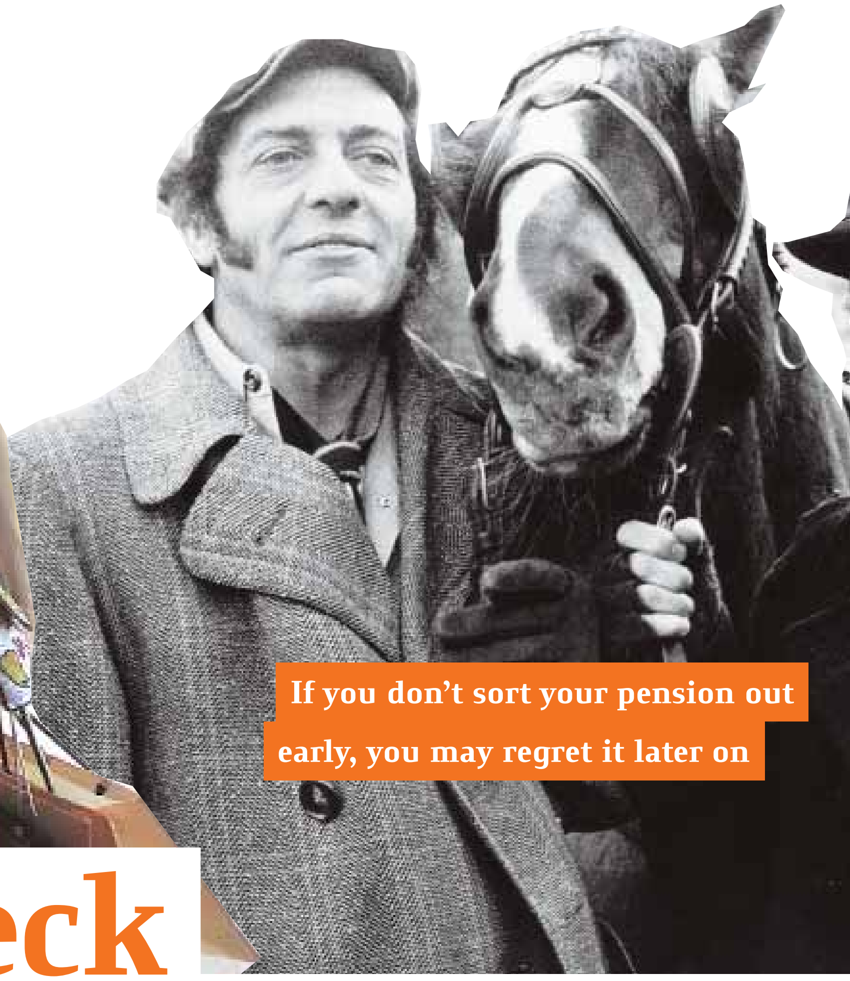


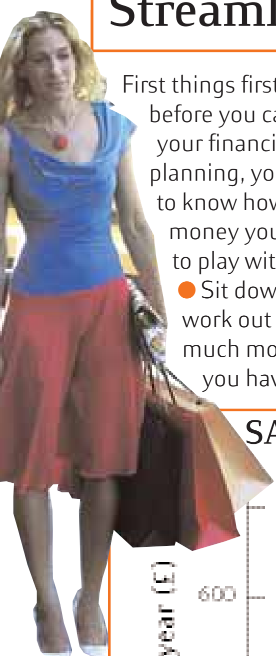
Be honest with yourself about how you spend your money

If you don't sort your pension out early, you may regret it later on

Financial health check

From spending and debt to savings and pensions – here's how to make sure your finances are in the full flush of health

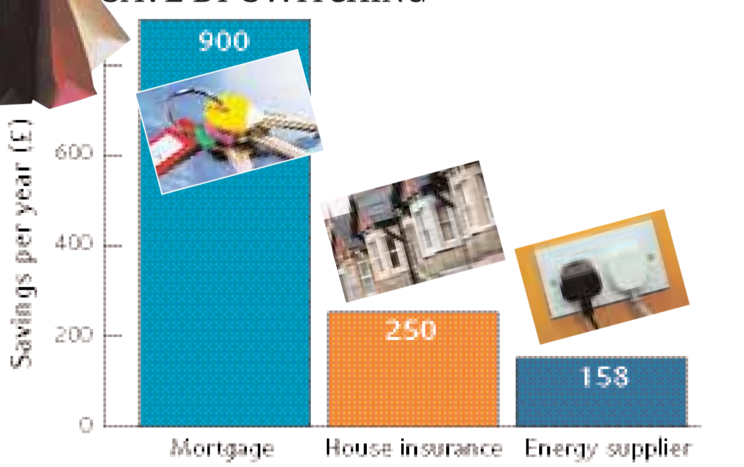
Streamlining spending



First things first: before you can start your financial planning, you need to know how much money you've got to play with.

- Sit down and work out how much money you have coming in each month and how much goes out. Our online budget calculator at www.which.co.uk/budget will help you.
- Be realistic. There's no point in being less than honest with yourself about where your money goes. Start with regular essential payments such as bills, mortgage payments and household and food shopping. Then add in treats such as holidays, evenings at the pub or your favourite restaurant, and shopping trips for new clothes.
- If you're struggling to work out where all your money goes, try writing down exactly what you spend for a month or so. It sounds tedious, but there's no surer way of keeping track of your spending.
- Check that you're not paying more than you need. Start with the big bills, such as your mortgage. Switching a £100,000, 25-year mortgage from a rate of 6.49 per cent to one of 4.49 per cent would reduce your monthly repayments by more than £100. Even allowing £1,000 for the costs of switching, the savings add up to more than £1,800 over two years. Go to www.switchwithwhich.co.uk to see how much you could save.
- Switching your house insurance could save you money, too. If you moved your buildings insurance from an expensive provider to one of our Best Buys, you could be better off by as much as £250 a year.
- It's worth giving your bills a spring clean too, by switching to a cheaper energy supplier. The average saving by people who have used Switch with Which? to change their energy suppliers is an impressive £158 a year. Check out www.switchwithwhich.co.uk for more details.
- For more money-saving ideas, see '50 ways to save money', *Which?*, January 2006, p20. As they say, every little helps.

SAVE BY SWITCHING



Correct at 3 February 2006

PHOTOGRAPHY ALAMY, CORBIS, GETTY IMAGES, IMAGENET, LFI

A 0 per cent deal gives you the chance to pay off your debt without paying interest

Dealing with debt

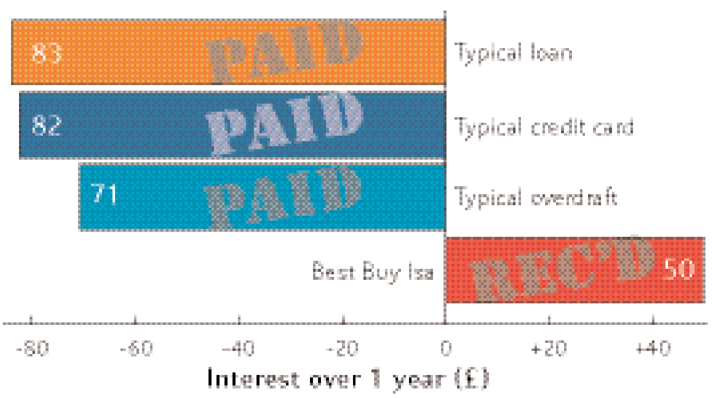
Debt can quickly mount up if you don't deal with it, so don't bury your head in the sand.

- Use any savings you've got to pay off your debts. Even if you've got your money in a Best Buy Isa account, it's unlikely to be earning as much in interest as you're paying on your credit card, loan or overdraft – see 'Debt vs savings', below. Use the money to pay off the most expensive debt first, although check for any early repayment charges on loans.
- If you can't pay your debt off immediately, keep up to date with repayments. If you have credit cards, try to pay off more than the minimum each month.

- If things have got really out of hand and you're getting behind on repayments, tackle priority debts such as your mortgage first. Contact one of the debt advice agencies for help (see 'Contacts', p72).
- For big credit card debts, think about transferring the balance to a 0 per cent deal. These usually last for six to nine months, and occasionally as long as 12, and let you pay off your debt without paying interest. Moving £1,000 from a card with a rate of 14.9 per cent saves you more than £100 in interest over nine months. Look for a card that doesn't charge a fee to transfer, but remember that when the deal ends, you will revert to the standard rate, which is often pretty high. So keep switching.

DEBT vs SAVINGS

The chart shows how much interest you'd pay to borrow £1,000 compared with how much interest you'd receive on £1,000 savings



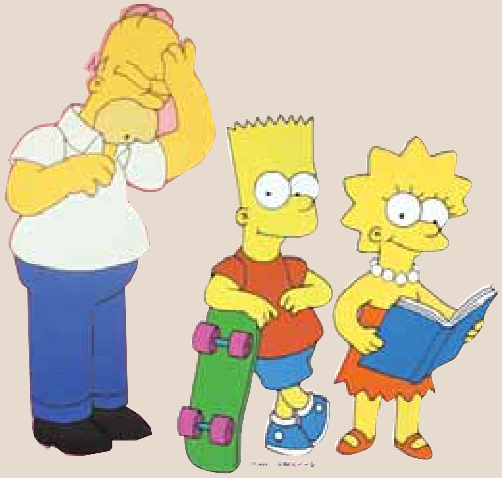
Correct at 3 February 2006

Pension planning

Retirement may seem a long way off, but if you don't sort out your pension early you may regret it later when you have to rely on a woefully inadequate state pension. See p21 for the latest on pension changes.

- If your employer offers a pension scheme, join it. Your employer will usually contribute as well, so not joining is rather like turning down extra pay.
- You get tax relief on pension contributions. So if you're a basic-rate taxpayer, for every £78 you contribute, £100 is paid into your pension. If you're a higher-rate taxpayer, you pay only £60 for every £100 contribution.
- Work out how much you think you'll need when you retire, bearing in mind that you probably won't have some of the larger monthly outgoings such as a mortgage. Once you know how much you'll need, go to www.pensioncalculator.org.uk to work out how much you'll need to save to provide that income. If you're already in a personal or company pension, you may have to make extra contributions.
- If you can't join an employer's pension scheme, you need to start a personal pension. Look for a stakeholder pension with low charges – no more than 1 per cent a year.

Protecting the important things in life



Nobody likes to think about it, but it's important to be sure that you or your family could cope financially if you couldn't work because of illness, or if the worst happened and you or your partner died.

- If you've got children, make sure that you and your partner have enough life insurance. Work out how much you would get from the state and from any work-related and other life insurance schemes you have. Would this be enough to cover the loss of income if one of you died, and to cover any additional expenses, such as childcare? If not, you need to buy a policy to cover this shortfall.
- The main type of life insurance is term insurance. Usually you pay a premium for a specified period and if you die during this time, it pays out a lump sum. Alternatively, you can choose a family income policy, which pays out a monthly income instead. You can also buy a policy which pays off the mortgage if either of you dies.
- You should also think about protecting your income if you can't work – because of illness, for example. It's worth checking what you might get from the state, though it's unlikely to be much. Find out what cover, if any, you have from work and other policies such as a mortgage payment protection policy, and what your pension scheme might pay out if you had to retire early due to ill health. Take into account any savings you have as well as your partner's income, and if you come to the conclusion that you would struggle to survive, you probably need an income protection policy (see 'Protecting your income', *Which?*, March 2005, p28).
- It's hard to make sure you get the right life insurance or income protection policy, so do take independent financial advice before you commit yourself.

FURTHER INFORMATION

For more information, take a look at these *Which?* reports:

- 'Protecting your income', March 2005, p28
- 'Make your money grow', May 2005, p18
- 'Child trust funds', August 2005, p22
- 'Fantastic plastic', December 2005, p26
- '50 ways to save money', January 2006, p20

If you've got children, make sure that you have enough life insurance

Making a will ensures your estate is divided up according to your wishes

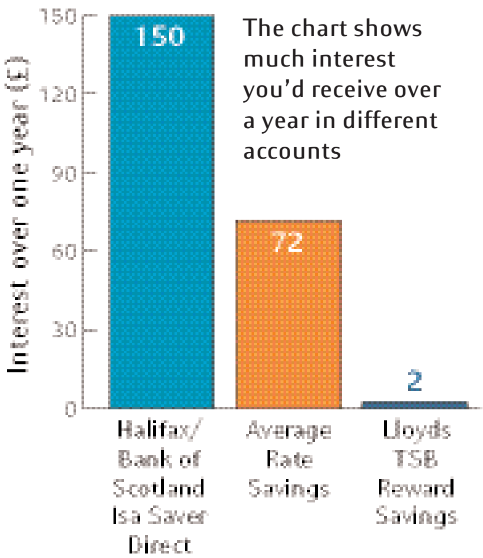
Invest your child trust fund voucher to give your kids a good start

Saving for a rainy day

Once you have a bit of cash to spare each month, it's time to start squirrelling some of it away so that it can start earning for you.

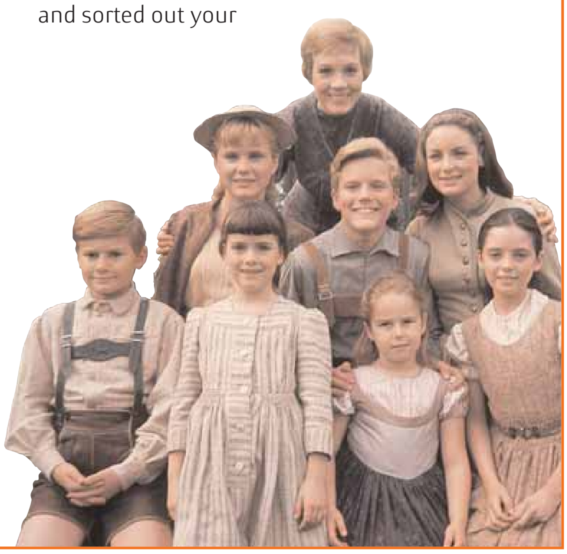
- Your first priority is to build an emergency fund so that you've got some cash easily available to deal with unexpected eventualities, such as being out of work for a few weeks. Aim for three times your monthly expenditure, and don't take any risks with the money – put it somewhere safe and accessible, such as a Best Buy cash Isa account (see 'Money Monitor' on p38).
- Use your Isa allowance. You can save up to £3,000 a year in a cash Isa and you won't pay any tax on the interest. The difference between having your savings in a poor savings account and a Best Buy Isa soon adds up, as the chart, left, shows – you could be as much as £150 a year better off on £3,000 in savings.
- Once you've opened a savings account, keep an eye on it and switch to a new Best Buy if your rate takes a tumble. Or pick a consistently good account – see p28 for the Isas that have had consistently good rates over the past six years.
- If you've got children, it's never too early to start saving for them. Start by investing your child trust fund (CTF) voucher if you have one. If you don't invest it, the government will do it for you. On top of the voucher, family and friends can invest a further £1,200 a year in a CTF account. There are also plenty of good children's savings accounts available – see 'Money Monitor' on p38.
- Once you've got your emergency fund and sorted out your pension (see p35), you could think about investing. Over the longer term – ten to 15 years, say – stocks and shares have tended to perform better than cash savings. But before you take the plunge, talk to an independent financial adviser (see 'Make your money grow', *Which?*, May 2005, p18).

INTEREST ON £3,000 SAVINGS



The chart shows much interest you'd receive over a year in different accounts

Correct at 3 February 2006



Making a will

Whatever your age, think about making a will. It will make life much easier for the people left to sort out your estate.

- If you don't make a will, the people you really want to inherit your estate may not get a penny. If you're not married or in a civil partnership and you don't make a will, when you die your estate could pass to your next of kin rather than your partner.

You also need to make a will if you want to leave anything to people not related to you.

- When you have children, you can use your will to nominate guardians for them.
- It's very straightforward to make a will. Just work out who you want to have what and contact a solicitor, who can draw it up for you. This should cost between £60 and £100, though it could be more if your will is complicated.
- Once you've made a will, don't just put it in a drawer and forget about it. It's important to review it every now and again, especially if your circumstances change – for example, if you get married, have more children, or your marriage breaks down. Divorce invalidates any bequests you may have made to an ex-spouse but leaves the rest intact. But marriage or registering a civil partnership completely invalidates earlier wills, unless you specifically state otherwise.
- You can also use your will for inheritance tax planning. For more information, see *Which? Tax Saving Guide*.