

# SimpleMoney.live

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## The UK Personal Finance Guide

Save more. Borrow smarter. Feel in control.

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## INTRODUCTION

# Why this guide exists — and how to use it

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Money is one of those things that affects every single aspect of your life — yet most of us were never properly taught how to manage it. School taught us algebra and the causes of the First World War, but not how compound interest works, what an ISA actually is, or why your pension matters in your twenties.

That gap is exactly why SimpleMoney.live exists. And it is exactly why this guide was written.

This is not a get-rich-quick book. There are no investment tips that will make you a millionaire by Tuesday. What this guide will do is give you a clear, honest, plain-English foundation — the kind of financial knowledge that used to be reserved for people whose parents happened to talk about money at the dinner table.

Whether you are just starting out, trying to get on top of debt, saving for a house deposit, or wondering whether you are doing enough for retirement — this guide covers it all. Each chapter is self-contained, so you can read it cover to cover or jump straight to the chapter that matters most to you right now.

## A note on advice

Everything in this guide is for informational and educational purposes only. It is not regulated financial advice. The right financial decisions depend on your personal circumstances — your income, your debts, your goals, your tax position. Where big decisions are involved, please speak to a qualified, FCA-regulated financial adviser.

That said, knowledge is power. The better you understand how money works, the better the conversations you will have with advisers — and the better equipped you will be to make decisions that are right for you.

Let's get started.

## CHAPTER ONE

# Understanding Your Money — The Basics

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Before you can manage your money well, you need to understand where you actually stand. That sounds obvious — but most people have only a vague idea of their true financial picture. They know roughly what comes in each month, but they are often fuzzy on what goes out, what they own, and what they owe.

Getting clear on these fundamentals is the single most important thing you can do. Everything else in this guide builds on it.

## Your net worth — the number that matters

Net worth is the difference between everything you own and everything you owe. It is the single most important financial number in your life — and most people have never calculated it.

Assets are things you own that have value:

- Cash in current and savings accounts
- Pension pots (check your provider's app or annual statement)
- ISA balances
- Investments
- Property (its current market value)
- Valuable items like cars, jewellery, collectables

Liabilities are things you owe:

- Mortgage balance outstanding
- Credit card balances
- Personal loans
- Student loan balance
- Car finance
- Any money owed to friends or family

Subtract your liabilities from your assets and you have your net worth. If the number is negative, do not panic — that is common, especially for younger people with student loans or a recent

mortgage. The goal is to make it grow over time.

## Income and expenditure

The second fundamental is understanding your cash flow — what comes in and what goes out each month. Your income is usually straightforward: your take-home pay after tax and National Insurance, plus any other regular income.

Your expenditure is where most people get a surprise. Fixed costs are predictable — rent or mortgage, council tax, energy, insurance, phone, broadband. Variable costs are the ones that catch people out — food, transport, eating out, subscriptions, clothing, and all the small daily purchases that add up.

If you have never tracked your spending for a full month, do it now. Look at three months of bank statements and add up every category. Most people discover at least one or two significant leaks they had no idea about.

## The financial foundations — in order

Personal finance experts broadly agree on a hierarchy — a sensible order in which to tackle your financial goals. While everyone's situation is different, this framework holds for most people:

- **Step 1 — Get a budget in place.** Know your numbers. We cover this in Chapter 2.
- **Step 2 — Build a small emergency fund.** Aim for £1,000 first — enough to cover most unexpected expenses without going into debt.
- **Step 3 — Pay off high-interest debt.** Credit cards and payday loans first. The interest rate you are paying almost certainly exceeds any return you could get on savings.
- **Step 4 — Build a full emergency fund.** Three to six months of essential expenses in an easy-access savings account.
- **Step 5 — Maximise employer pension matching.** Free money. Never leave it on the table.
- **Step 6 — Use your ISA allowance.** Tax-free savings and investments — covered in Chapter 4.
- **Step 7 — Invest and build long-term wealth.** Covered in Chapter 7.

### ■ Quick win:

Calculate your net worth today. Add up everything you own, subtract everything you owe. Write the number down. Then revisit it in six months. Watching that number improve is one of the most motivating things in personal finance.

## Understanding inflation

Inflation is the rate at which prices rise over time. The UK government targets 2% annual inflation, measured by the Consumer Price Index (CPI), published monthly by the Office for National Statistics. When inflation is above this target — as it has been in recent years — the purchasing power of your money falls.

In practical terms, if your savings are earning 1% interest but inflation is running at 3%, your money is losing 2% of its real value every year. This is why simply leaving money in a low-interest current account is a slow form of financial loss. Your cash looks the same, but it buys less.

The Bank of England base rate — currently 3.75% — is the primary tool used to control inflation. When inflation is high, the Bank raises rates to make borrowing more expensive and encourage saving. This is why savings rates and mortgage rates have risen significantly in recent years.

## CHAPTER TWO

# Budgeting — Know Where Your Money Goes

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Budgeting has an image problem. It sounds restrictive, boring, and time-consuming. In reality, a good budget does the opposite of restricting you — it gives you permission to spend guilt-free on the things that matter, because you know your essentials and savings are covered.

Think of a budget not as a cage but as a roadmap. Without it, you are just hoping things will work out. With it, you are in control.

## The 50/30/20 rule

The most widely used budgeting framework is the 50/30/20 rule, popularised by US Senator Elizabeth Warren in her book *All Your Worth*. It is simple, flexible, and works for most people:

- **50% on needs** — Rent or mortgage, council tax, energy bills, food, minimum debt payments, insurance, transport to work. The essentials you genuinely cannot do without.
- **30% on wants** — Eating out, streaming services, hobbies, gym memberships, clothing beyond the basics, holidays. Things that enrich your life but are not strictly necessary.
- **20% on saving and debt repayment** — Emergency fund, ISA contributions, pension top-ups, overpaying on debts.

These percentages are guidelines, not rules. If you live in London or another expensive city, your needs may well exceed 50%. The framework is most useful as a sense-check: if you are spending 60% on needs and 35% on wants and saving nothing, you can see clearly where the problem lies.

## How to build your budget

Follow these five steps to build a budget that actually works:

### Step 1 — Calculate your real take-home pay

Start with your net income — what actually lands in your bank account after tax, National Insurance, and pension contributions. If you are self-employed, use your average monthly net earnings after tax, being conservative rather than optimistic.

### Step 2 — List all fixed costs

Go through your bank statements and direct debits. List every regular payment: rent or mortgage, council tax, energy, water, broadband, phone, car insurance, home insurance, life insurance,

subscriptions, minimum loan and credit card payments. Add them up. This is your fixed cost floor — the minimum you spend every month regardless.

### Step 3 — Track variable spending

Look at the last three months of bank and credit card statements. Categorise every purchase: food, transport, eating out, clothing, entertainment, personal care, and so on. Add up each category and divide by three to get a monthly average. Be honest — this exercise only works if you include everything.

### Step 4 — Identify your savings target

Before spending anything on wants, decide how much you want to save each month. Treat this like a bill — it gets paid first. Set up a standing order on payday to move this money to a savings account immediately. This is the single most effective budgeting habit you can adopt.

### Step 5 — Find and cut the leaks

Now look at your variable spending critically. Where are the surprises? Subscriptions you forgot about? Takeaways adding up to more than you expected? Small daily purchases you barely registered? Identify two or three areas to cut — even modestly — and redirect that money to your savings target.

## Budgeting tools

You do not need anything sophisticated to budget. A simple spreadsheet works perfectly well. But if you prefer an app, several UK-focused options are available:

- **Monzo and Starling** — both offer built-in spending categorisation and pot savings features. If you bank with either, you already have most of a budgeting tool.
- **YNAB (You Need A Budget)** — the most comprehensive dedicated budgeting app, based on the principle of giving every pound a job. Has a subscription fee but many users find it transformative.
- **Emma** — connects to multiple bank accounts and categorises spending automatically.
- **The SimpleMoney.live budget planner** — our free tool at [simplemoney.live/budget-planner](https://simplemoney.live/budget-planner).

## The emergency fund — your financial safety net

Before you think about investing, before you think about anything beyond basic debt repayment, you need an emergency fund. This is a pot of cash — kept in an easy-access savings account — that exists purely to cover unexpected expenses: a boiler breakdown, car repair, job loss, or medical costs.

The recommended size is three to six months of essential expenses — not total spending, just the essentials you need to keep your life running. For most people in the UK this is somewhere

between £3,000 and £12,000.

The emergency fund serves a crucial psychological function too. When you have that buffer in place, you stop making desperate financial decisions under pressure. You do not take on expensive credit card debt to fix the boiler. You do not raid your pension. You simply use the fund, then replenish it.

■ **The pay-yourself-first rule:**

Set up a standing order to move your savings to a separate account on the day you get paid — before you have a chance to spend it. Studies consistently show that people who save first save more. Even £50 a month, started today, builds a meaningful habit.

## CHAPTER THREE

# Savings — Make Your Money Work Harder

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For years, saving money felt almost pointless. Interest rates were so low that even diligent savers watched inflation quietly erode their balances. That era is over. With the Bank of England base rate at 3.75% and top savings accounts paying above 4%, there is now real money to be made — or lost — depending on whether you are keeping up.

The difference between a saver earning 1.5% on a high street bank's easy-access account and one earning 4.5% on a top-of-market account is significant. On a £20,000 balance, that gap is £600 a year in lost interest. Over five years, with compounding, it becomes even more dramatic.

## Types of savings account

### Easy-access accounts

Easy-access accounts let you deposit and withdraw money whenever you like. They are the right home for your emergency fund and any money you might need at short notice. Rates on easy-access accounts fluctuate with the base rate, so they require monitoring — the best rates are typically offered by challenger banks and building societies rather than the big high street names.

### Fixed-rate bonds

Fixed-rate savings bonds lock your money away for a set period — typically one, two, or five years — in exchange for a higher interest rate. They are ideal for money you know you will not need for the fixed period. The longer the term, the higher the rate is usually, though not always.

The key risk is that if you need the money early, you typically cannot access it, or face a significant penalty. Only commit money to a fixed-rate bond that you are genuinely comfortable not touching.

### Notice accounts

A middle ground between easy-access and fixed-rate accounts. You can withdraw money, but you must give notice — typically 30, 60, or 90 days. In return you usually get a better rate than easy-access. Good for money you might need eventually but not urgently.

### Regular savings accounts

These accounts require you to make regular monthly deposits — usually between £25 and £500 — and often restrict withdrawals. In return they offer some of the highest headline rates available, sometimes above 5% or 6%. They are an excellent choice for building a savings habit, though the

total balance you can hold is limited.

## The AER — always compare like with like

When comparing savings accounts, always use the AER — Annual Equivalent Rate. This is the standardised rate that shows what you would earn over a full year, accounting for how often interest is compounded. Some accounts pay interest monthly, some annually — the AER lets you compare them on equal terms.

Watch out for accounts that advertise a high rate but include a short-term introductory bonus. The headline rate may be 5%, but once the 12-month bonus expires the underlying rate might drop to 2.5%. Check the terms carefully and set a reminder to move your money when the bonus ends.

## Where to find the best rates

The best savings rates are rarely offered by the banks you walk past on the high street. The highest rates are typically found at:

- Challenger banks — app-based banks like Chip, Atom, and Marcus that have lower overheads and pass the savings on
- Building societies — mutual organisations that are not driven by shareholder profits
- Savings platforms — services like Raisin UK that aggregate accounts from multiple banks

Check comparison sites like MoneySavingExpert, Moneyfacts, or the SimpleMoney.live savings page regularly — at least once a month. Rates change frequently and the best deal today may not be the best deal in six weeks.

## FSCS protection — keeping your money safe

The Financial Services Compensation Scheme (FSCS) protects savings held with UK-authorized banks and building societies. From December 2025, the protection limit increased to £120,000 per person, per institution.

This means that if your bank were to fail, you would be compensated up to £120,000. If you have more than this saved with a single institution, it is worth spreading your savings across two or more banks to protect the full amount.

Be aware that some banking brands share a banking licence — for example, Halifax and Bank of Scotland are both part of Lloyds Banking Group. Savings with both count towards a single £120,000 limit. Always check before splitting your savings.

■ **Monthly rate check:**

Set a recurring reminder on the 1st of each month to check the best easy-access savings rate. It takes five minutes and could earn you hundreds of pounds more each year. Use [simplemoney.live](https://www.simplemoney.live) for the latest rates.

## CHAPTER FOUR

# ISAs — Your Tax-Free Money Shelter

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The Individual Savings Account — ISA — is one of the most valuable tools available to UK savers and investors. Money inside an ISA grows completely free of income tax and capital gains tax. The interest you earn, the dividends you receive, the gains you make — all of it is yours, sheltered from HMRC.

Most people know ISAs exist. Far fewer fully understand how to use them strategically. This chapter explains everything you need to know.

## The ISA allowance

Every adult UK resident gets an annual ISA allowance of £20,000 per tax year (which runs from 6 April to 5 April). This is the maximum you can pay into ISAs across all types in a single year. Once the tax year ends, unused allowance is gone — it cannot be carried forward.

You can split your allowance across multiple ISAs — for example, £10,000 into a Cash ISA and £10,000 into a Stocks and Shares ISA in the same year — as long as the total does not exceed £20,000.

## Types of ISA

### Cash ISA

A Cash ISA works exactly like a savings account but any interest you earn is completely tax-free. With the personal savings allowance (£1,000 for basic rate taxpayers, £500 for higher rate taxpayers), many people do not pay tax on savings interest anyway. But higher earners, or those with large savings balances, can benefit significantly from sheltering their cash in a Cash ISA.

### Stocks and Shares ISA

A Stocks and Shares ISA lets you invest in the stock market — shares, funds, investment trusts, bonds — inside a tax-free wrapper. Any growth in your investments, any dividends received, and any gains when you sell are all completely free of tax. For long-term wealth building, the Stocks and Shares ISA is one of the most powerful tools available to UK investors.

### Lifetime ISA (LISA)

The Lifetime ISA is designed for two specific purposes: buying your first home, or saving for retirement. You can save up to £4,000 per year into a LISA, and the government adds a 25% bonus on top — up to £1,000 per year for free.

The LISA comes with important restrictions. You must be between 18 and 39 to open one. You can only use the money (without penalty) to buy a first home worth up to £450,000, or to access it from age 60. Withdrawing for any other reason incurs a 25% penalty — which effectively claws back the government bonus and a small portion of your own money.

## Innovative Finance ISA

The Innovative Finance ISA (IFISA) allows peer-to-peer lending returns to be received tax-free. The peer-to-peer lending market has shrunk considerably in recent years and these accounts carry significantly higher risk than cash or stock market ISAs. Most investors are better served by a Stocks and Shares ISA.

## Junior ISA

Parents can save up to £9,000 per year into a Junior ISA for a child under 18. The money cannot be accessed until the child turns 18, at which point it belongs to them. JISAs are an excellent way to build a financial head start for children.

## ISA rules worth knowing

- You can only open one of each type of ISA per tax year
- You can transfer an ISA to a different provider without losing the tax-free status — always transfer, never withdraw and redeposit
- Withdrawing from a flexible ISA and replacing the money in the same tax year does not count as a new contribution
- The ISA allowance resets on 6 April each year — use it or lose it

### ■ ISA vs savings account:

If you are a basic rate taxpayer with savings below £20,000, the tax benefit of a Cash ISA is limited — your personal savings allowance may cover all your interest anyway. The Stocks and Shares ISA is where the real long-term power lies, especially for anyone with a 10+ year horizon.

## CHAPTER FIVE

# Mortgages — Buying a Home in the UK

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For most people in the UK, a mortgage will be the largest financial commitment they ever make. Getting it right — or wrong — can mean the difference of tens of thousands of pounds over the life of the loan. Understanding how mortgages work, what affects the rate you are offered, and how to make smart decisions is genuinely one of the highest-value things you can do with your financial knowledge.

## How mortgages work

A mortgage is a loan secured against a property. The lender — typically a bank or building society — provides the money to buy the property. In return, you make monthly repayments of capital and interest over an agreed term, typically 25 to 35 years. If you fail to make repayments, the lender has the right to repossess and sell the property to recover what you owe.

The amount you can borrow is primarily determined by your income. Most lenders will lend up to four to four-and-a-half times your annual income, though this varies. Your deposit size, credit score, existing debts, and monthly outgoings all factor into the lender's affordability assessment.

## Loan-to-value (LTV)

LTV — Loan to Value — is the size of your mortgage expressed as a percentage of the property's value. If a property is worth £200,000 and you have a £40,000 deposit, you need a mortgage of £160,000. Your LTV is 80%.

LTV matters enormously for the rate you are offered. Lenders tier their rates by LTV — 60%, 75%, 85%, 90%, 95%. The lower your LTV, the lower the risk to the lender, and the lower the interest rate you will pay. Saving a larger deposit can save you thousands in interest over the mortgage term.

## Types of mortgage

### Fixed-rate mortgages

Your interest rate is fixed for a set period — typically 2, 3, or 5 years. Your monthly payments stay the same throughout the fixed period, giving you certainty and protection from rate rises. At the end of the fixed period, you move onto the lender's Standard Variable Rate (SVR) — which is almost always higher — unless you remortgage.

## Tracker mortgages

A tracker mortgage follows the Bank of England base rate plus a set margin. If the base rate is 3.75% and your tracker is base rate plus 1%, you pay 4.75%. If the base rate falls, your payments fall. If it rises, your payments rise. Tracker mortgages tend to offer lower initial rates than fixed deals but carry the risk of rising payments.

## Standard Variable Rate (SVR)

The SVR is the lender's default rate — the rate you revert to when a fixed or tracker deal ends. SVRs are typically significantly higher than the best available deals and fluctuate at the lender's discretion. You should almost never stay on your lender's SVR for longer than necessary. Remortgage when your deal ends.

## Stamp Duty

Stamp Duty Land Tax (SDLT) is a tax paid when you purchase a property in England or Northern Ireland. Rates depend on the purchase price and whether you are a first-time buyer:

- First-time buyers pay no stamp duty on the first £300,000
- On properties worth £300,001 to £500,000, first-time buyers pay 5%
- Non-first-time buyers pay 0% up to £125,000, then tiered rates above
- Additional properties (buy-to-let, second homes) attract a 3% surcharge

Use the SimpleMoney.live stamp duty calculator at [simplemoney.live/stamp-duty-calculator](https://simplemoney.live/stamp-duty-calculator) for an instant calculation.

## Getting the best mortgage deal

- Use a whole-of-market mortgage broker — they compare deals from across the market, often finding rates not available directly. Many charge no fee to the borrower.
- Check your credit report before applying. Errors can cost you — fix them first.
- Do not apply for other credit in the six months before a mortgage application.
- Start looking at remortgage deals three to six months before your current deal expires.
- Consider overpaying if your mortgage allows it — even small overpayments significantly reduce the total interest paid and shorten the term.

### ■ Remortgage reminder:

When your fixed-rate deal ends, your lender will move you to their Standard Variable Rate automatically. This can add hundreds of pounds to your monthly payment. Set a reminder six months before your deal expires to start comparing new deals.

## CHAPTER SIX

# Debt — Tackling It the Smart Way

Debt is not inherently bad. A mortgage is debt — but used wisely, it builds equity in an asset that typically appreciates over time. Student loan debt in the UK operates more like a graduate tax than a conventional loan. Low-interest debt used for genuine investment in yourself or your future is very different from high-interest consumer debt.

The debt that causes real financial damage is high-interest consumer debt: credit cards with 20%+ APR, store cards, payday loans, expensive personal loans. This kind of debt can spiral quickly and should be tackled aggressively.

## Good debt vs bad debt

A useful framework for thinking about debt is to distinguish between debt that works for you and debt that works against you:

- **Generally acceptable debt:** Mortgages on sensibly-priced properties. Low-interest car finance for a necessary vehicle. Student loans (in the UK, these only get repaid when you earn above the threshold, and are written off after 30 years).
- **Debt to tackle urgently:** Credit card balances at high APR. Store cards. Buy Now Pay Later balances unpaid beyond the 0% period. Payday loans. Unauthorised overdrafts.

## The avalanche method — mathematically optimal

The avalanche method involves paying off your debts in order of interest rate, from highest to lowest, making minimum payments on all others and throwing every extra pound at the highest-rate debt first.

This is mathematically the most efficient approach — it minimises the total interest you pay. If you have a credit card at 24% APR and a personal loan at 8%, you focus everything on the credit card while making minimum payments on the loan.

## The snowball method — psychologically powerful

The snowball method, popularised by Dave Ramsey, involves paying off debts from smallest to largest balance, regardless of interest rate. The mathematical cost is slightly higher, but the psychological benefit — the momentum of clearing debts one by one — helps many people stay motivated.

If you have tried the avalanche method and struggled to stay motivated, the snowball might work better for you. The best debt repayment strategy is the one you actually stick to.

## Balance transfers and debt consolidation

0% balance transfer credit cards allow you to move existing credit card debt to a new card and pay no interest for a set period — typically 12 to 24 months. If you can commit to paying off the balance during the 0% period, this can save significant interest.

Watch out for: balance transfer fees (typically 2-3% of the amount transferred), the interest rate that kicks in after the 0% period, and the temptation to spend on the new card. Only use a balance transfer as part of a genuine plan to clear the debt.

## UK student loans — a special case

UK student loans are fundamentally different from other debts and should be treated differently. Key facts:

- Repayments are only made when you earn above the repayment threshold (currently £25,000 per year for Plan 2 loans)
- Repayments are 9% of earnings above the threshold — automatically deducted via payroll
- The loan is written off after 30 years regardless of how much is left
- The interest rate is linked to inflation — but you only repay if you earn enough

For most graduates, student loan repayments function effectively as a modest income tax supplement. Voluntarily overpaying your student loan is rarely the right financial decision — the money is almost always better used building an emergency fund, contributing to a pension, or investing.

### ■ Debt priority order:

Emergency fund first (£1,000 minimum). Then tackle payday loans and any debts above 15% APR aggressively. Then credit cards. Lower rate debts can be paid at their minimum while you focus on higher priorities. Never sacrifice pension employer matching to pay off low-rate debt.

## CHAPTER SEVEN

# Investing — Growing Your Wealth Over Time

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Saving is essential, but savings accounts have a ceiling. At 4-5% interest, your money grows steadily — but it is unlikely to significantly outpace inflation over the long term once tax is accounted for. Investing in the stock market, over long time horizons, has historically generated returns well above inflation — typically 6-8% per year on average after inflation.

Investing involves risk. The value of investments can fall as well as rise. But for money you do not need for 5 years or more, the risk of not investing — of watching inflation quietly erode your purchasing power — is often greater than the risk of investing.

## The power of compound growth

Compound growth is the process by which your returns generate their own returns. It is the most powerful force in personal finance, and time is its most important ingredient.

Consider two people. Person A invests £200 per month from age 25 to 35 — ten years — then stops and lets the money grow. Person B invests nothing until age 35, then invests £200 per month for 30 years. Assuming 7% annual returns, Person A will have more money at 65 despite investing for far fewer years. Starting early matters enormously.

## Key investment concepts

### Diversification

Diversification means spreading your investments across different assets, sectors, and geographies to reduce risk. If you own shares in 500 companies across multiple countries and sectors, one company failing has minimal impact on your portfolio. If you own shares in only one company, its failure could be catastrophic.

### Index funds and ETFs

An index fund tracks a market index — such as the FTSE 100 (the 100 largest UK companies) or the S&P; 500 (500 largest US companies). Rather than trying to pick winners, you simply own a tiny slice of every company in the index.

The evidence overwhelmingly shows that low-cost index funds outperform most actively managed funds over the long term, after fees are taken into account. Warren Buffett has publicly recommended index funds for most investors. For the vast majority of people, a simple globally

diversified index fund held inside a Stocks and Shares ISA is an excellent long-term investment strategy.

## Charges matter enormously

Investment charges — the ongoing annual management fee, platform charge, and transaction costs — compound just like returns, but in the wrong direction. A fund charging 1.5% per year versus one charging 0.15% per year might look like a small difference. Over 30 years on a £100,000 portfolio, the difference in total cost is staggering.

When choosing investments, always check the Ongoing Charges Figure (OCF) or Total Expense Ratio (TER). For index funds, look for OCFs below 0.2%. Many excellent global index funds are available at 0.07-0.15% per year.

## Where to invest

For most UK investors, the priority order is:

- **Workplace pension** — maximise employer contributions first. Free money.
- **Stocks and Shares ISA** — up to £20,000 per year, completely tax-free growth.
- **Self-Invested Personal Pension (SIPP)** — for higher earners or self-employed, pensions offer tax relief on contributions.
- **General Investment Account (GIA)** — once ISA and pension allowances are used, a taxable investment account.

### ■ The simple investment strategy:

For most people: a low-cost global index fund (such as a FTSE All-World tracker) inside a Stocks and Shares ISA, invested monthly via a standing order, and held for the long term. Do not watch it daily. Do not sell in a crash. Keep investing. Time in the market beats timing the market.

## CHAPTER EIGHT

# Pensions — Planning for Retirement

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Pensions are the most tax-efficient way most people can save for retirement — and yet they are also the most misunderstood, most ignored financial product in the UK. Millions of people are sleepwalking towards retirement with pension pots that will not sustain the lifestyle they expect.

The good news is that the earlier you engage with your pension, the easier it is to build a meaningful pot. And for employed workers, the workplace pension is one of the best financial deals available — do not leave employer contributions on the table.

## How pensions work

A pension is simply an investment account with significant tax advantages attached. You contribute money, it is invested and grows over time, and you access it from a minimum age (currently 57, rising in 2028). The key advantage is tax relief on contributions — basic rate taxpayers get 20% relief, meaning a £100 contribution only costs you £80 out of pocket. Higher rate taxpayers get 40% relief.

## The State Pension

The UK State Pension is a weekly payment from the government, funded by National Insurance contributions. The full new State Pension in 2026/27 is £241.30 per week (around £12,500 per year). To receive the full amount, you need 35 qualifying years of National Insurance contributions.

You can check your State Pension forecast and National Insurance record on the government's website ([gov.uk/check-state-pension](https://www.gov.uk/check-state-pension)). If you have gaps in your NI record, you may be able to make voluntary contributions to boost your entitlement — this is often excellent value.

The State Pension age is currently 66 for both men and women. It is scheduled to rise to 67 between 2026 and 2028, and further increases are planned.

## Workplace pensions and auto-enrolment

Since 2012, most UK employers have been required to automatically enrol eligible workers into a workplace pension. Minimum contributions are currently 8% of qualifying earnings in total — at least 3% from the employer and 5% from the employee (including tax relief).

Many employers offer to match contributions above the minimum — for example, matching up to 5% or 6%. If you are not contributing enough to receive the full employer match, you are turning down free money. This should be your first financial priority after building a basic emergency fund.

## How much do you need for retirement?

The Pensions and Lifetime Savings Association publishes retirement living standards that give useful benchmarks:

- **Minimum lifestyle:** Around £14,400 per year for a single person — covers essentials but no car, no holidays.
- **Moderate lifestyle:** Around £31,300 per year — more financial security, some leisure, one holiday per year.
- **Comfortable lifestyle:** Around £43,100 per year — financial freedom, regular holidays, car replacement every five years.

The State Pension covers roughly £12,500 of this — meaning you need your own pension savings to make up the rest. To fund a comfortable retirement at £43,100 per year from age 67, with the State Pension contributing £12,500, you need around £30,600 per year from your own savings — which requires a pension pot of roughly £600,000-£800,000, depending on investment returns.

That sounds like a lot — but started early, with consistent contributions and employer matching, it is achievable. Use the government's Pension Wise service ([pensionwise.gov.uk](https://pensionwise.gov.uk)) for free, impartial guidance.

### ■ Pension action steps:

Log into your workplace pension provider today. Find out your current pot size, projected retirement income, and whether you are receiving the full employer match. Then use the government's State Pension checker to see your NI record. These two actions give you a complete picture of where you stand.

## CHAPTER NINE

# Insurance — Protecting What Matters

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Insurance is the part of personal finance that most people spend the least time on — and it is the area where a single bad decision can be financially catastrophic. The purpose of insurance is simple: to protect you against financial losses that you could not absorb yourself.

The key principle is to insure against things that would genuinely devastate your finances, and self-insure (accept the risk yourself) for things you could absorb. You probably do not need insurance on a £50 appliance. You absolutely need insurance on your income if you have a mortgage and no emergency fund.

## Essential insurance

### Buildings and contents insurance

If you own a property, buildings insurance — covering the structure itself — is typically required by your mortgage lender. Contents insurance covers your possessions. Both are worth comparing at renewal — loyalty penalties mean long-standing customers often pay far more than new ones. Always compare on a comparison site before renewing.

### Life insurance

Life insurance pays out a lump sum if you die during the policy term. It is essential if you have a mortgage, dependents, or anyone who relies on your income. Term life insurance — which covers you for a fixed period — is generally straightforward and inexpensive for younger, healthy people. The older you are when you take it out, the more expensive it becomes.

### Income protection insurance

Income protection pays you a monthly income if you are unable to work due to illness or injury. This is arguably the most important and most underused insurance product in the UK. Consider: if you were unable to work for six months, or two years, could you manage financially? For most people with a mortgage and no significant savings, the answer is no.

State support — statutory sick pay and Employment Support Allowance — is limited. Good income protection insurance can replace 50-70% of your income until you recover or retire. It is well worth considering, particularly for self-employed workers who have no employer sick pay at all.

### Critical illness cover

Critical illness cover pays a tax-free lump sum if you are diagnosed with a specified serious illness — typically including cancer, heart attack, and stroke. Unlike income protection, it pays out once regardless of whether you recover. It can be used to pay off a mortgage, fund adaptations to your home, or cover care costs.

## Insurance to approach carefully

### Payment Protection Insurance (PPI)

PPI covers loan or credit card repayments if you cannot work. The historic mis-selling scandal is well-documented. If you are still paying for PPI attached to a product, check whether it represents genuine value and whether you are eligible for the cover.

### Extended warranties

Extended warranties on appliances are typically poor value. The profit margins on these products are very high, reflecting their low payout rate. You are usually better served putting the equivalent monthly cost into a small self-insurance fund for appliance repair or replacement.

## Getting the best insurance deals

- Always compare at renewal — loyalty rarely pays with insurers
- Use comparison sites like Compare the Market, GoCompare, and MoneySuperMarket
- Set a calendar reminder six weeks before each policy renews
- Consider using an independent insurance broker for complex products like income protection
- Do not underinsure to save money — especially on buildings and contents

## CHAPTER TEN

# Tax — Keeping More of What You Earn

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Nobody enjoys paying tax. But understanding the UK tax system — and using the legitimate reliefs and allowances available to you — can make a material difference to your finances. Billions of pounds in tax reliefs go unclaimed every year in the UK, simply because people do not know they are entitled to them.

This chapter covers the key taxes most people encounter and the main opportunities to reduce your tax bill legally.

## Income tax

Income tax in England is charged at three rates above the personal allowance (£12,570 in 2026/27, frozen until 2031):

- **Basic rate:** 20% on income between £12,571 and £50,270
- **Higher rate:** 40% on income between £50,271 and £125,140
- **Additional rate:** 45% on income above £125,140

The freezing of tax thresholds — fiscal drag — means that as wages rise but thresholds stay fixed, more people are dragged into higher tax brackets each year. This is effectively a stealth tax increase.

## National Insurance

Employees pay National Insurance contributions (NICs) on earnings above the primary threshold (£12,570 per year). Employee NICs are currently 8% on earnings between £12,570 and £50,270, and 2% above that. Employer NICs add a further 13.8% on top.

NI contributions qualify you for the State Pension and certain benefits. You need 35 qualifying years for the full State Pension — checking and potentially filling NI gaps is an important and often overlooked financial action.

## Capital Gains Tax (CGT)

CGT is charged on the profit when you sell an asset — investments, property, business assets — above your annual CGT allowance. The allowance has been reduced dramatically in recent years, from £12,300 in 2022/23 to just £3,000 from 2024/25 onwards.

The key protection against CGT for most investors is the ISA — gains inside an ISA are completely free of CGT, regardless of size. Making full use of your annual ISA allowance is the most effective CGT planning available to most people.

## Tax relief on pension contributions

Pension contributions qualify for income tax relief at your marginal rate. For a basic rate taxpayer, every £80 contributed gets topped up to £100 by HMRC. For a higher rate taxpayer, a £100 contribution effectively costs only £60. This makes pension contributions one of the most tax-efficient uses of money available.

Higher rate taxpayers who contribute to a personal pension should claim their additional 20% relief via self-assessment — it is not automatically applied. Many higher earners miss this relief entirely.

## Commonly overlooked tax reliefs

- **Marriage Allowance:** If one partner earns below the personal allowance, they can transfer £1,260 of their unused allowance to their spouse, saving up to £252 in tax.
- **Working from home relief:** HMRC allows a claim of £6 per week (£312 per year) for those working from home, without requiring receipts.
- **Mileage allowance:** Self-employed workers and employees using personal vehicles for business can claim 45p per mile for the first 10,000 miles.
- **Charitable giving:** Gift Aid means charities reclaim 25p for every £1 donated. Higher rate taxpayers can also claim additional relief via self-assessment.
- **Blind Person's Allowance:** An additional income tax allowance for registered blind or severely sight-impaired people.

### ■ Check your tax code:

Your tax code tells HMRC how much of your income to exempt from tax. The standard code for most people is 1257L. An incorrect tax code could mean you have been overpaying — or underpaying — income tax without realising. Check your payslip and query anything that looks wrong with HMRC.

## FINAL WORD

# Your Simple Money Action Plan

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You have made it to the end. If you have read every chapter, you now know more about personal finance than the vast majority of people in the UK. But knowledge only has value when it is acted on.

The gap between people who are financially comfortable and people who are not is rarely about income. It is almost always about habits, attention, and consistency. Small actions, repeated regularly over time, compound into life-changing results.

Here is a practical action plan — sorted by priority. Work through it at your own pace:

## This week

- Calculate your net worth — assets minus liabilities
- Look at three months of bank statements and categorise your spending
- Check your tax code on your payslip
- Log into your workplace pension and find your pot size and projected income
- Check your State Pension forecast at [gov.uk/check-state-pension](https://gov.uk/check-state-pension)

## This month

- Build or review your monthly budget using the 50/30/20 framework
- Check the best savings rates and move any savings earning less than 3%
- Check whether you are receiving the full employer pension match
- Review all direct debits and cancel any unused subscriptions
- Set up a standing order to move savings on payday

## This year

- Open or maximise your ISA — Cash or Stocks and Shares, or both
- Build your emergency fund to three months of essential expenses
- Review your insurance policies at renewal — always compare before renewing
- If you have high-interest debt, start the avalanche or snowball method
- If you are approaching mortgage renewal, start comparing six months early

## Ongoing — every month

- Check the best savings rates (first of the month — five minutes)
  - Review your budget and compare to last month
  - Keep investing consistently — do not stop during market falls
  - Visit [simplemoney.live](https://simplemoney.live) for the latest UK personal finance news, rates and guides
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## Thank you

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### Christian Pearson

Founder, [SimpleMoney.live](https://SimpleMoney.live)

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