Personal Finance Handbook

3rd edition

Jonquil Lowe

Child Poverty Action Group

CPAG promotes action for the prevention and relief of poverty among children and families with children. To achieve this, CPAG aims to raise awareness of the causes, extent, nature and impact of poverty, and strategies for its eradication and prevention; bring about positive policy changes for families with children in poverty; and enable those eligible for income maintenance to have access to their full entitlement. If you are not already supporting us, please consider making a donation, or ask for details of our membership schemes, training courses and publications.

Services Against Financial Exclusion (SAFE) is an innovative project of Toynbee Hall that is dedicated to eradicating financial exclusion through providing practical services, such as supporting individuals to access bank accounts and financial education, as well as facilitating Transact, the national forum for financial inclusion.

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Jonquil Lowe

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Foreword

I welcome the publication by the Child Poverty Action Group and SAFE at Toynbee Hall of this, the third edition of the *Personal Finance Handbook*.

The financial landscape has altered dramatically since the publication of the second edition in 2007. We have witnessed the near collapse of some of Britain's biggest banks, followed by recession, a steep rise in unemployment, mortgage arrears and, potentially, home repossession. At the same time, there is a reluctance among banks to lend to solvent business and individuals. In this context there is a heightened awareness of the need to manage personal finances as prudently as possible.

I have long been a strong advocate of a national network of advice centres to help people with unbiased, disinterested advice which is very belatedly taking stage. There is also an important role for financial education, and schools are beginning to develop accredited courses. I have been impressed too by the initiative of the Scout movement which, alongside rock climbing and kayaking, has introduced programmes on personal finance. I am impressed – and a little surprised – to discover that the Scouts I meet hold genuine enthusiasm for these classes and are asking for lessons on personal finance at school. This is an encouraging model to emulate.

The *Personal Finance Handbook* is a useful addition to these educational initiatives. Whether for planning school lessons or trying to communicate the complexities of a company pension scheme, this book offers a comprehensive resource to anyone seeking to widen financial understanding.

It is thoroughly comprehensive and deals with the full gamut of subjects: tax, benefits, pensions, insurance, mortgages and savings products. It is a mine of essential information for advisers and educators, but will also be of use to those who are themselves facing financial difficulty or who wish to improve their own personal finances.

Vincent Cable MP
MP for Twickenham & Liberal Democrat Deputy Leader
and Shadow Chancellor of the Exchequer

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Abbreviations

AA	attendance allowance
ABI	Association of British Insurers
AER	annual equivalent rate
APR	annual percentage rate
ASU	accident, sickness and unemployment
BIBA	British Insurance Brokers' Association
CA	carer's allowance
CGT	capital gains tax
CTB	council tax benefit
CTC	child tax credit
DLA	disability living allowance
DMO	Debt Management Office
DRO	debt relief order
DWP	Department for Work and Pensions
EEA	European Economic Area
EC	European Community
EHIC	European Health Insurance Card
ESA	employment and support allowance
FAS	Financial Assistance Scheme
FLA	Finance and Leasing Association
FOS	Financial Ombudsman Service
FSA	Financial Services Authority
FSCS	Financial Services Compensation Scheme
HB	housing benefit
HP	hire purchase
IB	incapacity benefit
IHT	inheritance tax
IS	income support
ISA	individual savings account
IVA	individual voluntary arrangement
JSA	jobseeker's allowance
MA	maternity allowance
MVA	market value adjustment
MVR	market value reduction
NI	national insurance
NS&I	National Savings and Investments
OFT	Office of Fair Trading
PAYE	Pay As You Earn
PC	pension credit
PCP	personal contract plan
PEP	personal equity plan
PET	potentially exempt transfer
PIN	personal identification number
PPF	Pension Protection Fund
PPI	payment protection insurance
PTM	Panel on Takeovers and Mergers
RPI	Retail Prices Index
S2P	state second pension
SAP	statutory adoption pay
SDA	severe disablement allowance
SERPS	state earnings-related pension scheme
SHIP	Safe Home Income Plans
SMP	statutory maternity pay
SPP	statutory paternity pay
SSP	statutory sick pay
TER	total expense ratio
TPAS	The Pensions Advisory Service
UAP	upper accruals point
UCAS	Universities and Colleges Admission Service
WTC	working tax credit

Chapter 1

Financial planning

This chapter covers:

1. The importance of financial products (below)
2. Financial exclusion (p2)
3. The need for financial planning (p6)
4. How financial planning works (p6)
5. Choosing the right products (p8)
6. Keeping track of your finances (p12)

Basic facts

- Ninety-one per cent of British households have a current account and 7 per cent have a basic bank account.[1]
- Ninety-seven per cent of households have at least one savings or investment product.[2]
- Sixty-eight per cent of Britain's 21.4 million households own their own home. This includes just under eight million who have a mortgage.[3]
- Low-income households pay a 'poverty premium' of £1,000 a year on average because of exclusion from financial services.[4]
- Financial firms produce nearly one-quarter of the UK's output and provide one-fifth of all jobs.[5]

1. The importance of financial products

Increasingly, the Government expects citizens to take responsibility for their own financial wellbeing – eg, by managing financial stress, saving for retirement, protecting themselves from financial emergencies and funding higher education. In addition, as both the public sector and private companies embrace new technologies, barriers and extra costs are driving out old ways of managing money, such as paying by cash and cheque. As a result, it is becoming ever more important to have at least some basic financial tools, and households, whatever their level of income, are having to understand and engage with financial products and services.

The Government is encouraging the take-up of financial products – eg, through the new Saving Gateway accounts, child trust funds, continued tax relief on pension savings and, from 2012, automatic enrolment in a new national pension scheme. However, the choice of products across the whole market is bewildering. For example, even after the mortgage credit freeze that followed the onset of a global financial crisis from 2007, it is estimated that there are still 6,500 different mortgages (though well below the peak of over 27,000 in 2007). It is therefore important for households to choose carefully, matching the products on offer to their own particular needs and circumstances. Selected and used appropriately, financial products can give households not only security now, but also cost savings and the ability to achieve goals (rather than just fight financial fires) in the future, and even, according to some studies, better physical and psychological health.

2. **Financial exclusion**

What is financial exclusion

Financial exclusion is a phrase first coined by the Office of Fair Trading in the late 1990s.[6] Since then, the concept has been widely debated and developed, but at its simplest can be defined as 'a state where individuals cannot access the key financial products and services they need'.[7] It is the opposite to financial inclusion which has been defined as:

> . . . a state in which all people have access to appropriate desired financial products and services in order to manage their money effectively. It is achieved by financial literacy and financial capability on the part of the consumer and access on the part of financial product, services and advice suppliers.[8]

Financial inclusion is important because, without financial products, consumers are likely to be financially worse off than people who do have them.

- **They are vulnerable to financial loss.** Without a bank account, households are more likely to keep their week's funds or any savings in cash. This makes them vulnerable to theft and accidental loss.
- **They are forced to pay more**. Fuel and phone companies, in particular, often charge less if the consumer agrees to pay by direct debit (though consumers need to guard against being required to pay too much in advance – see Chapter 3). Direct debit payments are impossible if consumers have no bank account. Also, if households cannot pay with plastic or cheques, they cannot shop by internet or phone and so may miss out on the best bargains. A household without savings may have little choice but to borrow to buy large items, and poor credit ratings typically mean paying over the odds for credit. Mainstream retailers are increasingly refusing to accept payment by cheque or charging

extra for this payment mode, forcing consumers to embrace newer alternatives. Overall, it has been estimated that low-income households pay an extra £1,000 a year on average due to lack of basic financial products and services. This has been dubbed the 'poverty premium'.[9]

- **They are vulnerable to financial shocks**. Illness, job loss or even something as simple as a broken washing machine can tip a household into debt.
- **They are denied other products**. Many lenders are unwilling to lend at competitive rates to people who have not got a bank account or do not own their own home. Some services have shifted to new forms of delivery (eg, state benefits by direct payment, and insurance and mortgages by internet) which require consumers to have specific financial products or particular ways of accessing them.
- **They are unable to afford other products**. If a household cannot spread payments by, for example, direct debit, they might not be able to afford to buy an item.
- **They may have difficulty accessing employment**. Having a bank is a prerequisite for most jobs.[10]

An important factor in financial inclusion is **'financial capability'**. The Government has defined this as:

> . . . a broad concept encompassing people's knowledge and skills to understand their own financial circumstances, along with the motivation to take action. Financially capable consumers plan ahead, find and use information, know when to seek advice, and can understand and act on this advice, leading to greater participation in the financial services markets.[11]

Without financial capability, there is an increased risk that, even where consumers do buy financial products, they will get poor value for money, end up with products which do not suit their needs and fail to take steps required to improve their financial wellbeing. The UK's main financial regulator, the Financial Services Authority (FSA), has identified five components of financial capability:[12]

- making ends meet;
- keeping track of your finances;
- planning ahead;
- choosing financial products;
- staying informed about financial matters.

Why does financial exclusion happen

Financial exclusion is closely associated with having a low income. The problem, however, is not simply being unable to afford financial products – products do not always meet the needs of low-income households and financially excluded people are more likely than average to live in deprived areas where, for example, the cost of insurance is high and providers do not seek out business. However, as

Transact, a national forum for financial inclusion, points out, financial exclusion does not just affect poorer people; the 2009 recession and tightening of credit have also created problems for more affluent households.[13] Factors that tend to make financial exclusion more likely include:

- **geographical location**:
  - in some poorer areas, banks and other financial firms are thin on the ground because financial firms prefer to target wealthier potential customers;
  - in rural areas there may be few financial firms because customers tend to be thinly spread and so expensive to target. Exclusion is exacerbated if car ownership is low and public transport poor so that customers find it difficult to travel to regional centres where firms are present;
- **other physical access problems**. People with disabilities and families with children may find it hard to access financial products and services, especially if access involves travelling. Phone- and internet-based services may help;
- **procedural barriers to access**:
  - customers may need to pass credit checks before they can have a product, even if they do not want to use any credit facilities. This can be a problem for people with either a poor credit history or no credit history at all because they have not previously used financial products;
  - money laundering regulations mean that financial firms are required to check the identity and address of new customers and sometimes they take an inflexible approach over the forms of proof they will accept. This causes difficulties if someone does not have the more traditional documents, such as passport, driving licence or household bills;
- **language and cultural barriers**. People whose first language is not English may need literature and sales staff that can explain products in their own language. Some products that involve interest on loans, savings or insurance may be unacceptable on cultural or religious grounds;
- **unsuitable products**. Financial products may be poorly designed for low-income consumers – eg, products may require regular payments; have a high minimum payment, balance or level of cover; have charges that eat heavily into small savings; offer poor rates of interest on low balances; or insurance cover might exclude people in temporary or insecure work. Insurers may also refuse cover to offenders, ex-offenders and their families;
- **confusing products**. Some products are overly complex and explained in confusing terms. Not all consumers feel confident enough to ask questions and are put off buying. People with low literacy and numeracy skills or with learning difficulties are particularly vulnerable;
- **pre-conception and past experience**. In surveys, low-income consumers have said they believe financial firms are not interested in people like themselves. Other consumers have been turned down for financial products in the past. Both these factors promote a situation in which people no longer bother to seek financial products;

- **inter-generational transmission**. It is widely accepted that there is a 'generational cycle of poverty' so that children who grow up in poor households are more likely to be poor themselves as adults than children in better-off families.

Tackling financial exclusion

Tackling financial exclusion is high on the agendas of both the Government and the FSA. A number of strategies are being employed.

The FSA has a statutory duty of 'promoting public understanding of the financial system'.[14] This involves increasing consumers' awareness of the benefits and risks of different financial products and ensuring they are provided with appropriate information and advice. The FSA does this through the requirements it places on financial firms themselves, as well as by providing its own factsheets, leaflets and its Moneymadeclear consumer website which includes comparative tables (see Appendix 2). The FSA is also heading a national strategy to increase financial capability. Working with partners, it is promoting financial education through schools and workplaces, and also targeting specific groups, such as young adults and new parents.[15] The FSA has conducted a survey (the 'Baseline Survey')[16] to assess the nation's current level of financial capability and will repeat the survey from time to time to measure progress.

The Government has promoted the introduction of new products which it hopes are better suited to low-income consumers' needs. These include basic bank accounts (see p43), the Saving Gateway (p76), child trust funds (p80) and stakeholder pensions (p195). Several of these products give the consumer a cash subsidy to boost their savings. This is a departure from previous government policies that have attempted to encourage saving through tax reliefs, which are of little or no value to consumers whose income is too low to pay much or any tax. The latest product initiative is to establish a national scheme of pension accounts to promote retirement saving (see p212). Many of these policies are part of a relatively new approach to welfare support first pioneered in the USA, called 'asset-based welfare'. Rather than just tackling immediate lack of income, this approach aims to help low-income consumers build up assets which may provide a more stable, long-term route to financial inclusion.

The Government has established a financial inclusion strategy, mainly focused on increasing access to bank accounts, affordable credit and money advice, working with, for example, the banking industry, credit unions and voluntary bodies.[17] It has also targeted extending the take-up of insurance products by low-income households.

Government initiatives include the Financial Inclusion Champions campaign, which builds and co-ordinates partnerships with organisations that already deal regularly with financially excluded people, such as local authorities, housing associations and Citizens Advice Bureaux, to help increase demand for and access

to basic financial services. In 2009 a new money guidance scheme is being piloted by the FSA, which offers free generic financial advice to all. Provided the pilots are successful, the aim is, in time, to roll out the service nationwide. See Chapter 2 for more information.[18]

3. The need for financial planning

Research suggests that consumers do not generally have a good understanding of their financial needs. On the whole, consumers are reactive and their focus tends to be limited to building up an emergency fund and saving for a deposit on a house. There is little forward planning for protecting household finances against mishap or for long-term future needs. Consequently, insurance products have a low profile, debts often fail to be paid off in a timely fashion, and saving for retirement – while recognised as important – tends to get buried in more pressing needs.

The problem with this approach is that, if the worst happens, consumers are ill-prepared. An event which might have been merely unpleasant could turn into a financial crisis. Consumers also risk being unable to fulfil financial targets (eg, retirement) in situations where, if saving starts too late, it may be impossible to build up enough money. Failing to plan means consumers may also miss out on other opportunities (eg, the chance to train or start a business) through lack of savings to finance the venture. Finally, without planning, consumers may be losing money through buying the wrong products for their needs, buying products that are overly expensive, or using products in an expensive way – eg, running up an unplanned overdraft or failing to pay off loans in good time.

In the past, employers have often, through life insurance, pensions, and extended sick pay schemes, provided some financial protection for employees. But faced with mounting costs, many employers are cutting back, especially in the case of pension schemes. This makes it all the more pressing that consumers consider how they or their families might cope financially in the event of, for example, illness, death or retirement. This need is even more important for people who do not work for an employer and must rely purely on their own resources.

4. How financial planning works

Financial planning follows the following broad stages.

- **Stage 1: identify and prioritise your financial needs**. Although everyone is different, some basic needs are common to everyone and can be roughly prioritised as shown in the table below. Beyond these basic needs, you will have your own personal goals. Many are likely to involve either saving to buy

something later (see Chapter 4) or borrowing to buy now (see Chapter 5). Planning is especially important if your circumstances are unusual or about to change – eg, you are getting divorced, or you about to become a student, a lone parent or retire.

- **Stage 2: check your resources (budgeting)**. Consider the resources you have available to meet your needs. For most people, resources will be the income (if any) left after you have paid for essentials, and any savings or other financial products that you already have. If you are not sure how much money you spend, you might find it useful to keep a note of your spending over the course of a few weeks to get an accurate picture.
- **Stage 3: review your goals in the light of your resources**. If your resources are not sufficient to meet all your goals, you will need to think again and decide whether to scale back your plans – eg, pay off debts more slowly, aim for a lower income in retirement or wait longer before buying your own home. You might decide to drop some goals altogether, in which case these should be the goals you previously decided were your lowest priority. Alternatively, you might be able to boost your resources – eg, by working more hours, selling something valuable or taking a lodger.
- **Stage 4: identify suitable financial products**. A suitable product is one which can help you meet a goal and has features which are a good match for your needs and resources – eg, involving no more risk than you are comfortable with and offering the degree of flexibility you need, such as being able to vary the amount you pay. Chapters 3 to 7 of this *Handbook* aim to help you identify suitable products.

A financial adviser can help you with all the above stages. You can also use an adviser to help you with just one aspect of your financial planning – eg, finding a mortgage or investing a lump sum. Make sure you choose the right sort of adviser for the task you have in mind (see Chapter 2).

The new money guidance service being piloted by the FSA in 2009 does not recommend specific products (Stage 4 of the planning process), but covers the first three stages, focusing in particular on the areas of budgeting, saving, borrowing, insurance, retirement planning, tax and benefits, and demystifying the jargon often used by financial services firms.

Basic financial needs

Priority	*Need*
1 (top priority)	**Get your debts under control** See Chapter 5
2	**Build up an emergency fund** (Money you can draw on in a crisis – eg, if the washing machine breaks, the roof starts to leak or your car breaks down) See Chapter 4

3	**Replace enough income if you stop work because of illness** (Check what the state provides, what your employer provides and how to arrange your own cover if needed) See Chapters 7 and 9
4	**Make sure your family could cope financially if you died** (Check what the state provides, what your employer provides and how to arrange your own cover if needed) See Chapters 7 and 9
5	**Save for retirement** See Chapters 6 and 9
6	**Buy your own home** (Not essential if you are able to rent or live with other family members, but a goal many people have) See Chapter 5

Comparison websites

At Stage 4 of the financial planning process, you may want to shop around to find suitable products and providers. Internet comparison sites are a convenient aid to doing this, but be aware of their limitations.

– Most internet comparison sites do not cover the whole market and different sites include different providers, so check out two or three sites and see if there are other important providers you might want to contact direct for information.

– The comparison site may receive commission from providers if you click through from the site to make a purchase or take out an investment. This means the information you get may not be completely impartial.

– Often the focus is on finding the best price, but a cheap product will not be a best buy if its features and conditions are unsuitable for you. Make sure you have enough information to make a considered choice. This is especially important if your circumstances are non-standard – eg, you are looking for travel insurance and you have a health condition, since you may find you have to pay more than the standard price quoted.

The FSA runs its own comparison websites (at www.fsa.gov.uk/tables) for a limited range of products. In general, you can rely on these to provide reasonably comprehensive, impartial information.

5. **Choosing the right products**

Choosing the right financial products to help you meet a goal involves a variety of factors, which are outlined on pp9–12.

Your attitude towards risk

You cannot be sure how some products will turn out in the future. This is particularly true of products designed to help you save over long periods of time – eg, to build up a pension or eventually pay off a mortgage. Many of these products offer a return linked in some way to the stock market. This means you do not know in advance what return you will get and, in most cases, the value of your money might fall. This is called '**capital risk**' – ie, the risk that you might lose some of your original investment and/or some of the growth you have built up so far.

There are other sorts of risk. '**Inflation risk**' is the risk that, although your money might grow in cash terms, the buying power falls because prices have risen by more than your money grew. For example, suppose £1 buys a bottle of sauce – you invest the £1 and get back £1.05 at the end of the year but sauce prices have jumped to £1.10 a bottle. Although your money has grown, it is worth less because it is no longer enough to buy the bottle of sauce.

Another type of risk is '**interest risk**'. When you put money into a savings account, you earn interest. This might be at a fixed rate (an interest rate which stays the same throughout the whole time your money is invested) or a variable rate (an interest rate which is raised or reduced from time to time). Interest risk relates to the choice you make between a fixed or variable rate. If you choose a variable rate, you risk the income from your savings falling if the interest rate goes down. But if you save at a fixed rate, you could be locked into a poor deal if the variable interest rate on other savings products increases. Similarly, when you borrow money, the interest rate you pay might be fixed or variable. You risk a rise in your monthly payments if you borrow at a variable rate and the rate goes up. But you risk missing out on falling payments if you borrowed at a fixed rate and variable interest rates on other loans have since fallen.

'**Shortfall risk**' occurs where you have a particular target in mind (eg, building up enough money to pay off a mortgage) and your investment fails to grow by enough.

Sometimes you have to weigh up these risks against each other. In an ideal world, you would like the highest possible return for the lowest possible risk, but capital risk and return go hand in hand. You can minimise capital risk as long as you are prepared to settle for a modest return. If you want a higher return, you have to take on extra capital risk. This relationship is so established that if anyone offers you a great-looking return at low risk, you should be very suspicious. If it looks too good to be true, it probably is.

Examples of how the different sorts of risk interact include the following.

- Opting for savings or investments with low capital risk could increase the shortfall risk – although you have reduced the risk of losing money, you have also increased the likelihood that your investment will grow too modestly to meet your target.

- In times when inflation is high, it may be necessary to accept extra capital risk to reduce the risk of a fall in the buying power of your money.

Timescale

The period of time over which your financial needs must be met will influence your choice of product. For example, if you are taking out life insurance to protect your family, you will usually want a policy that runs until your youngest child stops being financially dependent on you. This might be when s/he reaches age 18 (and starts to work or qualify for a student loan) or older if, say, you plan to help fund her/him through university.

With savings and investments, timescale is also important. If you can save or invest for only a short time (eg, up to five years), you should normally avoid investments that have capital risk (see p9). This is because their value might fall and, although stock markets do tend to bounce back in the long run, you cannot be sure that the value will have recovered by the time you need your money.

Over the long term (eg, 10 years or more), stock market investments usually produce better returns than low capital risk products like bank and building society savings accounts, which are vulnerable to inflation risk (see above). So, unless you would be very worried about taking some capital risk, you should normally consider having at least some stock market investments if you are investing for the long term.

If you are investing for the long term, you might need your money back at a set time – eg, at retirement. Stock market investments may be suitable at first but you could lose some or all of the money you have built up if the stock market were to fall in the last few years before retirement. To guard against this, you could gradually shift your investments during the last 10 years or so before you reach retirement age away from the stock market and into products with a lower capital risk. This strategy lets you lock in the earlier gains that you made. However, you may want to adapt the strategy if you are within 10 years of retiring but the stock market is low and switching would mean locking in losses. You might want the help of a financial adviser with this strategy (see Chapter 2).

Some savings and investments are designed to run for a particular period (eg, five years) and you either cannot get your money back early or stand to lose some of your return or capital if you do. Make sure you understand the terms and conditions before you commit yourself. Otherwise, you could run into financial difficulties if you need your money back early but find you cannot have it or you stand to lose a large chunk in early surrender charges.

How much you can afford

You may have to adjust your goals or the products you choose because of their price. For example, insurance to protect your income if you cannot work because

of illness can be very expensive. However, you could reduce the cost by limiting the amount it would pay out or the length of time for which it would pay out. If you are buying a house, there are several ways you could consider to reduce the cost of a mortgage – eg, you could buy a cheaper property. Alternatively, you could consider a mortgage with a longer term – this reduces the amount you have to pay each month but has the drawback of increasing the overall cost of the loan (see Chapter 5). Another option could be a discounted mortgage. This starts with low payments in the first year or two but the payments then increase to a more normal level. It is very important that you plan in advance how you will afford the higher payments once the discount period has come to an end (see Chapter 5).

Some investments involve flat-rate or minimum charges or dealing costs, which make small investments uneconomic but become better value if you can invest a larger sum.

Some products have a minimum investment or premium and would not be available to you if you could not afford that amount.

Tax and benefits

You need to consider how both you and the financial product are treated for tax purposes. For example, some investments (such as shares and most insurance-based investments) pay you a return from which tax has already been deducted and you cannot reclaim the tax. Such products are unsuitable for non-taxpayers and, in some cases, for all but higher rate taxpayers.

Other savings and investments (such as cash individual savings accounts) pay tax-free returns. This is good for all taxpayers, but of greatest benefit the higher your tax rate.

When deciding how much insurance to buy (eg, to replace your income in the event of illness) you will need to consider whether the payout from the policy and any income from other sources are tax-free or taxable.

You also need to consider the impact of any insurance payout or investment income and lump sums on your eligibility for means-tested state benefits.

See Chapter 8 for information about tax and Chapter 9 for information about benefits.

Your health

Your state of health and some factors that affect your health (eg, whether you smoke) are important when buying certain types of insurance and if you invest in an annuity (a type of investment that typically pays out an income for the rest of your life – see p200). If your health is poor, you are likely to have to pay more for life and health insurance and might be refused cover altogether. However, poor health can mean you qualify for a better deal when you are shopping around for an annuity.

Your ethics and beliefs

Your choice of financial products may be affected by your ethical stance or religious beliefs. For example, many people are not comfortable investing in companies involved in gambling, alcohol or defence. You might want to support companies that have a good record of treating employees fairly, sharing profits equitably with developing world traders or tackling climate change. Islamic (*Shariah*) law requires Muslims to share in risk as well as reward when investing and regards investing for interest as exploitation. This rules out ordinary bank and building society accounts, bonds, traditional mortgages and companies involved in these activities, but there is a growing range of *Shariah*-compliant products available.

Ethical Investment Research Services is an independent body which provides information to help organisations and people seeking to invest ethically. See Appendix 2 for contact details.

6. **Keeping track of your finances**

An important part of managing your money effectively is keeping track of it on a weekly or monthly basis, by getting and checking bank statements, keeping track of spending, and accounting for unexpected expenditure which might hamper your ability to pursue longer term savings and goals.

You also need to keep track in a bigger sense. Financial planning is not a one-off exercise. Having decided your needs, set your targets and chosen your products, you should review your plan from time to time – eg, once a year or maybe once every three years for a long-term goal. You should also carry out a review whenever your circumstances change – eg, if you start to live with someone, get married, have a child, get divorced, and so on. The aim of the review is to check whether your needs have changed and to see whether the products you have bought are still on target to meet them. To carry out a review, you will need the paperwork relating to your original purchase or investment and statements that have been issued since. You might prefer to ask a financial adviser to carry out the review (see Chapter 2).

It is very important that you keep all the paperwork from the time you made your original purchase or investment. It is equally important to make sure that you:

- receive regular statements. With most products, you should be sent a statement at least once a year (and more often with most bank accounts). Make a note of when you expect each statement to arrive and, if it does not turn up, contact the provider;

- check statements on arrival and raise any queries immediately with the provider; *and*
- store the statements in a safe place. You may need to keep them all the while you have the product or investment (which could be many years and even decades) or, if the product earns you taxable income, at least until no longer required under the tax rules (see Chapter 8).

Not only do these papers help you to keep track of your finances, they are also essential if something goes wrong later and you need to make a complaint (see Chapter 10).

Notes

1 Department for Work and Pensions, *Family Resources Survey 2007/08*, DWP, 2009
2 Department for Work and Pensions, *Family Resources Survey 2007/08*, DWP, 2009
3 Department for Communities and Local Government, *Housing Statistics: live tables*, Table 801, www.communities.gov.uk/documents/housing/xls/141491.xls, accessed 27 September 2009
4 Save the Children and Family Welfare Association, *The Poverty Premium*, Save the Children, 2007
5 Office for National Statistics, *United Kingdom National Accounts: The Blue Book*, Palgrave Macmillan, 2009

2. **Financial exclusion**

6 Office of Fair Trading, *Vulnerable Consumers and Financial Services*, January 1999
7 Resolution Foundation/Transact, *Financial Inclusion and Financial Capability Explained*, 2009
8 Resolution Foundation/Transact, *Financial Inclusion and Financial Capability Explained*, 2009
9 Save the Children and Family Welfare Association, *The Poverty Premium*, Save the Children, 2007
10 Resolution Foundation/Transact, *Financial Inclusion and Financial Capability Explained*, 2009
11 HM Treasury, *Financial Capability: the Government's long-term approach,* 2007
12 Financial Services Authority, *Establishing a Baseline,* 2006
13 Resolution Foundation/Transact, *Financial Inclusion and Financial Capability Explained*, 2009
14 Financial Services and Markets Act 2000
15 Financial Services Authority, *Building Financial Capability in the UK,* available at www.fsa.gov.uk/financial_capability
16 Financial Services Authority, *Levels of Financial Capability in the UK: results of the baseline survey,* 2006
17 HM Treasury, *Financial Inclusion: the way forward,* 2007
18 HM Treasury, *Financial Capability: the government's long-term approach,* 2007