



AW Financial Management LLP

Financial Planning
Independent Financial Advice
Investment & Wealth Management

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“Cash is king”

How do you regulate your spending?

It's so easy to spend money these days – credit cards, debit cards, holes in the wall, store-cards, pay-pal etc

The problem with all of these methods of buying things is that they de-personalise the value of money. It is also much more difficult to budget for spending and also account for things – the credit and store-card statements come once a month well after you've forgotten what you've bought. The bank statement is so long you might not have the time to check through every item.

Responsible money handling - budget

For those who *have* to regulate carefully every item of expenditure, or for those who just *want* to be careful with what they spend, the first step is to work out how much income you have each month or week. Then, you need to carve up how you are going to spend this income. Remember budgeting is *planning ahead* what you are going to spend.

Priorities

Many of our clients wish to prioritise their spending by ensuring that they give their “first-fruits” of their income to God's work. We endorse this practise when it is possible. For some, it is not possible to do this and they should first prioritise (for example) debt repayment or some other pressing financial issue.

But always aim to complete a budget planner which will help you to analyse your planned spending but also to prioritise what's important for you – we have devised a budget planner which you can download from our website.

Direct Debits or Standing Orders

In our opinion it is better to pay for most household and regular expenses using the Direct Debit method as it allows you to budget each month for all of your essential and not-so-essential items of regular expenditure.

In many cases, the regular bills will account for at least half of a family's income if not closer to two thirds but this does vary on income and lifestyle factors. It is important to keep a watchful eye on these bills and your overall budget to ensure you do not overspend.

You are then left with the balance of your income which you can either spend or save. This is often known as your “disposable income”.

Handle the cash – the big idea

Then we get to the real essence of this article.

Once you have spent on the things that you believe are essential, we suggest that you take out *some* of the remaining income in Cash and if necessary divide it into separate spending pots for example, groceries, clothes, pub, petrol etc. Then ensure that you never touch your debit or credit cards during the month.

Studies show that where people use cash for purchases they spend significantly less than those who put everything on credit, debit or store-cards. There are lots of possible reasons for this but the overall benefit is that you will be able to personalise every spending decision you make and you should end up spending less.

This will help your long term financial planning, particularly if you are able to save some of the spare monthly income.

Remember the good old days!

Of course, this is nothing new. I can certainly remember my grand-parents dividing out their weekly cash pension that they drew out at the Post Office on a Thursday morning. Once home, they would sit around the kitchen table with various purses; each of the purses represented a different bill to pay.





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The point here is that they never went overdrawn and they never had to pay loads of money in interest payments each month. When they wanted something, generally they saved for it.

Actually the simplicity of this arrangement is what people nowadays perhaps need to look for, to be content with what they have, and to manage their money so that they always spend less than they earn – that's the key to successful financial planning.

By spending less than you earn, you are able to build up a savings fund to cope with short and long term financial needs that we will all have. “.. he who gathers money little by little makes it grow” Proverbs 13:11b

Teaching

And of course, the other point of the story above is this; I still remember it. They didn't actually teach me this practise, we simply observed it. But it was a valuable lesson. Our generation must also ask ourselves, how do we teach our children how to handle their money more effectively? It's a challenge we all face.

Safety

One word of caution if you are thinking of keeping cash on your person, or in the home: Do be very careful that the cash is kept safe - whilst it is not being spent as if you lose it or it is stolen, you will have no come-back on anyone. If you think your money might be at risk, set about taking out a smaller amount each week, rather than one large amount at the start of each month.

The big picture

Most of the UK population is not saving enough and we need to be putting more money aside on a regular basis to fund for our later/retirement years. The State simply cannot continue to fund good levels of pension income. Employers have ceased to provide company pension schemes or have reduced their benefits very significantly.

By being careful and responsible with our finances today, we will hopefully reap the rewards of paying less interest during our working lives and provide more income for us in retirement and hopefully, we will be the masters of our money, rather than being enslaved by the ongoing cycle of repaying debt and barely managing to survive.

"He who works his land will have abundant food, but the one who chases fantasies will have his fill of poverty"
Proverbs 28:19

If you have any questions or need an independent review of your financial planning arrangements, please contact us to discuss your situation further. AW Financial Management LLP is an Independent Financial Adviser regulated by the Financial Conduct Authority.

Information given in this document should not be taken as advice as it is intended for guidance only. If you wish to have an assessment of your own situation, you should contact the office for advice.

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