

Introduction

Most of us experience times when **our financial affairs seem to get out of hand** and we are not sure which way to turn. These notes are designed to be a reminder for you, at such times, of things that are really just common sense but which are easy to overlook in your efforts to get straight again.

IMPORTANT

We would like to make it clear at the outset that this information does not constitute personal advice and should not be treated as a substitute for specific advice based on your circumstances. If you are worried about debt then you should make use of the excellent free services of the local Citizens Advice Bureau. They will help you set up a plan of action, and can work it through with you each step of the way, if necessary.

The Consumer Credit Licence of Arch Financial Planning Limited does **NOT** allow us to advise people on their debt problems, take over their debts or negotiate with creditors on their behalf.

Volunteers at the Citizens Advice Bureau have from time to time requested information or assistance from us for a particular person on an investment or pension which they have. In such a case we have responded to that specific enquiry as that is an area in which we are authorised and regulated by the FSA.

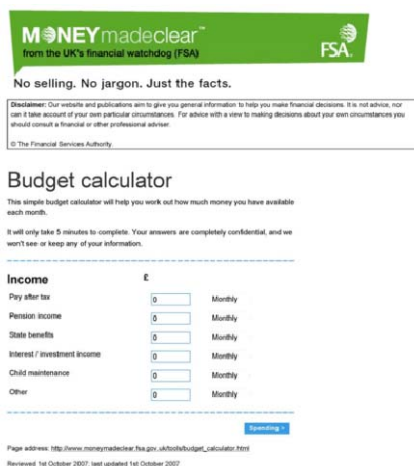
Prepare a budget

Do you know **how much you spend each month on everything** from utilities like water, gas and electricity to newspapers and magazines? The first step to re-organising your finances is to prepare a budget. **Find out what you are spending and where.** Take a pen and paper, or use an Excel spreadsheet if you are familiar with such things, and **write it all down.**

It is not important to think of everything at the outset because you can add other items as you go along. The important thing is to start your list.

Having started to list your outgoings you then need to **list your income.** This is not just your income from your employment or self-employment, but any pension benefits you are receiving, any State benefits and any investment income.

There is an **online calculator available from the Financial Services Authority website** to help you with this - see www.moneymadeclear.fsa.gov.uk/tools/budget_calculator.html



MONEYmadeclear™
from the UK's financial watchdog (FSA)

No selling. No jargon. Just the facts.

Disclaimer: Our website and publications aim to give you general information to help you make financial decisions. It is not advice, nor can it take account of your own particular circumstances. For advice with a view to making decisions about your own circumstances you should consult a financial or other professional adviser.
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Budget calculator

This simple budget calculator will help you work out how much money you have available each month.

It will only take 5 minutes to complete. Your answers are completely confidential, and we won't see or keep any of your information.

Income	£	Frequency
Pay after tax	<input type="text"/>	Monthly
Pension income	<input type="text"/>	Monthly
State benefits	<input type="text"/>	Monthly
Interest / investment income	<input type="text"/>	Monthly
Child maintenance	<input type="text"/>	Monthly
Other	<input type="text"/>	Monthly

Page address: http://www.moneymadeclear.fsa.gov.uk/tools/budget_calculator.html
Reviewed: 1st October 2007; last updated: 1st October 2007

Once you have both expenditure and income totalled up, you can see just what money you have and where it is going.

You are not alone!

- Average household debt in the UK is **£9,740** (excluding mortgages). This figure rises to **£22,190** if it is based on households who have some form of unsecured loan.
- Average owed by every UK adult is **£59,715** (including mortgages).
- Average outstanding mortgage for the 11.7m households who currently have mortgages is **£103,860**.
- Average interest paid by each household on their total debt is approximately **£3,950** each year.
- Average consumer borrowing via credit cards, motor and retail finance deals, overdrafts and unsecured personal loans is **£4,965** per UK adult.
- Of the 'iPod' generation (18 to 34 year olds), 20% have debts (excluding mortgages) of **more than £10,000** and one third have no savings at all.
- 1.4 million homeowners aged over 55 have **at least 10 years left to run on their mortgage** taking them to, or even well beyond the current state retirement age of 65.
- Britain's personal debt is increasing by **£1 million every 8 minutes**.
- It is estimated that the average Briton's savings would **only last 52 days if they were unable to work** and that of 36% of Britons would only last 11 days.
- In a survey, 15% of 18 to 24 year olds **thought that an ISA was an iPod accessory** and 10% thought it was an energy drink.

Debt facts and figures compiled by Credit Action
www.creditaction.org.uk November 2008

List everything you owe

List all your debts and all your credit agreements. Include what you're paying each month and the interest rates being charged. If the interest rate is at an introductory rate, **note when that rate ends and the higher rate kicks in.** It is vital that you gather all this information together.

It is estimated that as many as four in every five people who owe money on credit cards, loans, overdrafts and mortgages **don't know what the interest rates are.**

Today in the UK:

- Consumers will borrow an additional **£207 million** and pay **£283 million** in interest today.
- **Every five minutes** one person will be declared insolvent or bankrupt.
- **121 properties** will be repossessed.
- Citizen Advice Bureaus will deal with **4,760 debt problems** today.
- 27.4 million transactions worth **£1.56 billion** will be spent on plastic cards today.
- 18,000 credit card applications will be rejected today.
- **One third of all groceries** we buy today will end up in the dustbin.

Debt facts and figures compiled by Credit Action
www.creditaction.org.uk November 2008

Prioritise your debts

Now that you have everything listed, you can work out **which debt you plan to clear first**. If you have limited money, then it makes sense to **pay off the debt that has the highest interest rate**. This may be an overdraft, or a credit card, or store card. Whichever one has the highest interest rate is the one that you should attempt to clear first.

If you have a number of credit cards you should use a practice that has become referred to as 'snowballing'. This describes the practice of **concentrating your spare money on your most expensive card whilst maintaining the minimum payments on the rest**.

You pay as much as you can afford each month off the most expensive card and get it cleared as quickly as possible. **Once that one is paid off you move on to the next most expensive**.

If you keep up the momentum, this will make a noticeable reduction in your debt as the amount you are paying off your target credit card snowballs month after month.

Use savings to pay off expensive debt

The Annual Percentage Rate (APR) of interest charged by credit cards at the time of writing **varies between 6.8% pa (Barclaycard Simplicity Visa) and a whopping 43.5% pa (British Airways American Express Premium plus AMEX)**. The average APR of store cards does not vary much between **Evans at 17.9% pa and Debenhams at 19.9% pa**. At the time of writing the Bank Base Rate is 3.0% and these percentages represent a huge increase for the use of credit. Worse still, any money that you have on deposit is likely to be earning at best around 4.5% after tax.

So **why pile up massive interest charges while you earn so much less on your savings account?** Why not let your savings really work for you, by using it to pay off some of that costly debt. Consider the following:

Rate Charged for Credit	Equivalent Savings Rate for a Basic Rate Taxpayer	Equivalent Savings Rate for a Higher Rate Taxpayer
6%	7.50%	10.00%
10%	12.50%	16.67%
15%	18.75%	25.00%
20%	25.00%	33.33%
25%	31.25%	41.67%

Using your savings to reduce your credit charges **exposes your money to no risk** and it is as easy as paying money from one account to another.

Review existing savings plans

You may have **an endowment plan that was taken out for an earlier mortgage** and which is no longer being used to repay your existing mortgage. If this is the case you might be able to use it to repay some of your debt, but **you should not do anything in respect of such plans without seeking advice**.

Many endowments were set up on an equity-linked basis and if these are no longer needed to repay a mortgage **there may be no advantage in keeping them going to maturity** and the value can be used to reduce your debt.

In many cases you would get a better return by investing your monthly premiums in an equity-linked fund as part of an ISA. Be aware, however, that you will also be giving up valuable life assurance cover.

If the underlying fund is With Profits, any early encashment would be wasting a possible terminal bonus at the maturity of the plan and **there may be a Market Value Reduction** to reduce the real value of the fund.

Where your need to reduce your debt now overrides any possible future benefit you could investigate **selling your endowment plan** and you might receive 10% to 20% more than the surrender value at no cost to yourself.

If you do surrender your endowment plan it is important to consider **whether you need to replace the life assurance cover** being provided by the endowment. You should also consider whether it would be in your interests to **change your mortgage** from an interest-only to a repayment basis.

Review existing protection plans

You may not be aware that whilst you are struggling to make your personal finances balance, **you could reduce your outgoings on various insurance products** without reducing the protection that they give you. It is amazing **how many people do not bother to shop around** when renewing their car insurance or household insurance.

A good insurance broker will not normally charge for this service and if you know what you are looking for you can use the internet to do a lot of the searching for you.

Even if you are not yet 'on-line' at home **you will find that your local library is** and they will usually only make a small charge to let you use their computer to search the internet. If you have no experience with computers choose a time when they are not busy and many libraries will have a member of staff who will be pleased to show you how easy it is.

Where life assurance and health insurance plans are on a term insurance basis (ie there is no savings element), **we encourage our clients to review them every few years** as good savings can often be made. We can tell you if you are able to save money and will be pleased to set up the new plan for you. The only thing we ask is that you **do not cancel your existing cover until the new plan is in force**.

Review existing pension plans

If you are 50 or over (55 or over from 2010) and have one or more personal pension plans **you may have the option of taking a tax-free cash sum now**. This is a last resort course of action because it could mess up your financial security when you eventually retire. However, for some people this option can provide a lifeline in a difficult situation and where they have time to build up further pension benefits in future.

The problem with obtaining cash from your pension fund is that **you also have to start taking the pension income**, usually by purchasing an annuity. There are, however, two possible ways in which this situation can be improved.

- ➊ For those fortunate enough to have a pension fund of around £250,000 or more, **the use of a pension drawdown plan** enables you to take some cash from your pension fund after age 50 (55 from 2010) without purchasing an annuity until later. This flexibility can enable you to delay taking a pension until you actually retire.
- ➋ For those with more modest pension funds, **the introduction of stakeholder pension plans**, with their low costs, can enable you to reinvest the pension that you do not wish to receive at that time back into a pension fund for your later life.

Minimum payments = maximum expense

Over the last few years **the minimum payments on credit cards and store cards have dropped** from the standard of 5% to the 2% mark. There is a simple reason for this. Lenders can extract even more interest from you. Why? Because so many people only ever make the minimum payments.

Let us look at the sums in a fairly simplistic way. If the interest rate you're charged is 1.5% per month and you make the minimum payment of 2% of the outstanding balance, **how much have you actually paid off the debt?** Well about one half of one per cent (ie 0.5%).

At this rate **it will take some people 42 years to pay off their credit card debt!** The secret of getting out of credit card debt is to pay more than the minimum payment and to pay as much as you can, as soon as you can.

Switch to lower rates

Most people who discover that they are getting into financial difficulties will not be able to sort out their problem within the next few months. What this means is that you should **shop around for a lower interest charge on any debt that you have**. If you are using credit cards, then it means you will probably have to 'Rate Surf', at least for a period.

Rate surfing is the practice of moving to a credit card with a low introductory rate or no interest charge at all for, say, two months and then moving on to another introductory rate or no interest charge period and so on.

This is not something that you will want to do for very long but it could be helpful at a time when your indebtedness is most acute. **It is particularly important to be aware that the practice may give you a poor credit score** when applying to certain lenders for a mortgage or remortgage.

If you are going to do this you need to give it your active attention and make notes of when each special introductory rate expires. Then ensure that you have either paid the debt off in full, or transferred it somewhere else, before the normal very high interest rate starts.

Whatever approach you take, reducing the APR by 10% on a £5,000 debt is still saving you £250 over six months. That's £250 that would have gone in interest charges but instead is £250 of debt repaid.

Once you make that balance transfer you should destroy your old card. There is no need for it to be readily accessible so that you can then build up new debt.

Consider a re-mortgage or further advance

The solution for many people will be to **transfer any debt onto their mortgage**. For those who have an adverse credit history then this is unlikely to be an option given the current state of the mortgage market.

If your existing lender is going to charge you a high redemption penalty because you are locked into a fixed rate, then you should **talk to your existing lender about the possibility of a further advance** in order to move some, or all, of your debt from a high interest charge to a lower mortgage interest rate.

Some do's and don'ts

- ☉ **Do use tools such as** the FSA's Financial Healthcheck which you will find at www.moneymadeclear.fsa.gov.uk. This can help you recognise your financial needs and prompt you to get specialist help if you find you are struggling with debts.
- ☉ **Do keep a spending diary**. The FSA's Budget Calculator, which you will find at www.moneymadeclear.co.uk, can then help you review your spending and prompt you to check if you are paying for unwanted services. For example, are you paying for memberships or subscriptions you no longer use?
- ☉ **Do resist the latest** 'must have' product that your neighbours, friends and colleagues all seem to have. Many of those whom you might wish to emulate are really just building up debt that they will not all be able to repay.
- ☉ **Do look at ways to pay** as some companies charge more – while some might offer a discount - for paying by direct debit.
- ☉ **Do make sure that your direct debit payments** are all scheduled to leave your account around 7 to 10 days after your salary is paid into it. That will get all your bills out of the way before you get a chance to spend the money on other things.
- ☉ **Do compare prices** for deals on credit cards, phone, gas and electricity etc.
- ☉ **Do review your policies** to make sure that you are not paying for superfluous insurance cover. For example, home contents insurance may cover loss of credit cards or other personal belongings (such as mobile phones) while away from home;
- ☉ **Do consider getting a second job** for a short period. You may not feel like working three nights a week after a hard day's work but it will mean that your debts are cleared more quickly.
- ☉ **Do check your state entitlements** as more than £2 billion of benefits go unclaimed annually.
- ☉ **Do think about taking a lodger**. Under the Government's Rent-a-Room scheme, you are allowed to receive **rent of £4,250 a year** without paying tax on the income. You will need to agree this with your mortgage lender as well as your insurance company, but it can prove to be an effective, easy and temporary solution to immediate financial problems.
- ☉ **Do use a car boot sale**. It takes effort but they can be quite fun and it's a good way of getting rid of some of the clutter that you have accumulated over the years. There is no need to be selective about the quality of stuff you sell - some people will buy anything. After all, you did!
- ☉ **Do make sure you that**, if you frequent the same supermarket for your food and petrol, that you collect your points whenever you buy anything. Over a period of a year, the loyalty points on your weekly shop can amount to enough to fund your entire food and drink requirements for Christmas!
- ☉ **Don't be tempted to go to a debt counselling company** that charges a fee for their services. Your money would be far better used paying off the debts and the Citizen's Advice Bureau offers the same service for free.
- ☉ **Don't be tempted by offers of loans** from companies on the back of national newspapers or the television. The interest rates are usually astronomical.
- ☉ **Don't go shopping without a list** of what you actually need and don't miss out on the regular buy-one-get-one-free, or three-for-two offers on your regular purchases.
- ☉ **Don't neglect the bargains to be found in charity shops** when it comes to buying clothes. If you live in a wealthy party of the country, you will often find top brand named items that have been discarded by someone who wore them just a few times and you can purchase for a tenth of their new price.

In conclusion

Debt is defined by the Oxford dictionary as '**being under obligation to pay something**'. When we as individuals use our plastic to run up debts which we cannot pay immediately, then **we place ourselves under future pressure**.

Getting out of financial difficulty is possible if you **keep a cool head** and **determine to do something about your situation**. You certainly cannot do anything until you have worked out where your income is going. By immediately stopping any unnecessary expense you can **start to take the pressure out of the situation**. Having worked out your debts you should reduce them by using your savings and by moving those that remain to lower interest rate products where possible.

Finally, once your financial situation starts to ease you should **start putting money aside to act as a buffer for the next time your finances come under pressure**.

For further assistance

Citizens Advice Bureau - The Citizens Advice service helps people resolve their legal, money and other problems by providing free, independent and confidential advice, and by influencing policymakers. Every Citizens Advice Bureau is a registered charity reliant on trained volunteers and funds to provide these vital services for local communities.

Te: **See local telephone directory**
www.citizensadvice.org.uk

MoneyBasics – Simple clear independent information about money. MoneyBasics is a partnership between Credit Action, Consumer Credit Counselling Service and GE Money.
www.moneybasics.co.uk

Credit Action – a national money education charity committed to helping people manage their money better. Their passion is to help people stay in control, rather than let money control them and disrupt their lives through over indebtedness or poverty.

Tel: **0207 436 9937**
www.creditaction.org.uk

Consumer Credit Counselling Service – a registered charity whose purpose is to assist people who are in financial difficulty by providing free, independent, impartial and realistic advice.

Tel: **0800 138 1111**
www.cccs.co.uk

Christians Against Poverty - a national debt counselling charity working through a network of 64 centres based in local churches. CAP offers hope and a solution to people in debt through its unique, in-depth service.

Tel: **01274 760720**
www.capuk.org

MoneyMadeClear - the Financial Services Authority consumer website which has budgeting tools, comparison tables on various financial products and links to other organisations that can help people make the most of their money.

Tel: **0845 606 1234**
www.moneymadeclear.fsa.gov.uk

National Debtline - a national telephone helpline for people with debt problems in England, Wales and Scotland. Their service is free, confidential and independent.

Tel: **0808 808 4000**
www.nationaldebtline.co.uk

Business Debtline - a dedicated advice service for small businesses
www.bdl.org.uk

Tel: **0800 197 6026**

Law Centres Federation - the national body for a network of community based Law Centres. These provide help in solving everyday problems, such as getting decent housing, dealing with discrimination, or obtaining the correct benefits.

Tel: **0845 345 4345** (Community Legal Service Direct)
www.lawcentres.org.uk

Please note that **this information does not constitute personal advice** and should not be treated as a substitute for specific advice based on your circumstances. If you are worried about debt then you should make use of the excellent free services of the local Citizens Advice Bureau.

Personal Advice

If you would like to discuss any of the issues raised by this Guide please ask your usual Arch adviser in the first instance or contact us via one of the following:

Tel: **0845 3700 661**

Email: **enquiries@arch-fp.co.uk**

Online: **www.arch-fp.co.uk**

However, **if you need help with debt** we will not be able to advise you and we would encourage you to use the excellent free services of the local Citizens Advice Bureau.

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