



*Your weekly guide to
managing your money*

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Can you set out the best ways to deal with my many debts?



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Charlie Weston Your Questions

Q I have a number of debts and was wondering if I should take out a debt consolidation loan to repay them?

A Paying off debt is no easy task, especially if you pay the minimum amount due each month, said Frank Conway, of financial wellbeing provider MoneyWhizz and a qualified financial adviser. Take a €500 credit card balance. If the rate of interest is 18pc, the minimum payment is 2.5pc of the balance, with a €5 “floor”. It will take almost 12 years to repay and cost over €450 in additional interest charges, he said. To clear the debt you will need to speed up your repayments.

There are two strategies to settle outstanding balances: debt avalanche and debt snowball. Each method requires that you list out your debts and make minimum payments. The one you select to pay the extra money towards is done with the aim of paying it off first. Once it is paid off, you target another balance.

The extra money you apply towards it could be the minimum sum you had to pay on the erased debt.

The two strategies diverge over which debt you single out first. In the debt-avalanche method, you pay extra money toward the debt with the highest interest rate. With the debt snowball method, you pay down the smallest debt first and work your way up, regardless of the interest rate. The maths generally favours the debt-avalanche approach, but this can depend on the amount of debt owed.

If you feel you would be more motivated by eliminating an entire debt, then you should use the debt-snowball technique, Mr Conway said. If you prefer the feeling of tackling the most expensive debt, you should use the debt-avalanche option.

If you are saddled with different kinds of debt, you can apply for a loan to consolidate those debts into a single loan that will pay them off. Payments are then made on the new loan until it is paid off in full.

Q My husband is retiring the end of this year. We have been paying into a pension and have received a lump sum, with the remainder invested. We have now got €87,000 sitting in our joint current account. We do not want to have that much sitting there, as this is tax free. How do we go about putting it into another account or how do people in our situation usually deal with this?

A We put this to Mark Reilly, Pension Propositions Lead at Royal London. He has assumed that you are both in your 60s and are planning to live off your husband's pension plus any state pensions that you might be entitled to. Before considering how you might save or invest your lump sum, you can potentially clear off any mortgage, personal loans, or credit card debt you might have.

If you have already considered this, Mr Reilly suggests retaining a small amount of this lump sum as a rainy-day fund for any unforeseen expenses or emergencies.

In relation to the rest, he recommends speaking to a financial broker about how to best invest this to potentially generate some growth. Maybe ask family or friends for a recommendation of someone that they have dealt with and trust.

A broker can take you through the options and risks associated with different savings and investment options available across all providers. Unfortunately, there is no easy solution when it comes to investment. Generally speaking, the greater the potential for growth, the greater the risk of losing some or all of the money you invest. An alternative option is state savings from An Post.

Q We were burgled last weekend. They took standard things like TV, laptops, a bike etc. We also had friends staying and their laptop was taken. Any chance this would be covered on the claim?

A Following a burglary in your home, any damage caused to your home and losses for your stolen or damaged personal items is recoverable under your home policy, once the terms and conditions of the policy have been complied with, according to Billy Shannon of Aviva Insurance Ireland. The position in relation to a visitor's personal belongings would need to be clarified with your Insurer. Mr Shannon said that not all home insurance policies provide cover for the personal belongings of people staying in your home. When this cover is provided, it is usually limited to a specific monetary amount. Aviva Insurance Ireland policies cover visitors' belongings up to €400 while in your home.

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