

# ASK THE EXPERTS

---

Family finances: Supporting your  
children beyond school years



LLOYDS BANK

All information in this document is sourced from third party content providers including:

StepChange Debt Charity

[money.co.uk](https://www.money.co.uk)

Money Advice Service

[Saga](https://www.saga.co.uk)

The Money Charity

# This guide covers:

## How to prioritise spending and saving

### Remortgaging and equity release

- Remortgaging
- How remortgaging works
- Things to think about remortgaging
- Equity release
- How does it work?
- What equity release schemes are available?
- Who would equity release schemes be suitable for?
- What are the risks of equity release?
- What are the alternatives?
- What else should I consider?

### How to get your children on the property ladder

- Buy a house for your children to live in
- Give your child the money to buy a house
- Mortgage your own home
- Guarantee the first-time buyer's loan
- Guarantee vs shared ownership
- A guarantor mortgage using parental income
- A mortgage guaranteed via a charge on the parental home
- A mortgage guaranteed with a savings account deposit
- Family offset mortgage

### Savings Types

- Should you save, or pay off loans and cards?
- Assessing the performance of your savings and investments
- Should you transfer your credit card balance?
- ISAs
- Debt consolidation loans

# How to prioritise spending and saving

---

## Remortgaging and equity release

---

### Remortgaging

If you're a homeowner remortgaging can, if the right mortgage is found, improve your situation.

A remortgage is when you replace your existing mortgage with a new one. It can mean changing products with your existing lender, or switching to another mortgage lender completely. You should always get free expert debt advice before going ahead with a remortgage.

There are 2 main ways that remortgaging can improve your situation:

- You can release the equity that's in your property in a lump sum and use this to repay your debts
- It might reduce your monthly payment, freeing up money on a monthly basis to repay your debts

### How remortgaging works

A mortgage lender will base your application on a number of things including:

- Your credit file
- The value of your house
- How much you want to borrow

If you're in arrears with your mortgage or any other debts, your credit rating will be affected and it's unlikely that you'll get a good mortgage offer.

If you're currently on a mortgage deal that hasn't ended, for example a fixed term for 3 years, there will probably be an early redemption fee to pay if you remortgage.

### Things to think about before remortgaging

Remortgaging is something you need to consider carefully. It's important to get as much information as possible before you make a decision. Some areas to consider are:

- What will the interest rate be?
- What term do I want?
- What will the new monthly payment be?
- What type of mortgage is best for me, fixed or variable?
- How much am I going to pay on fees for a remortgage?
- How will this improve my situation?

<http://www.stepchange.org/Debtinformationandadvice/Debtsolutions/Remortgaging.aspx>

Source: <http://www.stepchange.org> 07/04/14

### The Equity Release

Equity release means releasing money from the value of your home, either as a lump sum or as a new monthly income. This is done by retaining the use of your home but using its value to generate a new source of earnings. With house prices rising and retirement income diminishing, it can be a tempting notion for those who wish to boost their income later in their life.

It can be especially appealing for those who are asset-rich but cash-poor, as it essentially involves converting your highest-value asset – your home – into a new source of regular income. However, equity release schemes are notoriously complicated, sometimes do not offer value for money, and usually come with many hidden costs and risks. Therefore equity release is not for everyone.

We look at the potential benefits and drawbacks of releasing equity from your home.

## How does it work?

When you release equity from your home you will take part in an equity release scheme. There are numerous different schemes available on the market so you will have to seek professional financial advice before deciding which one you'd like to go with.

With most equity release schemes you will be borrowing money against the value of your home, with this money being repaid when your house is sold – usually when you die or move to a care home. These schemes work on the principle that you will be lent part of your home's value in return for a share of the proceeds when your home is sold.

## What equity release schemes are available?

There are 2 main equity release schemes on the market at the moment.

### Home reversion schemes

If you take part in this kind of scheme you will sell your home (or a share of it) to a home reversion company, in return for a lump sum or a regular monthly income. If you decide to sell the entire value of your home you technically become a tenant, but have the right to live in your home rent-free for the rest of your life.

The home reversion company gets a payout either when you die or when the property is sold. If you sell your whole property to the reversion company, you'll typically get between 30% and 50% of its value, the maximum usually being about 60%. Older people will get more than younger people, and men will get more than women, because of differences in life expectancy.

The benefits of releasing equity in this way are that you won't have any ongoing repayments to make, and you'll know at the outset what share of your home you'll be leaving to your family (as long as you only sell a share of your property to the reversion company).

You also may get a bigger payout if you are a smoker or suffering from a serious illness as, rather morbidly, you're likely to have a shorter life expectancy. However, reversion companies can be quite selective about the houses they take on, so there is a chance your home may not be eligible for a scheme of this sort.

### Lifetime mortgages

These work by securing a loan on your property, either as a lump sum, monthly income, or both. You don't have to pay anything in the loan term as the interest is 'rolled-up' into the price of the loan. Your lender is repaid the loan amount plus interest from the sale proceeds when your home is sold.

The older you are, the higher the percentage of your property value you can borrow. Lifetime mortgages of this nature can also be an appealing option because there is no interest payable while you are alive, and most loans come with fixed interest which reduces risk. They can also sometimes be available to people as young as 55 whereas most equity release schemes are only eligible for those aged 60 and over.

However, although usually set at a fixed rate, interest payments can quickly mount up – thus reducing the amount eventually paid out to your family when the house is sold.

## Who would equity release schemes be suitable for?

Usually you will have to be over 60 years old, have no outstanding mortgage to pay, and own a property in a reasonable condition to be eligible for equity release. Therefore it will suit those who are later on in life, usually retired, and need some extra income to supplement their pension or other income.

Benefits of equity release include the obvious appeal of receiving a lump sum or generating a new monthly income – or both. What's more, the money that is released from the value of your property is usually tax-free, unless you go on to invest that money – in which case you will have to pay tax on any growth.

The extra income generated from equity release may also be used to legitimately take the sting out of inheritance tax, or help to pay for care bills.

## What are the risks of equity release?

Equity release plans can potentially cut the amount of money your family will inherit when you die. What's more, members of your family may be anticipating moving into your property when you have moved out, or keeping it in the family for sentimental value, among other countless reasons. However if you release equity on your property you will not be able to leave it to your family. Therefore it is important to discuss your intentions with your family before going ahead. If you receive means-tested benefits, these might be reduced or stopped completely if you decide to release equity. So remember to check if you will still be entitled to benefits upon releasing equity, or you could find that you are earning less than before. Most equity release plans involve paying valuation and legal fees, and you'll usually be charged for the surveying of your property. You will also still be responsible for maintaining and repairing your home, and will still have to pay Council Tax. Equity release schemes calculate how much money you'll get based on your average life expectancy. Men therefore will generally be granted a higher percentage of the value of their property than women, as their average life expectancy is shorter. However it is of course impossible to predict how long you will live, so any projection will only be based on rough (and often unsubstantiated) statistics.

## What are the alternatives?

Equity release will not suit everyone, and there may be other viable ways of generating extra income using your existing assets. For example it may be a good idea to move to a less expensive property, thereby releasing some of the money that is currently tied up in your home.

Alternatively you could secure a normal loan against your existing property that does not carry so many risks and still allows you to own your home outright – thereby allowing you to leave your home to your family when you die.

## What else should I consider?

If you do decide to go ahead with equity release, look for schemes carrying the SHIP logo (Safe Home Income Plans). This means you'll be given several guarantees: the right to live in your property for life, the freedom to move to another property without penalties, and you'll never owe more than the value of your home.

If you are concerned about the legitimacy of an equity release company, you can make sure that they are regulated by the FCA (Financial Conduct Authority) by checking their register. This contains a public record of financial bodies that fall under the FCA's jurisdiction, so if an equity release scheme is listed on here, you'll know you can trust them.

You are likely to get a better deal on equity release the older you are. So if you've only just retired, it might be worth waiting a few more years before releasing equity. Also remember to check whether any plan you are considering has penalties in place if you move or sell your home before death.

If you are going for a lifetime mortgage, don't just be seduced by the headline rates – look at the overall picture of how much you'll be paying.

Finally, and very importantly, you must seek independent financial advice before proceeding with anything. As there are so many different equity release plans on the market and such a variety of risks and expenses involved, you'll have to be as well-informed as possible. An Independent Financial Advisor (IFA) will be able to look at your overall finances and help you decide if it is the best course of action for you.

Read more: <http://www.money.co.uk/article/1003979-what-is-equity-release.htm#ixzz2yDimuyLw>

Source: <http://www.money.co.uk> 04/04/14

## How to get your children on the property ladder

According to research, first-time buyers now need to save for an average of eight years to have enough for a deposit, compared with just a year's worth of savings back in the 1990s. Londoners must wait even longer, and even though wages tend to be higher in the capital property prices are proportionally still higher, meaning they must save for an average of ten years before they can buy their first home.

Nowadays around 60 per cent of first-time buyers get help from parents to buy their first home - and it can make a lot of sense for everyone concerned.

## Buy a house for your children to live in

Parents with money to spare can always buy a second home and allow their children to live in it, or they could become joint owners of a house or flat with their children. However the aim of many older people is to see their children become financially independent and they would prefer them to take responsibility for their own accommodation – perhaps with a little financial assistance – rather than having an on-going involvement.

## Give your child the money to buy a house

The obvious thing to do – albeit not necessarily the most desirable or even possible – is simply give the child as much money as possible. Even if the child can theoretically meet a mortgage lender's requirements, the larger the deposit that the would-be housebuyer can put down, the better the mortgage rate that he or she will be offered.

If the child's house purchase coincides with parents or grandparents downsizing from the family home to somewhere smaller, the older generation can pass excess wealth over and above what they need to live on in retirement to younger family members with less risk of tax than if they waited to leave the cash as an inheritance. As long as the donor lives seven years after making a gift there will be no inheritance tax on the gift, not matter how big the donor's estate and no matter how much money has been transferred.

Of course, not many retirees are in the fortunate position of having so much spare cash that they can afford to give it away, so they may be tempted to use their assets to benefit their younger relatives in other ways. This can be a good idea, too, but older family members need to be sure they are not putting their own security and retirement comfort at risk.

There are several ways that parents can use their assets to help their child buy a house without actually parting with those assets.

## Mortgage your own home

If parents or grandparents have a large amount of equity in their home, or own it outright, it may be possible to mortgage it and give the money released to the first-time buyers. There will be restrictions on older people getting an ordinary mortgage, particularly if they are no longer in employment. There are, however, a couple of specialist lenders who will lend on an interest-only basis to older borrowers, and there may also be the option of equity release (where you borrow money against the value of your home but it does not have to be paid back during your lifetime).

You will need to do the sums carefully because the interest rates you could end up paying to achieve this type of manoeuvre are likely to be considerably higher than a high street mortgage, and there will be arrangement fees to take into account as well. It is not something to be undertaken without specialist advice but, as with a straight gift of money, could be used as an inheritance planning move, which could make it more worthwhile.

## Guarantee the first-time buyer's loan

The homebuyers may be able to borrow more than they normally would be allowed to if a family member “guarantees” the loan. There are several ways of doing this, including having parental income taken into account when the amount that can be borrowed is assessed; allowing a charge to be placed on your property or depositing cash with the bank in a savings account as security. All have their benefits and drawbacks, and you need to be clear in your mind about how you could be affected if things go wrong.

## Guarantee vs shared ownership

The main advantage of providing a guarantee rather than opting for shared ownership is that the property and the loan are at all times in the name of the young buyer. There are therefore no concerns about remortgaging at a later date or capital gains tax worries for the parent on eventual sale, as there would be if you were a joint buyer and did not live in the property. After a certain period, or when the young person's income increases or they have managed to reduce some of the capital outstanding, you will be released from the guarantee.

A guarantee loan could be particularly suitable where the buyer can “afford” higher mortgage payments, perhaps from employment bonus payments, but the lender will only lend a lower amount because these bonuses are not a guaranteed part of the borrower’s salary.

However, the fact that you don’t have a stake in the property could also be a disadvantage if the borrower defaults – for instance if the child’s salary bonuses dry up and you are called on to make up the difference. You need to be absolutely clear about how much you are guaranteeing and what the risks are. With some guarantee loans the guarantee is for the entire amount borrowed, even if the borrower only needs a modest top-up above the income level up to which the lender will normally lend. With other lenders you just guarantee the surplus. Be particularly careful if your own home could be put at risk.

## A guarantor mortgage using parental income

This type of loan may be suitable if the parents are still earning and have a small mortgage or no mortgage themselves. Their income is used to boost the borrowing capacity of the homebuyer.

A first-time buyer earning £30,000 income could usually borrow up to about £120,000. If their parent earning £45,000 stood as guarantor, this figure could be boosted to £180,000. The child pays the mortgage (unless the parent wishes to contribute voluntarily, of course) and none of the parent’s money changes hands unless the child defaults, when the parent will be asked to step in and make the payments.

## A mortgage guaranteed via a charge on the parental home

Under this scheme the borrower can access a loan of 100% of the value of the property being purchased. This too involves no parental money changing hands, but a charge is made against the parental home, so that if the borrower defaults on payments the lender can recover the money, in the worst case by forcing a sale of the parent’s house to pay the child’s debts. If you are considering one of these loans be sure that the amount of guarantee is capped, meaning the guarantor’s liability cannot exceed the original agreed amount

## A mortgage guaranteed with a savings account deposit

Under this scheme the borrower can access as much as 95% of the value of the property being purchased as long as the guarantors - the parents or other relatives - deposit a sum of money in a savings account with the bank. Interest is paid on the savings to the parent, whose money it remains, but the cash in the savings account could be forfeit in the event of a default by the borrower.

## Family offset mortgage

This type of loan does not necessarily allow the child to borrow more at the outset under income multiple rules, but interest on savings placed in an account parallel with the mortgage reduces the amount of interest due on the loan and can reduce monthly payments or shorten the lending term, thereby making repayment easier for the child.

The capital in the savings account belongs to the depositor at all times and only the interest is used to assist the child.

<http://www.saga.co.uk/money/experts/how-to-get-your-children-on-the-property-ladder.aspx>

Source: <http://www.saga.co.uk> 07/04/14

# Savings Types

## Top tips for choosing a savings account

### Tip 1 – Set a savings goal

You can use different accounts for different goals. For example, use an instant access account to save for an emergency fund while using a fixed-rate account to save up for a deposit on a house

What do you want to get from your savings? How much do you need to save? When do you need the money? You might



want to save a set amount by a target date or save up for a specific thing like a special day out or a new car. Your savings goal will help determine which account is best for you. If you have more than one goal you could use different accounts for each one.

### **Tip 2 – Know yourself when comparing rates**

How hands on are you likely to be with your savings? Some accounts offer a high bonus rate which is designed to tempt you in – but bonuses drop off after a certain period.

- If you have time to shop around and don't mind switching to get the best deals, set a reminder to switch at the end of any initial bonus rate.
- If you don't have time to keep switching, avoid accounts offering bonus rates and look for a rate that's been more stable historically – you'll find this info on the comparison sites.

### **Tip 3 – Use regular savings accounts or fixed term deposits**

Beware of structured products that look like cash bonds offering a high interest rate, these are risky investments and not suitable for cash savings. Can you set up a standing order to your savings account or tie up your money for a year or more? If so, you could earn a bit more interest with a regular savings account or a fixed-term deposit or savings bond. But remember, with a fixed term account you may not be able to access your money immediately (or even not until the end of the term) – and there could be a hefty withdrawal fee.

### **Tip 4 – Be tax-wise**

Make sure your savings are covered by the Financial Services Compensation Scheme. Don't keep more than £85,000 with one banking group.

Do you pay income tax? If not, ask to have your account interest paid gross – otherwise tax will be automatically deducted. If you are a tax payer you can earn interest tax-free in a cash ISA. But be sure you're getting a good interest rate so the tax benefit isn't cancelled out by lower returns.

### **Tip 5 – Don't keep more than £85,000 with one banking group**

Cash you put into authorised UK banks or building societies is protected by the Financial Services Compensation Scheme. Up to £85,000 per person in any one authorised firm is safe even if the firm collapses. This compensation limit applies per authorised firm, not by brand. Some banking brands are actually part of a single authorised firm. Check if any of your banks are part of the same authorised firm and make sure your combined balances don't go over £85,000.

<https://www.moneyadvice.service.org.uk/en/articles/top-tips-for-choosing-savings-accounts>

Source: <http://www.moneyadvice.service.org.uk> 07/04/14

## **Types of cash savings account**

**Instant and easy access accounts** - The place for your emergency savings. They may pay more interest than a normal current account, and the money is on hand when you need it.

**Regular savings accounts** - For saving a monthly chunk of your income. There are rules about how much you can put in and take out, but you get a slightly higher interest rate.

**Fixed-term deposit accounts** - For setting money aside for a set length of time. A fixed rate of interest is set in advance, so you know exactly how much you'll end up with.

**Index-linked accounts** - Like fixed-term deposits, but the interest rate changes in line with inflation – you can't be quite sure what you'll get at the end of the term.

**Cash ISAs (tax-free)** - Tax-free savings. You get an annual allowance – so make the most of it! A Cash ISA is usually a simple savings or deposit account. You can get a Cash ISA from the age of 16, or a Junior ISA for under 18s.

<https://www.moneyadvice.service.org.uk/en/articles/cash-savings-at-a-glance>

## **Savings Types**

Whether you are a great fan of DIY, or have a house full of wonky shelves, you will know how important it is to have the right tool for the job. Well the same applies when selecting a savings account to keep your hard-earned cash in. Choosing

the right account for your money is essential for looking after your investment and achieving your aspirations; which is why we are here to lend a helping hand! Once you have decided what you are saving for (your big day in a year's time, or just to know that you have enough money to retire), it should be easier to work out whether you will need the money in the short, medium or long term.

So to help you decide on the right savings tool for the job, here is an introductory guide to choosing the account best suited to your situation...

## Short-Term Savings

If you are investing money that you will shortly need to access (typically up to five years) then you need an account that will let you do just that.

Different accounts have different notice periods (or times for which you will need to wait for your cash):

- Instant or easy access accounts will typically allow you to immediately get your hands on the money if you need it – and are therefore often a good idea for any emergency stash you might have built up.
- Fixed-term deposit accounts mean that you have agreed to leave your money in for a particular amount of time and will be penalised if you try and take it out before then. This could be for a year or more depending on the product. These work well if you know you have money that you can lock away for a certain amount of time; if you are given a gift from parents to put towards a deposit on a house for example.
- Regular savings accounts work on the principle that you agree to contribute a certain amount each month, normally for a fixed time period. If you are saving for say a wedding in a year's time and know you can afford to save a fixed amount each month, then this might be a good option.

As a general rule of thumb, the longer you are prepared to lock your money away or commit to regular saving, the better interest rate you will get.

Just as important, if not more so, is tax treatment. If you pay tax (particularly if it is at the higher rate) then it is nearly always a good idea to use your tax-free allowance first. This means looking at a cash ISA (or Individual Savings Account). These allow you to save up to a certain limit (£5760 in the tax year 2013/14) without paying any tax on the interest you earn. Just like a regular savings account, there are a range of these available (instant access, fixed term, regular savings etc). The key differences being you can save tax-free, but there is a maximum amount you can save, and if you are up to the limit and then remove your cash, you cannot reinvest it in the same tax-year.

## Medium-Term Savings (two to five years)

If you know you are able to keep your savings tied up for a minimum of two to five years, it is likely that you can achieve slightly higher interest rates than those offered for easy access accounts. In which case, you may decide to look at fixed-rate bonds, as well as considering longer term notice periods on savings accounts.

Normally, the money in a fixed-rate bond account will pay better interest than a savings account, but you need to be aware of the potential downside; you may find that they are inflexible. For example, some don't allow you to make additional deposits, withdrawals or close the account during the fixed term. Also, the provider may offer the higher interest rate only if, for example, you also open a current account.

You should always consider whether or not you have used up your cash ISA limit first, and whether or not you can get a better deal through using that. Obviously this depends on the interest rates available at the time, but (particularly if you are a 40% tax payer) you are unlikely to be able to better a tax-free rate. So shop around and make the comparisons.

## Long-Term Savings

You may be saving for a big purchase in the future, possibly the kids' university fees or your retirement. Alternatively, you may not have a specific goal in mind and have just decided to start making positive steps to securing your future income. In either case, the way you choose to save will depend on how safe you want your money to be and how much risk you are willing to take.

With longer-term savings (typically for at least five years) you can still choose any of the options set out above. Saving your money in this way is the safest and most secure way to ensure your future. But, for those of us who are prepared to take more of a risk, investing (rather than saving) might be worth considering.

Investing is a much riskier way to save because it is possible to lose money, rather than make it. And the golden rule is that you should NEVER invest money that you can't afford to lose, or at least make a loss on. As with savings, investment products range hugely, both in terms of complexity and risk.

If you want to (and can afford to) dip your toe in the water, a stocks and shares ISA might be an option. This is similar to the cash ISA in that it allows you to keep the returns you make tax-free, but the crucial difference is that your cash is invested in stocks and shares rather than in a bank account. This means you could lose some or even all of your money. Some companies provide packaged stocks and shares ISAs meaning that the decisions on where to invest are taken for you. This could mean that this is less risky than you just taking a punt yourself, but there is still no guarantee. If in doubt, take professional advice.

Other investments include basic stocks and shares, but also Unit Trusts, Open-Ended Investment Companies, Investment Trusts and Venture Capital Trusts and many more. In all cases, if you are thinking of venturing into this more complex market, we suggest that you seek unbiased, whole of market advice.

<http://themoneycharity.org.uk/advice-information/choosing-savings-account/>

Visit <http://themoneycharity.org.uk/advice-information/saving/> for more info.

## **Should you save, or pay off loans and cards?**

You will rarely be able to earn more on your savings, than you will pay on your borrowings. So, as a rule of thumb plan to pay off your debts before you start to save.

### **Paying off your debt**

If you are paying more for your borrowing than you are getting on your savings, then it makes sense to pay off your loans - so long as you can access funds in an emergency (see more on this below) and provided you will not incur high penalties for repaying your loan. Once you've cleared your debts you are freed up to save more and faster. If you have several debts to clear, aim to clear the most expensive ones first.

These are the most common examples:

- Most credit card debt.
- Store card debts.
- Unauthorised overdraft.
- Catalogue shopping.
- Pay-day loans.
- Door-to-door lending (home credit).

### **When to start saving**

Generally it's fine to save and have some debt as long as:

- you're keeping up with your mortgage payments
- you're paying off your credit card bill each month
- you don't have other loans or credit commitments that are costing you more in interest than you could earn on your savings

### **Long-Term Savings**

Regular saving is really important. Make it easy by setting up a standing order or Direct Debit to move money into a savings account regularly so you don't spend it or forget to put it aside. After a while, you won't even miss it.

And, to save even faster, why not set a savings goal so you know:

- how much you are going to save
- how long it will take you to reach your goal

You'll probably want to start by thinking about tax efficient savings, like making the most of your ISA allowance. Follow the links below to find out more, including when and why it's important to start saving into a pension.

<https://www.moneyadvice.service.org.uk/en/articles/should-i-save-or-pay-off-debt>

Source: <http://www.moneyadvice.service.org.uk> 07/04/14

## **Assessing the performance of your savings and investments**

---

See how well your savings and investments are doing. Set up an email alert to ensure you make this a regular habit, at least once a year.

### **How to check performance**

Whether your investments are shares, property, or bonds, you can use the same checks to compare them and decide if you need to move any money around. For cash on deposit simply compare your current rates against the alternatives available.

### **Step 1 – Work out your total real return on each investment**

Information you'll need to hand:

- The paperwork showing how much your investment is worth now and how much it was worth at the beginning of the period you're looking at.
- A note of any income you've received from the investment or asset during this time (eg dividends, rent, bonuses or interest).
- The rate of inflation (retail price index) over the period.

### **How to do your calculation**

1. Start with the current value.
2. Take off the value at the beginning of the time period you're assessing.
3. Add any income or dividends paid out in that time, as long as they aren't already included in the current value.
4. Take off any fees, trading costs, administration or legal charges and any withdrawals you made and adjust for any payments that you have made during the period – this gives you the actual return.
5. Divide the actual return by the value at the start of the period and multiply by 100% – this gives you the % rate of return.
6. Then deduct the rate of inflation over the time period – this gives you a quick figure close to the total real return from the investment over the period.

### **Step 2 – Check your returns against a benchmark**

Benchmarks are standards you can use to measure your investment and put its performance in context.

Has your investment made any money after inflation?

This benchmark is suitable for cash deposits and low-risk fixed interest assets such as cash bonds and fixed interest securities. It tells you whether your investment has kept its value against inflation.

- If your rate of total real return is more than zero, it has beaten the zero return benchmark and you've made a real gain after inflation.
- If it's less than zero, it hasn't beaten the benchmark and the value of your investment has fallen in real terms.

Compare against the 'risk-free' benchmark

The risk-free benchmark is how much you could have earned on an investment with no risk. The high street banks' interest rates on basic deposit accounts are a good risk-free benchmark.

If you're taking more risk than this, you should expect to see a higher return.

- Deduct the risk-free rate from your rate of total real return to see if your riskier assets are generating extra returns.

- The greater the risk you're taking, the more your return should exceed the risk-free rate.

If your return is lower than the risk-free rate, you might want to move your money to cash investments. Look at performance across previous years as well so your judgement isn't too influenced by what's happening in the short term.

### Step 3 – Compare performance against the markets

You can put the performance of your investment in context by comparing it to other similar investments. For example, if you have invested in different stocks, you will notice that the value of some will have increased, or decreased, more than others.

<https://www.moneyadvice.service.gov.uk/en/articles/assessing-the-performance-of-your-savings-and-investments>

## Should you transfer your credit card balance?

Balance transfers can help you to lower the cost of your credit card borrowings and consolidate multiple debts. They could potentially help you lower your outgoings as well.

What is a balance transfer?

Transferring your balance means moving all or part of a debt from one financial provider to another. People often use them to take advantage of lower interest rates.

Switching your debt to a card with a lower interest rate lets you:

- pay less interest on your existing debt, and/or
- organise your finances by consolidating multiple monthly payments into one

### What it costs

Banks and credit card companies often charge a fee for balance transfers. These fees usually depend on the size of the transfer and may also vary according to the length of the introductory period. Be sure to check the fee and take this into account when calculating potential savings.

Things to watch out for

- Interest rates: most balance transfers offer a better interest rate for a limited period. Once that finishes, the interest rate will usually go up. Check if the final rate is competitive with other cards.
- Transfer limits: you'll need to transfer an amount that's within the credit limit on your new card, minus the fee.
- Credit card providers often try and sell you fraud protection and lost card services. The benefits may not be that worthwhile as you are protected by law already to some extent.
- It's usually recommended not to make any purchases with a credit card to which you have made a balance transfer.

<https://www.moneyadvice.service.gov.uk/en/articles/deciding-whether-to-transfer-your-credit-card-balance>

## ISAs

Make sure you don't pay more tax than you need to – make the most of tax-free savings and investments for you and your children or grandchildren. Check what's available and see if you could be saving money.

ISAs are tax-efficient savings and investment accounts. You can use them to save cash or invest in stocks and shares. The most you can put in to an ISA is £11,880 until 1 July when it rises to £15,000.

There are currently two kinds of ISA:

- Cash ISAs - The most you can put in a Cash ISA is £5,940.
- Stocks and shares ISAs - You can either pay your whole allowance of £11,880 into a Stocks and shares ISA, or you can pay up to £5,940 into a Cash ISA and the remainder into a Stocks and shares ISA.

From 1 July 2014, Cash ISAs and Stocks and shares ISAs are to be merged into a new single NISA, with a much higher limit of £15,000 per year.

You pay no Income Tax on the interest you receive from an ISA and any profits from investments are free of Capital Gains Tax. However, the equivalent of tax at 10% has already been paid on dividends (share income) which cannot be reclaimed.

<https://www.moneyadvice.service.org.uk/en/articles/isas-and-other-tax-efficient-ways-to-save-or-invest>

Source: <http://www.moneyadvice.service.org.uk> 07/04/14

## **Debt consolidation loans**

---

Consolidating all your debts into one loan might appear to make life easier, but more often than not it's a bad idea. If you miss repayments on a secured debt consolidation loan, you could lose your home.

### **Get free debt advice first**

If you're seriously considering a consolidation loan, you may already be struggling with debt.

You may feel you don't have many options, but there may be more than you think. There are several debt advice charities that can give you free advice to help you improve your debt situation.

### **What are debt consolidation loans?**

If you've got lots of different debts and you're struggling to keep up with repayments, you can merge these together into one loan as a way of potentially lowering your monthly payments. These loans are usually secured against your home although some lenders do offer unsecured consolidation loans, but for smaller amounts.

With a consolidation loan (which can be secured or homeowner loans) you borrow enough money to pay off all your current debts and owe money to just one lender.

Be careful though, as consolidation loans can be dangerous and lead to more debt.

They were heavily marketed in the years leading up to the financial crisis, but are much less common now. Even if you decide you want one, you may struggle to find someone who will lend to you.

Debt consolidation only makes sense if you use it as an opportunity to cut your spending and get back on track, you can keep up the payments until the loan is repaid and you can afford to pay off any fees or charges to your old lender(s).

When getting a debt consolidation loan makes sense

Here's an example of when a debt consolidation loan would make sense:

Steve owes £10,000, made up of:

- £7,500 on a credit card that charges 17.9% interest
- £2,000 on an overdraft at 18.9% interest, and £20 monthly fee
- £500 on a pawnbroker debt of £500 charging 68.8% interest.

Steve pays a total of £435.83 in interest and fees each month. If he sticks with his current loans it will cost him £4,145.99 in interest and fees to pay off his debt. If Steve switched to a debt consolidation loan he would only pay 12.6% interest. It would cost him £3,529.30 in interest to pay off his debt, rather than £4,145.99. So Steve would save money by switching.

### **When getting a debt consolidation loan doesn't make sense**

A debt consolidation loan definitely doesn't make sense if:

- the interest rate means your monthly repayment will be more than what you're paying at the moment.
- you can't afford the new loan payments or don't clear all your debts with the loan
- your monthly repayments are lower but your loan will last much longer, as this means the total amount you will repay could be higher

- you can shift all your debts to a 0% or low-interest balance transfer credit card. This is the cheapest way to borrow if you repay within the 0% or low interest period and you won't be putting your home at risk. However, you need a good credit rating to get one of these cards.
- You could also consolidate your debts into an unsecured personal loan, which doesn't put your home at risk. Again, you will need a good credit score to get a low interest rate.

## **If you do opt for a secured loan**

- Make sure you shop around using comparison websites to find the best deal
- Don't just look at the interest rate, but compare the APR (the annual percentage rate) as this will include extra costs such as an arrangement fee
- Take advice if you don't know how to compare the different deals available.
- Beware of the high fees some companies charge for arranging the loan. Read the small print carefully for any extra fees or charges before you sign anything and make sure you check whether there are any fees for paying off the loan early. And avoid paying a fee for a company to arrange the loan on your behalf unless you are getting advice.
- Cut up your credit cards and cancel any overdrafts you have to avoid the temptation to spend again.

<https://www.moneyadvice.service.org.uk/en/articles/debt-consolidation-loans>

Source: <http://www.moneyadvice.service.org.uk> 07/04/14