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How Savings can reduce Debt Problems

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Everyone should have some savings of some sort. Whether its £100 or so in an Internet savings account or £2,000 tied up in a bond, the need to have some extra funds is essential for a debt-free existence. But according to a new study, 11million adults don't have any savings at all. Does this mean they are more prone to debt? Possibly. After all, where would you go if you had to pay an urgent bill but had no money?

In such situations, taking out a payday loan can seem like a convenient option. But more often than not, it can exacerbate an already difficult financial situation. Whereas if you had savings to fall back on, you would have less need to rely on a payday loan company at all. But with all the different saving accounts out there, which ones should you choose?

ISAs

These are tax-free saving accounts which earn good rates of interest, partly because the money is tied up for 12 months and cannot be withdrawn during that time. The maximum amount you can put into an ISA per year is around the £5,500 (as of 2011/2012 tax year).

Instant Access Savings Accounts

This is great for emergency funds. You can withdraw money at any point without having to pay a penalty although interest rates tend to be lower.

Regular Saving Accounts

The most basic of saving accounts, these are ideal for first time savers who want to put a certain amount of money away each month, although there are certain restrictions as to the amount you can invest and the number of times you can withdraw money.

In the meantime, for anyone who is experiencing the worry of being in debt and are unable to even think about putting money aside into a savings account, debt management companies can help to significantly reduce monthly repayments.
Depending on the amount of debt you owe, debt consolidation experts will talk you through the options which are best for you, which may include a debt management plan or an IVA.

A debt management plan is great for anyone who can commit to regular monthly payments whereas an IVA – Individual Voluntary Arrangement – is more suitable for someone who owes more than £12,000 and needs a longer time to pay it off. Both plans are sorted by the debt management company who liaise with your creditors on your behalf, ensuring that both parties reach a mutual agreement.

Once your debts are cleared, make sure you celebrate by putting some of your hard earned cash into a savings account, to save for a rainy day: you never know when you may need it.

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