DebtAdvice Foundation

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PRACTICAL GUIDE TO MANAGING MONEY

Managing your money

With thousands of books and websites dedicated to the subject of Personal Finance, it's easy to see why so many find the prospect of managing their own finances such a daunting task. In reality, being able to effectively manage your money is straightforward as long as you stick to a few simple rules:

Bank Accounts

First of all, you need to understand the difference between a current account and a savings account. A current account is an account with a low rate of interest (the money the bank pays you for depositing funds with them). Normally people have their wages paid into their current account because they are able to get access to their money whenever they like.

A savings account on the other hand gives a much higher rate of interest but it's more difficult to get access to your money (usually you'll have to give the bank notice that you want to make a withdrawal and the higher the rate of interest, the more notice you have to give them).

You should aim to keep enough to live on each month in your current account and move the rest to your savings account so you can earn more interest. It's important that you always leave a bit more in your current account than you think you'll need before you next get paid in case of an emergency. You don't want to risk going overdrawn (below the amount you have available in your account) as your bank will charge you unauthorised overdraft fees.

These days, it's actually very easy to move money between accounts using internet banking – contact your bank to find out more.

Credit Cards

Credit cards work in a similar way to debit cards. The main difference is that when you use your credit card, you are not using money from your own account; you are actually borrowing money from the bank. Because the bank is lending you its money, it charges you interest on the amount you've borrowed, which is why you should always consider using your own savings first before making a purchase. One advantage of a credit card is that your purchases are usually protected against loss or damage, which can be an important factor when buying large, expensive items over the internet for example.

Some credit cards also offer 0% interest on balance transfers (moving money from one card to another). This can be a great way of providing short-term breathing space; however, this should never be considered a long term solution to serious financial problems.

Store Cards

Store cards are similar to credit cards in that you are borrowing someone else's money to pay for goods or services. The main difference is that store cards can only be used at one particular retailer. Because store cards are often marketed with fixed periods of interest free credit, people often to give less thought to their purchases than they would do if they were using their own money.

Whilst interest free periods can be a great way to manage your purchasing, you need to be sure that you know exactly when your interest free period finishes, how much you can realistically pay off by the time it does and whether or not you can afford the interest payments thereafter.

Direct Debits

Direct Debits (DDs) are payments that automatically come out of your account each month to cover the cost of services that you've used, such as gas and electricity.

It's a good idea to set up your monthly bill payments as DDs as not only it is usually cheaper (many companies will give you a discount for paying by DD) but it's much easier for you - once they're set up, you don't have to do anything other than make sure the right amount has left your account each month.

It's also a good idea to set your DDs up so they come out of your account the day after you've been paid. That way, you'll know exactly how much money you've got available for the rest of the month and how much you'll be able to save.

The Black Hole in The Wall

Anyone that's ever taken out £10 out for a £2.50 sandwich and then had no idea where the change went a day later will know exactly what we're talking about. The problem is that we tend to spend what we have. One of the most effective ways to control expenditure is to identify how much you need for items that don't automatically come out of your account by Direct Debit or Standing Order each week (food, fuel, hobbies etc) and

to take out only that amount in cash at the start of the week. This way, you stop taking out all those £10s and £20s every couple of days that are spent on nothing in particular.

Impulse Purchasing

Impulse purchasing is the spontaneous or unplanned purchasing of goods or services. We're all guilty of it to an extent.

Impulse purchasing is an irrational urge that impairs the normal, rational decision making process. Impulse purchasing is at the hub of how many companies market their products and services and whilst for many, it proves to be nothing more than an occasional irritation, for others, it can be a constant battle that leads to severe financial difficulties.

So what can you do to stop impulse purchasing?

Let's begin by saying it's very unlikely that you'll never make another impulse purchase again in your life; however, there are things you can do to significantly reduce the chances:

a) **Studies show that you are much more likely to make an impulse purchase when you are in a distracted state. This is because you are not focusing your full attention on the rational decision making process. Shopping online reduces the stimuli that disrupt this process (such as being in a retail environment). It also has the advantage of making it much easier to shop around and directly compare prices.**

b) **You are also much less likely to make impulse purchases by creating a list of target items before setting off for the shops. By doing this, you are giving yourself a tangible focus.**

c) **If you do find yourself tempted to make a spontaneous purchase, try asking yourself whether you need the item or whether you just want it. Add it to your list, give yourself a week to cool off and then decide whether you still want it or not. By making a list you are sublimating (redirecting) the impulse to purchase the item immediately due to an irrational fear of scarcity (the item being sold out or forgotten about). Leaving it a week to cool off tends to give you perspective about the nature of your attraction to the item (i.e. whether you needed it or just wanted it and whether you can find a better use for the money).**