

Five steps to smarter saving

According to research carried out by Wesleyan Medical Sickness, 77% of doctors save every month and 60% review their savings every month or every couple of months. The survey also showed that while 44% of doctors were willing to take moderate risk when choosing savings and investment products, 45% kept the majority of their savings in banks or building societies. Only 23% chose to invest in properties and 17% in shares. This article explains why keeping your money in a bank account is not always a good idea and gives you some tips to help you make the most of your hard-earned money.

1. Keep an emergency fund

Wesleyan's research showed that 41% of doctors wished they had started putting money away earlier in their career. Once you have cleared any debt, such as your student loan, you should start saving. The first step on the ladder is to build an emergency fund – essentially a reserve of cash that will keep you going in the short term. This should tide you over if you are unable to earn for any reason or face any unexpected expenditure, if the car breaks down for example.

The amount you save will depend on your lifestyle and circumstances, but the equivalent of 3 months' net income is usually recommended. Keep this money where it is easily accessible – in a bank or a building society account for example.

2. Don't let inflation eat into your savings

It is easy to let your savings build up in your current account or a low interest savings account. However, remember that because we are in a time of low interest rates and relatively high inflation, if the return on your savings is not outpacing inflation the buying power of your money will reduce in the long term.

For example, if you had £10 000 in an account paying interest at the Bank of

England base rate of 0.5%, based on current inflation rates, in 5 years this would be worth the equivalent of just £8674 today and in 10 years' time it will be worth £7524 in today's value, because the price of goods and services is increasing at a higher rate than the base rate. If you would like to see how inflation could impact your savings, try out the online calculators on the Wesleyan website (www.wesleyan.co.uk/investments).

3. What are you saving for and when do you want it?

If you are saving for the short term, for something like a car or a holiday, you will probably want to keep your money easily accessible so it is there when you want it. You might in this instance consider setting up a cash individual savings account (ISA), which is like a normal savings account but you will not have to pay income or capital gains tax on the interest or on your money when you come to withdraw it. You can save up to £5640 into a cash ISA in the current tax year, and the government has pledged to increase this allowance in line with inflation each year.

Once you have used your full cash ISA allowance, you could consider other options such as government-backed investments like National Savings and Investments products and fixed term savings.

4. Investing in the markets

If you are saving for the longer term – children's school fees or retirement for example – then you might want to consider share, or equity, based investments. Barclays Capital Equity Gilt Study 2012 found that over a 10-year period there is a 90% probability of shares performing better than cash, although past performance cannot be taken as a guide to future performance.

When investing in shares you should be prepared to leave your money in for at least 5 years. You should also be clear about how much risk you are prepared to take with your money – can you afford to get back less than you put in?

Buying shares in a single entity is considered the higher risk option as if this performs badly your investment will suf-

fer. Many people choose to invest in a fund which is a collective investment, where lots of people put their money together to access a wide range of investments. Spreading money in this way reduces the impact of loss from a single investment and funds are usually managed by an expert manager which further mitigates risk.

There are also ISAs that invest in stocks and shares, such as Wesleyan's with profits ISA. These offer the tax efficiencies of cash ISAs and you can invest a total of £11 280 into a stocks and shares ISA this tax year if you do not use your cash ISA allowance.

Stocks and shares ISAs are a good middle ground if you want to invest in the stock market as many of them are professionally managed. If you opt for a with profits fund it will aim to smooth your returns so you are protected from the volatility of the stock markets.

5. Spread your risk

As you build up your savings and investments portfolio you should look to keep your money in a range of assets so that if one type performs badly another may perform well during the same period. This will help minimize your exposure to risk as you will not be dependent on any one type of asset.

Also remember to review your portfolio on a regular basis so that if you have any underperforming funds you can replace them.

Conclusions

Most people want the security of knowing they have adequate savings in place to meet their needs. How you go about achieving this will vary according to your savings objectives and your attitude to risk. If you are new to savings and investments or want expert guidance, talk to a financial adviser who understands the medical profession and can help you build up a savings portfolio that suits your needs. **BJHM**

The above information does not constitute financial advice. For further information please speak to your financial adviser.

Wesleyan Medical Sickness provides specialist financial advice for doctors
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