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SPOTLIGHT ON:

How to improve your financial health

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HOW TO IMPROVE YOUR FINANCIAL HEALTH

Improving your financial health involves strategic planning, informed decision-making, and constant adjustments. There are many factors to consider – so how do you know where to begin?

While everyone's circumstances are unique, there are steps you can take to enhance your financial well-being. Here are some actions you can employ to boost your financial wellness.

DEVELOP A BUDGET

Creating an in-depth budget is a fundamental step toward financial stability. Begin by thoroughly **understanding your monthly income** and paying attention to all sources of revenue. You should identify your fixed income and also any additional earnings or irregular income streams.

Next, **categorise and track your expenditures**, distinguishing between essential expenses, such as housing and groceries, and discretionary spending, including entertainment and non-essential purchases. This breakdown helps provide a clear picture of where your money is going.

If possible, you should also **allocate a portion of your income towards savings** and targeted financial goals. For example, you could designate amounts to help you achieve milestones like homeownership or pay for education expenses. Allocating funds in this way builds financial discipline and ensures that you're actively working towards both your short-term needs and long-term goals.

And remember: budgeting isn't a one-time event. You'll need to **regularly adjust your budget** to accommodate any changes in income, expenses or financial goals to ensure that your financial plan is effective.

MANAGE YOUR DEBT

Effectively managing and reducing existing debts is a must for improving your financial health.

Start by assessing all your outstanding debts, including credit cards, loans, and other financial obligations. Categorise debts based on their interest rates, focusing on those with higher rates first. This approach helps minimise the overall interest paid over time.

Once your debts are categorised, you should develop a detailed debt repayment plan. Prioritise paying off high-interest debts first while making smaller payments on other obligations. You could also consider negotiating with creditors for lower interest rates or exploring debt consolidation options to streamline payments.

Systematically paying off debts requires consistency, so allocate a specific portion of your monthly budget to debt repayment and adhere to the plan as well as you can. As you gradually settle your debts, you can reallocate the freed-up funds to accelerate the repayment of any remaining balances.

Once your strategy is in motion, remember to monitor your progress, adjust the plan as needed, and celebrate milestones along the way. By diligently following a well-structured debt management strategy, you pave the way for improved financial health and future financial freedom.

NURTURE SAVINGS AND INVESTMENTS

Establishing a robust savings and investment strategy is integral to achieving financial security. You can start by consistently contributing to designated savings and investment accounts like individual savings accounts (ISAs) and ensuring you make the most of your tax-free allowances. Additionally, you could explore the advantages of stocks and shares ISAs, which offer tax-free investment growth.

PREPARING FOR RETIREMENT

Carefully managing your savings and investments can also help you prepare for retirement.

Regularly contributing to your pension pot means you can benefit from tax savings while protecting your financial future. If you don't have a workplace pension, you should consider paying into a personal pension plan to ensure you have enough money set aside to fund your retirement.

Contributions to these accounts often come with tax advantages, providing immediate benefits, while earnings can grow tax-free over time.

Regularly review your retirement savings strategy, making adjustments to contributions based on changing financial circumstances and retirement goals. This proactive approach assures that you optimise available tax benefits and build a resilient retirement fund. Seeking advice from financial experts familiar with retirement options can further enhance your long-term planning.

DIVERSIFYING YOUR INVESTMENT PORTFOLIO

Diversification is key when delving into investments. Allocating your funds across various asset classes (such as stocks, bonds and property) can spread risk and enhance the potential returns. This approach may help mitigate the impact of market fluctuations on individual pieces of your overall portfolio.

However, you should always consult an expert before making any significant investments to ensure that you make the best decision possible. Routinely reassess your investment strategy to align with your financial goals and risk tolerance. An expert can adjust asset allocation as needed as your investment options evolve or economic conditions change.

Continual observing and periodic rebalancing ensure that your investment portfolio remains aligned with your objectives, providing a balanced approach to wealth accumulation over time.

BUILD AN EMERGENCY FUND

Creating and maintaining an adequate emergency fund is a cornerstone of sound financial planning. The amount of money you'll need to save for your fund will depend on your financial circumstances, but you should typically aim to save up enough to cover three to six months' worth of expenses.

Start by setting aside regular payments into a dedicated savings account. This fund should include essential costs such as rent or mortgage, utilities, groceries, insurance, and other crucial monthly expenditures.

Though an emergency fund may take some time to build, it can provide you with a financial safety net. Your fund can help protect you against unexpected circumstances like job loss, medical emergencies, personal issues, or unforeseen costs. It also reduces the need to rely on credit cards, loans, or other high-interest borrowing methods during times of financial stress.

We recommend setting up a separate account for your emergency fund to minimise the temptation of dipping into it for non-emergencies. Consider using low-risk accounts that are easily accessible like instant-access savings accounts or easy-access ISAs to ensure you can withdraw funds when needed.

Life events such as marriage, births, or changes in employment may warrant adjustments to your emergency fund, so frequently evaluate and update it as your financial situation changes. Prioritising the maintenance of your emergency fund strengthens your ability to navigate unanticipated challenges with confidence.

COMPREHENSIVE INSURANCE COVERAGE

Acquiring appropriate insurance coverage can also give you an added layer of protection, but it's important to choose the policies that work best for you.

Private health insurance, for example, can offer benefits such as quicker access to specialists and elective procedures.

Meanwhile, **life insurance** can provide financial protection to your loved ones in the event of your death. There are various life insurance options, including term life insurance that provides coverage for a specified period and whole-of-life insurance that covers you throughout your lifetime.

Comprehensive **property coverage** can also safeguard your property against fire, theft, or accidents, so reassess your insurance policies often to check they align with familial changes or changes in homeownership. Acquiring good insurance is especially important if you run a rental business or own a large property portfolio.

SEEK PROFESSIONAL HELP

Hiring a professional adviser can give you greater financial peace of mind and make it easier to achieve your personal goals.

As your accountants, we can offer financial expertise in numerous areas, providing tailored guidance to align with your particular goals and circumstances. We'll analyse your current financial situation to create a plan that changes your financial well-being for the better, whether that means helping you protect your wealth, maximising your savings, or recommending investment strategies suitable for your risk tolerance.

Additionally, we can offer valuable insights into tax planning to ensure you're not overpaying your personal tax bill.

Regular consultation with a financial adviser can help facilitate informed decision-making, long-term financial well-being, and a healthier pursuit of your financial aspirations.

Contact us today to learn how we can help you improve your financial health.

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