A guide to recession proofing your finances

In the current economic climate, we understand that many people will be worried about their finances.

At Paragon, we are here to help.

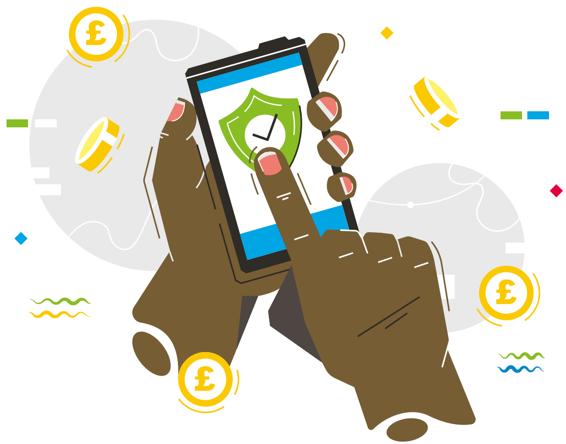
Our research shows that the average Brit worries about money an average of four times a day.

This guide includes a range of straight forward tips to help you recession-proof your finances.

A few simple changes could make all the difference when looking at the long-term picture, as small tweaks will add up to big savings in the long run.

TOP TIP #1

Conduct an in-depth audit of your spending



The first step to recession-proofing your finances is to carry out an in-depth spending audit so you have the full picture of what you've been spending your money on and where you can make some savings. Many current account providers offer this service through their banking app and track spending across different categories – although doing your audit on an excel spreadsheet works just as well!

Write down everything you've spent in the last three to four months. Start with your housing costs and bills, then split your other transactions into various categories including travel, hospitality visits, entertainment, groceries, health and beauty and home.

The idea is to get the full picture of exactly what your monthly expenditure looks like, so you can then make a structured, organised plan to save more.

TOP TIP #2

Review all your regular payments

Once you've carried out your audit, it's time to have a look at your regular payments.

Make a list of all your regular payments and categorise them based on whether they're a necessity or a luxury. In the 'necessities' category include all bills, while in the 'luxury' category include your non-essential payments, such as media or recipe box subscriptions and gym memberships.

Then, consider your 'necessities list' and look at whether there are ways you could reduce the amount you pay on bills. Is your phone contract up for renewal soon, allowing you to swap to a cheaper deal or onto SIM-only, or could you save by swapping to another utilities provider? Could you save by getting a better deal on your insurance?

Spend a couple of hours on a weekend checking best-buy tables and using price comparison websites to make sure you're on the most competitive deal available for all of your bills. If you are paying back debt, also look at ways to consolidate this in order to make repayments cheaper and more manageable.

Then, review the 'luxury' category and consider how often you use those services and which ones it makes sense to give up. If you hold subscriptions with multiple streaming service providers, for example, keep the one you use the most and cancel the others. Perhaps weeks of working out at home over the summer means you're happy to give up your gym membership.

TOP TIP #3

Set some saving goals

Once you've reviewed your regular payments, have a look at all your other transactions over the last few months.

Consider how much you've spent on non-essential items across each category in your audit, such as online shopping and treat purchases, and highlight those transactions.

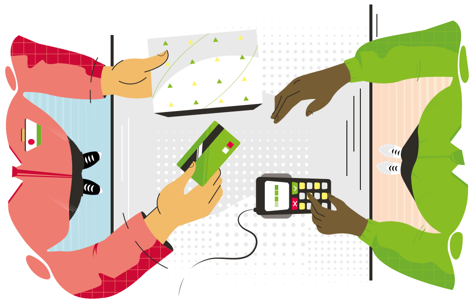
Work out the average amount you've spent per month on those items across each category and use this as a starting point to figure out how much you can afford to save, also taking into account any savings made from reviewing your regular payments. Then, set saving targets for each individual category.

It's important to set realistic and sustainable goals – you're looking to reduce the amount you spend on non-essentials across each category, not eliminate treats entirely!

As a loose guideline, you should aim to save at least 20% of your income after tax – this is according to the popular 50/30/20 budgeting technique. Of course, you should adapt this based on what is affordable for you, and save more if you're able to.

Once you've established your saving targets for each category, write them down and work out the savings you will make over the course of six months to a year. This will help you see the bigger picture and stay motivated.

When you get paid, transfer the amount you are aiming to save directly into a separate savings account from your current account.



TOP TIP #4

Budget planning helps you stay on track

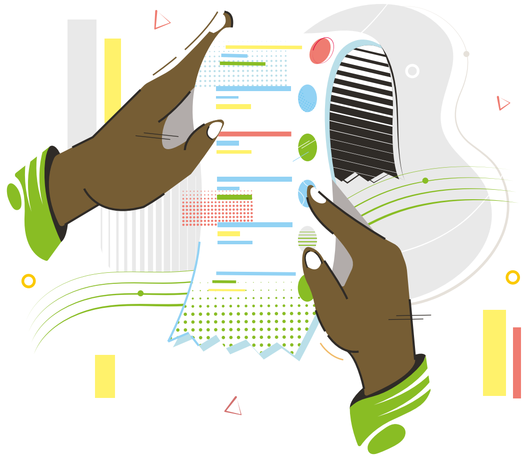
Once you've set your savings goals, it's time to get organised to help you stick to them.

To keep you on track, it might be a good idea to use a budget planner – either in the shape of a journal or an excel document, where you can track spending across each category.

At the end of each day, input all of your transactions into your planner and make sure they align with your saving goals.

This will also help you think twice before you make impulse purchases as you will need to make a 'log' of the transaction, which will help you feel more accountable for your spending.

At the end of each month, review the planner and work out how much you've been able to cut down on each category. Any additional savings should be transferred to a separate account.



TOP TIP #5

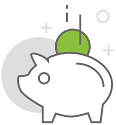
Start an emergency 'rainy day' fund

One of the most stressful things to navigate during a recession is the potential of a change in financial circumstances.

If you haven't already, now is the time to start building an emergency fund. You should aim to save in an account at least enough to cover your mortgage payments/rent and bills for three months. In these uncertain times, building this fund should be a priority and the first thing you aim to save towards.

You'll need to make sure you choose the right type of savings account for your emergency fund and put your money in an account that accepts monthly deposits, and one that you can access if you need to.

If you want to maximise the amount of interest you earn, you might want to think about a defined access account, however a fixed rate bond might not be the best option as you won't have access to your savings for the fixed term.



TOP TIP #6

Make sure you're making the most of your tax-free allowance

During a recession, it's important for you to make the most of any perks that might give you additional returns on your savings, and this includes your tax-free ISA allowance.

Investing money in a cash ISA will allow you to earn tax-free interest which means you will likely make a bit more.

There's a range of different cash ISAs available on the market, including fixed rates, notice ISAs, limited withdrawal ISAs and instant access, and they also have various features to suit different needs. If you want to use an ISA as an emergency fund, look at ones that have a 'flexibility' feature, which allows you to replace any money you withdraw without it impacting your yearly allowance.

If one of your goals is to save towards a deposit on your first house or you're looking to save a little bit more towards retirement, opening a Lifetime ISA might be a great option for you as it allows you to earn a generous Government bonus of up to £1,000 per year.

TOP TIP #7

Set up multiple saving accounts for various savings goals

Many savers will be putting money aside with different goals in mind, for example holidays, a rainy day fund, retirement, a house deposit or wedding.

The popular 'envelope' budgeting technique suggests putting money aside in different envelopes each month, with each envelope representing a different saving goal. A more modern and secure interpretation of the technique involves splitting your savings across various accounts so you can easily keep track of different goals.

'Compartmentalising' your savings will help you feel like your goals are easier to manage and will make it simpler to prioritise what you want to save for first.

It's also a good idea to keep your emergency fund separate from any other savings you're putting aside for things such as trips away or one-off purchases.

TOP TIP #8

Saving up for big expenses

The biggest challenge for many savers is how to save for larger expenditures whilst sticking to budget, for example birthday gifts, trips away, Christmas or home improvements.

Using tip #7, setting up different saving pots for each expense is a good place to start. Once you've done this, treat adding to those saving pots like you would paying a household bill.

You can choose to set up standing orders to add to each of those pots on a monthly basis. You can set those to leave your account at the start of the month so you're less tempted to spend it.

Alternatively, you can split the amount you want to save each month between your saving pots at the start of each month based on which expense you want to prioritise.

Whatever technique you want to use, always pay yourself first, at the start of the month. Putting savings away on payday will eliminate the temptation to spend and will also help you make saving feel like a priority.

TOP TIP #9

Choose the right saving account for each of your goals

Different accounts are better suited to specific savings goals.

A Lifetime ISA (LISA) is ideal for savers planning to buy their first home or saving for retirement. Withdrawals for any other reasons are heavily penalised.

A fixed rate bond on the other hand is great for long-term savings if you know you won't need access to your money for a few years, but it isn't suitable for an emergency fund. It's important to choose the right saving accounts for your savings goals and having a diverse portfolio can make all the difference in creating long-term savings habits and helping you stick to them.

TOP TIP #10

If you're feeling anxious about money, ask for help

There is no doubt that we are living in unprecedented times and that this might be taking a toll, both on your finances and on your sense of mental wellbeing.

If you are finding yourself worried about money and you feel like you are struggling to cope, please don't suffer in silence.

The **NHS page** on money worries is a good place to start and will provide a range of resources and access to charities and help lines that can help you.

If you require any further information please contact us

Email

savings@online.paragonbank.co.uk

Secure message

Online accounts only - Log in to your account to send us a secure message

Write (Freepost)

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Paragon, PO Box 850,
Wallsend NE28 5BJ

Call our UK based team

0800 052 2222
Monday to Friday 8:00am to 7:00pm
Saturday / Sunday 10:00am to 4:00pm
Closed bank holidays

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