



## FINANCES

# MANAGING YOUR DEBT

**It's useful being able to borrow money. It can help you acquire assets - like a house, a business or an education. But debt can also be a trap.**

The interest you pay on servicing debt eats away at your budget and stops you from building up your net worth.

One of the easiest ways to get your money situation sorted is to settle your debt. Remember, debt can be advantageous if you spent it on the right thing and manage it effectively. Don't let debt control you.

### **Pay off debt or save?**

As a rule, it makes good financial sense to pay back your loans as fast as possible, particularly if you have high interest debt, like hire purchases or credit cards. Unfortunately, you will often pay more interest on a loan than the interest you will earn from savings so it makes sense to pay off your debt even before saving.

However, there are also good reasons to do both - pay off debt as fast as possible and start a savings programme at the same time.

### **Have an emergency fund**

It's common sense to have a cushion for financial emergencies. This is an amount of money you can call on if the unexpected happens. It means you won't have to borrow money or be left financially vulnerable. Decide a reasonable amount (three months income is a good start), balance it with insurance protection against unexpected events and then get saving.

### **Getting into the "savings habit"**

If you would like to get into the habit of saving, you could consider starting a small retirement savings scheme while you're still paying off a loan (such as your bond).

You'll get into the habit of saving and start to build a small nest egg. You'll also start to build your knowledge of savings and investment options, so that you're better prepared when you want to start building up your net worth.

**The first step? You just have to start, no matter how small the amount.**