

LEARNING MADE EASY



Personal Finance

for
dummies[®]
A Wiley Brand



Make your money
work for you

—
Build
financial security

—
Spend mindfully and
track expenses

Hannah Smith

Financial journalist

Eric Tyson, MBA



Personal Finance

UK Edition

by Hannah Smith and Eric Tyson, MBA

**for
dummies®**
A Wiley Brand

Personal Finance For Dummies®, UK Edition

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Introduction

Welcome to *Personal Finance For Dummies*, U.K. Edition! Now in its 11th iteration, this book has been updated and specifically adapted for the needs of U.K. readers. More than two million copies of prior editions of this book were bought, and readers and reviewers alike have been pleased. This book also previously earned the prestigious Benjamin Franklin Award for best book of the year in business. However, I never rest on my laurels. So the book you hold in your hands reflects more hard work and brings you the freshest material for addressing your personal financial quandaries.

You're probably not a personal finance expert, for good reason. Historically, Personal Finance 101 hasn't been offered in our schools. Even if you received some financial education and acquired some financial knowledge over the years (most likely from a wise family member or friend), you're likely a busy person who doesn't have enough hours in the day to get everything done. You want to know how to diagnose your financial situation efficiently (and painlessly) to determine what you should do next. Unfortunately, after figuring out which financial strategies make sense for you, choosing specific financial products in the marketplace is often overwhelming. You have literally thousands of investment, insurance, and loan options to choose from. Talk about information overload!

To further complicate matters, you probably hear about most products through advertising which, by law, is supposed to be "clear, fair and not misleading." Of course, some ethical and outstanding firms advertise, but so do those that are more interested in converting your hard-earned income and savings into their short-term profits. And they may not be here tomorrow when you need them.

Despite the development of new media and new financial products and services, people keep making the same common financial mistakes — procrastinating, neglecting to plan, wasteful spending, falling prey to scams, failing to do sufficient research before making important financial decisions, and so on. This book can keep you from falling into the same traps and get you going on the best paths.

As unfair as it may seem, numerous pitfalls await you when you seek help for your financial problems. The world is filled with biased and bad financial advice. You don't want to suffer the consequences of taking poor advice! All too often, financial advice ignores the big picture and focuses narrowly on investing.

Because money is not an end in itself but a part of your whole life, this book helps connect your financial goals and challenges to the rest of your life. *Personal Finance For Dummies* provides a broad understanding of personal finance that includes all areas of your financial present and future: spending, tax, saving and investing, insurance, and planning for major goals like buying a home, running your own business, investing for your future, and so on.

Even if you understand the basics, thinking about your finances in a holistic way can be difficult. Sometimes you're too close to the situation to be objective. Your finances may reflect the history of your life more than they reflect a comprehensive plan for your future.

You want to know the best places to go for your circumstances, so this book contains specific, tried-and-proven recommendations. I also suggest where to turn next if you need more information and help.

About This Book

Here are some of the updates I've made to the book:

- » Information on how to navigate changing economic conditions and make the most of your money, including making decisions about property
- » Complete coverage of recent tax law changes and how to navigate upcoming rules affecting individuals, families, and small businesses
- » Updated investment information covering funds, exchange-traded funds, stocks, bonds, and more
- » Expanded coverage of self-employed retirement savings strategies
- » Updated coverage of higher-education options, costs, and benefits
- » The latest information on the State Pension and what it means in terms of how you should prepare for retirement
- » Revised information on where and how to find the best insurance deals
- » Coverage of the best personal finance apps and fintech (financial technology) options and solutions
- » Updated coverage of how to use and make sense of the news and financial resources (especially online resources)

Aside from being packed with updated information, another great feature of this book is that you can read it from cover to cover if you want, or you can read a particular chapter or part without having to read what comes before it. Handy cross-references direct you to other places in the book for more details on a particular subject. If you like, you can skip the sidebars (shaded boxes) and text marked with the Technical Stuff icon; that info is interesting but nonessential.

Note: This book is for informational purposes only and does not constitute financial advice. You should consult a qualified adviser for personalised recommendations.

Foolish Assumptions

In writing this book, I made some assumptions about you, dear reader:

- » You want expert advice about important financial topics (such as paying off and reducing the cost of debt, planning for major goals, making wise investments), and you want quality information and answers efficiently.
- » You want a crash course in personal finance and are looking for a book you can read cover to cover to help solidify major financial concepts and get you thinking about your finances in a more comprehensive way.

This book is basic enough to help novices get their arms around thorny financial issues. But it challenges advanced readers as well to think about their finances in a new way and identify areas for improvement.

Icons Used in This Book

The icons in this book help you find particular kinds of information that may be useful to you.



TIP

This lightbulb flags strategy recommendations for making the most of your money.



REMEMBER

This icon denotes information that's definitely worth remembering.



WARNING

This icon marks things to avoid and points out common mistakes people make when managing their finances.



A CLOSER
LOOK

The magnifying glass nudges you to consider doing some additional research on your own.



TECHNICAL
STUFF

This nerdy-looking guy appears beside discussions that aren't critical if you just want to understand basic concepts and get answers to your financial questions. You can safely ignore these paragraphs, but reading them can help deepen and enhance your personal financial knowledge.

Beyond the Book

In addition to the material in the print or e-book you're reading right now, this product also comes with some access-anywhere online goodies. Go to www.dummies.com and type in "Personal Finance For Dummies, U.K. Edition Cheat Sheet" in the search box to discover a list of pointers that can help you think about the role of money in your life and start achieving your financial goals.

Where to Go from Here

This book is organised so you can go wherever you want to find complete information. Want advice on investing strategies, for example? Go to Part 3 for that. Feel the urge to get your insurance needs in order or to check on what type of insurance you really need? Head to Part 4.

You can check out the table of contents to find broad categories of information and a chapter-by-chapter rundown of what this book offers, or you can look up a specific topic in the index. And, if you think you need additional help beyond this book, see Chapter 16 for advice on using financial planners and Chapter 21 for finding out what other resources are out there to assist you.

If you're not sure where you want to go, you may want to start at the beginning with Part 1. It gives you all the basic info you need to assess your financial situation and points to places where you can find more detailed information for improving it.

1

Getting Started with Personal Finance

IN THIS PART . . .

Understand your financial literacy.

Lay the building blocks of your financial foundation.

Set and accomplish personal and financial goals.

IN THIS CHAPTER

- » Defining what financial literacy includes and means
- » Looking at what your parents and others taught you about money
- » Questioning reliability and objectivity
- » Overcoming real and imagined barriers to financial success

Chapter 1

Embracing Financial Literacy

In its 2024 Financial Lives survey, the Financial Conduct Authority (the U.K. regulator) found that 6.5 million people (12 percent of U.K. adults) have low financial capability. The majority of these people reported feelings of stress and overwhelm when having to deal with financial services firms, and many delayed making money decisions because of it. People who don't understand finance are less likely to have pensions and other savings pots, and to hold less in them when they do. Being financially illiterate is a huge disadvantage in life.

I know from my many years of work as a personal financial counsellor and teacher and now as a writer that many people do indeed have significant gaps in their personal financial knowledge. Although we have greater access today to more information than in prior generations, the financial world has grown more complicated, and there are more choices, than ever before.

Unfortunately, most of us don't know how to manage our personal finances because we were never taught how to do so. Our parents may have avoided discussing money in front of us, and the subject is not always covered in much detail at school. Even if it is, young learners may not be able to absorb and retain the information given because it does not yet feel relevant to their lives.



REMEMBER

Some people are fortunate enough to learn the financial keys to success at home, from knowledgeable friends, and from the best expert-written books like this one. Others either never discover important personal finance concepts, or they learn them the hard way — by making lots of costly mistakes. People who lack knowledge make more mistakes and, the more financial errors you commit, the more money passes through your hands and out of your life. In addition to the financial costs, you experience the emotional toll of not feeling in control of your finances. Increased stress and anxiety go hand in hand with not mastering your money.

This chapter examines what topics fall under the heading of “financial literacy” and where people learn about finances, and helps you decide whether your current level of knowledge is holding you back. You can find out how to improve your financial literacy and take responsibility for your finances, putting you in charge and reducing your anxiety about money. After all, you have more important things to worry about, like what’s for dinner.

Understanding Everything Financial Literacy Includes

What exactly does being literate in personal finance mean? The following are three subjects to become acquainted with:

- » **Managing your everyday transactions:** I cover accounting for money that passes through your hands and your current accounts in the short term.
- » **Investing for the long term:** I discuss the best ways to invest money for better returns and longer-term purposes.
- » **Protecting your money:** I provide an overview on the generally less popular but highly important topic of protecting your income and assets with insurance.

In addition to these major topic areas, the field of personal finance includes plenty of jargon and terminology, the mastery of which will boost your confidence and your decision-making skills. I provide definitions along the way and include a handy glossary at the end of this book.

Starting with the basics: Budgeting and transaction accounts

If you're like most people, as you earn money, much of it too quickly passes through your hands or, more specifically, into and out of your current accounts. As you surely know, a hefty chunk of money you earn is siphoned off to pay tax. What's left is used to cover your monthly living expenses, such as housing, food, utilities, clothing, and hopefully for some entertainment and recreation. Chapter 2 delves into the different kinds of transaction accounts and how to use them.

Managing your monthly living expenses (including tax) and budget and establishing and working towards financial goals takes time and effort. Parts 1 and 2 help you accomplish those important tasks.

Making your money work for you: Investing

When you are spending less than you earn and are able to save new money each month, you will have the pleasant but challenging problem of deciding where and when to invest your savings. Or maybe you already have additional money you want to invest and make it work harder for you.

The world of investments is complicated and filled with pitfalls. That contributes to some people leaving their excess money sitting in their low-interest current accounts by default. While you could do worse (by losing money in poor investments), you can certainly do better — and you probably need to do better in order to accomplish your financial goals. Part 3 covers all things investing and helps you master that important task.

Protecting your income and assets: Insurance

When you're earning money and have some assets (a car, a house, and so forth), insurance protects against the loss of that income and your assets. If others rely on your employment income, you likely need some life insurance. Even without dependants, you probably rely on your own income and should have adequate income protection.

Assets like a car and a home also require sufficient protection using insurance policies. See Part 4 for the important details on insurance.

Talking Money at Home

I was fortunate — my parents taught me a lot of things that have been invaluable throughout my life, and among those things were sound principles for earning, spending, and saving money. My parents had to know how to do these things because they were raising a family of three children on (usually) one modest income. They knew the importance of making the most of what you have and of passing that vital skill on to your kids.

However, my parents' financial knowledge did have some gaps. I observed first-hand the struggles my late father endured handling some retirement money after being laid off from a job when I was a child. In subsequent years, this situation propelled me to learn about investing to help myself, my family, and others.



WARNING

In many families, money is a taboo subject — parents are not honest with their kids about the limitations, realities, and details of their budgets. Some parents I talk to believe that dealing with money is an adult issue and that children should be insulated from it so they can enjoy being kids. Others readily admit the many holes in their financial knowledge and don't feel comfortable teaching their kids about personal finance for this reason. In too many families, kids hear about money *only* when disagreements and financial crises bubble to the surface. This begins the harmful cycle of children having negative associations with money and financial management.

In other cases, parents with the best of intentions pass on their bad money-management habits. You may have learned from a parent, for example, to buy things to cheer yourself up. Or you may have witnessed a family member maniacally chasing get-rich-quick business and investment ideas. Now, I'm not saying that you shouldn't listen to your parents. But in the area of personal finance, as in any other area, poor family advice and modelling can be problematic.

Think about where your parents learned about money management and then consider whether they had the time, energy, or inclination to research choices before making their decisions. For example, if they didn't do enough research or had faulty information, your parents may mistakenly have thought that banks were the best places for investing money or that buying stocks was like going to Las Vegas. (You can find the best places to invest your money in Part 3 of this book.)

In still other cases, the parents have the right approach, but the kids do the opposite out of rebellion. For example, if your parents spent money carefully and thoughtfully and often made you feel denied, you may tend to do the opposite, buying yourself gifts the moment any extra cash comes your way.

Although you can't change what the educational system and your parents did or didn't teach you about personal finances, you now have the ability to find out what you need to know to manage your finances.



TIP

If you have children of your own, don't underestimate their potential or send them out into the world without the skills they need to be productive and happy adults. Start early — even very young children can be taught basic concepts of spending versus saving, and can have fun learning how to budget their pocket money. And see Chapter 14, which discusses options for investing money for children.

Identifying Unreliable Sources of Information

Most people know they're not financial geniuses. So they set out to take control of their money matters by reading about personal finance or consulting a financial adviser.

But reading and seeking advice to find out how to manage your money can be dangerous if you're a novice. Misinformation can come from popular and seemingly reliable information sources, as I explain in the following sections.

Understanding the dangers of free financial content online

In addition to being able to quickly access what we want, the other major attraction of the internet is the abundance of seemingly free websites providing piles of apparently free content. Appearances, however, can be decidedly deceiving!

While there are exceptions to any rule, the fact of the matter is that the vast majority of websites offering “free” content are rife with conflicts of interest and quality problems due to the following:

- » **Advertising:** Any publication that accepts advertising has a potential conflict of interest because it may not want to publish articles that would upset its advertisers. Such a mindset, however, can stand in the way of telling consumers the unvarnished truth about various products and services. For example, credit-card companies aren't very interested in advertising somewhere that publishes articles highlighting the negatives of credit cards.

- » **Advertorials:** Too many website owners are unwilling or unable to pay real writers for quality content and instead publish articles that are written and provided by advertisers who may have paid for the opportunity. These pieces of “content” are known as *advertorials* and, in the worst cases, aren’t even clearly labelled as advertisements, which is precisely what they are.
- » **Affiliate relationships:** Many companies pay “referral fees” to websites that bring in new customers. Here’s how that practice causes major conflicts of interest. On a financial website, you read a glowing review of a particular financial product or service. And the site provides a helpful link to the website of the provider of that product or service. Unbeknownst to you, when you click on that link and buy something, the seller kicks money back to the “affiliate” who reeled you in. At a minimum, such relationships should be clearly disclosed and detailed in any review.
- » **Insufficient editorial oversight:** Most established, quality print publications usually have numerous editors who oversee the publication and all its articles. This structure helps ensure the accuracy of what gets into print (although bias, such as political bias, isn’t necessarily controlled). Unfortunately, the shoe-string budget on which many websites operate precludes these quality-control checks and balances. Sites operated by nonexperts proffering advice place you at great risk.
- » **Lack of accountability:** In part because of a lack of editorial oversight, there’s also often a lack of accountability for advice given online. This situation is especially problematic on the numerous sites that are run without disclosure of who is actually in charge of the site and/or who is writing the articles. Although such anonymity may be helpful to the site and its content providers, it’s certainly not in your best interests because it prevents you from checking out the background, qualifications, and track record of the providers.

Recognising the dangers of following financial gurus (and celebrities)

While new mediums may come while others fade, the same types of dangers continue to trip up people with their money.



TIP

Before you take financial advice from anyone, examine their background, including professional work experience and education credentials. This is true whether you’re getting advice from an adviser, writer, talk show host, or TV financial reporter.

If you can’t easily find such information, that’s usually a red flag. People with something to hide or a lack of something redeeming to say about themselves usually don’t promote their background.

Of course, just because someone seems to have a relatively impressive-sounding background doesn't mean that they have your best interests in mind or have honestly presented their qualifications.

You can't always accept stated credentials and qualifications at face value, because some people lie (witness the billions lost to hedge fund Ponzi-scheme-man Bernie Madoff). You can't easily sniff out liars. You can, however, increase your chances of being tipped off by being sceptical (and by regularly reading the "Guru Watch" section of www.erictyson.com).

Celebrities were used big-time as endorsers in recent years in the problematic cryptocurrency space. You've perhaps heard of the now defunct and bankrupt offshore cryptocurrency exchange FTX, the founder of which is now serving a very long prison sentence. FTX spent hundreds of millions of dollars on advertising and paying celebrity endorsers like basketball stars Shaquille O'Neil and Stephen Curry, NFL quarterbacks Trevor Lawrence and Tom Brady, comedian Larry David, supermodel Gisele Bündchen, and tennis great Naomi Osaka.

In some of the advertisements for FTX, the well-paid celebrity endorsers joked about not knowing much about cryptocurrencies but then suggested that that was why they used FTX, implying that FTX was the expert. In other ads, some celebrities acted like they were calling friends to ask if they too were going to invest through FTX. Lawyers in the U.S. have filed a class action lawsuit against the celebrities for being bought off, failing to disclose large endorsement fees, and misleading the public to invest billions of dollars in FTX, which turned out to be a fraud. In the U.K., there are strict rules about the promotion of financial products by regulated businesses but, as the regulator only registers U.K.-based cryptocurrency exchanges for anti-money laundering checks, there is little in the way of consumer protection for British consumers trusting their money to companies like these.

Publishers pandering to advertisers



WARNING

Thousands of publications and media outlets — including websites, blogs, podcasts, radio, TV, magazines, and newspapers — dole out personal financial advice and perspectives. Although some of these "service providers" collect revenue from subscribers, virtually all are dependent — in some cases, fully dependent (especially the internet, radio, and TV) — on advertising spend. Although advertising is a necessary part of capitalism, advertisers can taint and, in some cases, dictate the content you read, listen to, and view.

Be sure to consider how dependent a publication or media outlet is on advertising and read the small print for an explanation of how they make money. "Free"

publications are the ones that most often create conflicts of interest by pandering to the advertisers from which they derive their revenue.

Developing Good Financial Habits

Once you understand the basic concepts and know where to buy the best financial products when you need them, you'll soon see that managing personal finances well is not much more difficult than other things you do regularly, like tying your shoelaces and getting to work each day.



REMEMBER

Regardless of your income, you can make your money stretch further if you practice good financial habits and avoid mistakes. The lower your income, the more important this is.

Personal finance involves much more than managing and investing money. It also includes making all the pieces of your financial life fit together; it means lifting yourself out of financial illiteracy. Like planning a holiday, managing your personal finances means forming a plan for making the best use of your limited time and money.



REMEMBER

Intelligent personal financial strategies have little to do with your gender, ethnicity, or marital status. Everyone needs to manage their finances wisely. Some aspects of financial management become more or less important at different points in your life but, for the most part, the principles remain the same for everyone.

Knowing the right answers isn't enough. You have to practice good financial habits just as you practice other good habits, such as brushing your teeth or eating a healthy diet. Don't feel overwhelmed. As you read this book, make a short list of your financial marching orders and then start working away. Throughout this book, I highlight ways you can overcome temptations and keep control of your money rather than letting your emotions rule you. (I discuss common financial problems in Chapter 3.)



REMEMBER

What you do with your money is quite a personal matter. In this book, I try to provide guidance that can keep you in sound financial health. You don't have to take it all — pick what works best for you and understand the pros and cons of your options.

Throughout your journey, I hope to challenge and even change the way you think about money and about making important personal financial decisions — and sometimes even about the meaning of life. No, I'm not a philosopher, but I do know that money is connected to many other parts of our lives.

IN THIS CHAPTER

- » Sizing up where your money comes from
- » Understanding current, savings, and investment accounts
- » Creating a budget to see where your money really goes
- » Taking stock of your credit history

Chapter 2

Establishing a Financial Foundation

What are the basic building blocks for establishing your financial foundation? Understanding cash flow, knowing the different account types, creating a realistic budget, and learning how to improve your credit score are all important.

You need to understand how to manage your spending and cash flow, which is the difference between your income and your outgoings, because having positive cash flow (meaning you earn more than you spend) lets you work towards future financial and personal goals.

Having a solid grasp of the different types of accounts through which your money may pass will help you choose those with better terms and potential returns. Current accounts and savings accounts are offered by banks and other types of financial institutions. Many financial institutions also offer investment accounts, which makes choosing even more overwhelming.

You'll also need to know how to set up a budget. This may sound boring and restrictive, but a budget doesn't have to be — in fact, it can set you free to spend money on things you want, while making sure all your essential bills are paid.

Finally, you should understand how to build and improve your credit score in case you want to borrow money to accomplish important goals such as buying a home or starting a business.

Understanding Your Cash Flow

Every month, you have money coming in and money going out. Most people have never had sufficient training in how to manage their personal finances in order to do it well. Enter this book!

Your *cash flow*, over a specific period, such as a month or a year, is simply the difference between your income coming in and your expenditures going out. If it's positive — that is, your income exceeds your spending — you have money left over which you could save or invest. When your cash flow is negative — in other words, when your spending is greater than your income — you're either burning through savings or accumulating debt.

Uncovering where your money goes

Brushing your teeth, eating a balanced diet, and exercising regularly are good habits. Spending less than you earn and saving enough to meet your future goals are the financial equivalents of these habits.

Despite having relatively high incomes compared to the rest of the world, many people in the U.K. have a hard time saving a solid percentage of their incomes. Why? Of course, part of the problem is that wages have not grown as fast as inflation, so incomes are lower than they need to be to buy essentials. But, even for people with healthy salaries, it's easy to struggle simply through overspending. This can happen without you realising. It's why having a budget is so important, so you can see where you might be frittering away money and take steps to pull it back. To build financial security, you need to continuously spend less than you make. If you aren't doing this right now, you need either to reduce your spending or increase your income. For most people, the former is easier to do than the latter.



TIP

The first step to saving more of the income that you work so hard for is to figure out where that income typically gets spent. Do a spending analysis (see Chapter 4) if any of the following apply to you:

- » You aren't saving enough money to meet your financial goals. (If you're not sure whether this is the case, see Chapter 3.)