MANAGING PERSONAL FINANCES

Contents

INTRODUCTION

The importance of controlling your personal finances
It is human nature to want nice things and live well. In a society that demands instant fulfilment it requires strength of character and personal discipline to resist these pressures and temptations if they cannot be afforded. Good money management is an important part of achieving your long term goals, success and happiness. It is a life skill that most learn over time and out of necessity. Adopting this life skill early puts you in control, will increase your opportunities, reduces stress and uncertainty, and promote good health, well-being and lasting relationships. Money management includes such things as controlling your finances and living within your means, to saving for short and long-term goals, to taking control of your financial situation and having a realistic plan to pay off your debts.

BUDGETS (income and expenditure)

Setting up a budget
You control your finances by setting and managing a budget. A budget is an estimate of money you have coming in from things like your salary, partners/spouse wages and Child Benefit if appropriate, and payments that you expect to make including your direct debits and standing orders. Budgets can be calculated using historical information (bank and credit card statements, bills and invoices) or a forecast of financial activity based on what you wish to do. It is best to use both in order to make your budget forecast as complete and accurate as possible. Your budget should record all of your incoming and expenditure providing a detailed breakdown, particularly showing where your money is going. To start with it might be helpful to consider your expenditure under the following general categories:

- Household bills
- Living costs
- Financial products (Insurance, savings and store/credit cards)
- Family and friends (birthdays, entertaining)
- Travel (petrol costs)
- Leisure (Days/Nights out)

Tops Tips:

- Don't forget to include one-off annual payments such as car tax, car servicing and MOT.
- For general awareness remember that rent and Council Tax CILOCT whilst in service are normally taken direct from your
- salary before it is paid to you.
- If you know you will need to make a purchase or receive a service but don't know how much it will cost, estimate and
- amount.
- For budget purposes you should be aware and take into account that goods and services tend to increase in cost each
- year at least by the rate of inflation - but it can be more.
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You can set up a budget using a spreadsheet on your computer, get one off the web or just write it all down on a piece of paper or use the one overleaf. Your bank or building society may also give you access to an online budgeting tool which takes information directly from your bank transactions. You can save your budget planner results and return to update them at any time. This reconciliation between your budget forecast and actual financial situation is important as it allows you to make prompt adjustments to your spending plan in order to remain in budget.

Checking where your money goes

If you are regularly spending more money each month than you are earning you need to take control of the situation and make changes. You should look closely at where your money is going and where you can cut back. Not planning for the arrival of Standing Orders or Direct Debits or keeping a record of payments or cash withdrawals using your bank card can cause cash flow problems. It is important that you record even small purchases - particularly if they are repetitive, such as such as magazines, sandwiches at lunchtime or takeaways as they can quickly add up. Keeping a spending diary is an effective way of seeing exactly what you spend your money on. Try making a note of what you spend for at least a month (including your small purchases). You will also need to make a note of payments that come out infrequently or annually such as car tax, insurance etc. If you can do it for even longer, you'll get a fuller understanding of your spending habits. This can be done at the time of purchase and checked by referring to your bank statements.

Tops Tips:

- Check with your bank if your spending history can be accessed on -line or by a telephone 'App'.
- Think before you buy! The opportunity to buy 'stuff' is 24/7 due to the internet. This makes you vulnerable to making spontaneous purchases. Guard against buying on impulse. Think hard about what you need to buy and justify it to yourself within your budget plan taking account of the full cost of purchase and supplementary charges.

Income and expenditure budget planner
Below is a template of a budget planner which you can use to get an idea of your monthly financial position.

Income and Expenditure Budget Planner		
Your monthly income:		
Your take-home pay (after tax):		£
Your partner's take-home pay (after tax):		£
Other regular income:		£
Total income:	**TOTAL INCOME (A)**	£
Your monthly outgoings:		
Rent/Mortgage repayments		£
Pension		£
Regular Savings/ISAs		£
Council tax		£
Utilities - Gas		£
Electric		£
Water		£
Mobile Phone		£
Landline Telephone		£
Broadband		£
Sky/Virgin Cable TV		£
TV License		£
Food £ £ £ £ £	Total Food	£
Clothing		£
Toiletries		£
Household Washing		£
Insurances- Family, Critical Illness/Injury		£
Buildings & Contents		£
Boiler protection		£
Private Medical/Dental Cover		£
Loan/HP repayments		£
Credit/Store Cards		£
Catalogue repayments		£
Child care		£
School Fees		£
Child Maintenance		£
Pet Costs		£
Car Insurance (Can pay in monthly installments)		£
Road Tax (annually or 6-monthly)		£
Petrol £ £ £ £ £	Total petrol	£
Car Servicing		£
Holidays		£
Cigarettes/Alcohol		£
Hobbies		£
Gym		£
Birthdays/Christmas		£
Eating Out		£
Other		£
Total outgoings:	**(B)**	£
Disposable Income (Total income minus total outgoings):	**(A-B)**	£

The key points to note when filling in a budget planner (as shown) is that not all of the rows will apply to you and you may need to add some of your own. If you pay out things weekly you should write it in weekly then add the sums up to give a total e.g. as shown on the food row.

Tops Tips:

- Products like car insurance can be paid for in a one-off payment or in monthly installments. Monthly installments can cost more. However, this may be easier to manage.
- You may choose to pay a bill annually as it is cheapest but can budget for it on a monthly basis throughout the year holding the sum in your savings until required.

Annual budget forecasting

Having developed an income and expenditure monthly budget plan using your experience and historical records you should forecast one for each month of the year in order to give you an annual budget forecast which will include seasonal variations. The majority of entries in your monthly budget will be repetitive but there will be some 'one-off' entries (annual, 6-monthly or quarterly) which will cause variations between your monthly budget forecasts. If you total up each monthly budget forecast to achieve your annual income and expenditure you will see whether you are living beyond your means. This means you will be consistently adding to your levels of debt. If you calculate that your annual income is equal or greater than your expenditure you are managing your finances well. But there is one other thing to take into account which is Cash Flow. This is having adequate funds available at the right time to cover your payments. If you haven't you will incur debt. You might consider covering this short -term debt with an authorized overdraft from your bank which is perfectly reasonable so long as it is not every month. You are strongly advised against using any of the Payday loan companies to cover short-term debt. They target people with short or medium term cash flow problems. This type of loan may cover an immediate cash flow problem but the rates and terms and conditions will create a much larger and more serious long-term problem which will be much more difficult to resolve. Below is an example of a consolidated annual budget plan.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Totals
Income	2345	2345	2345	2345	2345	2345	2345	2345	2345	2345	2345	2345	28140
Expenditure	3000	2250	2255	2405	2115	2250	2105	2900	2550	2100	2150	2800	28880
Totals	-655	95	90	-60	230	95	240	-555	-205	245	195	-455	-740
Cash Flow	-655	-560	-470	-530	-300	-205	35	-520	-725	-480	-285	-740	

By forecasting you annual income and expenditure as above you will be able to estimate the health of your personal finances. From the example above we can see that forecast expenditure will exceed income by £740 at the end of the year. You can also see that expenditure increases around Christmas and the summer holidays which tends to be the norm. You can also see your financial situation at the end of each month. It shows that in most months there is a level of debt which may make paying bills due in the month difficult or impossible. This information can be used to make adjustments to your expenditure in order to avoid going into debt. How these adjustments are made is a personal choice and is best discussed with your spouse if you have one.

Tops Tip: Adjusting your expenditure to make savings can require difficult decisions to be made. The challenge is being able to sustain all essential activities whilst reducing/removing the less important yet still desirable ones. Balancing your budget is best achieved by early and proportionate action taken over a period of time. However, reacting to an established problem may require more severe actions.

SAVINGS

Set a savings goal

Some people find it hard to get motivated about saving, but it's often much easier if you set a goal. That way, rather than thinking about the money you are setting aside each month, you can focus on what you will be able to do, or the comfort and reassurance you will have once you've reached your goal. Your first step is to have some emergency savings or contingency fund. Many of your possessions are an essential part of life such as your dishwasher, washing machine or car. They will suffer wear and tear and over time develop problems which either require repair or replacing. There is also the possibly of having to deal with an unforeseen family emergency or crisis. You will not know when this may occur so it is a good idea to build up a contingency fund that will allow you to act quickly and not undermine your budget planning or go into debt. A reasonable target is to save three months' worth of expenses in an easy or instant access account. Don't worry if you can't save this straight away, this is something that can be achieved over a period of time. Once you've set aside your emergency fund, subsequent savings goals to consider might include:

- Taking a holiday without having to worry about the bills when you get back
- Having some extra money to draw on while you're on maternity or paternity leave
- Buying or replacing a car without taking out a loan

Top Tip: Prioritize your savings. Your emergency or contingency fund should be your first priority. When a reasonable fund has been achieved you can divert your savings to pay for known high cost purchases or activities such as a holiday or a car. Your ability to save will depend on your changing circumstances (promotion or personal commitments). Review the amount you regularly save increasing the amount whenever possible.

Save regularly

The easiest way to save is to pay some money into a savings account every month. It's worth setting up a standing order if you can, so the money goes straight from your bank account without you having to do anything.

It’s a good idea to:

- Pay the money into your savings account as soon as you get paid, rather than at the end of the month
- Increase the amount you save if you get a pay rise or any of your outgoings (such as your mortgage or insurance costs) fall
- Check that you are getting a competitive rate of return on your savings

CREDIT CARDS AND CLEARING DEBT

Paying off loans and credit cards
If you have loans or owe money on Store/credit cards or payday loans it usually makes sense to pay off the debt that charges the highest rate of interest first - it’s the fastest way to reduce and subsequently clear your debts. This knowledge is useful if you have several different debts charging different rates of interest, such as:

- Pay Day Loans (which normally charge the highest rates of interest).
- Store cards
- Credit cards
- Personal loans from the bank (which normally charge a lower rate of interest than credit or store cards)

It is important to make sure you don’t break the terms of any of your agreements. So even if you’re focusing on paying down your worst debt, you must pay at least the minimum on any credit cards and your monthly required payments on any loan agreements.

If you’re overwhelmed by your debts
Often, the most difficult problem is realizing and then acknowledging that you have a debt problem. Many choose to ignore the situation which only makes the problem worse and more painful to solve. The most difficult step is the first step so take a deep breath and open all of your letters which you may have been ignoring so you know the size of the problem. Once you’ve done this, at least you’ll know what you have to deal with and you can work out what you need to do next.

Getting help if debt problems become serious
If you’ve already missed credit card or loan payments or if you’re behind with so-called ‘priority debts’ such as your insurance premiums, energy bills, child support or court fines, you should take advice from your Regimental Administrative Officer (RAO) or debt advice service such as Citizens Advice Bureau (CAB) **www.citizensadvicebureau.ork.uk** or **www.moneyforce** or **www.moneyadviceservice.org.uk.**

Top Tip: Once you have a clear picture of your situation and developed a plan to clear your debt and make the necessary - and often painful changes to your lifestyle, you will feel that you are taking back control of your life.

CREDIT RATING

What is Credit Scoring
Lenders use credit scoring to help them decide whether to offer you credit (lend you money) and decide what interest rate to charge you. Credit scoring reflects the information on your credit file and the information you give the potential lender on your application form. Having a high credit score means that you are more likely to be offered credit, because you have been assessed as a low risk of defaulting or failing to repay the loan. If your Credit Score is lower than you would like, you may be able to improve it by reducing or paying off your debts.

Credit files - How do they work?
Credit reference agencies update your credit file so banks and other lenders can assess whether you are likely to repay the money they’re lending you. If you’re in debt, this will be recorded on your file. Your credit score will be affected if you miss or make reduced payments to your creditors (the companies to whom you owe money) as they will inform the credit reference agencies. This will mean that if you apply for further credit you could be charged a higher interest rate or be refused credit altogether.

Credit history
Some providers of credit/store cards may provide extra information on how you manage your accounts with details such as the balance shown on your statement each month, the amount you repaid each month, and the number and value of cash advances (withdrawals) you make each month. If you have a number of credit or store cards your access to credit will be high which will be reflected on your credit file. If you have missed payments, or a Standing Order or Direct Debit has been rejected by your bank; you’re credit scoring could be affected. You way get warning of problems if you are refused cash at the hole in the wall. There are times in your life when you know you will be looking for credit. The major purchase in most people’s life is their house which requires a mortgage which in turn requires a good credit rating. Ensure you have taken control of your finances, reduced your debt and have achieved a favorable credit rating score in advance of seeking to secure a major loan or mortgage. This needs you to plan ahead.

Top Tip: To gain credit you need to have a credit history (preferably positive) so think ahead.

How to influence your credit rating

What causes a negative credit rating

High levels of existing debt

Missing or making late payments (such as; mortgage, credit card, personal loan, utility bills, mobile phone bills)

Receiving a county court judgment (CCJ)

Apply for lots of credit at once

Having credit card accounts you don't use

Having mistakes or wrong information on your credit report

Not being on the electoral register

Moving house a lot

Having joint credit arrangements with someone with a poor credit history

Not having a credit history

Living in a property previously occupied by someone with a poor credit rating.

How to improve your credit rating

Check your credit rating & report (costs £2) through credit rating agencies:

- www.creditexpert.co.uk
- www.equilax.co.uk/Products/credit
- www.noodle.co.uk (Callcredit)

Reduce your levels of debt

Cancel unused credit cards

Stop applying for credit

Check your credit report for inaccuracies through credit rating agencies. Challenge mistakes using 'Notice of Correction'

Make repayments on time or early

Add information to your credit file explaining the situation 'Notice of Correction' (200 words)

Register on the electoral roll

Find out how lenders use credit reports: www.moneyadviceservice.org.uk

Credit Rating FAQs

Q. Can I rent a property or get a mortgage with a bad credit file?

A. Having a poor credit rating could affect your ability to rent or get a mortgage. If you're trying to apply for a mortgage it's less likely your application will be successful, it will probably be better to wait until you've repaid your debts. If you're trying to rent a property, the landlord might ask to check your credit rating. This is more likely if you're trying to rent though an estate agent. Alternatively you could look for a house to rent through a private or independent landlord although carrying high or uncontrolled debt may increase your chances of missing payments.

Q. How long will my credit file be affected for?

A. Most of the damage that's done by making reduced payments will only be on your credit file for 6 years. It's up to the banks to keep the credit reference agencies updated about your debts. If there's something incorrect or out of date on your credit file then you need to contact the lender. It is a good idea to take an interest in your credit rating well in advance of you approaching lenders.

Q. I am having problems keeping up with my repayments. What should I do?

A. You should let the lender know immediately. If you explain the circumstances, most lenders will be happy to agree for you to make reduced payments until the situation improves. The lender may add a 'marker' to your credit report to show your arrangement. Your credit file will probably show that your payments have fallen behind in relation to your original agreement.

Q. I don't want my credit file affected by making reduced payments.

A. There's no way around this. If you can't afford to pay the amount the company is asking for, then your credit file will be affected. Once the arrears and the debt are repaid you can rebuild a sound credit score. This will take time.

FINANCIAL TERMINOLOGY

A Standing order is an instruction to a bank by an account holder to make regular fixed payments to a particular person or organization.

Direct debits are a reliable and trusted method that enables you to make regular or occasional payments from your bank account, helping you to conveniently manage your household bills. The Direct Debit is an agreement between yourself and your bank/building society, which authorises the bank/building society to allow an organisation to collect a regular or irregular payment from your account.

Top tip - Don't forget to cancel Direct Debits for subscriptions or policies you no longer want or need.

Cash flow is the difference in the amount of cash available at the beginning of a period (the amount you have in your bank balance at the 1st of the month) and the end of a period (your cash balance on the last day of the month) or income minus all expenditure. A positive figure means that you are likely to be able to cover all expenditure within this period and remain debt free. A negative cash flow balance indicates that you do not have sufficient funds to cover your expenditure within the period and are accumulating debt.

The bank basic rate - The base rate is a rate set by the banks to price loans, and also reflects the state of the market. It is most commonly encountered when looking into loans including mortgages, and many building societies/banks offer base rate tracking mortgages. The figure represents the minimum rate of interest possible on a loan.

Annual Percentage Rate (APR) measures the cost of borrowing which will include the interest, any associated fees and insurance over the period of a year and is expressed as a percentage of the total amount of money borrowed. The Consumer Credit Act 1974 requires lenders to include the APR in all credit agreements. Lenders may advertise their current APR in monthly or annual terms so ensure you compare like with like. Lenders will advertise their products with a 'Typical APR'. Not all customers will qualify for this and will be charged an Actual APR which takes account of your credit history, income and other criteria that the lender may apply. This may make the cost of borrowing higher.
Top Tip: Shop around and compare rates.

How compound interest works - If a credit/store card company increases the interest it charges, the letter informing you of this will express the amount in terms of monthly charges. This makes the interest rate sound significantly smaller than it is.

Watch out for flat interest rate loans - With a flat rate loan the interest is charged on the original amount borrowed, no matter what's been repaid, so in the last year of the loan you still pay interest on the whole amount you borrowed at the begininning.

What are unsecured loans? - They enable you to borrow money without offering up security such as your home if you are a home-owner.

- An application for an unsecured loan is primarily based on your personal credit rating, financial status and the amount borrowed, and you are not required to offer your home as security but you are legally bound to pay back the loan as agreed.
- The top three reasons people take out an unsecured loan is to consolidate multiple debts into a single less expensive loan, to carry out DIY projects, or to purchase a car.
- When deciding whether or not to offer you an unsecured loan, the lender will look at your personal credit history and assess how much of a risk is involved in lending you money. The rate of interest you are offered will reflect that level of risk.

What is a secured loan? - A secured loan, also known as a homeowner loan, is a credit agreement that is secured by using the equity (value) of your home if you own one. This may allow you to borrow between £5000 to £125,000. However, the amount you can borrow, the term and the interest rate you are offered, will all depend on your personal circumstances and the amount of equity you have in your property. However, the amount you can borrow, the term and the interest rate you are offered, will all depend on your personal circumstances and the amount of equity you have in your property.

LONGTERM FINANCIAL PLANNING

Everyone aspires to achieve a good quality of life for themselves and their families. This invariably means getting the very most out of your personal finances. You should be aware that however well you manage your personal finances whilst in service you are, as a part of your terms and conditions of service, benefitting from being subsidized in certain areas which means you will loose these benefits resulting in higher costs when you leave the Service. Subsidies include; food and accommodation, some social and leisure activities, sport, fitness facilities, travel / commuting, child care facilities, work clothing, professional development training, medical, dental and rehabilitation services and prescription charges. Therefore, there will be a need to take this into account when planning your financial future as a civilian. The most significant consideration is housing. There are a number of options available which can be explained by the Joint Service Housing Advice Office. However, it is worth correcting a commonly held myth that Service Personnel leaving Single Living Accommodation (SLAM) or Service Families Housing (SFA) will be entitled to social housing. Unless you are assessed as having a serious and significant 'Housing Need', as opposed to needing a house, you will be expected to secure your own accommodation which requires long term financial planning.

Top Tip: Once you have your immediate personal finances under control it is helpful to take a longer term view of your (and your family's) future making the necessary financial provisions.

..... and a final thought.

Mr Micawber's philosophy for happiness (paraphrased):

"Annual income twenty pounds, annual expenditure nineteen [pounds] nineteen [shillings] and six [pence], result happiness. Annual income twenty pounds, annual expenditure twenty pounds and six [pence], result misery."

Mr Micawber is a character in Charles Dickens' novel David Copperfield (first published in 1850) who was based on Dickins' own father. When faced with financial adversity Mr Micawber was often heard to say 'something will turn up'. Regrettably it didn't and like Dickens' father Mr Micawber was imprisoned for debt.

Top Tip: Don't spend more than you earn