Guide to planning for your financial future

Sainsbury's Bank

When you first start out in your career you might be thinking about paying back student debt, taking trips abroad or buying a car. And in a few years time, you might be thinking about even bigger purchases such as a house or a wedding.

In the first few years after you graduate it can be tempting to spend, but how can you do all the things you want to do and still prepare for the even bigger expenses you'll want to make in the future? Thankfully, others have been in the same position, wondering the same. A few years on they've shared their most important tips with us so you can benefit from their wise words.

The road to savings

Start saving. The amount you're saving isn't the point, it's the fact that you're putting that little bit aside regularly.

This idea is echoed by Michelle Highman, CEO of The Money Charity who says: 'Start now! It is never too early to start saving. Even if you can only save a few pounds a month, it will all add up, and the sooner you begin, the bigger amount of money you will eventually be able to put aside.'

Being responsible with your money is like any big project: you just have to take it one small step at a time, and keep at it.

Make the most of what you are putting aside by looking at different savings accounts and find one that rewards you with a good interest rate. An individual savings account (also known as an ISA) is one possible way to start because unlike a traditional bank account, the interest paid on your balance is not subject to tax - up to a certain amount. ISAs may sound complex, but can be easily explained by a financial advisor.

As you start to obtain more disposable income, try to find the balance between having fun and keeping an eye on your finances. Try to save something.

Tracey Bleakley, Chief Executive of financial education charity Personal Finance Education Group (PFEG), offers great advice on not being too shortsighted on your saving plans: 'Start – and don't stop! When you're 18 the future seems a long, long way away – but it's really important to get into the habit from an early age, especially in uncertain economic times for young people. It's also important to remember the need to save for the short term as well as the long term, and that both are important.'

Budgeting

One way to give yourself a better chance of saving is to budget. Being in control of your incomings and outgoings gives you an opportunity to see where you are spending. Any money you can save from budgeting could be used to add to your savings. It's all about finding the balance.

Michelle Highman from The Money Charity offers her insight on budgeting: 'The first step is to create a realistic budget that works for you. And then try to stick to it! Don't cheat. It's far better to be honest about your latte or shoe addiction – that way you can factor it into your budget. This will help you decide honestly how much you can afford to spend each month on luxuries, whilst still ensuring the basics like rent and bills are covered first.'

Budgeting really can be the key to having a more comfortable financial future and this opinion is expressed by young entrepreneur Jessica Rose, founder of The London Jewellery School: 'It's best to keep things simple. Check your bank statements each month to make sure you know what is going in and out of your account. Budgets really help you to keep your finances in check and what's more, if you start getting into the habit of doing it now, it will set you in good stead for future years.'

Budgeting for that dream trip

Taking time out to travel around the world is becoming increasingly popular and it's hard to see why not. From scuba diving in Fiji where the water is so warm you don't need a wet-suit, to camping under the stars in the Australian outback, hundreds of kilometres from any kind of civilisation the experience starts the minute you've set your mind on travelling. As with all life-changing encounters it takes a lot of financial planning and also some sacrifice to make the dream come true.

First, figure out the costs of your trip. These might include:

- Flights
- Internal travel
- Accommodation
- Travel insurance
- Excursions
- Any vaccinations required
- Spending money – budget wisely
- Necessities
    - Backpack
    - Guide books
    - Clothing
    - Australian Hobbly-Bob hat

There's a great budget calculator that can help you plan the costs of your trip.

Once you have an idea of your outgoings you can start working on setting a savings target. Set yourself a realistic goal and do everything you can to reach it. Some banks have saving apps or tools online that let you set a goal and encourage you to achieve it.

How is your savings goal looking? A good tip is to set up a regular payment into your savings account, either via a standing order or direct debit. You might want to set this up for the day after you get paid so you can't spend the money on something else.

If it's possible, you might also want to consider living somewhere with lower rent or looking for second job. Yes you might get taxed slightly higher but the extra funds can help you get on that plane sooner.

If your flights or accommodation are more than £100 buy them using a credit card. This can give you some protection if the travel provider goes into insolvency.

Budgeting for a car

It might not be foreign shores that take your fancy; it could be that you can't wait to get on the road. If so, some of the above advice is still relevant. It's all about being responsible and making sure the financial commitments you make are realistic.

When purchasing a car, you might want to take out a small loan to help you. But before you start looking at cars, work out what you can afford. Calculate how much you can repay each month and save as much as you can before you buy in order to minimise the monthly payments.

Make sure you have a good understanding of the Annual Percentage Rate (APR) on any loan or finance agreement and you've read the terms and conditions in detail.

Factor in the cost of:

- Insurance
- Petrol
- Maintenance
- Repayment costs of any finance.

As with any finance, always make sure you meet the agreed payments and if you find yourself in a position where you can't, deal with the problem straight away.

Credit scores and your future

Whatever it is you want to start spending your money on, spend responsibly to protect your credit score.

The importance of looking after your credit score is summed up by Tracey Bleakly of PFEG: 'I don't think anyone can say, hand on heart, that they really appreciate just how important their credit score is until they need to borrow money. Whether it's a credit card, loan or a mortgage on a property, your credit score is essential for allowing you the option of borrowing money when it is appropriate for your circumstances – and when you are just starting out in your adult life, it is crucial to look after it.'

The etymology of 'credit' is from the Latin: creditum, which means: 'a thing trusted to another.' Your credit score can be used as a measure to indicate just how trustworthy you might be when it comes to paying back credit.

It might seem a bit abstract at first, but having an understanding of what makes up your credit score can be useful. Your credit score is a measure of how responsible you are with your money, when it comes to loans and credit cards and other financial contracts you might want to commit to in the future.

A good score might allow you to borrow money at a better interest rate, saving you money when it comes to accessing funds for anything from a used car to a new home. It's made up of a number of factors:

- Length of credit history – The longer you have been building your credit rating, the better it could be.
- Quality of credit history – Do you make payments on time? Do you pay more than the bare minimum?
- Credit-to-debt ratio – Your credit comes with a limit on how much you're able to spend. How close are you to that limit?
- Number of accounts – The more accounts you keep healthy and in good stead, the more attractive you may be to other lines of credit.

Looking after your credit score

There are many ways to potentially influence your credit rating.

Your rating could be based on out-of-date or inaccurate information. When you move house, not only might you have to change your address with your bank, but you may need to contact the credit reference agency to ensure they have the right details too. Having inconsistent details on file can make you look suspicious and the credit reference agency will be aware of it. When you're young, this might not seem like an issue but it's something to be aware of.

Ultimately, the best way to improve your score is to be proactive. Pay your bills on time, use your credit cards responsibly, make any loan repayment on time and ensure you are properly registered on the electoral roll. In the same way that you might be asked to provide a household bill to prove your address when you join a gym, the credit reference agency may look at whether you are registered on the electoral roll in the area where you say you are staying.

For more information, check out our useful guide on managing and improving your credit score.

Looking towards your financial future

Buying a house or retiring might seem like a far-off concept, but these are important life changing events. By looking after your credit score and saving for these early on you can make your financial future more secure.

The Money Charity offers their views on debt and credit: 'In this day and age it is almost impossible to live debt-free, most of us can't pay cash for our home or our university education (yes, a student loan is a debt). Therefore, used wisely certain types of credit can be a sensible option and can help you achieve specific aspirations. However it is crucial to understand exactly what you are taking on and how you are going to pay it back – do you have a plan for the repayments and can you afford them?'

Saving for a house

One of the biggest hurdles on the path to getting a house is the deposit. However, by budgeting, saving and acting responsibly, you could be on the right track to getting the keys to your dream home. Typically the larger the deposit you can pay up front, the less you are likely to pay in interest.

First time property buyer, Geoff offers his insight on saving for a deposit: 'Try to pull together as large a deposit as you can, it works out a lot cheaper in the long run. Don't forget other costs though; stamp duty, legal fees and mortgage fees can come as a surprise.'

Calculating your budget can really help, as you should be able to plan out just how much you can save – and how long it might take. Remember, don't cheat: include some extra for spending on the things you can't live without.

Saving for retirement

Yes, we know retirement might be so far away that it is potentially the last thing on your mind. But again, the earlier you start saving the better.

Jayne Symonds from The Money Advice Service has some valuable words of wisdom on sorting your pension early: 'If you have access to a workplace pension scheme in your first job – join, join, join! Joining the workplace scheme (or remaining automatically enrolled if you are aged 21 or over) is a great way to start your pension savings.

Workplace pensions are particularly advantageous if your employer will contribute to the scheme. Any money you put into the scheme will be topped up twice – first by your employer and second by the taxman, through tax relief'.

By doing this, you can be treating your future self to a happy retirement by doing all you can to ensure you have a good pension plan in place. A pension takes a little money from your pay every month and stows it away for when you retire. Many employers offer a pension scheme designed to give you peace of mind. The government also provide a basic state pension as long as you meet the requirements. To be eligible you need 30 years worth of contributions or credits. Find out more at gov.uk

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Links:

1) http://themoneycharity.org.uk/
2) http://www.pfeg.org/
3) http://www.londonjewelleryschool.co.uk/
4) http://www.independenttraveler.com/uk-travel-budget-calculator
5) http://www.sainsburysbank.co.uk/loans/glossary.shtml
6) http://www.sainsburysbank.co.uk/library/default/resources/guide-to-managing-and-improving-your-credit-score.pdf
7) https://www.moneyadviceservice.org.uk/

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