

Keeping your finances healthy in 2013

Following the excesses of the festive period, millions of people will be resolving to live a healthier lifestyle in the new year. As well as vowing to look after your physical wellbeing this January, it is also a good time to look at the health of your finances.

Reduce debts

The key to any new year's resolution is starting well and there is little point in having savings if you are in debt – the interest you earn on your savings may be less than you pay on your debts.

Start the new year by making a list of everything you owe including unpaid bills and other loans. Then set about paying off the most expensive ones first, which will usually be store and credit cards.

If you are having problems clearing your credit card balance, consider transferring to a new card with a 0% introductory rate of interest. It is no longer so attractive to keep switching your balance around as many providers now charge transfer fees when you move, but you will normally get up to 12 months at 0% interest.

Save for the future

Once your debts are clear, it is good practice to set up an emergency savings fund. This is a reserve of cash that will keep you going in the short term if you are unable to earn or if you face any unexpected expenditure. The amount you save will depend on your lifestyle and circumstances, although the equivalent of 3 months' net income is usually recommended. Keep this money where it is easily accessible.

After setting this up, you could invest any spare money in an individual savings account, which allows you to save cash or invest in shares without having to pay tax on any gains you make. You only have until 5 April to use up your 2012/13 individual savings account allowance, which is £11 280 for a stocks and shares individual savings account or a maximum of £5640

in a cash individual savings account, with the rest in shares. The 2013/14 individual savings account allowance will be £11 520.

If you have long-term savings goals, such as paying for your children's education fees, or a major purchase somewhere down the line, consider products with a fixed term which will coincide with time-scales of when you will need the money.

Review your bank account

If you generally keep a healthy balance in your current and savings accounts, find out if your bank pays you interest. If the interest rate is low or almost non-existent, consider talking to your bank to see if there is a better account they can offer, or check the best buy tables in the weekend press to see if there are better deals available elsewhere.

If you go into the red from time-to-time and end up paying charges, look for accounts with no overdraft fee.

Protect your income

If you are unable to work for a lengthy period, it may impact on your income, so ensure you have plans in place to protect your finances. If you are employed by the NHS, you will be entitled to NHS sick pay, but if you are still unable to work when that runs out, then you may have to rely on state benefits, if eligible, or draw upon your own savings.

An income protection policy will provide you with a regular tax-free income based on your full earnings, typically up to 50% of your pre-incapacity level. Most policies pay out until you are well enough to return to work, are no longer suffering from a loss of earnings (such as if you start receiving your pension), you reach the maximum age for your policy or you die.

Consider your mortgage

If you have a mortgage, you may be paying less for it now than in previous years because of the low interest rates. However, it may still be worth looking around to find deals that could save you more money. You might find an offset mortgage is more appropriate for you, especially if you have money sitting in a low interest savings

account. Remember to find out whether you will incur any penalties for switching mortgages.

If you have some spare cash, you could also consider making additional payments to your mortgage.

Check your pension

Check your pension to ensure you are still on target to achieve your retirement income goals. This will be even more important following the recent changes to pension tax legislation.

There are restrictions on the amount you can pay into a pension in each tax year. This is currently £50 000, unless you have any unused annual allowance to carry forward from the previous three tax years. Contributions made above this level will be taxed at your marginal rate. This annual allowance will fall to £40 000 in the 2014/15 tax year.

There is also a limit on the total amount of pension funds you can build up before additional tax charges apply. For the 2012/13 and 2013/14 tax years, this lifetime allowance is £1.5 million, but it will fall to £1.25 million in the 2014/15 tax year. If your total pension pot exceeds the lifetime allowance, you will be liable to 55% tax if the excess funds are taken as a lump sum or 25% if they are used to purchase a retirement income.

These tax implications could impact on how you build your pension so you might consider alternative savings products such as an individual savings account. If you are not sure how you might be affected, talk to a financial adviser with expertise of the medical profession.

Review your will

If you have not already done so, make a will. If you have one in place, check it is still up to date. Dying without a will means your money may not go to the people you want it to. Also remember to review your inheritance tax situation and seek professional advice to ensure your family benefits from your estate and not the government. **BJHM**

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

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