



wealth matters

Top 10 Personal Finance Tips for 2010

At Wealth Matters, we know that taking the first steps on the road to reach your financial goals can be daunting. So, we have compiled the following top ten personal finance tips for 2010 to ease you on your journey. Simply follow the tips in order and omit any that aren't applicable.

We always aim to keep things simple, but should you have any questions relating to the tips below, please feel free to contact us as per the details below.

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1. Face Facts

The first steps to organizing your personal finances for the future is to work out your current situation. Take a few moments to write down the answers to the following questions:

- a) What is your income?
- b) What is your expenditure?
- c) What are your assets and liabilities?
- d) What amounts do you owe and at what interest rates?

You can download the following two documents to help you answer these questions – '[Income & Expenditure](#)' & '[Assets & Liabilities](#)'. Try to be as accurate as possible. If you have a partner or spouse together with whom you are financial dependent, you should complete these forms jointly.

It is all too easy to stick your head in the ground when it comes to realizing the position you are in, but acknowledging your debts, and working with what you have is the first step on the path toward financial freedom.

2. Think about what you really want

Now that you have a clearer picture of your current financial circumstances, take a step back and ask yourself – "why is having money important to you?" Is it freedom, being able to travel, or perhaps having choice and flexibility? Asking this very question tends to help you understand more about what you value.

Before you make a financial decision, take a moment to think if this decision will move you closer to your goals or further away? Is what you are considering in line with your values and what is important to you? Doesn't it make sense to develop a financial strategy that reflects your personal goals that are based on what is important to you? Is it the "money" that is important, OR what money allows you to do in your life?

Are you interested in making smarter choices about your money? If you are, then spend some time thinking about what you really want, write these things down, review them regularly and you are much more likely to achieve them.

3. Deal with your debts

Your next step towards financial freedom is to tackle any debts you currently have. It's easy to build up debts on store or credit cards and unauthorized overdrafts can quickly spiral out of control. Get on top in 2010 by planning ahead. If you can pay off your cards immediately, do so before you get hit by interest charges. At the same time, close any expensive store cards you may have. Consider transferring any remaining debt to a cheaper card or look to consolidate the debt with a consolidation loan or onto your mortgage. If your card debts are too high to pay off, take advice and talk to your bank and or your financial planner.

If you have followed tip 1 above, you'll know what you can realistically afford to pay down your debt. Ultimately, the quicker you do this, the more interest you will save. Taking action to reduce your debts will make a major difference to your finances.

4. Review your spending habits & create a budget planner

It is often simple to reduce your outgoings if you are strict with yourself. This could mean spending less on your mobile phone, reducing your sky package, going out less, changing your eating habits, stopping smoking or changing to a car that is less thirsty on fuel and cheaper on insurance.

Be satisfied with what you have. This may sound a little trite but it is very important to be able to resist all of those wonderful things that we all want to have. A favourite question to ask when faced with a new purchase is 'do I really need it or do I just want it?'. Being honest with the answer should help to reduce your spending. Remember that you are looking to pay down old debt rather than acquiring new debt.

Budget- planning is simple balancing act. Our downloadable '[budget planner](#)' recommends ways to allocate your monthly net income. Throughout the different stages of your life, you will probably have different priorities and the percentages will change as to how much you spend on things like food, bills, travel, leisure, your family etc. One easy way to revolutionize the way you think about money is to ignore the 'buy now pay later' offers and remember the old philosophical saying – "if you can't afford it, don't buy it." This doesn't mean you can't have it, it just means you should save up first!

5. Overpay your mortgage

Many people don't think of a mortgage as a debt as it's underpinned by the property asset, but mortgages are subject to the same competitive market forces as any other source of finance and there are good deals out there. If you have a significant period left on your mortgage, you may well benefit from a cheaper rate, so it's worth shopping around. Why not resolve to review your mortgage every few years, starting this year? You don't necessarily have to switch lender - if your current lender can offer you a better deal than is available elsewhere, stick with them, but otherwise switch to the better deal. There is often a fee to move mortgages, so factor this in and make sure you understand all the conditions: particularly redemption charges for repaying early or overpaying, before signing up to a new deal.

If you have spare savings, consider using these to overpay your mortgage. If your mortgage rate is 5%, you would need to earn 6.25% gross interest in the bank as a basic rate tax payer or 8.33% as a higher rate tax payer, to earn a net amount of 5% after tax, to give the same effect as overpaying your mortgage. With UK interest rates at an all time low of 0.5% (correct at time of writing), deposit savings accounts do not currently offer exciting prospects for growth. But do leave yourself enough spare cash for unexpected contingencies. It is always prudent to have an emergency fund for instant access, typically 3 months net income.

6. Have different pots of money

Money is very psychological. Most people tend to spend what they earn, or to put it another way the more they earn, the more they spend. The same should apply to saving. Your monthly net income should be apportioned to cover mortgage or rent costs, insurance costs, and of course food, bills, travel and leisure. But don't forget to save for retirement and for a rainy day!

After a torrid year for stock markets between mid 2007 and March 2009, and with some financial institutions going to the wall, it highlights that spreading your risk as well as your savings in number of different financial products, banks and investment houses is key. The government has raised the level at which it guarantees your savings to £50,000 per licensed bank (£100,000 for joint accounts). So, if you have over this level in savings, it certainly makes sense to split it between different savings accounts. Beware those banks that share a banking license!

Rather than just have one current account, from which all your income and expenditure comes and goes, it is often prudent to have different accounts for different purposes. Saving for a specific purpose is given more clarity when you ring fence the monies. As well as having individual current accounts, savvy couples should look to have a joint account, where all joint bills and commitments are paid from, including the mortgage, council tax and all utilities.

You could have one pot for joint savings and call it 'rainy day.' If you have investment properties, it makes sense to have a separate 'BTL account' and even consider an account for school fees and holidays. It is very easy to set up a standing order from your main current account and contribute a set amount every month between your accounts, even if this figure is nominal. You will get used to living on what is left.

Any little amount starts the savings habit and you can always increase the amount if you get a pay rise. It's amazing how all adds up. The important thing is to commit the money so you get used to managing without it. This method works, whether you have a joint income of £20,000 or £200,000 per annum.

7. Start and ISA

Any investment strategy should start by using tax-efficient savings vehicles. Consider saving into an ISA (individual savings account) first. ISAs were introduced in April 1999 as the Labour Government's successor to personal equity plans (PEPs) and tax-exempt special savings accounts (TESSAs). Not investments in their own right, ISAs are wrappers that can be placed around a diverse range of investments including savings accounts and stocks and shares.

ISAs are split into 'cash' and 'equities.' A 'Cash ISA' is very cost effective to set up. Most banks and building societies offer them and there tends not to be any initial charge, fee or cost to do so. Look for one that pays interest monthly where instant access is not penalized. You are limited to £3,600 per tax year (moving to £5,100 from April 6th 2010) with a 'Cash ISA,' but they are certainly low risk and there is no income tax or capital gains tax paid on income, growth or encashment.

An 'Equity ISA' is a medium term investment, typically 7-10 years or longer. It is also higher risk than a Cash ISA in that the value of your investment and income can fluctuate (this may partially

be the result of exchange rate fluctuations) and you might not get back the full amount invested. Also, past performance is not a guide to future performance. There are typically set up charges, initial and annual fees with Equity ISAs.

The maximum that can be invested in any tax year in an ISA is currently £7,200. This is rising to £10,200 from April 6th 2010. You can invest the full amount into equities if you already have sufficient cash assets, or you can invest half into an Equity ISA with one institution and half into a 'Cash ISA' with another. Thus from April 6th 2010, it will be £5,100 into cash and £5,100 into equities/

Q: Are ISAs Tax Free?

ISAs are 'tax-efficient,' but the exact benefits can vary. You pay no additional tax on the income from your ISA savings and investments, and no tax on any capital gains. You don't even have to tell the Inland Revenue you have one, let alone what income and capital gains are generated.

But, while cash ISAs are free of tax, and corporate bonds allow you to reclaim the 20% tax on the interest payment they make, equity based ISAs suffer a withholding tax which, since April 2004 cannot be reclaimed. Effectively, you currently pay 10% tax on dividend income - whatever your actual rate of tax on income. There is no further liability for higher rate tax payers though, who would normally pay tax on dividends income of 32.5% outside an ISA, saving themselves 22.5%.

Confused? That's why it's important to discuss these things with a professional.

8. Start a pension

Have you started saving for your pension yet? Or are you one of the 9-12 million people (around 40% of the workforce) that the Pensions Commission has warned will face retirement with little or no savings in place? Pensions are arguably the most tax efficient savings vehicle available to UK investors. A basic rate tax payer will receive a 20% uplift when they make a net contribution to a UK registered pension scheme and a higher rate tax payer will get another 20% tax back reflected in their tax code, meaning that they get as much as 40% tax relief on contribution.

Thus as a basic rate tax payer, a contribution of £80 net (from taxed income) made into a pension will equate to £100. For a higher rate tax payer, since they will receive a further £20 back in their tax code, it will only cost them £60 net.

It is a good thing that that you cannot access these monies until age 50 (55 from April 6th 2010) because they are savings for your retirement years. Don't rely on the state pension for a comfortable retirement. In 2009-2010, the full basic State Pension is only £95.25 a week for a single person and £152.30 a week for a couple, but your individual circumstances may affect the amount you get. After 6 April 2010, you will need to have made National Insurance contributions for 30 years to qualify for a full basic state pension.

Q: How big a pension pot do you need?

The quick rule of thumb here is as follows:

- 1) Think about the age you wish to retire.
- 2) Work out what gross annual income you will need from this age and assume you are this age today.
- 3) A good target to work to is 2/3rds of your current annual gross income.
- 4) Multiply this figure by 20.
- 5) This is the size pot you would need.

Use our '[Pensions Calculator](#)' to help you work out how much you need to contribute to achieve this size of pension.

Unsure? Speak to your financial planner at Wealth Matters.

9. Review your protection and general insurance

Savings and a pension are great to have behind you, but it's worth protecting your income, your family and your health too. If you are 100% sure you will never die or fall ill with a serious illness, then life insurance, critical illness cover (CIC) and permanent health insurance (PHI) are not for you. However, the reality is that 1 in 3 of us will be diagnosed with cancer in our lifetime and there is always the possibility that we could die prematurely or fall sick and be unable to work.

Those prudent enough to have CIC & PHI policies will benefit from a lump sum payment plus an ongoing income for the duration of their illness. Most CIC insurers will cover around 30 serious conditions including cancer, heart attack or stroke. PHI policies most commonly pay out due to stress, depression or mental illness. Income protection is especially important if you're self employed because there are no company benefits unless you take them out.

A good tip is, the longer you can wait before the payments kick in, the cheaper it is, so try and build up a contingency stash to reduce your premiums. Most people can manage for 3 months or so. For life insurance and CIC, you would tend to set the term for either the term of your mortgage, until you retire or until your children are financially independent. For PHI, you should consider the term to stretch until you retire or you are financially independent yourself.

Always make sure that your protection policies are in trust if single life policies. Consider indexed cover for all three types of cover to protect against the effects of inflation.

Private Medical Insurance (PMI) is the fourth type of cover to consider. This is more of a luxury type of protection, but can be invaluable to many families.

Not all forms of cover are relevant to all people, but think about the worst case contingencies for your circumstances. Do you have your bases covered?

In terms of general insurance, review your car and household insurances to see if you can save money. If you have your own company, business protection is also well worth considering. Key man insurance and shareholders protection are the main two forms of cover.

Q: How much cover should you have?

Check out our '[protection calculator](#)' to work this out. You can also see from our '[budget planner](#)', what percentage of your income you should consider spending on protection.

10. Make a Will and aim now to reduce Inheritance Tax

Figures from the voluntary organization Will Aid reveal that around 50% of people die without a valid will. Making a will is not expensive, although the consequences of not making one are. Even if you've sorted out the tax aspects of your legacy, it is important that you make a will so that you can ensure your assets are distributed as you want when you die. You also give yourself peace of mind knowing that you have put your affairs in order. By making a will you will spare your family and friends needless heartache and problems. If you haven't updated your will in a while, you should certainly do so as and when your circumstances change. Speak to our in-house Will Writer for advice on making or updating your will. Click [here](#) for more information.

While you can't take it with you, there's no point forcing your family to give the taxman more than they need to. After all, wouldn't you prefer they have your hard-earned cash? On your death, the government will tax your assets, including your home, at a whopping 40% (apart from the first £325,000 in the 2009/2010 tax year, £650,000 for married couples) unless you leave the lot to charity!

However, for those in the know, there are plenty of legitimate ways to avoid all or at least some of this IHT. There is the annual £3,000 exemption, exemptions for certain marriage gifts and a useful one known as "normal expenditure out of income." It is also possible to think in terms of giving sums away, surviving seven years and thus getting that gift out of reach of the IHT taxman. A Whole of Life policy is often recommended for many as well as this can be a way of having your cake and eating it. Furthermore, the use of specialized trusts can in turn reduce the IHT tax burden, giving you flexibility later on in life.

Not married, but own a house together? Make sure you hold the property as 'tenants in common' rather than as 'joint tenants', so that you can leave your half to whomever you choose to avoid leaving each other homeless. IHT planning might sound tedious, but the consequences of not doing it can leave a horrendous extra burden for your family at a time when they are least able to cope with additional worry. Just a couple of hours with an adviser can save your family a fortune. In addition, you can read more on our website about [Inheritance tax planning](#)

Disclaimers:

1. The value of investments and income can fluctuate (this may partially be the result of exchange rate fluctuations) and investors might not get back the full amount invested.
2. Past performance is not a guide to future performance.
3. The value of property investments and income from them can go down as well as up and investors may not get back the original amount invested.
4. Your home or property may be repossessed if you do not keep up repayments on your mortgage.
5. The value of property is generally a matter of opinion and the true value may not be recognised until the property is sold. It may be difficult to sell or realise the value of the property in adverse market conditions.
6. Levels and basis of reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor.
7. Borrowers will still be responsible for maintaining the payment of any mortgage in the event that the property is not rented out and therefore may wish to make suitable provision for this event. We suggest that you seek legal advice and advice on tax issues before purchasing a property to let.
8. The Financial Services Authority does not regulate will writing, school fees planning, taxation and trust advice, and some aspects of buy to let mortgages, overseas mortgages and commercial mortgages.