FACT FILE

Saving options

MoneySense for schools

There are different products that will help you to save for the future. These include **savings accounts** operated by banks, **building societies** and **credit unions**, and a range of **investments** like **shares**, **bonds**, **pensions** and **property**.

Savings accounts enable the customer to earn interest on their money. Investments offer the potential for the customer to make more money but they carry more risk and the return isn't guaranteed.

Here's a basic guide to the different savings options available.

Savings accounts

ISAs (Individual Savings Accounts): can be used for savings, just like a deposit account, but with a big advantage: you won't pay tax on the interest you earn, or on any **capital gain** you make.

The rules on **ISAs** allow you to save money in both a **cash ISA** and a **stocks and shares ISA** each **tax year**. For the 2012-2013 tax year, the annual ISA allowance is £11,280; however only £5,640 of that may be used for a cash ISA – the remainder must be used in a stocks and shares ISA.

The tax year runs from 6 April to 5 April, and so does your annual ISA allowance.

Regular savings account: you pay a regular monthly amount into the account and are likely to earn more interest than a standard savings account.

Standard savings account: more flexible than a regular savings account as you have instant access to your money, but the rate of **interest** will be lower.

If you are a tax payer then you will pay tax on both these accounts.

National Savings and Investments offer tax-free products like Premium Bonds and children's savings accounts. These are backed by the government.

Investments

Stocks and shares: a stock is a stake in a company. If you buy a share of stock you are investing in the company and so if the company does well your investment allows you a share of the profit through a payment called a **dividend**. Of course the value of the shares will fall if the company doesn't do well.

Stocks and shares ISAs: these are also a way of investing money. The customer doesn't pay tax on the capital gain they make but should be prepared to leave their investment for a few years – especially as the value of the shares and any income from them can go down as well as up.

Bonds: companies and governments issue bonds so that they can raise the money to fund specific projects. If you buy a bond you are loaning your money to the company or government.

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Bonds pay a set amount of interest and are traded on the stock market, so their value can go up or down. Your biggest risk is the company or government failing to pay back the loan.

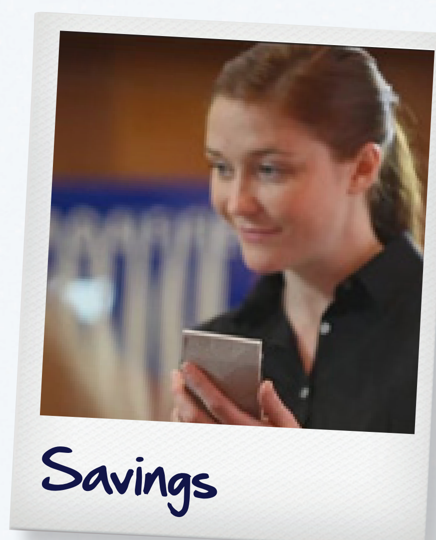
Customers can invest in stocks and bonds by buying them individually or through a collective investment scheme or mutual fund. This is simply a collection of stocks, or bonds, or the cash equivalents. Sometimes a mutual fund can be a mix of all three.

Property: buying your own house or flat to live in yourself, or to let out to other people, is a way of investing in property. This is because the value of property generally increases as time goes by. However property investment carries a high risk – not only do you have to raise the money to buy the property, you also have to maintain it and then rely on the state of the property market when you want to sell.

Pensions

Putting money into a pension scheme is an important way to save long term for your future. The amount you'll receive when you retire is based on the amount you pay in over the years, how long you have paid in for, and how well the funds you invested in have performed. Some **company pension schemes** are based on your salary and length of service.

Watch the savings video for an overview.



Savings