

Living with debt... ...safely



During 2004, some 45,000 people were declared bankrupt in the UK. It is expected that the total for 2005 will top 55,000 - and this figure dwarfs the situation in 1992, during the last recession in the UK.

And there's another worrying trend. In the late 1990's, the majority of bankruptcies were due to failed businesses. But today, the majority of cases are simply due to Britain's No. 1 financial disease - unrestrained consumption due to 'easy money' (unsecured and unpayable consumer debt).

It's worth looking at the figures - because they are shocking.

Take the total of all credit card debt across the entire European Union - well, 66% of that has been accumulated by British borrowers. Our consumer debt is at a record high, well over 140% of post-tax annual income - and yet this is being compounded by banks, only too eager to extend further credit.

It's also worth considering the reasons for this worrying epidemic of personal debt.

Firstly, we now live in the 'instant gratification' world of the 21st Century. Whereas our parents, and their parents, would not dream of buying an item *until* they could afford it, now our attitude frequently is "I want it, and I want it now".

Secondly, credit is more freely-available, and more aggressively-marketed than ever before. It is impossible to watch an evening's TV, or open our weekly post, or read our weekend newspaper supplements without encountering many offers of instant-credit. Just try buying merchandise in a department store without having a storecard pushed at you, usually with some financial incentive. Debt has become 'sexy' with the advent of branded, or oddly-shaped credit-cards.

Thirdly, bankruptcy, formerly a shameful and degrading procedure, is now fast becoming an easy cure-all for debt problems. From April 2004 new rules allowed debtors to be discharged in one year, instead of three. Prior to that date, bankruptcies averaged around 4,000 per quarter, and by Autumn of 2005 had risen to 9,400. Bankruptcy is no longer a penalty for poor financial behaviour - it is now merely a lifestyle choice.

The end product of all this is that in the first quarter of 2006, it is predicted that there will be around 20,000 personal insolvencies - and the Credit Counselling Service (CCS) is routinely seeing clients with debts (excluding mortgages) in excess of £100,000 on credit cards and other loans.

What does this mean for me?

Firstly, it would be dangerous to assume that debt-problems only occur to 'other people'. Whereas historically debt was associated with poorer families, the latest increases in debtors are linked to those with good jobs, often earning £30-40,000 or more.

Secondly, sound practice would indicate that the process of acquiring borrowings (in whatever form) should be linked to your overall financial planning. That is to say, increasing your level of debt should only occur after a careful analysis of income and expenditure. In this context, at Lakin Clark Financial Planning Ltd we are in an ideal position to help - we regularly carry out cashflow analyses for our clients when conducting a financial-planning engagement. If you are going to increase your borrowing, at least the whole process should be planned, so you are thoroughly aware of the implications.

Thirdly, it is essential that any borrowings that you do have are adequately protected, so that any adverse impact on your family is minimised in the event of disability or redundancy or death. Again, at Lakin Clark Financial Planning Ltd we can help you by precisely targeting the most appropriate financial solutions, sourced from the open-market.

Fourthly, planning your major purchases in advance can reap dividends. At Lakin Clark Financial Planning Ltd we can assist you in setting up *appropriate* vehicles to target a specific capital requirement at some future date.

Fifthly, if the worst does happen, and you find yourself in difficulty, come and talk to us! We may be able to assist with a debt-reduction strategy, or by referring you (worst-case scenario) to a good insolvency practitioner.



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