



## Managing your finances during the recession

The credit crunch is undoubtedly hitting UK pockets hard. However, preparation and forethought can help to alleviate the effects of the credit crunch. Below are a number of proactive steps you can take to safeguard your personal finances.

### Prepare a budget

A budget is an estimate of income and a plan for expenditure over a period, perhaps a week, a month or a year. Preparing and following a budget can help you take control of your finances, helps ensure you do not overspend, and highlights where savings can be made. Once you have compiled your budget you can begin to examine your costs to ensure you are getting value for money – whether that relates to personal loans and credit cards or life assurance and pensions.

### Debts

Your first step should be to reduce or eliminate debts, particularly those on which you are paying high rates of interest. Although the base rate, currently at 1.5%, is at its lowest level since records began, some credit card companies are charging interest on outstanding balances of 20% per annum or more!

### Protection

As the economic future is uncertain then protecting yourself is important. There are a number of protection policies that can help safeguard you and your family should the unexpected happen. The following is a list of examples.

- Life Assurance provides either a lump sum or a regular income to your next of kin in the event of your death.
- Critical Illness insurance provides a lump sum if you are diagnosed with one of a specified number of serious illnesses.
- Permanent Health Insurance/ Income Protection Insurance provides a tax free income if you are unable to work for a prolonged period due to illness or injury.

Now is the time to review your position. Consider whether you need any of the above insurances. If you already have cover, check it is sufficient and that your premiums are competitive.

### Savings and Investments

#### Cash

We recommend that everyone should have an emergency cash fund sufficient to meet three months living expenses, **as a minimum**. Even though interest rates have fallen to very low levels, and the interest earned on cash is modest, this advice still stands. For any cash deposit the security of the deposit taker and the rate of interest offered are key.

#### Security

We have seen a number of banks including Northern Rock, Bradford &

Bingley and Alliance & Leicester run into trouble. Whilst no depositors who have invested in UK banks have lost money, many remain concerned about how safe their money is.

The Financial Services Compensation Scheme (FSCS) provides cover of up to £50,000 per customer per bank. For peace of mind, consider spreading your cash around, ensuring that no more than £50,000 per person is placed with any one institution. Investors with offshore accounts should be aware that a number of accounts have no deposit protection at all.

#### Interest rates

The Bank of England has reduced interest rates to an all time low. After tax, and taking inflation into account, the purchasing power of cash left on deposit is likely to fall. It is therefore very important to ensure that your cash holdings are earning the best rate available and your money is not left languishing in accounts paying uncompetitive rates of interest. It is advisable to check the current rates of interest that you are earning to ensure their competitiveness. If necessary, consider switching your funds to an alternative account with higher interest rates or even to a new deposit taker.

## Investments

There are a number of different asset classes – these include equities, gilts, corporate bonds, commercial property, residential property and cash. Each asset class behaves in a different way depending on the prevailing economic conditions. For example, whilst equities and commercial property values have fallen since 2007, gilts and cash have fared much better. Over the long term, that is ten years or more, equities have produced the best returns

of any asset class. How your investments are spread between the different asset classes therefore has a major impact on the returns you enjoy.

When selecting investments a number of factors should be taken into account not least, given the market returns over the last year, how you would feel if your investments went down in value.

This is a complex field and it is advisable that, before you make any investment decisions, you speak with a qualified IFA. After taking into account your personal situation and your attitude to risk they should be able to recommend a mix of investments that will give you the best chance of reaching your financial goals.

You should review the costs you incur for having your investments managed, making sure they are competitive and represent value for money. Furthermore, seek confirmation from your investment manager and IFA that their efforts are adding value to your investments and that their performance is in line with pre-agreed standards.

## Pensions

We will all need an income when we retire. For some, the state pensions will meet many, perhaps all, of their basic living expenses. The state pension is not, however, designed to provide much more than that. You may be fortunate enough to be able to rely on a generous employer sponsored pension scheme. Sadly the numbers who qualify for such schemes are falling. If you do not qualify then you need to make provision yourself.

**‘pension planning enjoys a uniquely tax privileged status’**

Traditionally, pension plans were used to build up funds for retirement. In recent years some have chosen to invest elsewhere. The ready availability of mortgage finance and rising property prices made residential property investment an attractive proposition. The recent shortage of mortgage finance and falling property prices have now made these investments less attractive. Most individuals currently planning for their retirements are utilising more conventional pension plans.

There are a number of different pension plans and many different pension providers available. The financial strength, policy charges, investment capability, flexibility and service standards of pension providers varies widely.

With tax relief on pension contributions, tax efficient growth, and tax free cash sums available at retirement, pension planning enjoys a uniquely tax privileged status. The returns enjoyed, however, depend to a large degree on the underlying scheme investments.

Again, advice from an IFA should be sought when selecting a suitable pension plan and before investments are made.

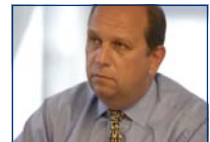
Once you establish a plan, or if you already have a suitable pension plan, consider consolidating your other pensions if it can be demonstrated that you will see tangible benefits.

Like your investment review, as part of your budgeting exercise you should ensure you know how much it costs to have your pension managed and you should seek confirmation that those charges are competitive and represent value for money. Seek confirmation from your IFA that your pension manager is adding value to your pension investments and that their performance is in line industry benchmarks.

If you would like further information, or to discuss ways in which we can help improve your personal finances, please contact Peter Miller on **0207 216 4668** or alternatively at [p.miller@uhy-uk.com](mailto:p.miller@uhy-uk.com).

## For more information

please contact:  
**Peter Miller**



UHY Financial  
Planning  
Quadrant House  
17 Thomas More Square  
London  
E1W 1YW

Telephone: 020 7216 4668  
Email: [p.miller@uhy-uk.com](mailto:p.miller@uhy-uk.com)  
[www.uhy-uk.co.uk/uhyfp](http://www.uhy-uk.co.uk/uhyfp)

Peter can meet you at our offices, or at your home or business premises.

Important notes: UHY Financial Planning is a trading name of IFG Financial Services Limited. IFG Financial Services is Authorised and Regulated by the Financial Services Authority and is a member of the IFG Group plc.

As the articles in this newsletter contain information which may lead to an investment being made, they are considered to be advertisements, but they are not invitations to subscribe for shares. No investment will be accepted without confirmation that the relevant key features document or prospectus has been received and details considered. The levels and bases of, and relief from, taxation can change. Tax reliefs referred to are those currently available and their relevance depends on the individual circumstances of the investor and their tax position. In considering the comparisons with other investment products such as deposits, investors should be aware that the composition and security offered by such products vary. Please note that the value of certain investments may fluctuate and you may not get back the full amount invested especially in the early years. Past performance is no guarantee of future returns. The views and recommendations in this publication are those of IFG Services Ltd/ UHY FP and have been obtained from a variety of sources. While we believe that our sources are reliable we cannot guarantee that the information in this publication is accurate and it may be condensed or incomplete.