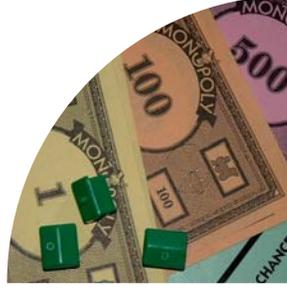


# THE COST OF LIVING YOUR FAMILY'S GUIDE TO MONEY



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## **BEATING THE CREDIT CRUNCH**

You don't need to be a financial expert to know that times are a little tougher for families across the UK. In the twelve months to August 2008, petrol prices rose by more than 17p a litre, and diesel rocketed by more than 27p. At the same time, food prices – even for basics like bread and milk – have steadily gone up, while gas and electricity bills have gone through the roof.

With this kind of inflation, the cost of feeding, clothing, transporting and housing a family is heading skywards. Without a pay rise or some savings in the bank, all but the most carefully managed family finances could soon unravel.

But salaries are staying put as long as our employers also feel the pinch, and not everyone has savings to draw on – so how do you ride out the current climate and enjoy family life without getting yourself into debt?

That's the question we've set out to answer in this e-book. In the next five chapters we'll talk you through the finances of your home, car, borrowings and savings, holidays (well, everyone's got to relax), and the other bits and bobs that make up family life. For each, we examine the biggest costs families face, and the biggest savings they can make. There's advice, top tips, and examples of families who've made great money-saving changes.

### **How do you enjoy family life without getting into debt?**

True, it's not an easy time for family finances, but with a bit of careful budgeting, and the advice and examples contained in this e-book, we hope you'll beat the credit crunch, and be in even better shape when it's over.

# CHAPTER 1 HOME



**B**uying a home is the biggest purchase most of us will ever make, and paying for it is likely to be our biggest monthly outgoing.

Property prices are falling, but the cost of borrowing for a new home is rising. At the time this e-book was published in Autumn 2008, the average interest rate for a two-year fixed-rate mortgage was around 7%.

The credit crunch has caused a hike in arrangement fees for mortgages, too, as lenders have become wary about who they will lend to and how much. One hundred per cent mortgages have vanished from the high street, and many borrowers will now struggle to get a mortgage, even if they have a 10% deposit or more.

On the plus side, the chancellor recently raised the stamp duty threshold from £125,000 to £175,000 – saving home buyers up to £1,750. The higher threshold applies until 3 September 2009.

## INTEREST RATE OPTIONS

Interest rates on mortgages are usually either fixed-rate – where the interest rate remains the same for an agreed number of years – or variable – where the interest rate on the mortgage will rise or fall in line with a rate set by the Bank of England (the Bank rate).

In either case, monthly repayments cover the interest on the loan, as well as paying off a small amount of the mortgage itself so that the sum you owe becomes smaller. It's possible to switch to interest-only payments, but cutting back on repayments will mean that you continue to owe the same overall amount.

If you're coming to the end of a fixed-rate deal, your mortgage payments are likely to go up when the deal expires and the interest rate reverts to your lender's standard variable rate (SVR). A couple of months before it does, shop around for a better deal so you're ready to switch to a different mortgage, also known as *remortgaging*.

Switching your mortgage could save you hundreds of pounds a month and is very common – particularly when interest rates change.

It's also possible to switch to a new mortgage and stay with your original lender, if they offer the most competitive rate. This will often still mean paying a new arrangement fee, or at the very least some form of administration fee. When you apply for a new mortgage rate, the lender has to give you a personal key facts illustration, which will contain details of all of the relevant fees.

Make sure you consider the total cost (including all fees) of a particular course of action when deciding whether to stick or switch.

There are many price-comparison websites, including well-known ones such as [moneysupermarket.com](http://moneysupermarket.com), [gocompare.com](http://gocompare.com) and [confused.com](http://confused.com). The personal finance sections in magazines and newspapers – or their websites – can help, too.

### Get impartial advice from an independent financial advisor

But don't just switch to the cheapest deal. It might not be the best for your circumstances. You can get advice from an independent financial advisor – at the time this e-book was published you could download a voucher for a free consultation from [unbiased.co.uk](http://unbiased.co.uk), the consumer website of independent financial advisors.

Also, watch out for hidden costs involved in switching mortgages, such as an early repayment charge. These can amount to hundreds – or even thousands – of pounds and wipe out any money saved from switching.

# CASE STUDY

Frank is 29 years old. He took a £200,000 mortgage (variable rate with no tie-ins) on a two-bedroom flat at the start of 2006 when his interest-only payments were £800 a month. This subsequently rose to £977; more than Frank could afford.

He solved the problem – after making sure to notify his mortgage provider and insurance company – by taking in a lodger, who rents a room for £350 a month. At £4,200, Frank’s total yearly rental income is just below the £4,250 tax threshold, so his lodger pays almost half of his mortgage without costing him anything in tax.

Despite the gloomy financial outlook, Frank expects interest rates to come down in the short-to-medium term, and expects that his mortgage payments will be similar to when he started two and a half years ago. For the time being, he is looking to reduce his risk.

“I had to take in a lodger because otherwise more than 40% of my income would have been going on my mortgage, and I felt that would be too much of a risk.”

Taking in a lodger was fraught with the fear of the unknown, but Frank says that his soon became part of the family.

“It was a bit daunting at first because you don’t know what you are going to get,” he said. “But after my mortgage repayments went up around a year ago, it has been a great help.”

Frank believes it is a trend that will become more common over the coming months.

“It is something that will help now more than ever. To be stuck with that mortgage on my own would have been a great worry – everyone has job worries at the moment.



“With the downturn in the economy, we will definitely see more people ‘doubling up’ to avoid having a large financial yoke around their necks.”

## GETTING YOUR CHILDREN ONTO THE PROPERTY LADDER

Helping your children onto the first rung of the property ladder is more expensive than it used to be. Mortgage lenders are demanding bigger deposits; and a 25% deposit on the average first-time home is just under £38,000, according to consumer group **Which?** It advises parents to make clear whether they are making a gift, a loan or an investment.

Also think about what is the best way to help your child. Acting as a guarantor for the mortgage might be more useful than giving them a deposit to put down on a property, for example.

## SELLING IN A FALLING MARKET

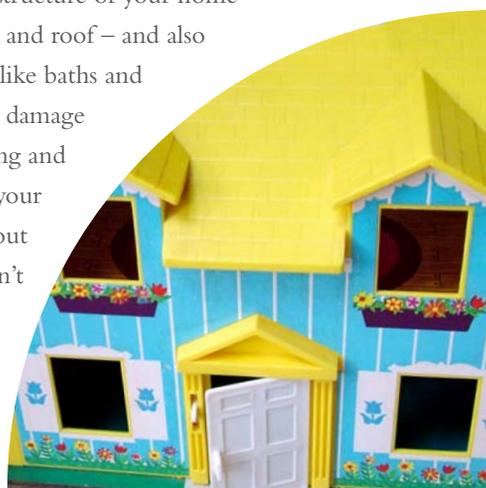
If you need to sell your home now there are tried and tested ways to help ensure your property sells at the best possible price. Find an estate agent who's experienced in a slow market. And remember the old advice about how to present your property well. Make sure it has good "Kerb appeal" – i.e. that the outside of your house is clean and tidy to make a good first impression.

Price your property realistically. Going for the top price in your area could mean you don't find a buyer for months and you then have to drop your property price even further – check prices in your region.

## INSURANCE

You normally need two policies for your home – one for the building itself and another for its contents – although in practice many people get both from the same insurer, typically as a single product.

Buildings insurance covers the structure of your home – for example the walls, windows and roof – and also permanent fixtures and fittings like baths and fitted kitchens. It usually covers damage including that from fire, lightning and so-on. If you have a mortgage, your lender will insist that you take out buildings insurance, but you don't need to do it through them. If you're a tenant it's down to your landlord to arrange it, but you'll need to arrange your own contents cover.



How much cover you need depends on whether you choose a sum-insured or bedroom-rated policy – ask an insurer to quote for both. A bedroom-rated policy is based on the number of bedrooms you have. With sum-insured, you decide how much cover you need, and the insurer calculates your premium – choose a sum that will cover all of your belongings. Options might include accidental damage, covering accidents like spilling a drink onto a TV or hi-fi.

Lower your premium by securing your home – fit a burglar alarm or uprate locks, for example. Insurers offer lower rates to people who haven't claimed as they consider them a lower risk. If your claim is small, you may wish to pay for it yourself rather than claiming and potentially affecting your premium. Shop around using comparison sites, or the **Defaqto comparison tool**, but remember that policies vary – check the details to be sure you get the right level of cover.

## HOME IMPROVEMENT

Some home improvements aren't voluntary. A leaky roof or dripping pipe work will need patching up or replacing before water damage makes the problem worse. Left unattended, a small problem could become a major home emergency. Nearly all insurance companies provide a helpline that can guide you through common domestic disasters and arrange for quick repairs – make sure you keep the number handy.

Other improvements are of the “nice to have” variety, many of which will add to the value of your home. If you work from home, converting a spare bedroom into a home study could give you a professional working environment. It's normally possible to do this without resorting to expensive building work, but make sure that your insurance will cover you working at home.

Also consider home improvements that make your house greener and save you money by reducing your energy use. Insulating your loft will cost between £250 and £500, depending on whether you fit the insulation yourself. It should save you around £155 per year on your energy bills. Insulating internal or external solid walls will cost around £42 per square metre, but it could slash up to £360 a year from your energy bills. And turning down the thermostat by 1°C will save you around £40 a year.

The **Energy Saving Trust** website has more detailed information on energy-saving home improvements, and a section to help you **find out if you qualify for a suitable grant**.

Which? Magazine asked estate agents to rank improvements that add the most value to your home. The top five were:

- extension/loft conversions
- adding a bedroom
- creating off-street parking
- fitting a new kitchen
- fitting a new bathroom.

**ENERGY** Soaring gas and fuel prices are putting extra strain on family finances. British Gas owner Centrica recently hiked gas prices by a record 35% and electricity prices by 9%. The other big energy suppliers look set to follow suit. But compare gas and electricity tariffs using one of the free price-comparison websites, such as [uswitch.com](http://uswitch.com) or [moneysupermarket.com](http://moneysupermarket.com), and you could find a cheaper supplier. Most comparison sites will handle the switch for you, by letting your old supplier know that you are switching and setting up your new account. Your new supplier will contact you directly to update you on your switch, which can take up to six weeks.

## USE A WATER METER



Water prices have been going up, too, but you may be able to save money by switching to metered water. There's a handy [calculator on the Consumer Council for Water website](#) which will help you work it out. People living alone or those who currently pay higher than average charges are most likely to benefit. Water companies install meters for free, and if customers see their bills rise they are usually able to switch back to standing charges within 12 months.

Metered water could save you more than £200 a year. You can reduce wasted water by fixing dripping taps, installing water-saving devices in toilets, taking showers rather than baths and collecting rainwater for use in the garden (see below).

## FOOD

Food prices have shot up over the last 12 months, particularly for staples like milk, rice and bread. Some of the steepest rises have been in the price of meat, which is up by 16.3% over the past year, while bread and cereals are up by 15.9%. To help reduce your bill, enter your shopping list into the free [mysupermarket.com](http://mysupermarket.com) which will work out the cheapest supermarket for your area and send you to the store's online checkout.

You can cut your food bill further by **throwing away less food**. UK households throw away 6.7 million tonnes of food every year – about a third of what we buy – according to the Waste & Resources Action Programme (WRAP). Each household could save on average £400 each year by simply stopping throwing away food that is still edible.

## GROW YOUR OWN

Growing some of your own food will save you more money – and boost your eco credentials. A plot as small as 4ft x 4ft (1.2m x 1.2m) could supply vegetables all year round for as little as £50. For help and advice try web sites such as [Grow Your Own](#).

If you are growing your own food, you'll be able to keep watering even when there's no rain and a hose pipe ban if you **re-use 'grey water' from sinks, showers, baths and washing machines** – it's possible, but not cheap, to have a suitable storage system plumbed into your home.

## TV AND PHONE

One way to cut your communication costs is to combine your phone, TV and broadband internet access into one package – many telephone and internet providers now offer several services bundled together at a discounted price.



However, with so many on the market, finding the best deal can be time-consuming. Watch out for time-limited discounts, long-term contracts and extras like connection fees.

Consider how much data you'll need to download. If you want to download lots of films and music then it might be worth going for a deal that allows unlimited downloads – measured in gigabytes per month. The speed of the broadband – usually measured in megabits (Mb or 'Meg') per second – will also influence the price you pay. The cheapest broadband packages generally start at 2Mb, but this will seem slow if you download lots of music, TV or films.



**SHOP AROUND ONLINE FOR A  
BETTER MORTGAGE RATE**

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**CUT YOUR HOME INSURANCE  
PREMIUMS BY IMPROVING  
YOUR HOME SECURITY**

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**CONSIDER USING A WATER METER  
TO CUT YOUR WATER BILLS**

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**USE A SUPERMARKET PRICE-  
COMPARISON WEB SITE TO  
CUT YOUR FOOD BILLS**

# CHAPTER 2

## CAR



The price of petrol and diesel has risen by around a quarter over the past year, hitting drivers' wallets.

The hikes have come on the back of record oil prices, but there has recently been some good news for cost-conscious motorists, as oil prices have finally dropped a little. The wholesale cost of fuel to retailers has fallen, so they can now pass on the savings to motorists.

In the summer of 2008 some of the big supermarkets cut the price of fuel at the pumps by up to 5p per litre. There have been further cuts since, as the price of oil has continued to fall.

## FUEL EFFICIENCY

Fortunately, you don't have to depend on falling prices at the petrol pump to cut your costs. With a little careful planning it's possible to use less petrol on your journey and help the environment at the same time. Plan your routes before travelling and keep a close eye on the road ahead to avoid stopping unnecessarily when approaching lights or roundabouts.

The AA breakdown service advises giving your car a good clean-out before starting your journey. Extra weight gives the engine more work to do and uses more fuel. Take off your roof rack if you don't need it: it creates wind drag and adds to fuel consumption.

Try to combine errands such as buying the paper, dropping-off the recycling or collecting the kids into one trip. Unless you need to de-mist, don't start the engine until you're ready to go: you'll avoid unnecessary idling, and by driving away promptly you'll ensure that the engine warms up as quickly as possible – warm engines are more efficient.

### According to the Department for Transport, driving at 70mph uses up to 9% more fuel than driving at 60mph, and up to 15% more than at 50mph

Accelerate smoothly. We certainly wouldn't recommend breaking speed limits, but sticking to them will also cut fuel consumption. According to the Department for Transport, driving at 70mph uses up to 9% more fuel than driving at 60mph, and up to 15% more than at 50mph. Cruising at 80mph can use up to 25% more fuel than observing a 70mph speed limit. You'll use the least fuel possible by driving as slowly as is comfortable in your car's top gear, and by making sure your tyre pressures are correct – under-inflated tyres waste fuel.

## GO ONLINE FOR CHEAP FUEL

Find the cheapest petrol prices in your area by checking price-comparison web sites like [petrolprices.com](http://petrolprices.com). It's free to use; just register with the site, type in your postcode and how far you're willing to travel and you'll be shown the cheapest places to fill up your tank. Also keep an eye out for special promotions on fuel, particularly from the supermarkets. Big chains will often give you money off petrol – 5p a litre is common – if you spend a certain amount in their store.

## CAR INSURANCE

Insurance is another significant cost of running a car; there are three main types of cover.

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**1** Third party is the minimum level of car insurance cover usually sold in the UK. It contains no cover for damage to your vehicle, but if you are in an accident it will insure you against injury caused to another person or damage to their property.

**2** Third party, fire and theft insurance protects you against loss or damage to your vehicle from fire, or theft of – and from – the vehicle.

Comprehensive cover, as the name suggests, is the most extensive policy. It extends third party, fire and theft insurance to cover accident damage to your

**3** own car. Comprehensive policies typically provide features such as personal accident benefits and a courtesy car while yours is being repaired.

Shop around. Compare prices between insurers, but don't forget to compare levels of cover, too.

## DRIVING DOWN YOUR INSURANCE COSTS

All insurers offer no-claims discounts, so not claiming for minor damage will keep the cost down when you come to renew your policy. The size

of discount varies but one year of no-claims usually saves around 30% in the first year – remember you'll need proof if you switch insurers at renewal. Having an accident that reduces your no-claims bonus could prove costly – if you've built up a full no-claims bonus, consider a policy with a protected no-claims discount.



Make sure you get quotes online and by phone, as internet quotes can be up to 10% cheaper than phone quotes.

**Shop around. Compare prices between insurers, but don't forget to compare levels of cover, too**

It's fine to go direct to insurance companies' websites, but you could also try price-comparison sites like **moneysupermarket.com**, **gocompare.com** and **confused.com**.

and advice communities like **moneysavingexpert.com**. Although remember, not all insurance companies offer their products through aggregator sites – so you do still need to shop around.

Buying car insurance direct from the insurer can often be quicker, but an insurance broker may be able to offer a wider range of quotes. You can also cut your costs by scrapping non-essential cover. For example, you might not need roadside breakdown assistance, although buying it with your insurance may prove cost-effective if you do.

# CASE STUDY

Heather and Simon have been members of a car share club for seven years. The couple sold their Volvo when their first child was two weeks old, finding it expensive to run a car and hard to find a parking space on their busy residential street.

“Often the car wouldn’t start because the battery had gone flat,” Heather recalls.

The couple say they were spending over £2,000 a year to run their car. They estimate that since becoming members of the **City Car Club in Bath**, they have saved around £8,000.

To use the communal cars, Heather and Simon log in online, choose the car they want to use, see if it’s available and book the time and day they want to use it. At other times they catch a bus, or combine travel and exercise by walking or cycling.

“You can also book cars over the phone, or directly from the car, via the onboard computer,” Heather says. “To access the vehicle each member has a smart card which, when waved over the sensor in the windscreen, unlocks the car. You then enter a unique code into the onboard computer which logs your rental details.”

Conveniently there is a share car parked in a residents’ parking zone close to the couple’s home. They get a modern car from the company, which services and cleans it regularly.

“We feel we’re doing our bit for the environment,” Heather adds. “Our kids are growing up with a less materialistic sense of how the world can work, and developing a good road sense – and we’re all fitter and healthier now!”



## DRIVING ABROAD

If you're planning to drive in Europe, don't assume that your car insurance policy will provide the same cover as it does in the UK. Always check to see what level of cover you have for foreign use. Don't forget to arrange European breakdown cover, either – getting stranded abroad is even worse than getting stranded in the UK. Many car breakdown companies and insurers can arrange European cover: shop around for the best combination of cover and price.

## INSURANCE FOR YOUNG DRIVERS

Young drivers are statistically more likely to have an accident and make an insurance claim. This generally makes insurance for 17- to 25-year-olds expensive – in some cases it can cost more than the car they are driving. But it's still possible to reduce premiums for young drivers. Consumer group **Which?** advises buying a car from a low-risk insurance group. It also advises enrolling in the PassPlus scheme, run by the **Driving Standards Agency** to help new drivers gain extra experience. In August 2008, the **IAM Motoring Trust** published a comprehensive safety advice booklet for young drivers.

Some insurers offer policies suited to young drivers. Ask several insurers or brokers whether they offer discounted premiums in return for a lower mileage, for example, or in exchange for not driving between 11pm and 6am. If your child doesn't drive your car very often – perhaps only when they're home from university – you may be able to add them to your insurance as a temporary driver for short periods, rather than taking out a policy for them.

## CAR-SHARING

Sharing a car can further cut your motoring costs. Lift-shares to the same destination can halve motoring costs, and significantly reduce your carbon footprint. The schemes put people making similar journeys in touch, to make use of the millions of empty car seats on our roads every day. For more information on lift-share schemes check out **Liftshare.org**. The free service helps members share a car and petrol costs, and currently has around 270,000 members. Liftshare says that a typical member saves an average of £1,000 a year in petrol costs.

## CYCLING

Getting on your bike is a lot cheaper than running a car, and better for you, too. And if you take advantage of the government's "cycle to work scheme" you could knock up to 50% off the cost of a new bike. The scheme, which is offered to staff by employers, allows you to pay for the bike free of income tax or national insurance over a period of a couple of years.

If you fancy saving money on a second-hand bike, make sure that you or a suitable expert gives it a proper check. Pay particular attention to the state of the brakes.





**WHEN DRIVING, CHANGE UP A GEAR  
AT 2,000 RPM (DIESEL) OR 2,500 RPM  
(PETROL) TO SAVE FUEL**

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**USE AN ONLINE PRICE-COMPARISON  
SITE TO GET A BETTER DEAL ON  
YOUR CAR INSURANCE**

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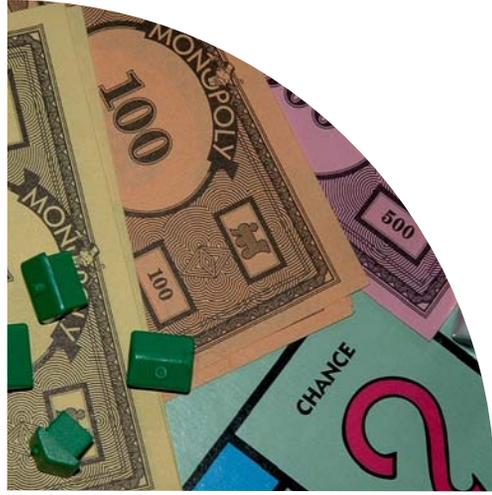
**USE A CAR-SHARING SCHEME  
TO CUT YOUR MOTORING COSTS  
FURTHER**

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**SLASH YOUR COMMUTING COSTS  
- AND GET FIT - BY CYCLING  
INTO WORK**

# CHAPTER 3

## BORROWING AND SAVING



**S**oaring energy and food costs, inflation at a 16-year high and fears of a recession: it's no surprise that debt is becoming a major problem for many families.

Citizens Advice Bureaux in England and Wales have reported that mortgage arrears problems rose by 35% in the first two months of 2008 compared with the same period in 2007. And as the credit crunch continues to bite, there's every chance things could get worse before they get better.

## MANAGING YOUR DEBT

How bad is your debt? Here are some warning signs that could mean your borrowing is out of control:

- Being unable to get out of your overdraft and into the black
- Missing payments for bills
- Regularly withdrawing cash on your credit card
- Taking out new credit cards because you've reached the credit limit on another card
- Using cards to pay off your loans
- Taking out loans to pay off credit cards and then spending on the credit card again

For more information and impartial advice try the **Citizens Advice**, **National Debtline** or the **Consumer Credit Counselling Service (CCCS)**.

### **Pay secured and priority creditors in full. Try not to obtain more credit when experiencing financial difficulties**

Martin Bamford, joint managing director of financial advisors Informed Choice and a former chairman of the Society of Financial Advisers, urges consumers to prioritise their debt.

“Borrowing money is expensive and debt is a drag on your ability to meet your other financial objectives,” he says. “By planning ahead you can save money to buy things for cash, which always works out much cheaper in the long term.

“Getting rid of your unsecured debt – things like credit card debt, personal loans and overdrafts – is an important first step when taking control over your financial planning.”

Other tips for controlling your debts include:

- always pay secured and priority creditors in full;
- don't try to obtain more credit when in financial difficulty;
- maximise your income and claim all the benefits and grants to which you're entitled.

## PRIORITISING YOUR DEBT

### Try to pay off debts with the highest interest rates first

Try to pay off debts with the highest interest rates first. Spend as much as possible on paying off your most expensive debt while making the minimum payments on your other debts. Then tackle the next one, and the next one. Personal finance advice site [Fool.co.uk](http://Fool.co.uk) calls this technique 'snowballing'. Once you've paid off your first target debt, you then use all that freed-up money to tackle the next one on your list.

## CREDIT CARDS

Despite the credit crunch, it is possible to get good deals on credit cards. However, lenders are tightening their credit scoring, which means that it could be harder to get the best deals or the credit limit you want if you don't have the best credit history.

If you want to borrow with a credit card, rather than paying your balance in full each month, you could either opt for a card with an introductory 0% deal, or one with a permanent low rate. To make the most of a 0% deal, plan to pay off all of your debt during the special offer period. When the deal runs out the card will switch to a standard rate, which could wipe out any advantages that the 0% deal gave you in the first place.

If you're looking to transfer an existing credit card debt, shop around for a 0% deal – but be warned: the average transfer fee is now 3% of the balance and most cards don't cap these fees. If you don't want to switch again, go for a card with a low rate – either for an introductory period or for the 'life of balance'.

## LOANS

Taking out a personal loan is a good idea only if you need to borrow at least £5,000 – perhaps to make a big purchase, or to pay off a costly overdraft or credit card debt charged at a higher rate of interest.

It can be cheaper for a homeowner to extend their mortgage borrowing rather than take out a personal loan, as mortgage interest rates tend to be lower than those rates applied to personal loans, credit cards or overdrafts. However, there are drawbacks: when you use your mortgage to borrow more money you tend to repay the loan over a longer term, and this can lead to higher total interest charges.

Mortgage lenders tend to be fairly relaxed about your reason for borrowing more money, but you will need to tell them why, and be able to demonstrate that you can comfortably afford the repayments.

Be warned that consolidating debt can be risky. If you transfer balances from credit or store cards to a loan, it can be tempting to carry on borrowing on the cards, which will lead you into further debt.



# CASE STUDY

Edward (23) and Sarah (26) are planning to move into their own place around the time they get married in Summer 2009. They have been saving in earnest since Easter 2008.

They earn £30 - £32k a year between them and live with Edward's parents, paying £216 each per month.

They made a decision not to move into rented accommodation in order to save the maximum amount of money – around £500 between them each month.

Edward's parents match each month the money Edward and Sarah are able to save.

David, Edward's father, believes their arrangement is the best way for all parties to save responsibly.

He says: "We will have to give them money to get them out of the nest – the way to effect that and reduce the amount for us is to match what they are saving.

"This encourages them to save and reduces our overall contribution – because otherwise we would have to pay for it anyway.

"The good thing for us is it is coming out of my current and not from our savings – so it is not going to come out as a lump sum.

"In other words it's like 'save as you go'."

Sarah, who has one credit card, paid off the balance at the start of the saving programme, and only keeps it for emergencies.

She says: "I had to draw up a spreadsheet with what I get paid and with all my outgoings including what I spend and what comes out for direct debits.



"I know exactly what I have at any moment and when my bank statement comes it is never a shock."

Edward, who has cut his spending on all leisure, clothing and luxuries to around £150 a month, said: "I have cut back by buying less CDs and DVDs, and I go out in the evening less.

"Now I really appreciate the few things I buy."

## PLANNING AHEAD AND SAVING

It's a great idea to build an emergency fund to cover emergencies and big purchases.

"If you build an emergency fund you can avoid having to get into debt for unexpected expenditure," says Martin Bamford. "When you know you are going to have to spend money, such as when you go on holiday, getting into debt is a case of bad planning. Plan ahead and you will be far better off in the long run."

**Clare Evans**, time-management coach, writer and personal finance expert, advises setting aside a minimum of 10% of your monthly salary. You'll find it easiest to save if you set up an automatic payment straight out of your account into a savings account.

"Once you've got into the habit of saving, you can then take the next step and start investing to make your money really work for you," she says.

Also consider taking advantage of tax-free accounts to make your savings go further: you won't pay tax on the interest you earn. You can invest up to £3,600 each tax year into a cash ISA (Individual Savings Account). You can take any or all of it back out again without any penalty, but you won't be able to pay it back in again.



## CHECK YOUR CREDIT RATING

The best way to understand the rules is to imagine saving £3,600, then withdrawing £2,000 towards the end of the tax year. Even though you'd only have £1,600 left in your ISA, you'd already have paid in the full £3,600 allowance and wouldn't be able to save more until the next tax year.

The health of your credit rating will affect your ability to get a mortgage, loan or credit card.

Try [annualcreditreport.co.uk](http://annualcreditreport.co.uk) to see how yours measures up. If it doesn't look good, take steps to improve it: make sure you are on the electoral roll, correct any errors on the report, pay debts on time and don't fire off too many credit applications at once.



**PRIORITISE YOUR DEBTS - PAY OFF  
THE DEBT WITH THE HIGHEST  
INTEREST RATE FIRST**

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**SWITCH CREDIT CARDS TO TAKE  
ADVANTAGE OF 0% INTEREST  
RATE OFFERS**

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**PUT ASIDE A FUND TO  
COVER EMERGENCIES**

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**CHECK YOUR CREDIT RATING  
AND WORK TO IMPROVE IT**

# CHAPTER 4

## HOLIDAYS



**H**olidays are a great way to relax, have fun and experience new cultures. But all too often they work out more expensive than you planned – adding to stress levels rather than reducing them.

Fortunately, thanks to the internet it's now possible to save significant amounts of money on all aspects of a holiday, from hotels and flights to holiday insurance and car rental.

## CHOOSING YOUR HOLIDAY

Use the internet to research, plan and book your holiday. You can compare prices for the different parts of your trip using general sites like **Expedia.co.uk**, **lastminute.com** or **ebookers.com**.

Price-comparison sites like **traveljungle.com** and **travelsupermarket.com** will scour hundreds of travel sites to find the best prices on rooms and flights. As ever, be wary of unscrupulous websites. According to consumer group **Which?**, a good website should tell you exactly what's included in the price, offer a secure booking page, have understandable terms and conditions, be cheaper than phoning or booking in person – and have a good FAQ section to help you solve any problems.



If you're asked for personal or financial information, look for a padlock symbol next to your browser's address bar, and a web address that begins with "https://" rather than "http://". If you've got doubts about trusting a site, don't use it.

## FLIGHTS

For short-haul trips it's often hard to beat the prices offered by low-cost airlines such as Easyjet or Ryanair. To see where you can fly to from your local airport, try sites like **lowcost.com**, **whichbudget.com** or **oag.com**. To compare prices for your chosen route, log on to **Skyscanner.com** or **Dohop.com**.

However, 'no-frills' deals aren't always the cheapest. Prices change very quickly, especially closer to the departure date, so check out the bigger national airlines. Prices vary between airports, too – it may be cheaper to fly from an airport a little further afield, but check travel and parking costs before booking.

To get the best price **Which?** recommends that you:

- Book early to get discounted flights and hotels.
- Are prepared to travel at unsociable hours for cheaper deals.
- Are flexible about hotels and resorts – you may find late bargains for unsold holidays.
- Consider taking weekend breaks from Saturday to Monday, rather than from the more popular (and expensive) Friday to Sunday slot.

## BEWARE OF HIDDEN CHARGES

### Baggage

After you have booked your flight beware of hidden travel costs such as baggage charges. There isn't a standard baggage allowance, although 20kg is common for the bags you check in. Some of the budget airlines charge for each item of luggage checked in.

### Taxes

Check that websites are clear about flight taxes and other extras such as fuel surcharges. Once all the costs are counted up, a budget airline may be no cheaper than a big carrier like British Airways. New EU legislation means that, **by the end of 2008, airlines will have to explain clearly all charges** and advertise the true all-in cost of the flight.

### Location, Location

It sounds like an obvious question but is the airport you're flying to near the place where you are staying? Some destinations have more than one airport. Cheaper airlines sometime use minor airports that are much further away than the main destination, costing you extra in car hire or other transport costs.

## ACCOMMODATION

For the best deal try the websites of the main hotel chains – Holiday Inn, Best Western or Ibis, for example – and then compare their prices to online agencies specialising in hotels (e.g. **hotels.com**, **all-hotels.com** and **laterooms.com**). Don't limit your search to a particular price or star rating as you may miss out on special offers. Once you've found a hotel you like it's worth checking if it's mentioned on one of the many hotel review sites. These offer unbiased reviews from travellers. Some of the best known web sites include **Tripadvisor.com** and **Venere.com**.

## OTHER MONEY-SAVING HOLIDAY TIPS

Holidaymakers can also save money by choosing locations where the cost of living is lower – such as Turkey, Croatia and Bulgaria – and by using alternative UK airports to the biggest ones, according to Bob Atkinson, travel expert at **travelsupermarket.com**.

“With the growth of low-cost carriers and the development of charter services, you can now travel from many local airports to those sunshine destinations and cities around the Mediterranean and Europe,” he says.

“If you are on the South Coast, why not consider Southampton or Exeter as an alternative to London. Leeds, Liverpool and Blackpool can be great alternatives to Manchester, and Coventry can act as an alternative to Birmingham and Luton. Not only will you find a surprising choice of destinations, but also you will find quicker check-ins, less queuing and, often, lower fares to the sun.”

# CASE STUDY

With a 13-year-old son and nine-year-old daughter, Gill (34) and Jonny (32) have to plan their holidays around a pair of active and inquisitive kids. They've saved money in the past by spending a summer fortnight driving around France and Spain, alternating between the adventure of a campsite and the comfort of the occasional hotel, but they've recently been able to afford a couple of holidays to the US.

"A big mistake we made first time we flew as a family was waiting to change money at the airport," says Gill. "It wasn't until we got there that we realised we could get better rates on the high street.

"We've since learned that the best way to keep holiday costs in check is to plan ahead. When we go to Europe we use guide books and the internet to research the dates of local festivals, and we make sure to take one in.

"It's a great experience, with a chance for the whole family to get lost in local food, language and culture, but it's normally pretty cheap – as long as you can find somewhere to stay.

In the States, the family picked up tips for getting the best out of a theme park visit.

"We'd heard that it's best to avoid US holiday dates," says Jonny, "but we quickly worked out that the best way to avoid crowds at a big park is to arrive either very early, or later in the day.

"Eating out's cheap in the US, but it's expensive to eat at the big attractions. We drop into a supermarket and load up on picnic food and drink – you can knock up sandwiches for just a few dollars, and they're better for you and the kids than non-stop fast food!"



## YOUR MONEY ABROAD

### Foreign Exchange

Compare deals in the UK before exchanging currency. In April, **Which?** contacted 15 companies, including banks, travel agents, Marks & Spencer and the Post Office, to find how much it would cost to buy US \$500. Although all offered commission-free currency, the cost still varied by almost £15.

### Credit and Debit Cards

The cheapest way to get cash abroad is from a cashpoint with a debit card. However, most banks will charge a handling fee for making cash withdrawals in this way, so try to avoid making lots of withdrawals for small amounts. Nationwide and Citibank currently both offer fee-free debit card withdrawals from overseas cashpoints.

Using a credit card to get hold of cash whilst you're on holiday should really be something you only consider in an emergency. Handling fees tend to be much higher – typically up to 3%, you're often charged a higher APR for cash withdrawals (around 24%) and you sometimes have to pay interest straight away on the money you withdraw.

With the expansion of the Visa, Cirrus and Mastercard networks it's easy to use credit and debit cards to make purchases in shops, hotels and restaurants all over the world. Be aware however that most credit cards charge an extra fee for purchases abroad. It's known as a "foreign exchange loading fee" and is typically 2.75%. In addition, most debit cards also charge a handling fee of about £1.50 per transaction.

You can cut your costs by using a credit card that doesn't charge extra for foreign purchases. Find out more by using a price comparison website such as [confused.com](http://confused.com), [gocompare.com](http://gocompare.com) or [moneysupermarket.com](http://moneysupermarket.com).



**GET THE BEST DEAL ON YOUR FLIGHT  
AND HOTEL BY USING TRAVEL  
WEBSITES**

**TRAVEL AT UNSOCIAL HOURS TO GET  
A BETTER DEAL**

**BOOK EARLY IF POSSIBLE**

**AVOID USING CREDIT CARDS ABROAD  
- USE A DEBIT CARD INSTEAD**

# CHAPTER 5

## ADDED EXTRAS

HOW TO REDUCE NON-ESSENTIAL  
FAMILY OUTGOINGS



**M**anaging a family budget can seem like a thankless task. Just when you think you've got your outgoings under control, along comes another hefty cost like an overseas school trip or a long-term commitment like helping your children through university.

However, with a bit of imagination, discipline and planning it is possible for your family to pull together and reduce its outgoings.

## KEEP A MONEY DIARY

One tip is to start a daily money diary listing everything you spend your money on – from a daily newspaper and latte, up to expensive items like the gas bill. At the end of the week work out how much you've spent and identify any areas where you can cut back. Encourage your children to keep a money diary and hold a competition each month to see who has cut their outgoings by the most.

“Knowing how much you have coming in and how much goes out will help you to be better organised,” says personal finance expert **Clare Evans**.

“Put a structure in place to help plan and organise your finances.”

Work out your monthly expenditure by gathering your bank statements, credit card bills, household bills and all other regular outgoings. Then list your sources of income – pay slips from full-time jobs and part-time work.

Use one of the free budget calculators on the web, such as the one on personal finance site **fool.co.uk**. It can be used as a personal budget planner, or to help assess your debt position.

## MANAGE YOUR MONEY

Set aside time each week to manage your family finance. “You only need a few minutes to sort through your receipts, pay any bills, file away invoices and statements,” Evans says. “Book time out in your diary – either on a Friday at the end of the week or perhaps at the weekend. Make it the same time each week and it's easier to do.”

Evans also advises people to go through their bank statements and credit card receipts once a month.

“Record all your income and outgoings as you go, so you know just what you're spending. A simple spreadsheet will do the trick. Once you get into the habit of regularly reviewing your finances this will probably only take an hour or so each month.”

An annual review of your finances is also a good idea. Examine all of your Direct Debits and standing orders, cancelling any that you no longer need, such as gym membership fees and magazine subscriptions. Check also that you're on the best value packages for telephones, broadband, television and so-on.

But don't try to do all this on your own. Educate your children about money and get them involved in your financial makeover.

Experienced financial adviser Martin Bamford, says: “The best way to manage a family's budget is to plan in advance and work together as a family. By involving the whole family in some aspects of your financial planning it is possible to make children and other family members aware of the cost of doing things.”

This is particularly important during school holidays when bored children demand expensive entertainment. Bamford says that parents should set a weekly budget for entertainment and other events. Your children can then understand the cost of different activities and make decisions about where this budget should be spent.

## CUT BACK ON LUXURIES

Finally, before you buy anything ask yourself whether it is essential.

Clare Evans advises that you don't buy anything unless you absolutely cannot live without it: "That means no spending on luxury goods. Think about everything you buy," she adds.

Identify those nice-to-have weekly expenses that can eat into your budget.

Eating out is a nice treat, but eating in is much cheaper, and cooking as a family can be fun. Making your own lunch, instead of relying on shops or cafes, could save you hundreds of pounds a year.

If you can't stand another evening in, sign up to restaurant loyalty offers that give you two-for-one or similar offers on meals during the week.




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**KEEP A MONEY DIARY OF EVERYTHING YOU SPEND THEN REVIEW IT AFTER A MONTH FOR POSSIBLE AREAS TO CUT OUTGOINGS**

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**SET ASIDE TIME TO REVIEW YOUR FINANCES AT THE END OF EACH WEEK AND MONTH**

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**EDUCATE YOUR KIDS ABOUT MONEY TO STRENGTHEN FAMILY FINANCES**

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**TRY TO BUY ONLY ESSENTIAL ITEMS - CUT BACK ON LUXURIES**

## CONCLUSION

We hope you've found the advice and information in this e-book useful. Of course, we can't cover everything, and everyone's personal circumstances are different, so you should consider getting professional advice before making any big changes that affect your family's finances.

Here are some independent sources of help and advice, but remember that your bank, insurance broker or mortgage advisor may also be able to help, and may be well-placed to understand your personal circumstances.

**[citizensadvice.org.uk](https://citizensadvice.org.uk)** - Citizens Advice, a charity offering general advice to individuals

**[unbiased.co.uk](https://unbiased.co.uk)** - Independent Financial Advisors, commercial financial advisors able to offer independent advice on all competing products

**[moneymadeclear.fsa.gov.uk](https://moneymadeclear.fsa.gov.uk)** - Money made clear, the Government's financial advice website

**[nationaldebtline.co.uk](https://nationaldebtline.co.uk)** - National Debtline, a charity-run independent debt advice service

**[cccs.co.uk](https://cccs.co.uk)** - Consumer Credit Counselling Service, a charity offering free advice and support to anyone worried about debt

**[ccwater.org.uk](https://ccwater.org.uk)** - Consumer Council for Water, the consumer water watchdog

Please note that the information contained in this e-book is inevitably brief and published on a general basis and changes in the law may occur subsequently. No liability is accepted for errors of fact or opinion it may contain. Specific professional advice should always be sought before applying the information to particular circumstances or specific problems.

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