

## TOPIC 5a

# How can we save money?

This topic helps you to:

- ▶ understand the reasons for saving money;
- ▶ find out the features of different savings accounts;
- ▶ understand what people look for in a savings account.

### WHY SHOULD WE SAVE MONEY?

Money that we don't need or want to spend now can be put away to spend later.

These are our **SAVINGS**.

Some people's attitude to spending is to spend all the money they have, and not to save.



### SAVING FOR THE FUTURE

But if we don't save money *now*, we will not be able to do some of the things we want to do *in the future*.

- ▶ We might want to save money for a deposit to buy a home.
- ▶ We might want to save money for a holiday overseas.
- ▶ We must save money so that we can live comfortably when we retire.



#### EMILY



I saved enough to buy my first car when I turned 17

### EARNING INTEREST

If we budget to have money left over, it makes sense to put the savings in an account to earn *more* money.

As we saw in Topic 3a, by saving our money with a bank, building society or credit union, we can earn interest.



Chloe deposits £100 in a savings account and leaves it for a year.

At 2% interest, she earns £2.

### TAX ON SAVINGS INTEREST

Interest on savings counts as **INCOME**, so savers pay tax on it.

If savers earn below a certain amount of interest, they pay no tax on it.

### WHERE CAN WE PUT SAVINGS?

There are different types of savings account for different purposes.

- ▶ You might want to save a large sum of money for a long time.

- ▶ Or you may want to save a small amount each month from your earnings.

### INSTANT-ACCESS ACCOUNT

An instant-access account lets you take your money out at any time.

You can deposit as much money as you want. The interest paid is very low.

### NOTICE ACCOUNT

With a notice account, you must tell the bank in advance (ie *give notice*) before taking out any of your money.

The interest paid is higher than for instant-access accounts.

The longer the notice you need to give, the higher the interest rate paid.

### CASH INDIVIDUAL SAVINGS ACCOUNT (ISA)

A cash ISA lets you save money tax free up to a maximum sum per year.



The money is available instantly, and the interest paid is usually higher than on an instant-access account.



Identify the pros and cons of different accounts in **ACTIVITY 5A**.

### WHAT DO PEOPLE LOOK FOR IN A SAVINGS ACCOUNT?

People look for different features in a savings account depending on their reasons for saving.

Here is how some accounts compare.

	Instant access	Notice	Cash ISA
High interest rate	✗	✓	✓
Withdraw the money at any time	✓	✗	✓
Tax free	✗	✗	✓
Unlimited deposits	✓	✓	✗

Hari wants an account with a high interest rate and unlimited deposits, and he intends to leave the money alone for four years. He chooses a **notice** account.

### **NEXT TIME ...**

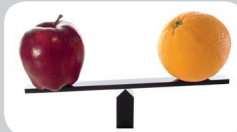
- ▶ How can selling help us to save?
- ▶ Where can we sell items that we no longer want?

### HOW IS INTEREST WORKED OUT?

When choosing an account, savers ask: **what is the interest rate?**

The higher the interest rate paid, the more savers will earn on their money.

But different accounts pay interest in different ways. Some pay it *monthly*; others pay at the end of the *year*. To compare these would be like comparing apples and oranges.



So account providers must state their interest as an **ANNUAL EQUIVALENT RATE (AER)**. This is what the rate would be if interest was paid once a year. It means savers can compare the interest on different accounts.



Jesse is looking for a savings account with a good interest rate.

Watch **JESSE COMPARES AERs** to see how he makes his decision.