

PERSONAL FINANCE - 3

Back on a firm footing

Peter Atkinson, national technical portfolio manager of the Financial Intermediaries Association of Southern Africa, offers advice for those carrying significant debt.

Though the end of the recession is in sight, there are many who still bear the scars of tough economic times in the form of a debt burden. If this is your scenario, now is the time to do some serious assessment on how to accelerate the recovery process.

Selling assets is generally not the best thing to do, mainly because it's unlikely that you will obtain a good price in this climate. However, if you have unwanted goods which you will never use again, you could sell these to raise extra cash.

For those fortunate enough to have received an annual bonus, the real challenge is to resist the "urge to splurge" and funnel as much as possible into the payment of debt. This means not only meeting current payments (and those in arrears), but also perhaps settling other debts. In considering this option, there are four important questions when deciding which debt to address first:

- Which debt is the most pressing and threatening and may result in potential additional costs if not serviced immediately?
- Which debt carries the highest interest rate?
- Which debt has the least penalties, or added costs, for early settlement?
- Which debt is at a stage where the settlement amount is reasonably low in relation to the regular monthly payments?

If you are not expecting a bonus, the emphasis should be on minimising the extent to which you may add to your debt burden by spending more over the festive season. Rein in on Christmas presents and other purchases (the poor state of the economy is a good excuse to do this across the board) so that you don't start 2010 with even more debt. At the same time, set aside a small amount to "spoil" yourself and your family with a treat — but not one that's too expensive.

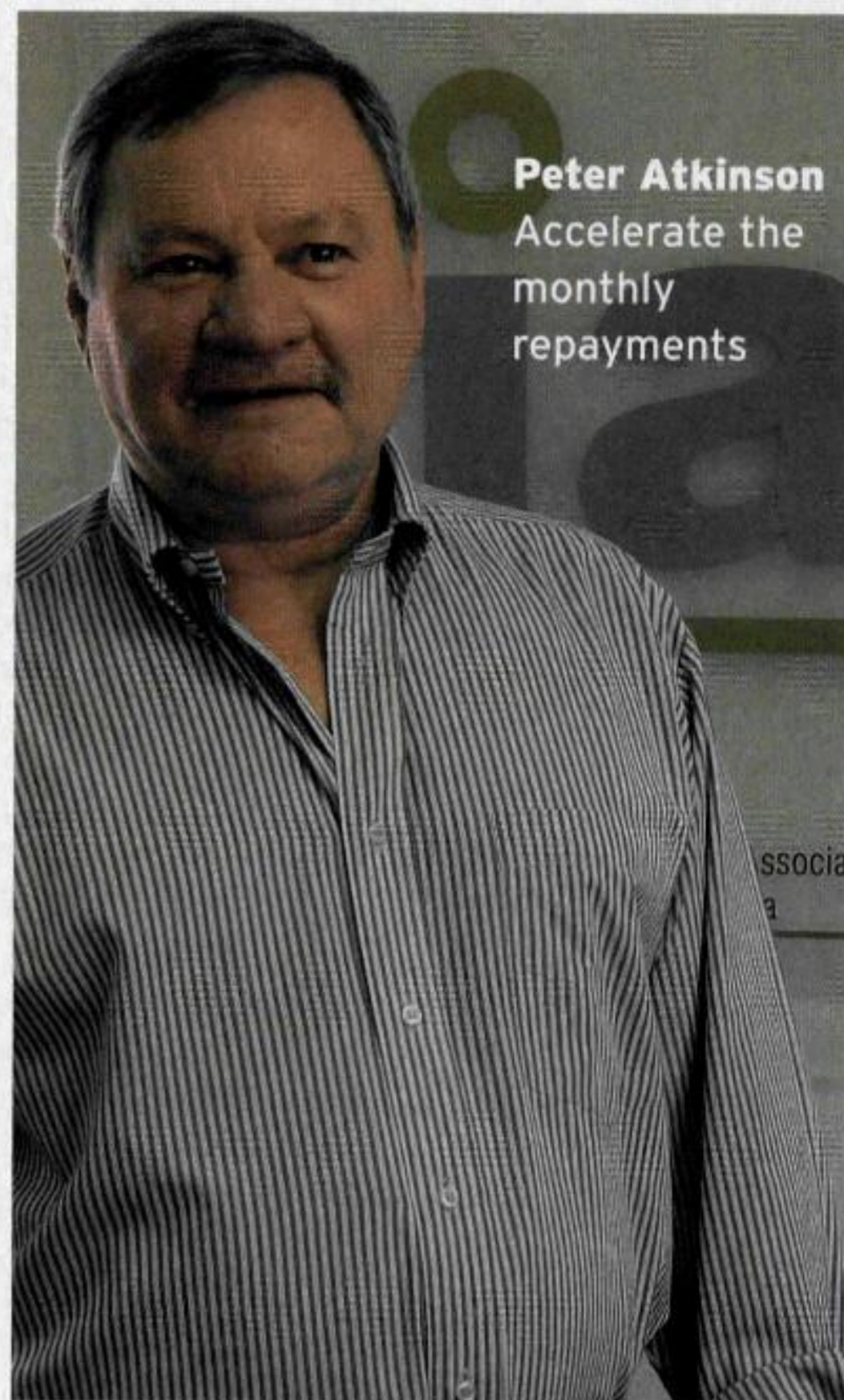
A family budget is critical for those facing mountains of debt. A budget, if you haven't already compiled one, is a priority.

The new year is also the ideal time for those who are carrying debt to revisit the budget and (again) cut out anything dispensable.

One false saving is chopping your insurance premium. In the short term this could leave you exposed to risk which you cannot financially afford, while terminating life insurance policies could result in not only risk exposure but usually involves considerable penalties, which you don't want to incur.

Don't, under any circumstances, consider resigning from your job with a view to accessing your retirement savings. This will not only jeopardise your long-term retirement savings and financial stability, you could also find getting another job far more difficult than you thought.

During tough times it is especially important to draw on the advice of an experienced insurance intermediary who will be able to help compile a plan that



Peter Atkinson
Accelerate the
monthly
repayments

eases the financial burden without creating adverse consequences.

Remember that a budget has two sides — expenditure and income. Consider the possibility of earning a little extra income on the side, but make sure this doesn't conflict with your employment contract and obligations.

Consider letting the cottage on your property if you have one, and try to delay the purchase of any fixed assets until your situation has improved.

Hopefully a few expense cuts, supported by a salary increase and the gradual repayment of debt, will eventually allow you to move out of the financial mire. ■