

December 2007

Our **MONEY**madeclear™ guides –
here to help you

This guide is part of our **Everyday money** series.



Available from our Consumer Helpline or website
www.moneymadeclear.fsa.gov.uk

No selling. No jargon. Just the facts.

If you would like this guide in Braille, large print or audio format, please call our Consumer Helpline on 0845 606 1234 or Minicom/Textphone on 08457 300 104 (call rates may vary).

To help us maintain and improve our service, we may record or monitor calls.



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No selling.
No jargon.

Just the facts
about making
your budget
work for you.

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

With our **MONEY**madeclear™ range of guides, we cut out the jargon and give you just the facts about financial products and services, helping you to make an informed decision.

Just the facts
about making
your budget
work for you.



The Financial Services Authority (FSA) is the UK's financial watchdog set up by government to regulate financial services and protect your rights.

Remember, this is general information and isn't the same as getting financial or other professional advice. For advice based on your own circumstances, talk to a professional adviser.

This guide is for you if

You want

to make your money work for you.

It's about planning your budget and:

- suggests ways you can see where your money's going so you know where you stand;
- sets out how you could make your money work for you; and
- answers some of the questions you may have.

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Why budget?

Whether your finances are a bit under the weather or fighting fit, it's always a good idea to keep track of your money.

Budgeting gives you an accurate picture of your financial position and can help you to:

- make decisions about your finances, as you'll know where your money is going and whether you have any left over;
- identify where you can make changes to your spending habits if you're struggling to make ends meet; and
- make your money go further by getting into the savings habit if you have money left over.

Budgeting involves setting money aside for bills and any loan or credit card repayments.

If you don't make payments on time it may affect your credit history. This is important, as lenders look at your credit history when deciding whether to lend you money, for example, a bank overdraft, personal loan or mortgage.

Other companies may also look at it if you apply to set up a direct debit, for example, to pay a mobile phone contract.

Finally, budgeting can help you work out how to live within your means – giving you peace of mind.

See the Jargon buster on page 20 for an explanation of some terms you may come across.

Key points

Budgeting helps you:

- know where your money is going;
- avoid or get out of debt; and
- make savings and have more choices about what to do with your money.

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How to budget

Setting aside a few minutes a week is all it takes to review your finances.

Start by listing all your sources of income, for example, your pay, benefits, and tax credits.

Money coming in

Your payslip

The most important thing your payslip tells you is how much money you actually get. It also tells you how much you're paying in National Insurance contributions, income tax and other deductions, for example, pension contributions, student loan repayments or work-related benefits.

You can check you're on the right tax code by contacting the tax office – ask your personnel department for their details and your employer's reference number.

Benefits and tax credits

You may be eligible for State benefits if, for example, you're on a low income, have dependent children or are sick or disabled. You may also be eligible for tax credits if you're responsible for at least one child or young person who normally lives with you, or you work but have a low income. Find out what you may be eligible for by contacting the Benefit Enquiry Line or looking on the government's **Directgov** website – see *Useful contacts*.

Other income

You may have money coming in from other sources, for example, from relatives, or rental income if you have a lodger or rent out a property you own.

You may find that your income varies from month to month, especially if your salary depends on how you perform or you get paid by commission.

You may receive money in chunks, such as student loans that are paid out at the start of each term. If so, it could be worth working out your average income for each month.

Money going out

Now you know what's coming in, the next step is to find out how much is going out and plan your budget.

Our online **Budget calculator** can help you. Just type in your income and outgoings and let it do the maths for you – see *Useful contacts*.

Alternatively it's just as easy to make a list – try our list on page 6 or make your own.

Don't worry if you can't account for every penny coming in – the most important thing is to know roughly where you stand. Keeping a spending diary can help.

Don't forget occasional items such as birthdays, Christmas or other festive presents and holidays. Also think about other outgoings that you pay for once a year, for example, car tax and insurance. It's helpful to put in a monthly amount for these, perhaps by estimating and dividing up the average that you'd spend during the year.

Review regularly

Review your budget regularly. If your circumstances change – for example, you get a pay rise or your bills increase – look at your budget again to make sure it's realistic or that you're making the most of any extra income.

Key points

- Check your payslip to make sure you're on the right tax code.
- Claim any benefits or tax credits you may be eligible for.
- Keep a spending diary so that you can see where your money is going. Try writing down what you spend each day for a month.
- Don't forget occasional items, like birthdays and other special occasions.

To be consistent, use weekly or monthly amounts for both your income and your spending.

Income – section A		Financial products	
Your pay after tax		Loan/card/hire-purchase repayments	
Partner's pay after tax		Pension contributions	
Pension income		Savings/investments	
State benefits		Life insurance	
Interest/investment income (after tax)		Buildings and/or contents insurance	
Child maintenance		Car insurance	
Tax credits		Medical insurance	
Other		Mobile phone insurance	
Total income		Other	
Spending – section B		Children	
Household		Childcare	
Food and drink (supermarket shop)		Child maintenance	
Mortgage/rent/service charge		Other	
Council tax		Travel	
Electricity		Getting to work	
Gas		Car (inc tax, MOT, service)	
Phone/internet/satellite TV etc		Other	
Mobile phone		Other spending	
TV licence		Clothing and footwear	
Water rates		Toiletries	
Other		Medicines/prescriptions	
Leisure		Other	
Going out/take-aways		Total spending	
Alcohol/cigarettes			
Holidays		Total income (from section A)	
Gym membership/sports activities		Total spending (from section B)	
Books/magazines		Income minus spending (A-B)	
Other			

Managing your budget

Once you have worked out how much money you have coming in and going out, you're in a better position already. If you haven't got much money left over or you think you might be getting into difficulties, don't panic – there is free help at hand.

Whichever situation you find yourself in, always make sure you pay your priority debts, for example, rent or mortgage, gas and electricity bills and council tax. If you're struggling, it's best to get in touch with those you owe money to as soon as possible. They may be able to set up an arrangement where you can spread your payments until you get your finances sorted.

Check your income and see if there are any benefits or tax credits you may be entitled to. Advice agencies can help you or check out the government's **Directgov** website – see *Useful contacts*.

Not much money left over?

If you find that you're regularly struggling to make ends meet, you will need to reduce your spending. Our tips below may help.

- Consider making small cut-backs on non-essential items. What could you do without to help you get back on track?
- Check the APR on your credit card or loans. This shows the overall cost of borrowing including interest and charges. See if you can shop around for a better deal.
- You may get a better deal by switching services such as phones, electricity or gas to new suppliers. Try **Energywatch**, the gas and electricity watchdog's website – see *Useful contacts*. There are also various internet switching services or search engines you can use.

Managing your budget

Getting into difficulties?

You may have the start of a debt problem if you find you are:

- using credit (loans) to pay bills;
- considering taking out a consolidation loan to reduce your monthly payments;
- paying no more than the minimum payments due on your credit cards;
- using your credit card to take out cash advances;
- using your credit card to pay your mortgage; or
- borrowing money without planning how you're going to pay it back.

Think carefully about borrowing more money to pay off existing debts. It could make things worse. Check the terms of any loan, such as the interest rate and the length it has to run and make sure you can afford to pay it back. If the loan is secured on your home, you may lose your home if you cannot keep up the repayments.

To find out whether you have – or are likely to have – difficulties with your borrowing, take our confidential online **Debt test** – see *Useful contacts*. It will also give you some tips to help you avoid debt problems or help you tackle your debts if you're in trouble.

In trouble?

If you find that the situation is spiralling out of control, try not to panic. You're not alone and expert help is available. Several organisations offer a free service, either face-to-face, or by phone, for example, Citizens Advice Bureau, National Debtline and the Consumer Credit Counselling Service – see *Useful contacts*.

These advice agencies can help you tackle your debts. They will help you set up a budget sheet, prioritise your debts and work out how you can live within your means.

Whatever happens, don't ignore the problem – talk to the people you owe money to. They may be able to help you manage your repayments.

You may see adverts or get calls from companies offering to help you manage your debts. They offer a similar service to advice agencies, but they charge a fee. Before using them, make sure you've considered all your options.

Key points

- Try cutting back on non-essential spending to help balance your budget.
- If you're struggling with your debts, talk to the people you owe money to – they may be able to make arrangements to help you.
- Don't panic if you feel the situation is out of control. Talk to one of the specialist advice agencies – their help is free and confidential.

Managing your budget

Making your budget work for you

If you've got some money left over, it's time to get it working for you. Here are a few ways to get you started.

Your financial priorities or goals

Think about your financial priorities or goals. They could be:

in the short term

- paying off or reducing your debts;
- saving up for furniture, a holiday, or a deposit for a home;
- taking out insurance to protect your family or home if things go wrong; or

in the longer term

- saving for your retirement.

If you need help identifying your priorities, our confidential, online

Financial healthcheck can help.

Based on your answers to the questions it asks, the healthcheck helps you identify your financial needs and plan ahead – see *Useful contacts*.

Staying in control

Now that you've got your budget sorted, work out a system to keep track of your spending in a way that suits you. You could keep a separate notebook or do it online. Consider:

- making a calendar note of when payments are due, for example, TV licence, car tax and MOT. You'll probably get a reminder, but you'll be better prepared if you know when they're due. It could also help you avoid late-payment charges;
- setting up direct debits for payments like utility bills so that the money is automatically paid from your account when it is due – speak to your providers to arrange this. This will help spread your payments so you can budget better. Make sure you have enough money in your account when payment is due, as you could be charged if there isn't enough;

- checking your bank and credit card statements as soon as you get them. Contact the bank or credit card company if you think anything looks wrong; and
- checking your statements to review your spending. Make sure you're not still paying for things you no longer need or use, such as gym or magazine subscriptions.

Review your budget regularly. If your circumstances change, for example you get a pay rise or your bills increase, adjust your budget so you know where your money is going.

Regular saving

If you have money left over after all your expenses, and your loans and credit cards are at a manageable level, consider putting a little aside each month.

Regular savings – however small – will soon add up. The earlier you start saving, the more you will have to help achieve your goals, whatever they may be.

If you're planning to buy a home, it is a good idea to start saving for a deposit as most lenders require you to put down a percentage of the value of the property before they will give you a mortgage, and this could be higher than you expect.

You can save money in a bank, building society, credit union or by using National Savings and Investments. For more information, get a copy of our **Savings and investing** guide – see *Useful contacts*.

Managing your budget

If you already have a savings account, check the interest rate you're getting. You may be able to get a better rate by switching accounts or providers. You can compare bank and building society savings accounts at **Compare products** – see *Useful contacts*.

You can also save in savings schemes and clubs run by supermarkets, large retailers and local shops. This may be for Christmas hampers or gift vouchers.

With these options you're not earning any interest on your savings, so your money isn't growing.

Saving for emergencies

It's also usually a good idea to put some money aside for emergencies, or possible expenses such as replacing expensive household items. The amount will vary depending on your circumstances, but some advisers suggest you save about three months' pay. Keep it in a savings account that you can take money from at short notice in an emergency.

Saving for the longer term

It's never too early to start saving for your retirement. People are living longer and retirement can last for 20 or 30 years. The current State Pension, based on a full National Insurance contribution record is just £87.30 a week for a single person and £139.60 for a couple. If you want more, you'll need an extra source of retirement income. Find out what's available through your employer first. For more information get a copy of our **Pensions** guide – see *Useful contacts*.

Shop around

You can get a better deal for most things if you shop around first. You may be used to doing this for things like TVs, washing machines or other household goods, but you can also shop around for financial products.

Make sure you know exactly what you are getting, and that you are happy with the terms and conditions.

Our impartial online **Compare products** tables allow you to compare the features and costs of some financial products, including savings accounts, mortgages and pensions – see *Useful contacts*.

It can also be worth shopping around face to face on the high street, or by phoning around. Talking to someone in your bank or other high-street financial services office about your particular needs can help, but make sure you ask them about the range of products they offer. Sometimes they can only sell or advise on their own products, so the range is limited. For more information get a copy of our **Getting financial advice** guide – see *Useful contacts*.

Lastly, it's often tempting to stay loyal to a company that you have used in the past, such as your car insurance provider. Bear in mind that there could be better deals elsewhere, and don't be afraid to negotiate with your current provider.

Key points

- Decide on your financial goals.
- Get into the savings habit to help you meet your goals.
- Keep track of your budget using a system that suits you.
- Review your budget regularly so you know where you stand.
- Shop around and ask questions so you get the right deal for you.

Your questions answered

Question

I'm thinking about opening a savings account. Will my money be safe?

Answer

If the bank, building society or credit union goes out of business, you may be protected by the Financial Services Compensation Scheme (FSCS).

The FSCS can pay compensation of up to £35,000 for deposit claims. For more information contact the FSCS – see *Useful contacts*.

Question

I'm concerned about the security of my personal details. What should I do if I think they've been stolen?

Answer

Check your bank and credit card statements regularly. Contact your bank or credit-card provider as soon as you spot payments that you haven't made.

Protect yourself by keeping your password and PINs safe, and never give personal or account details to anyone who contacts you unexpectedly. More advice can be found on the Home Office **Identity Theft** website – see *Useful contacts*.

Question

How impartial are comparison websites?

Answer

Most comparison sites are run by commercial businesses. Some promote particular products because of commercial arrangements.

Most sites will give information about whether they cover the whole of the market for certain products or just a selection, but not many give details of their commercial arrangements.

Our **Compare products** tables are impartial, because, as the regulator, we're not selling anything. They give comprehensive information on a range of financial products to help you shop around – see *Useful contacts*.

Question

My mortgage deal is coming to an end. What are my options?

Answer

Think about shopping around for a new deal. Use our online impartial mortgage tables to help you short-list the products you want to check out – see **Compare products**. Also, get a copy of our **Mortgages** guide for more information – see *Useful contacts*.

Do this in good time before your deal ends. Talk to your existing lender or mortgage adviser to find out what they can offer you.

Make sure you're clear about the terms of a new deal and any fees you need to pay before you sign up. You may find that your mortgage payments increase as a result of a new mortgage deal. You'll need to review and adjust your budget for this.

Question

I'm having trouble paying my mortgage and considering a sale-and-rent-back scheme. How do these schemes work?

Answer

Some companies may offer to help you by buying your home and then renting it back to you for a fixed period (six months or more).

Selling your home in this way may allow you to clear your mortgage debts and stay in your home, but you will no longer own your home and could still be evicted if you fall behind with your new rental payments.

And most of these companies will pay you less than the market value of your property – so think carefully before going into such a scheme and make sure you understand the consequences.

We do not regulate sale-and-rent-back schemes so you may not have access to the complaints and compensation procedures if things go wrong.

Question

I've seen daytime TV adverts offering to roll up my debts into a single loan and a company has also phoned me offering to do this. Is it a good idea?

Answer

This is known as debt consolidation and involves moving all your loans into a single loan, often with a lower interest rate and lower monthly payments.

Although this may sound like a good idea, these companies often charge high fees. Even though your monthly payment might be lower you could end up paying much more over the length of the loan.

If you own your home, the new loan could be secured against it, so you could lose your home if you can't keep up the repayments.

Don't be afraid to say 'no'. If they're persistent, you can report them to your local trading standards office. You can also sign up with the Telephone Preference service to cut down on the number of telephone sales calls you receive – see *Useful contacts*.

Free advice is available from debt advice agencies – see *Useful contacts*.

Question

I've tried everything, but my debt just keeps getting worse. Can an Individual Voluntary Agreement (IVA) or bankruptcy help me?

Answer

For either of these options, you'll need expert help from an advice agency – see *Useful contacts*.

An IVA is a legal agreement with creditors to repay your debts. This could be in part or in full and is negotiated, written up and checked by a solicitor or accountant. The costs of setting this up can be high and you may have to pay an upfront fee. If you don't keep to the payment you can be made bankrupt.

Bankruptcy is a court order you can apply for if you're in debt. An Official Receiver takes control of your money and property and deals with your creditors. Going bankrupt is usually seen as a last resort; while you're bankrupt you can't apply for credit and if you own your home it might have to be sold. Bankruptcy tends to last for one year but the court may extend its effects up to 15 years.

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Next steps

Step 1

Remember to review your budget regularly to make sure you're living within your means – especially if there is a change in your circumstances.

Step 2

Make small cutbacks if you need to. Get into the savings habit – it soon adds up.

Step 3

Revisit your financial goals – plan when and how to meet them.

Step 4

Remember – if you need help prioritising your debts or need some free money advice, there are specialist agencies who can help.

Go to moneymadeclear.fsa.gov.uk for more information and to use our interactive tools – see *Useful contacts*.

If things go wrong

Complaints

If things go wrong contact the bank, building society, credit union, financial adviser or provider. They have a procedure to follow when dealing with complaints.

If you're not satisfied with their response, you may be able to take your complaint to the Financial Ombudsman Service. The firm should give you the details of this free service – see *Useful contacts*.

Compensation

If a regulated firm (for example a bank, building society in the UK, or a credit union in England, Scotland or Wales) is unable or likely to be unable to pay claims against it, you may be able to get compensation from the Financial Services Compensation Scheme (FSCS). There are limits depending on the type of claim. The service is free to customers – see *Useful contacts*.

For complaints and compensation arrangements for credit unions in Northern Ireland check with the Companies Registry – see *Useful contacts*.

For more information get a copy of our **Making a complaint** guide – see *Useful contacts*.

Other savings schemes

Christmas hamper schemes and other Christmas savings schemes and clubs are not covered by the Financial Ombudsman Service or the Financial Services Compensation Scheme.

For information about these schemes get the OFT's leaflet **Save Xmas** – see *Useful contacts*.

Jargon buster

Some key words and phrases explained.

AER

Annual Effective Rate. This is the annual rate of interest on savings, taking into account how often the interest is added to your account. The higher the AER, the better the return.

APR

Annual Percentage Rate. This is the overall cost of borrowing if you owe money on your credit card, loan or overdraft.

Credit check

A search of your borrowing record, also known as your credit history. A bank or other organisation carries out a credit check on you when deciding whether to lend you money.

Creditors

People you owe money to.

Direct debit

An instruction you give to your bank or building society to make regular payments to someone from your account. Unlike a standing order, you agree that the creditor can vary this amount each month.

Fixed rate

An interest rate on your mortgage or savings account that is fixed (i.e. it doesn't move up or down) for a set period of time.

Interest rate

The figure that sets how much interest you pay on a loan, or how much you receive if you put money into a savings account. The rate is usually linked to the Bank of England base rate and can move up or down.

Secured loan

When a loan is 'secured' on your home, it means the lender can repossess your home and sell it to get their money back if you don't keep up your repayments.

Standing order

An instruction you give to your bank or building society to make regular payments to someone from your account, for example to pay bills. Unlike a direct debit, the creditor cannot vary this amount – only you can.

Unsecured loan

The loan is not linked to your home or any of your belongings, but you are still responsible for repaying it.

Variable interest rate

An interest rate on a loan or savings account that can change according to circumstances. For example, if the Bank of England base rate changes, the loan interest rate will probably change.

Useful contacts

Call rates may vary – check with your telephone provider for their charges.

To order other Moneymadeclear guides, check our Register, report misleading financial adverts or promotions, or for general information or guidance

Financial Services Authority (FSA)

Consumer Helpline: 0845 606 1234
Minicom/Textphone: 08457 300 104
www.moneymadeclear.fsa.gov.uk

Other MONEYmadeclear™ guides

- [Saving and investing](#)
- [Borrowing money](#)
- [Getting financial advice](#)
- [Mortgages](#)
- [Pensions](#)
- [Making a complaint](#)

Online tools

On our MONEYmadeclear™ website you can find:

- A **Budget calculator** to help you work out if you have enough money coming in to cover your bills.
- A **Mortgage calculator** to help you estimate the size of mortgage you can afford at a particular interest rate.
- **Compare products** tables where you can compare mortgages, pensions and savings accounts.
- A **Debt test** to help you work out whether you are likely to have problems with your borrowing.
- A **Financial healthcheck** to help you identify your financial needs.

Go to www.moneymadeclear.fsa.gov.uk and click on Useful Tools

Organisations that can help if you have money problems

National Debtline

0808 808 4000
www.nationaldebtline.co.uk

Provides a free, confidential and independent telephone advice service.

Consumer Credit Counselling Service (CCCS)

0800 138 1111
www.cccs.co.uk

CCCS offers a structured programme of advice on how to manage your money.

Advice UK

020 7407 4070
www.adviceuk.org.uk

All members provide free and confidential advice, but not all provide money advice.

Citizens Advice Bureau (CAB)
www.adviceguide.org.uk

Citizens Advice Scotland (CAS)
www.cas.org.uk

Northern Ireland Association of Citizens Advice Bureaux
www.citizensadvice.co.uk

Look in the phone book or on the CAB website for the telephone number of your local bureau.

Money Advice Scotland

0141 572 0237
www.moneyadvicescotland.org.uk

Provides details of advice agencies throughout Scotland that offer a free, independent, impartial and confidential advice service.

Useful contacts

Payplan

0800 716 239
www.payplan.com

Free confidential advice on debt problems.

Business Debtline

0800 197 6026
www.bdl.org.uk

Free, confidential and independent advice for self-employed people and small businesses.

For information about tax credits and benefits

Directgov

Benefit enquiry line 0800 882 200
www.direct.gov.uk/en/MoneyTaxAndBenefits/index.htm

Citizens Advice Bureau

www.adviceguide.org.uk

Compare gas and electricity prices

Energywatch

www.energywatch.org.uk

Other useful contacts

Consumer Direct from the Office of Fair Trading

Help and advice: 08454 040506
Minicom/Textphone: 08451 231384
www.consumerdirect.gov.uk

Leaflet: *Save Xmas – a quick guide to paying for Christmas*

Government-funded telephone and online service offering information and advice on consumer issues, including credit and debt.

Telephone Preference Service

0845 070 0707
www.tpsonline.org

Home Office – Identity Theft

www.identitytheft.org.uk

Finding a financial adviser

IFA Promotion

0800 085 3250
www.unbiased.co.uk

Provides a list of eight independent financial advisers in your area.

Institute of Financial Planning

0117 945 2470
www.financialplanning.org.uk

For help in planning your finances.

MyLocalAdviser

www.mylocaladviser.co.uk

Online only – no telephone number

For a mortgage, insurance or investment adviser in your area.

The Personal Finance Society

www.thepfs.org/findanadviser

Provides a list of up to six PFS members.

The Companies Registry

Department of Enterprise, Trade and Investment
1st Floor, Waterfront Plaza
8 Laganbank Road
Belfast BT1 3BS
0845 604 8888
www.detini.gov.uk

For credit unions in Northern Ireland.

Complaints and compensation

Financial Ombudsman Service

South Quay Plaza
183 Marsh Wall
London E14 9SR
0845 080 1800
www.financial-ombudsman.org.uk

Financial Services Compensation Scheme (FSCS)

7th Floor, Lloyds Chambers
Portsoken Street
London E1 8BN
020 7892 7300
www.fscs.org.uk