



MoneyExpert

## SAVINGS



THE DEFAQTO GUIDE TO SAVINGS  
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## INTRODUCTION



Fortunately, the days of stashing cash in a shoebox under the bed are long gone. There are now hundreds of savings accounts on the market, many with different features and bonuses - and by playing the field, you could end up saving more than you ever hoped for. What's more, some savings accounts will even keep your money away from the taxman!

With bills to pay and food to put on the table, putting money aside for savings may well be the last thing on your mind. But thinking about the future is one of the most important things you can do. Whether you are considering a deposit on a new home, how to pay your children's university fees or to build a nest egg for unexpected bills, by planning in advance, you can avoid relying too heavily on borrowing.

We may live in a buy-now-pay-later society, but everyone should be aiming for a nice pot of savings to help lessen the burden of any future debt or unexpected twist that life may take. If you have put away a slice of your salary each month, and chosen the right saving scheme, a rainy day may end up feeling more like a light shower.

## MAKING THE RIGHT CHOICE



### What are savings accounts?

Savings offer a safe way of storing money away - either for a rainy day or with your eye on something for the future - while earning a little interest at the same time. You need to be aware that savings are very different from investments.

A savings product is a “deposit-based” account where you can squirrel money you may not need on an everyday basis, but can still access with relative ease. A savings account is likely to hold funds for a while, but with the intention of getting to them relatively easily.

But savings also mean you are not taking any chances with your cash - whatever money you put into a savings account you will get back, plus the interest. With investments on the other hand, you may get a higher return, but there is also the risk that you may not even get back what you put in.

### Why bother saving?

There are plenty of reasons to have a savings account. Having money tucked away somewhere is always reassuring, especially if you can make regular contributions, such as a percentage of your salary. You never know if that rainy day is next week or next year.

You may also be saving for a special occasion such as a fun-packed holiday abroad, or your dream car. Already having the money saved is obviously better than borrowing it and getting yourself into debt. However, you do need to make sure you are in a position to save.

If you have outstanding debts, make sure you pay these off first, because the rates on your debt are likely to far outweigh the interest you can earn on savings accounts. You are also taxed on most savings. You need to work out how much you can afford to put away each month - there is no point in saving so much that you have trouble paying bills or doing everyday things.

#### TIP 1

Open up a savings account for safe, and sometimes, shorter-term, savings.

#### TIP 2

Make sure you pay off all your debt before you start saving!

#### TIP 3

Make sure you budget and work out how much you can afford to save.

## So, what's out there?

Most savings accounts offer a certain amount of flexibility when compared to investments - but the longer you let a bank or building society hold onto your money, the more interest you are likely to get.

You can access some accounts immediately or within a few days, but others do penalise you for taking money out without longer notice. While some go up and down with the Bank of England Base Rate (BEER), others are fixed at a set level.

### Here are the main types of accounts:

**Instant or Easy Access** - With these accounts you can usually start off with just £1, get access quickly and take a variable interest rate which moves up OR down with the BEER. But, rates are usually a bit low as you can get money out whenever you like, bonuses and incentives may mean withdrawal fees. You can usually get a cash card or a passbook, and get better rates on internet accounts.

**Notice Accounts** - Usually need to start off with a few hundred pounds and you will not be able to get cash out straight away. Can be 30, 60, 90 or 120 days notice to access without a penalty. A penalty will usually be calculated on the amount withdrawn and will equal the interest rate for the notice term. Usually variable interest, based on BEER.

**Regular Deposit** - You must invest a certain amount each month. However, there is not much flexibility and there are limited withdrawals. These accounts can be instant or easy access or notice accounts and may have penalties for withdrawals or missing monthly deposits.

**Fixed Rate Accounts** - Offer fixed rate of interest for a set period. By not going with a variable rate, you may miss out on increases to interest rates, but you may also be better off if the BEER drops. Watch out for minimum balances.

If you can afford to lock your money away, this is a good way to go.

## Tax free savings! Individual Savings Account (ISA)

ISAs are basically a tax-free wrapper for savings and investment products, which enable you to put away a set amount of money in any tax year to April.

With other savings products, basic rate tax payers are looking at 20% tax, while high rate payers are looking at 40%.

There are two main components to ISAs. These are:

**Cash** - These offer a safe way of saving money in the short-term and are usually taken through banks and building societies. You only need to be 16 years old to open one of these.

**Stocks and Shares** - These may involve investment funds; unit trusts, shares, bonds, as well as life insurance policies, and are usually taken through an investment company.

As with any investment, there is a risk that you may not get all your money back. (Life insurance used to be a component in its own right, but became part of the stocks and shares component in April 2005).

### TIP 4

Make sure you understand the account. Some accounts have conditions (e.g. the interest rate will be reduced if you make more than three withdrawals in a year) and it is important that you fully understand the implications before investing. Always choose an account that is likely to suit your needs.

ISAs are also split into two types and you can only invest in ONE of the two in a tax year. These are:

#### Mini ISA

- You can have two Mini ISAs in a tax year.
- You can invest in one component per Mini ISA, a cash or a stocks and shares component.
- Mini ISAs are mainly used for cash components and taken through banks or building societies.
- You can invest up to £3,000 in a Mini Cash ISA in one tax year.
- You can invest up to £4,000 in a Mini stocks and shares ISA.

#### Maxi ISA

- You can take out one Maxi ISA per tax year, investing up to £7,000.
- With that Maxi you can take out two components in any tax year.
- The Maxi must have the stocks and shares component.
- Up to £3,000 of this can be cash, but the full £7,000 may be stocks and shares.

TESSA Only ISA - Are available to people with maturing TESSAs (Tax Exempt Special Savings Accounts), which are no longer on the market for new customers. Maximum investment of £9,000.

### TIP 5

Remember, you can only invest in a Mini ISA OR a Maxi ISA in any one tax year.

### TIP 6

Try not to withdraw money from your ISA. Once you have invested the limit, if you make a withdrawal, you cannot top it up again.

### TIP 7

Look out for all the usual dos and don'ts when it comes to interest rates; there may be minimum withdrawals or a minimum on how much you need to deposit.

### TIP 8

If you are switching ISAs do not just withdraw the cash - you will lose your tax-free element! Make sure the new bank or building society can set up the transfer for you.

### TIP 9

Cash ISAs are safe and are good for short-term savings. Stocks and Shares are more risky and need to be invested for longer periods. Make sure you can live without the cash if you opt for the latter.

### TIP 10

If you're a taxpayer, try to make use of your annual ISA tax free allowance. The interest rates for cash ISAs are more generous than for many equivalent non-ISA accounts.

## MAKING YOUR SAVINGS WORK

### Running the account

How you decide to manage and access your account can have quite an impact on the interest rate you receive. Although some people are still a little dubious over the safety risks, internet banking is becoming more and more popular. Online banking is not only quick, easy and accessible for customers, the banks also like it because it means less work for them! And many online savings products offer better interest rates.

Customers can often check balances, conduct transactions and transfer money via the internet. Other ways to manage a savings account include, by branch, post or phone. You may well find that certain products are restricted to a number of these methods - so make sure you know which ones your product allows! If you are someone who prefers to deal with people face-to-face, check out how many local branches there are.

### Take an interest

Even when you have decided on the account you want to go for, there are no guarantees that your rate is going to stay at a lucrative level. Many of the bonus rates you see on best buy tables will only apply during the introductory term, so prepare yourself for a drop - typically after six to twelve months. Even after offer periods, banks and building societies have a tendency to carry on reducing your rate - so keep on the ball, take an interest in your account and make sure your rate is not dwindling. If you open an account which has an introductory bonus, consider moving your money elsewhere when the bonus period ends.

You should also watch out for rates that may vary depending on how you manage your account. For example, your special, enhanced rate may only apply if you make fewer than a specified number of withdrawals. This means that if you exceed that number, your rate could reduce even further.

Make sure you shop around and take full advantage of the bonus rates available - but you should also watch out for penalties for moving to another provider. Also bear in mind that higher rates are often reserved for new investors.

### Time to move on

Loyalty is undoubtedly an admirable quality. Sticking with the same bank is a sign of loyalty - but it is also a sign that you could be missing out on stacks of deals on the market. Shopping around could mean better interest rates, so it is time to take the plunge! Switching should also be relatively straightforward and should only really take a couple of days.

#### TIP 1

Some special products with excellent rates may only be available if you meet certain criteria - such as holding a current account with that bank.

#### TIP 2

If your savings account includes an introductory bonus, keep tabs on when the bonus is going to end and review whether to move your money elsewhere at that time.

#### TIP 3

Review your savings account every six months or so to see whether you can get a better deal elsewhere.

#### TIP 4

Make sure you obey the rules of the account so you don't suffer any penalty.

## ADDITIONAL



### Children's Accounts

These accounts aim to help young people to save. When it comes to banking for people under 18, you will most likely be looking at savings accounts that offer limited access. Even children's current accounts will be more similar to savings accounts.

You may be offered free gifts, but there could also be restrictions, such as notice periods, limited withdrawals and size of investments. Children's Accounts can be easy access, notice, bond or term account, but the parent will usually run them. However, bear in mind that Mini Cash ISAs are available to people from the age of 16.

### Child Trust Fund

This Government initiative offers tax-free savings and investments for children born after September 2002 who are eligible for Child Benefit. The Government gives a £250 voucher to help start them off with their savings, and then another £250 when they are 7 years old.

After this, friends and relatives can invest up to £1,200 per year and the child is not able to access the money until they are 18 years old. The fund can be based on a cash-based account, stocks and shares or a stakeholder.

### Protection

There is a lot of consumer protection out there at the moment, including a Banking Code, which states that banks and building societies must offer a fair service and provide certain information. You can find out more at any branch or at the British Banker's Association website at [www.bba.org.uk](http://www.bba.org.uk). You can also find more on the Financial Services Authority (FSA) website, at [www.fsa.org.uk](http://www.fsa.org.uk).

## APPENDIX



### Points of reference:

The Financial Services Authority (FSA) (Regulation)

[www.fsa.gov.uk/consumer](http://www.fsa.gov.uk/consumer)

The Financial Services Ombudsman (Complaints)

[www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)

British Banker's Association (Consumer Protection)

[www.bba.org.uk](http://www.bba.org.uk)

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Ross Jones, Head of Marketing,  
Defaqto - 01844 295454

[www.defaqto.com](http://www.defaqto.com)

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Alexander Cowen Wright, PR & Communications  
Manager, MoneyExpert – 01942 710979

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