

# ASK THE EXPERTS

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Family finances: Supporting your  
children beyond school years



LLOYDS BANK

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gov.uk

The Money Charity

Money Advice Service

StepChange Debt Charity

money.co.uk

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# Work experience, apprenticeships and first jobs

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## Apprenticeships

### Apply for an apprenticeship

Anyone in England can apply for an apprenticeship if they're:

- 16 or over
- eligible to work in England
- not in full-time education

First search for a vacancy on the Apprenticeships website, then register on the site and apply. Apprenticeships take between 1 and 4 years to complete depending on their level.

### Work and study

Apprenticeships combine practical training in a job with study

An apprentice:

- works alongside experienced staff
- gains job-specific skills
- earns a wage
- studies towards a related qualification (usually 1 day a week)

### Levels of apprenticeship

There are 3 levels in England:

- Intermediate – equivalent to 5 GCSE passes
- Advanced – equivalent to 2 A level passes
- Higher – lead to NVQ Level 4 and above or a Foundation Degree

Read more information on the levels of apprenticeships on the Apprenticeships website.

### Qualifications

Apprenticeships can lead to:

- National Vocational Qualifications (NVQs) at Level 2,3,4 or 5
- Functional Skills qualifications, eg in maths, English or ICT
- a technical certificate, such as a BTEC or City & Guilds Progression Award
- knowledge-based qualifications, such as a Higher National Certificate (HNC), a Higher National Diploma (HND) or a Foundation degree

Find out about apprenticeships in Scotland and Wales.

<https://www.gov.uk/apprenticeships-guide>

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

## Creating a Budget

Creating a budget isn't just about managing your money in order to tackle debt and reign in your spending, it can also help you find a way to spend cash on the things that you enjoy. Make a list of things that make you happy; it could be going to the cinema, buying the latest PS3 game the day it comes out, owning the complete works of Franz Kafka, or just a Friday night take-away with the family. Now have a go at creating a budget that allows you to achieve these things.

Budgeting is basically making sure that you are spending less than you're bringing in. Simple! Many people think of 'budgeting' as depriving themselves, but that certainly doesn't have to be the case. It merely allows you to know how much money you have coming in each week or month, how much you have to cover all the essentials (rent or mortgage, existing debts, bills, groceries etc.) and therefore how much you have left to spend on the things you love. The good news is that sticking to a budget will give you the peace of mind that comes with knowing you have the essentials covered, whilst allowing you to free up money to spend on those little treats, guilt free.

### Top 10 budgeting tips

If you follow our video tutorial it shouldn't be too difficult to create a budget, but sticking to one always proves trickier! That is why we have come up with our Top 10 Tips to remember when living on a budget.

With these handy hints... you can do it!

1. Be honest. Don't try to skip certain items or underestimate your spending.
2. Be consistent. Keep track of your daily spending. The little things that you buy can soon add up, which means you are probably spending more than you think. Keep track of all your spending.
3. Keep motivated. Regularly remind yourself of the things the budget enables you to do.
4. Plan for occasional expenses. Make sure you budget for expenses that only happen a few times a year like gifts, car insurance and trips to the dentist.
5. Plan for both fixed and variable expenses. Fixed expenses are things like rent and council tax, and variable expenses are things like utilities, groceries and travel.
6. Assess the 'extra spending' in your budget. If your budget still doesn't balance, it's time to cut back on non-essential spending. Could you have one less coffee shop coffee a day? Or take sandwiches in to work?
7. Don't beat yourself up. Everyone will go off their budget occasionally, no matter how much money is available to you. If you end up going out for dinner with your mates, instead of a quick drink after work, don't get disheartened, simply revise your budget and see where you can recoup the money moving forward.
8. Don't try to deprive yourself too much. Just like a diet, if you do, you will find it much harder to stick to in the long term! Find a balance between saving and the occasional treat such as that bottle of wine or those new flowers for the house.
9. Review your budget every month. This will help you keep on track.
10. Have fun! Enjoy spending your hard earned money as long as you've made provision in your budget!

If despite all this, you're still struggling to balance your budget after cutting back on spending and are concerned about the amount of money you owe, it's important to seek help as soon as possible. Spending more than you earn each month isn't sustainable in the long-term, and will push you further and further into debt. For free debt advice, speak to StepChange Debt Charity.

<http://themoneycharity.org.uk/advice-information/living-budget/>

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

## Managing money after graduation

### Staying on in education

- Pay off your final bills as a student

- Get your deposit back from your landlord
- Remember that any agreement in your name is your responsibility
- Make sure your phone provider and bank know you've moved address
- If you find that debt is playing on your mind, get advice straight away
- If you really need to borrow money, think carefully about your options before doing this
- If you drive, think about whether you really need to run a car while you sort out your money
- Check with your employer that you are on the correct tax code
- Take advantage of any careers advice available to you
- Make sure you shop around for the cheapest energy supplier

## Going travelling

- Pay off your final bills as a student
- Get your deposit back from your landlord
- Remember that any agreement in your name is your responsibility
- Make sure your phone provider and bank know you've moved address
- If you find that debt is playing on your mind, get advice straight away
- If you really need to borrow money, think carefully about your options before doing this
- Make sure you understand the terms of your new graduate bank account
- Make sure sure you take out travel insurance and check the terms carefully to ensure that it covers all the things you want to do while away
- Tell the Student Loans Company if you're going overseas for a long period of time
- Plan costs such as visas and vaccinations
- If you drive, think about whether you really need to run a car while you sort out your money

## Getting a job

- Take advantage of any careers advice available to you
- Pay off your final bills as a student
- Get your deposit back from your landlord
- Remember that any agreement in your name is your responsibility
- Make sure you understand the terms of your new graduate bank account
- If you drive, think about whether you really need to run a car while you sort out your money
- Stay opted in or sign up to a pension even though retirement seems a long way off
- Check with your employer that you are on the correct tax code
- Make sure you're being paid at least the minimum wage
- How long you have to pay back your loan is based your income. But remember: the amount you owe will be a combination of your tuition fees and maintenance loan.
- Be prepared for the culture shock of the working world. At first a lot of students feel worse off financially than they did at university
- If you find that debt is playing on your mind, get advice straight away
- If setting up on your own, be sure to set aside enough money to pay your tax

## Internships

- Take advantage of any careers advice available to you
- Understand your rights when working as an intern

- Pay off your final bills as a student
- Get your deposit back from your landlord
- Remember that any agreement in your name is your responsibility
- If you really need to borrow money, think carefully about your options before doing this
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- Check with your employer that you are on the correct tax code
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- How long you have to pay back your loan is based your income. But remember: the amount you owe will be a combination of your tuition fees and maintenance loan.
- Be prepared for the culture shock of the working world. At first a lot of students feel worse off financially than they did at university
- Your intern role might not be what you want to do in the long run, but the experience could help you get that dream job. So stick with it

## Moving back home

- Pay off your final bills as a student
- Get your deposit back from your landlord
- Save up for a deposit for your first home whether rented or bought
- Contact your local authority with your new address so you're put on their electoral register
- Make sure your phone provider and bank know you've moved address
- Remember that any agreement in your name is your responsibility
- If you find that debt is playing on your mind, get advice straight away
- Make sure you understand the terms of your new graduate bank account
- If you're out of work, on a low income or staying on in education check what benefits you're entitled to
- If you drive, think about whether you really need to run a car while you sort out your money
- How long you have to pay back your loan is based your income. But remember: the amount you owe will be a combination of your tuition fees and maintenance loan.
- Be prepared for the culture shock of the working world. At first a lot of students feel worse off financially than they did at university

## Moving out of a student house

- Pay off your final bills as a student
- Get your deposit back from your landlord
- Remember that any agreement in your name is your responsibility
- Contact your local authority with your new address so you're put on their electoral register
- Make sure your phone provider and bank know you've moved address
- If you find that debt is playing on your mind, get advice straight away
- Make sure you understand the terms of your new graduate bank account
- If you're out of work, on a low income or staying on in education check what benefits you're entitled to
- If you drive, think about whether you really need to run a car while you sort out your money

## Finding a new place to live

- Pay off your final bills as a student

- Get your deposit back from your landlord
- Remember that any agreement in your name is your responsibility
- Contact your local authority with your new address so you're put on their electoral register
- Make sure your phone provider and bank know you've moved address
- If you find that debt is playing on your mind, get advice straight away
- If you really need to borrow money, think carefully about your options before doing this
- Plan how you'll set aside money to pay for Council Tax or rates, and which payment method you'll use
- Make sure you shop around for the cheapest energy supplier
- If you're out of work, on a low income or staying on in education check what benefits you're entitled to
- Make sure you understand the terms of your new graduate bank account
- If you drive, think about whether you really need to run a car while you sort out your money
- Be prepared for the culture shock of the working world. At first a lot of students feel worse off financially than they did at university

## Don't know

- Even if you don't know what you want to do, take control of your money
- Pay off your final bills as a student
- Get your deposit back from your landlord
- Remember that any agreement in your name is your responsibility
- If you find that debt is playing on your mind, get advice straight away
- If you're out of work, on a low income or staying on in education check what benefits you're entitled to
- Make sure you understand the terms of your new graduate bank account
- If you drive, think about whether you really need to run a car while you sort out your money
- How long you have to pay back your loan is based your income. But remember: the amount you owe will be a combination of your tuition fees and maintenance loan
- Be prepared for the culture shock of the working world. At first a lot of students feel worse off financially than they did at university

<https://www.moneyadvice.service.org.uk/en/tools/money-tips-for-graduates>

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

## How to prioritise spending and saving

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### Remortgaging and equity release

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#### 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 you 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

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### 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.org.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.org.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

## Household costs

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### How to cut the cost of your energy bills

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#### Save energy, save money

If you want to save on your energy bills, switching suppliers can only take you so far. To really make a difference you need to use less energy – and you'll find that tiny changes can have a huge effect. Plus, there are lots of grants available for energy efficient home improvements.

#### Top tips – that don't cost anything

Start saving right away – we've picked out five of the Energy Saving Trust's top ten tips to help you on your way. They all have a big impact, so even if you just do one of them, you'll still be better off.

1. Turn down your thermostat. Just reducing it by 1°C could cut 10% off your heating bill – it usually saves around £55 per year.
2. Turn off the lights when you leave a room.
3. Fill up your washing machine, tumble dryer and dishwasher. One full load uses less energy than two half loads. Wash your clothes at 30°C and don't use the tumble dryer if you can avoid it.
4. Don't boil more water than you need but remember to cover the elements if you're using an electric kettle.
5. Use energy saving light bulbs if you haven't already switched. They last up to 10 times longer than ordinary bulbs, and don't cost much more. Using one can save you around £55 over the lifetime of the bulb.

#### Get a free home energy check and save money

Find out what home improvements you need with a Home Energy Check from the Energy Saving Trust. It's free, it's easy, it takes under 10 minutes and it could save you up to £250 per year. You'll get a personalised report about your home, telling you what could save you the most in the long term.

Get a Home Energy Check on the Energy Saving Trust website

Advice on making your home more energy efficient from the Energy Saving Trust

#### Grants to make your home more energy efficient

Spending a little to save a lot is a good investment – especially if you get to spend someone else's money. There are lots of grants available to help with things like:

- improving your insulation
- upgrading your boiler and appliances
- installing solar panels or other renewable technologies

Even without a grant, some of these investments will pay back what you've spent quite quickly, and then start saving you money.

#### What grants are you eligible for?

To see what energy saving grants you could get, see the Energy Saving Trust website.

## Available grants

### The Green Deal

A Government-backed scheme to help you make cost-effective energy saving improvements to your home. Instead of paying for the full cost of the improvements up front, you pay over time through a charge added to your electricity bill.

### The Energy Company Obligation

You might be able to get help for energy-saving improvements to your home if you're on certain benefits and own or privately rent your home.

You may get all or part of the cost of loft or cavity wall insulation and boiler repairs or replacements.

### England – Warm Front Scheme

Although the Warm Front Scheme ended on 19 January 2013 you can check an existing application made before this date. You can also find out who to contact if have had any problems with Warm Front equipment.

If you want to check your application for the Warm Front scheme or report any equipment problems check the Gov.uk website

### Scotland – Energy Assistance Package

Offers expert energy advice and energy-efficiency measures including draught proofing, cavity-wall insulation or even a new boiler, depending on your circumstances. You may be eligible if you get Pension Credit or other income or disability-related benefits.

Find out more and how to apply on the Energy Assistance Package website

### Wales – Nest

Nest is the Welsh Government's aims to help reduce the number of households in fuel poverty and make Welsh homes warmer and more fuel-efficient places to live. If you're worried about the cost of heating your home, call Nest on 0800 512 012 (free from a landline) or 0300 456 2655 (free from a mobile phone). You can also fill in the Nest call back request form. See also the Energy Saving Trust Wales website.

### Northern Ireland – Warm Homes and Warm Homes Plus Schemes

Help with insulation and (in the case of Warm Home Plus) central heating systems. Available if you own your own home or rent privately and you're receiving certain benefits.

<https://www.moneyadvice.service.org.uk/en/articles/save-energy-save-money>

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

## Managing on a reduced budget

### Cut car finance, hire purchase and other finance costs

If you want to cut your car finance or hire purchase (HP) agreement costs, read on. This might involve paying off an agreement early or returning the item you're buying. Either way, there are some things you need to be aware of to make sure you don't end up out of pocket.

### Ending or repaying car finance agreements early

If you bought your car using a car finance agreement (not HP or a loan), you need to know what type of agreement you have. There are two types:

- a personal contract purchase; where you make monthly payments for a fixed term and have the option to buy at the end of it, and
- a personal car leasing agreement, which is also called personal contract hire; where you pay a monthly payment, which includes maintenance costs, and hand the car back at the end of the term

You can read more on how these agreements work in:

Ending or repaying car finance agreements early

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You can read more on how these agreements work in:

## What's the best way to finance buying a car?

### If you have a personal contract purchase agreement

#### Returning the car

If you are struggling to keep to your payments or simply want to cut costs and you have already made half of the payments or you make payments up to half the amount, you have the right under the Consumer Credit Act to return the car to the finance provider. This is called 'voluntary termination'.

This might make sense, for example, if the car has already depreciated in value to the extent that your remaining payments would add up to more than its current value. If the car's value is greater than the value of your remaining payments then getting a settlement figure and selling the car might make more sense. See below.

#### Paying off the agreement early

If you want to pay off your personal contact purchase agreement early, the first step is to ask for a settlement figure. This is the amount of money you will need to pay to end the agreement. You then have two choices:

- pay off the agreement and keep the car – this will make sense if the settlement figure is lower than the cost of carrying on paying and you have enough funds to make the payment
- pay off the agreement by selling the car – this could be a good option if you know you can't meet the monthly repayments any longer – see the note below. However, you only own the car once you've made the final payment so you would have to 'buy' the car by settling the contract early and then decide whether to keep or sell the car

If paying off the agreement by selling the car, you need to be sure that the price you get for the car will cover the remaining monthly payments, including the final 'balloon' payment worked out by the finance company or in the settlement figure. Under a personal contract purchase agreement, although you have the right to drive the car you don't own it unless and until the balloon payment is made. Therefore you need to check with the lender that you can sell the car. Also, remember that you will be liable for any money outstanding.

In short, it only makes sense to sell the car if the money you'll get doesn't leave you significantly out of pocket.

### If you have a personal car leasing agreement

With these sorts of agreements, if you return the car early you can be liable for paying off the lease in full. So you should think very carefully before cancelling the agreement and check exactly what the fees or charges will be.

If you are having problems paying the monthly leasing charge, talk to the finance provider. They may offer to extend the length of the lease, lowering your monthly payments, or come to some other arrangement to help you out.

## If you're struggling with finance repayments

### Top Tip

With Hire Purchase and conditional sale agreements, such as personal contract purchase, if you have repaid a third of the total amount, the lender cannot repossess the car without getting a court order first.

If you're really struggling with your repayments, you should get free, confidential and impartial advice and support from a debt advice organisation or charity.

<https://www.moneyadviceservice.org.uk/en/articles/cut-your-car-finance-hire-purchase-and-other-finance-costs>

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

## How to reduce the cost of your credit and store card debt

### If you are struggling to pay card debt

If you're really struggling with your card bills, you should get free, confidential and impartial advice and support from a debt advice organisation or charity. By playing your cards right you can pay back your credit and store card debt faster and save a lot of money. Here's how to do it.

### Ways to reduce your debt

There are several ways you can reduce the cost of your credit card and store card debt.

### Don't just pay the minimum repayment

Paying the minimum amount each month makes it look like the debt is affordable. But, depending on when you took out your card, the debt could actually increase if you only pay the minimum amount (this is because the interest is constantly adding up) and it will take you much longer to pay it all back. Even if you only pay a small amount a month on top of your minimum payments it can make a huge difference.

### Pay the most expensive card first

If you have store cards they will probably be your most expensive debts with the highest interest rates (unless you've taken out doorstep or payday loans). Credit cards also charge different rates of interest which will be shown on your credit card statement. Out of all your cards, pay the most on the one with the highest interest rate first.

Then you can move on to overpaying your next most expensive credit card or personal loan.

### Get a balance transfer card

If you have a good credit rating you may be able to move your current credit card balance to another credit card offering a low or 0% deal. There is usually a fee to pay for this of between 1.5% and 3% of the balance but it can be worth it

Bear in mind that you need a good credit rating to qualify for the best balance transfer deals.

## The risks of balance transfer cards

### Top Tip

If switching to a 0% deal, make a diary note to pay off as much as you can before the deal ends.

- When you apply for credit, this is recorded on your credit report. Apply several times in a short period and other lenders might worry you have debt problems. Avoid applying too often.
- There is a risk that you could build up further debts when you move credit cards or consolidate your debts. Remember, your debt problem has not gone away. You've just given yourself some time to repay what you owe more cheaply. Close old card accounts and cut up cards to resist temptation.
- When going for a 0% deal it's vital to make a note of when the introductory offer deal ends and make sure that you repay as much as you can by this time.

## Be careful how you use your cards

With all your credit cards, here are some general rules that will usually leave you far better off:

- make at least the minimum repayment every month, even if you have a 0% deal – you will pay penalties and lose your 0% deal otherwise – however, ideally make more than the minimum repayment. Your card provider will let you make a Direct Debit payment of however much you choose as long as it is more than the minimum payment
- read every statement for important changes, such as an increase in your interest rate, and to check that all the spending is definitely yours
- don't use your card for cash withdrawals or credit card cheques – you'll be charged fees and interest from the day you withdrew the cash or used the credit card cheque
- if you have a 0% balance transfer credit card, avoid spending on it because any purchases you make will not be included in the 0% deal offer so you will be paying interest on those purchases if you don't pay them off in full during the 'grace' period (which can be up to 56 days)
- don't be tempted to start using the old card again – it may be best to close the old account and destroy the credit card

## Repay your cards with savings

Always repay your expensive card debts with your savings. You might stop receiving interest on your savings, but you will save much more in the long-term because you'll pay far less interest on your debt.

<https://www.moneyadvice.service.org.uk/en/articles/how-to-reduce-the-cost-of-your-credit-and-store-card-debt>

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

## How to reduce the cost of your personal loans

### Repay loans with savings

It almost always makes sense to repay any outstanding loans using your savings, provided the early repayment charges are not too high. And if you have savings to use, always pay off your most expensive loan debts first.

### Switching to another loan

If you don't have savings, you might be able to pay off your loan in full and more cheaply with another loan – for example where you can get a lower rate, a shorter deal, or both.

if you go for a shorter term your monthly repayment may go up, but you'll save even more in interest and pay back your loan early. Just be sure you can afford a higher repayment before you switch.

If you do switch, just be aware of any fees and charges that come with the new loan – and of any exit fees if the loan you are repaying is above £8,000 or if you took it out before 1 February 2011. There are no fees on early repayments on variable rate loans.

### Should you consolidate your debts?

Some loans are specifically advertised as debt consolidation loans – these allow you to merge your loans into one. Consolidation loans are now much harder to obtain and are very much a last resort as they are usually secured against your home. And while they can seem an attractive option because of lower interest rates and repayments, they can often cost you a lot more in the longer term than sticking with your current loans and you risk losing your home if you cannot keep up the repayments.

It's also all too easy to consolidate your debts and then go and build up more debt elsewhere. You have to know how you're going to repay before you consolidate – and then stick to your repayment plan. If you need help with your debts, contact a free debt advice charity.

### Credit card 'super balance' transfers

If you're disciplined at repaying and have a good credit score, there are occasionally interest-free or low-interest balance



transfer credit card deals which transfer money directly into your bank account. This can then be used to repay overdrafts and loans. However these deals – sometimes known as ‘super balance transfers’ – come with a fee, so you’ll need to work out whether doing this would be cost effective for you to do this. Make sure you ask your personal loan provider how much it’ll cost to pay off the debt in full and that you’ll be able to pay off the debt before the zero or low interest rate runs out.

## Reducing your loan with extra payments

If you can’t repay an unsecured personal loan in full you should be allowed to make extra payments to help pay off the loan sooner and so reduce the overall cost. With unsecured loans taken out after 1 February 2011, you can make extra payments of up to £8,000 in a 12-month period without penalty in almost all situations. For extra payments of over £8,000 the maximum penalty is 1% of the extra amount paid above the limit. For example, if you paid back £9,000 – £1,000 over the limit – the most you could be charged would be £10.

## Make sure you tell your lender first

However, unless the lender specifically allows it in the contract, you can’t simply overpay without warning. You must give them notice that you’re making an overpayment, and then you must make the overpayment within 28 days of that notice although you can send the payment with the notice if you prefer.

For unsecured loans taken out before 1 February 2011, and any other loans, you usually aren’t allowed to make partial overpayments. You could check the small print, however, to see what exclusions apply to overpayments.

<https://www.moneyadvice.service.org.uk/en/articles/how-to-reduce-the-cost-of-personal-loans>

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

## Boomerang Children – adult children living back at home

Leaving home is a rite of passage for teenagers and their parents. You each adjust to your new lifestyles: they are enjoying the freedom - no more prying eyes of their parents, and you have a reprieve from the late night taxi service that dominated your weekends, not to mention the mountains of laundry.

But wait a moment; they want to come back. Here? The place they couldn’t wait to leave? And back come the pots, pans, sports equipment, books, bedding, and clothes that they have collected over three years at university.

You are not alone. Almost 1 in 3 men and 1 in 6 women between the ages of twenty and thirty four live at home. The total figure is just short of three million. That’s three million adults crammed into the average suburban home with their middle aged parents.

## Can this possibly work?

It’s not what they - or you - planned. The plan was that as a new graduate they would find a well-paid job, rent a flat and save a deposit to buy their own home.

But research by the Joseph Rowntree Foundation has found that by 2020, an extra 1.5m 18 to 30-year-olds will be forced into private renting. The number of young people unable to afford to leave their parents’ home is expected to rise by half a million to 3.7m in the same period.

Rents are at a premium especially in London and the south east. Demand far outstrips supply. For every room in a shared house, there can be at least 10 applicants. Sharers can afford to be choosy - and they are.

John described finding a room: “It’s like going for a job interview. You are judged on your occupation, hobbies, clothes and even your haircut.”

And rents are out of reach of many graduates who are repaying their student loans, as well as high fuel or transport costs.

So what’s it like if your adult son or daughter comes back home? How do you learn to live together again?

My boomerang son insisted on doing his own washing - something other parents may rejoice at. But not when that meant loading the machine at 11 pm. “Don’t worry Mum, it’s just a quick wash,” didn’t placate me when I was trying to sleep and ignore the drone of the tumble drier.

The words, “This is not a student house!” were uttered at least 10 times daily.

It was hard to share the space with another adult, who had developed a lifestyle different to mine: I like to go to bed early and get up early. My son liked to go to bed late and get up late. One of us was always grumpy because we'd either been kept awake or woken up.

Sarah described how she felt. "I moved back home a year after leaving university: I was made redundant. It was horrendous: my parents lived in the middle of nowhere and I felt trapped in my child's bedroom as I scoured for jobs every day.

We couldn't get out of the parent-child roles, and I felt stifled by my parents' routine of meals and bedtimes, and how it was expected that I'd go to bed at certain times.

"I did offer to help but this was turned down and my mum made it clear she resented my being there."

Joanna, whose step daughter returned home after university, said, "There was a total clash of lifestyles, especially as they're still prone to all the angst, and the drunken phone calls at 4am because they've got stuck somewhere and need a lift isn't great either."

But is it all bad?

Not according to Joanna. "The bonus of getting to spend some time with them as young adults, that insight into their lives, and getting to know their friends is more than worth it."

And what about money? If your boomerang child is earning, should they pay rent?

Nancy has lived at home for a couple of years and is now almost 27. "I pay rent, and it feels like three adults co-habiting. I clear up after dinner but probably don't do as much housework as I should.

I despair that soon I'll be 30 and although I love my career, I can't afford to move out.

We didn't take any rent from our son. It was a hard decision, because I felt he should contribute; but he was earning very little, saving for a deposit for a rental, and clearing his student debts.

When children return home as adults it can be difficult for everyone: "Two's company, three's a crowd" applies to many families.

Sometimes, rocky marriages are glued together by a child returning, others are torn apart as adult children push against the former parent-child relationship that's sometimes recreated.

Sharing a home with an adult son or daughter works best if there are some rules and, based on what I've heard and experienced first hand, these would be my top tips:

- Agree finances as soon as possible. It's harder to start charging rent after six months.
- Consider a contribution to chores, cooking, shopping, or gardening in place of rent.
- Discuss mealtimes and bedtimes if you have different lifestyles. Maybe a compromise on some nights of the week.
- Encourage your child to keep up the independence they had by suggesting they cook a meal now and then, and do their own laundry.

<http://www.parentdish.co.uk/teen/your-boomerang-child-is-back-survival-tips-for-parents/>

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

## **Should I ask my grown-up children to pay rent?**

Question: Like many older parents I find I am providing accommodation for "boomerang kids".

I've now got three grown-up children under my roof who have, after university and working away, all returned to the family home. Luckily they have all got jobs, but they never seem to have much money to spend. The cost of renting, should they move out, would see their disposable income fall even further and they all have huge student debts. These are fortunately all from the Student Loans Company on a reasonable rate of interest rather than the bank, but it still takes a chunk out of their wages.

My husband and I have long since given up plans for a retirement "à deux" as long as the children are still on our hands. They each have a boyfriend/girlfriend and at weekends the house can be like Grand Central Station.

I suppose we must secretly like having them around as it keeps us young, or we would take measures to throw them out.

My question is: are we doing the right thing by giving them a home, or should we take a hard line and – metaphorically at least – change the locks? If we let them stay, should we charge them rent? We don't need the money and they do, but I do wonder if there is some moral issue here about them living rent-free when they are working and my husband and I are pensioners, albeit not too badly off?

A friend once advised me “Never buy your child a double bed”. If the children have taken root and even introduced their respective partners because you’ve made them so comfortable, you’ve got problems!

Answer: All I can say is, I hope you are not still doing their washing!

But let’s be practical here. According to some recent figures, 4.4 million grown-up children in the UK are receiving financial support from their parents, each of them costing their parents £47,324 on average during their adult years.

These dependent children don’t, of course, all live under the same roof as their parents – although 1.6 million do – but, according to research published last year, subsidising their children’s basic living costs, including bills and rent, is costing parents an average £2,103 per year, or £175 per month for each child.

Of those living at home, more than half (58%) are in their twenties, a third (29%) are in their thirties and an astonishing one in ten (12%) are over 40.

You are clearly not alone with your problem.

If you thought that giving your child a home would save you money in the long run you’d be wrong. Supporting your child at home actually costs more over the years than helping them get a flat, or so the research maintains.

## So, what is to be done?

It’s a blessing that you “secretly” like having your children around. I suggest it’s not a very well kept secret, as you’ve certainly let your children in on it. Pity those other parents who have grown-up children at home and hate it.

We know that in these difficult economic times children have never found it harder to get on the housing ladder. They are saddled with student debt and the cost of basics, such as running a car and travelling by public transport. Even lunches at the office have gone stratospheric. That’s before they’ve bought work clothes, had a bit of fun, like a Saturday night out, treated the girlfriend to a weekend away or actually taken a holiday.

Parents also quite like a bit of control: knowing what their children are up to, who they are dating, what they are eating and the hours they keep. That’s probably a bad thing, but as well as enjoying your children’s no doubt charming company, it probably contributes to the explanation about why you haven’t actually changed the locks or moved out yourself.

Don’t, however, beat yourself up about the fact that your children haven’t flown the nest. Watching your children move out of the family home as soon as they’ve left school is a relatively new phenomenon, occasioned for our generation by the increase in university education (going away to study provided a natural moving out point of no return) and cheap mortgage lending, which has now dried up.

It became the norm for us baby-boomers but certainly isn’t the norm everywhere.

Multi-generational families are quite usual in many, if not most, cultures, and indeed were in ours until about 50 years ago. There’s no reason that they shouldn’t become the norm – at least for some families – once again, so there’s no need to feel self-conscious about your situation per se.

The mores of living together have, however, changed. You need to decide whose home it is and who calls the shots.

You can’t be expecting your working children home at a certain time and get exercised if they don’t turn up for supper because they’ve gone for an after-work drink with their friends. Nor should you be doing their darning and washing.

Perhaps an arrangement more like flatmates would work better, when you have to respect each other’s comings and goings? How you work this out is going to be up to you – but work it out you should.

Forget cooking and shopping rotas. Offer them a meal if you’ve cooked one and there’s some food to spare, but turn a deaf ear to the question “What’s for dinner?” You are not offering hotel service. They should buy their own food and cook it – and indeed offer you some of their dinner on the same basis as you would offer yours to them.

Charge them a share of the bills and insist they keep common parts of the house clean and tidy. It’s none of your business if their bedrooms are a tip – they are adults after all – but they should keep them clean, as dirt travels to other parts of the house. If they don’t want to clean them themselves, on no account step in. Hire a cleaner and charge them a share of the cost.

The big question is: do you charge them rent when they are apparently so hard up. I’m afraid the answer has to be yes, even if it makes them skint and you don’t need the money.

There are two reasons for this: the first is that paying your way is what adults do, and picking up the tab so your children can treat their wages as pocket money for spending is infantilising them.

The second reason, which is really part of the same thing, is that it’s good practice for the day that will surely come when they DO have to pay rent or a mortgage. It is simply good discipline. You are doing your children no favours by letting them become accustomed to a high level of disposable income, and indeed are making a rod for your own back. They will never

become independent if they think they can't afford their own place. If you charge them a market rent they will realise that they can afford it, because they just have to swap one rent (yours) for another.

Finally, what do you do with the money that you have accepted in rent?

Many retired people would welcome the extra income, and you will find articles on this website about people making money from their home by renting out rooms simply to make ends meet.

You are lucky that you don't seem to need the money.

In which case, open a savings account and put the money aside. It will soon mount up and you can give it right back to the children when you eventually decide to downsize to that little place in the country you've always dreamed of. It will make a great deposit on a flat for them.

<http://www.saga.co.uk/money/experts/should-i-ask-my-grown-up-children-to-pay-rent.aspx>

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

## Giving your children financial advice

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### Borrowing and credit basics

Nearly everyone will need to borrow money at some point in their life, whether it's for a student loan, a car, or to pay for a first home. We look at the range of borrowing products available to those aged 18 and over and explain how they are best used.

### Borrowing products - what's available from age 18

There's quite a range of borrowing products available to people aged 18 and over, and while it's illegal to lend money to anyone in the UK aged under 18, you can still easily get into debt.

All forms of borrowing charge interest, which must be displayed for each form of borrowing as an Annual Percentage Rate (APR). This is so people can compare the cost of different products.

Below are some of the most common forms of borrowing – we've arranged them in approximate order of the APR charged, with the lowest APR at the top and the highest at the bottom.

- Personal loan – This is usually a fixed amount, say £1,000, borrowed over an agreed period of time. The loan is repaid in monthly instalments until paid in full at the end of the period. This is one of the cheapest forms of borrowing.
- Overdraft – Your bank account provider allows you to take out more money from your account than you have in there. This is supposed to be a very short-term form of borrowing, as the next time money (income) is paid into your account it will reduce or even clear the overdraft. Some bank account providers offer interest-free overdrafts. Be aware that if you go overdrawn without the permission of the bank, the charges may be very high.
- Credit card – A card used to purchase items. The money doesn't come out of your bank account - instead you receive a statement of your borrowing at the end of each month. You then have the option to pay off the full balance on the card (i.e. the total of what you have spent), or as little as 5% of the balance. If you choose not to pay the whole balance, you'll be charged interest on the balance left on the card – this is then added to your statement for the end of the next month. If you only ever pay off 5% of the balance of a credit card it will take far longer and cost far more to repay.
- Credit unions – Small financial organisations set up by their members to support the local community. They offer small loans of typically £3,000 or less and are generally far cheaper than payday loans. By law the maximum interest rate a credit union can charge its members is 2% a month (26.8% APR).
- Store cards – These function in a very similar way to credit cards, with the key difference being that you can only use them in stores that belong to the same group. They're not as flexible as credit cards and tend to be more expensive because they usually have a higher APR.
- Payday loans – Very short-term loans, intended to provide you with money until your next payday. These loans have extremely high APRs and some equally high penalties for missed repayments. All other forms of borrowing should be looked at before considering a payday loan.

## When should you borrow?

There is a school of thought which argues that debt can be classed as either good debt or bad debt.

Good debt - any borrowing that enables you to make money or improve your prospects in the long term, such as buying a car so that you can travel to work, or a student loan, is classed as good debt, as long as it is manageable for you to make the repayments.

Bad debt - any borrowing that provides no return at all, such as borrowing to fund luxury items or expensive trips, is bad debt.

<https://www.moneyadvice.service.org.uk/en/articles/borrowing-and-credit-basics>

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

## Good debt versus bad debt

Before you borrow money, it's worth knowing the difference between good debt and bad debt. Some things are worth going into debt for, others can leave you in a big financial mess. Here's how to tell the difference.

### What is good debt?

In simple terms, a good debt is one that is a sensible investment in your financial future, should leave you better off in the long-term and should not have a negative impact on your overall financial position.

You will have a clear and specific reason for taking it out, and a realistic plan for paying it back that allows you to clear the debt as quickly as possible, or in a series of regular and affordable payments (eg for a mortgage).

Someone with a good debt will also have identified the cheapest possible way of borrowing that money. They will have done this by finding the borrowing method, an interest rate, loan or credit amount, term and charges that are the most appropriate for them. In some cases it will mean a deal with the lowest possible interest rate, but in others it may not, for example if the lowest rate comes with the price of high charges or penalties.

### Examples of good debt

Here are some examples of how taking on debt could actually make you better off in the long run:

- Student loan. Taking out a student loan to pay for university will help you become a graduate. This is a good investment because university graduates typically get paid more than non-graduates and, more importantly, because the interest rate is relatively low and you only have to repay the loan once you're earning more than a certain amount.
- Mortgage. A mortgage can be a good debt, because it will enable you to purchase a home to live in. Once that mortgage is paid off, that home will be a big financial asset, which is likely to grow in value over time and the monthly mortgage payments could be cheaper than rent.
- Investing in your own business. A loan to help you develop your own business can also be a good debt, as long as you have a sensible and realistic business plan. If your business does well it will end up being worth far more than the loan you originally took out.
- Buying a car you can afford, if it is essential to enable you to get to work and earn a living. However it's important that you can afford the loan repayment costs and the running costs of the car out of your income.

### What is bad debt?

Bad debts are those that drain your wealth, are not affordable and offer no real prospect of 'paying for themselves' in the future.

Bad debts are also likely to have no realistic repayment plans, and are often run up when people make impulse purchases of items they don't really need, or borrow money to pay every day bills.

If you can't afford to borrow the money (for example, you aren't sure you'll be able to make the monthly repayments) it is definitely a bad debt.

### Examples of bad debt

Here are some examples of things you should think seriously about getting into debt for. If you can't pay the debt off in

the very short term, it's probably better not spending the money.

- A luxury holiday you can't afford. A luxury holiday can be a trip of a lifetime, but is best avoided if it's accompanied by a lifetime of debt. Instead of getting into debt, try and save up first, if necessary reworking your plans so you can still take a holiday, but one you can afford.
- A brand new car you don't need. If you don't need to buy a new car, think twice about it. New cars always lose their value and if you lost your job for example and you couldn't keep up the repayments, you might end up with a loan for more than you could sell the car for. That means you'd have no car but an outstanding debt (and interest) to pay.
- Borrowing money to pay bills and or other credit commitments. If you are struggling to get to the end of the month you can get free confidential advice, which will help you get your finances back on track.

<https://www.moneyadvice.service.org.uk/en/articles/good-debt-versus-bad-debt>

## Tips to avoid bad debt

When considering borrowing money, ask yourself the following questions. If any of the answers are 'no', that debt is likely to be bad.

- Will borrowing this money improve my finances in the long run?
- Have I shopped around to get the best deal?
- Am I borrowing this money as cheaply as possible?
- Will I be able to cope should interest rates rise in the future?
- Will I comfortably be able to afford the monthly repayments?
- Do I understand all the terms and conditions associated with borrowing this money?
- Do I understand the risks and what could happen if things go wrong?

## How much should I borrow?

Once you have established that the money you want to borrow is a good debt, you need to work out exactly how much to borrow and how you are going to pay it back. Borrowing more than you need without a plan for paying it back, can swiftly turn a good debt bad.

<https://www.moneyadvice.service.org.uk/en/articles/good-debt-versus-bad-debt>

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