

Top Tips for Personal Finance

As an American living in the UK, almost nothing related to your financial affairs is easy. The consequences of seemingly simple decisions – such as how to pay for a new home or purchase a mutual fund - may create unnecessary tax charges and complexities. There are a number of key milestones that occur, from the time you arrive in the UK to the time you approach and eventually reach retirement. Many of these changes will impact the appropriate wealth management strategies for American expats. Understanding how rules will change for you over time will allow you to plan ahead and make prudent financial decisions. However, there are some principles of personal finance that apply regardless of these complications. In this edition we will explore some top tips for personal finance that you should always keep in mind.

Personal finance is not always as much of a priority as it should be. It will often remain perpetually at the bottom of our ‘to-do’ list. Having a plan may seem complicated but it doesn’t need to be. Below we will share a few tips for gaining control of your personal finances.

The single most important thing to do is understand exactly what comes in and out of your current account each month. General areas of expenditure typically include things like:

- Rent/Mortgage
- Household utilities
- Insurance
- Transportation/commuting costs
- Discretionary expenses (gifts, restaurants, pubs, sports, etc.)
- Travel

Review your expenditure whilst thinking about what things are most important to you. You may need to review financial transactions regularly for a few months before you have a good sense of spending patterns. If you find yourself spending on things that ultimately don't impact your personal utility or standard of living, this may be an area for you to save on in the future.

The earlier you begin saving the better. The benefits of compound growth are significant and means your money won't need to work as hard for you. If you aim to make savings part of your monthly budget, you will find that your spending adjusts accordingly without you even realising it. Save automatically through monthly direct debits into separate accounts. This includes allocations for specific savings goals and retirement.

If your employer offers matching on retirement contributions; you should seek to try to take advantage of this as it is effectively free money.

A few rules of thumb will help you to save and spend at the same time:

- Aim for mortgage/rent costs to be no more than 28% of your gross income. This can be useful to keep in mind as you think about how much house you can afford.
- Allocate at least 20% of your income towards financial priorities such as building emergency savings, paying off debt and adding money towards retirement.
- Budget around 30% of income on lifestyle discretionary expenses.

When assessing financial priorities, you should aim to set aside three to six months of expenses in a liquid and accessible account. These represent emergency cash reserves. If you have any debt, conventional wisdom is to focus on paying those loans with the highest interest rate first whilst making minimum payments on all other sources of debt.

It is important to remember that it is possible to have too much cash. If you have enough set aside to meet emergency cash reserves and short-term financial goals, then one should think about building a diversified investment portfolio. Costs eat into investment returns over time. Therefore, you want to seek assets that are as low cost as possible but also meet your objectives.

Once you have structured a diversified portfolio, it is important to review the portfolio once or twice a year to ensure that your overall asset allocation still meets your goals and objectives. Periodic rebalancing will be needed to ensure you don't become too concentrated in areas of the market that have performed well over that time period.

As you move forward, remember to keep an eye on your net worth as well as your credit report (through an annual credit check). It can help you monitor your progress (or lack thereof) towards meeting your financial goals. You can ensure nothing looks unusual and give yourself the opportunity to make adjustments when needed.

If you would like a full copy of MASECO's '39 Steps to Smart Living in the UK' please contact us at enquiries@masecopw.com.

Date of Review: May 2026

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