Paym: paym.co.uk
- Prudential Regulation Authority: bankofengland.co.uk/pra
- Savingschampion.co.uk: savingschampion.co.uk
- The UK Cards Association: www.theukcardsassociation.org.uk

SHOPPING

- ebay: ebay.co.uk
- Go Energy Shopping: goenergyshopping.co.uk
- mySupermarket: mysupermarket.com
- Preloved: preloved.co.uk

TRADESPEOPLE

- TrustATrader: trustatrader.com
- RatedPeople.com: ratedpeople.com
- Checkatrade: checkatrade.com

OTHER RESOURCES

- JustPark: justpark.com
- Lovefoodhatewaste.com: lovefoodhatewaste.com
- Rough Guides: www.roughguides.com

Jargon buster

APR (annual percentage rate): An interest rate that shows the true cost of borrowing in terms of interest and fees. It includes any arrangement fees or set-up costs, expressed as an annual figure, allowing easy comparison of loan products.

Bankruptcy: If a person or business is unable to repay debts, a legal proceeding takes place in which the debtor's assets are used to repay some of the debt. The debtor is declared bankrupt by a court.

Bonds: If a government or a company wants to raise money, they sometimes borrow from an investor. In exchange, the investor receives a "bond" – a certificate that promises to repay the loan after an agreed period of time at a fixed interest rate.

Broker: An agent who can advise you about, and sell you, products like insurance or mortgages.

Credit file: Credit reference agencies keep financial details about your credit (or borrowing) history in a credit file.

Credit rating: Issued by a lender to help assess the risk of lending to you (it's also known as a credit score).

Credit report: If you ask to see the information kept in your credit file, a credit reference agency will issue a credit report, which is a snapshot of your borrowing history.

Defined benefit pension: Also known as final salary or salary-related pension, this is a pension scheme that promises to pay out an amount based on how much the employee earns at the time they retire or an average throughout their employment with that organization.

Defined contribution pension: Also known as a money purchase, this is a pension scheme in which the employee builds up a "pot" of money, through their own contributions and from their employer. At retirement, the employee uses their pension pot to buy an annuity to pay for their pension. Personal and stakeholder pensions are also "defined contribution", but they don't benefit from employee contributions.

Funds: Investors can buy shares in a fund, rather than a single company. The pool of money in the fund can be re-invested to buy stocks and shares in other companies.

Gross pay: Your total pay, before any deductions, such as tax, national insurance and pensions.

Headline rate: The advertised interest rate for a mortgage or savings account.

HM Revenue and Customs (HMRC): A government department that is responsible for collecting taxes to make sure that money is available to fund the UK's public services. It also administers National Insurance and tax credits.

Individual Savings Account (ISA): A type of savings account that allows you to save or invest money without paying tax on it.

Insolvency: Similar to bankruptcy, but it usually applies to companies that are unable to repay their debts.

Investing/investment: Paying money into shares, property, commercial ventures or other financial schemes, with the hope of making a profit.

Mortgage: A loan provided by a bank or building society (the "lender") to a person who wants to buy a property (the "borrower"), which is secured on the property.

National Insurance: A system in which employees and their employers, and people who are self-employed, make compulsory payments to pay for the state pension, the NHS and certain benefits.

Net pay: The actual pay you receive, after any deductions, such as tax, national insurance and pensions.

Payday loans: A loan taken out over a short period of time.

Pay As You Earn (PAYE): A method of paying income tax and national insurance in which your employer deducts contributions from your wages or pension before paying you.

Personal allowance: The amount of income that you can earn each year without paying tax. Anything you earn above this amount is taxed.

Premiums: The total amount of money that you agree to pay for policies such as insurance or monthly payments for an investment policy..

Stocks and shares: Financial stakes in a company. Both terms mean the same thing. When you buy a stock or share, you become a part-owner, along with other investors.

Tax credit: This is a type of state benefit, in which your tax allowance is adjusted so that you pay less tax.

Tax year: A twelve-month period which is set by a government in order to calculate taxes. The UK's tax year starts on 6 April each year.

Universal Credit: A new single payment for people who are looking for work or on a low income (introduced in 2013). It replaces a range of benefits, such as Income Support and Housing Benefit.

Sarah Pennells

With more than twenty years' experience as a personal financial journalist, broadcaster and author for television, radio, web and print, **Sarah Pennells** is an expert guide to help you make the most of your money and savings. Her website SavvyWoman.co.uk is the UK's leading financial website for women. Sarah currently presents a weekly money programme on Share Radio and writes for various publications including *The Independent on Sunday*. She started her career working as a reporter for BBC Radio 4's *Moneybox* and later reported for BBC1's *Saturday Breakfast* programme. This is her fourth book about personal finance.

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