Topic 5: Understand the various choices available for storing money

After completing this topic, you will be able to:

- understand the reasons for storing money in a certain way;
- compare the different ways of storing money for short-term savings and long-term investments;
- outline the reasons for choosing to store money in a particular way; and
- use these to make choices between products and providers.

Ways of storing money

There are many different places in which you can put your money, some of which are safer than others, but where you put your money depends upon for how long you want to store it and what you plan on doing with it.

The following are a few examples of where you can store money:

- under the bed or mattress, or hidden in a box or a shoe;
- in a drawer;
- in your purse or wallet;
- with your parents (that is, you might ask your parents to look after it);
- in an account with a bank, building society, the Post Office or a supermarket;
- with other financial institutions, such as National Savings and Investments (NS&I), a credit union, a Christmas club or a savings stamps scheme; or
- in a long-term investment account and bond, or even by buying property (if you have larger amounts).

Some of these choices are not very safe, such as hiding it in the house. Burglars are very good at guessing where you might have hidden your money and will probably go straight to the same place that you chose.

Keeping your money in a purse or wallet, or leaving it in a jacket pocket, is also risky, because you could leave your bag or jacket somewhere, or you could be mugged. So it is safe to keep only a small amount in your purse, wallet or pocket – no more than you need.

Asking your parents to look after it is an option, but the same risks apply – and they will probably not pay you any interest.

So the best and safest place in which to store your money is with a bank or building society, or other institution, in an account that will pay interest.

Activity 5a

In your group, talk about the money that you might have in your wallet and purse.

- ***What do you think is a safe amount?***
- ***What is the most cash that you have carried with you at any one time?***
- ***How did you feel about it?***
- ***Do you have a bank account or savings account?***
- ***Did you choose your own account, or was it chosen for you?***
- ***Where does the money come from that you pay into this account?***
- ***Can you access this money whenever you want to?***

Choosing the right savings product for you

There are many different savings products from which to choose and this can be bewildering. You should ask yourself certain questions, so that you can make an informed choice, and end up with a product that suits your needs and situation.

- **Access to savings**

  This is about how easy it is to put money into your savings account and also how simple it is to make withdrawals. We will look at the providers in more detail later in this topic. The choices can also relate to whether you can access your savings through a branch, an automated teller machine (ATM), online, or by telephone.

- **How much you can save**

  If you can save only a few pounds every month, you might decide to put your money into a jar in your kitchen. You will not lose much interest on a small amount – but you might lose the money itself or be tempted to spend it. Nonetheless, even this type of saving is better than nothing. Some people save their 'copper' coins every week in a large container.

Many ordinary savings accounts allow you to save small amounts and they build up over a period. This type of account is suitable for someone who can save a bit from time to time, but who is not sure when they will be able to do so.

If you have a large amount to save, you can choose a special bank or building society account that pays a slightly higher rate of interest. This might include a notice account, at which we looked in Topic 4.

If you are able to save something from your income every month, you can make a standing order from your bank account to pay a stated amount into your savings account. This way, you will not forget to deposit the savings. This type of account is called a 'regular savings account'.

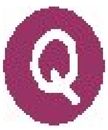
- **When you might need the money that you have saved**

  If you think that you might need the money quickly, you should choose a flexible account that gives 'instant access' – that is, one that allows you to withdraw your money whenever you want it without giving the bank any notice. But if you are happy to tie the money up for a period, you can earn a higher interest rate. The bank is willing to pay you a bit more interest in exchange for your promise to give it notice of when you will want the money.

  If you make this arrangement – such as a notice account – and then go back on it by wanting the money earlier than agreed, you lose the interest.

- **How much risk you are willing to take with your money**

  Products such as savings accounts and National Savings and Investments (NS&I) are safe because the bank and the government are extremely unlikely to default. But the rate of interest that they pay is not very high. If you want to earn a higher interest rate, you must be willing to take more risk – for example, to place your money with an overseas bank, which is not subject to UK law.



What might happen if a bank were to go bust?

- **The interest rate**

  Interest rates are quoted as an annual equivalent rate (AER). Savings accounts pay the interest on money held in the account. This is because people tend to leave money in savings accounts for a longer period of time than the money in current accounts.

  All interest rates must be quoted as an AER. This is the interest rate that would be paid if interest were paid once a year. Because all account providers must provide the information in the same way, people can compare the interest rate paid by one bank or building society with the interest rates paid by others, and choose an account that suits them.

You can find out the best rate from a comparison website such as www.moneyfacts.co.uk/.

- **Other incentives**

A provider may offer other features to encourage you to place your savings with them. For small children, a common incentive is some type of money box, or a plastic card that allows them to make balance enquiries at an ATM. For adults, some notice accounts allow one transfer a year without giving notice.

- **Information**

It is very important to make sure you have all of the information that you need about the savings account. There are many places from which you can find this out, including:

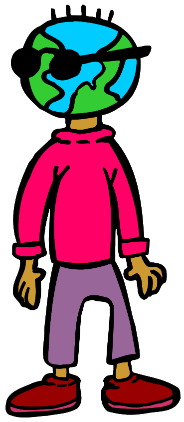
– leaflets from the providers;

– online information from the providers;

– comparison sites on the Internet; and

– articles in newspapers, such as the *Daily Mail* (*Money Mail*).

- **Ethics**



You may want to make sure that your savings are invested ethically. Ethical investing has gathered pace in recent years. If you feel strongly about certain issues, ethical funds will ensure that your cash is not invested in companies that destroy the environment, or those involved in the arms trade, animal testing, gambling or pornography, or those that support repressive regimes. There are a few financial organisations that attempt to do business in an ethical way, such as the Co-operative Bank and its online offshoot Smile.

- **Culture and religion**

The Sharia-compliant savings account is a product that has become more widespread over recent years. Sharia law is the law of Islam. The core of Islamic economics is a prohibition on interest, so a Muslim cannot place money into a conventional savings account and earn interest. This means that there is no mention of interest; instead, savers are offered a projected share of profits. So Muslims can still get a return on their investment, but without compromising their religious principles.

So, before you choose your saving product, you have to make decisions about:

- the amount that you can save;
- the length of time for which you want to save;
- how important easy access is to you;

- the reason why you are saving; and
- the risk that you are willing to take.

It is important to choose a product that suits your access needs while paying you the highest possible rate of interest.

Longer-term investments

If you are planning on saving for a long time (that is, for years rather than months) or if you have a large amount of money to put away for a long period of time, there are a whole range of other options available to you. You might wish to invest in shares or property, or to pay into a pension.

When you buy shares, you are buying a small stake in a company. If it does well and makes lots of profit, you get to share in those profits. This has to be a longer-term option, because the fortunes of companies can vary a lot: sometimes they make lots of profit and sometimes they make a loss. You have to be prepared to hold the shares for quite a while; otherwise, you might get back less than you invested.

Buying property is also a longer-term option. People can make money on property in two ways:

- they might rent it out; and
- they might sell it for more than they paid for it.

Paying into a pension is saving up for when you retire and can no longer work (or for when you no longer want to work). You should start saving in pensions as soon as you start to earn money and you will do so for a very long time – sometimes ending up saving in a pension for 40 years.

Choosing a provider

Once you know the type of savings product that you want, you have to choose a provider. There are so many providers offering so many different schemes that making a choice is difficult and sometimes it is hard to know where to start.

The best thing to do is to spend some time looking around before you make a decision. Go to your own bank, and see what products and schemes they offer: get some leaflets, take them home and study them at your leisure. If you have Internet access, look at the websites of the main banks and building societies, and check out their savings accounts. Make comparisons between them and choose the one that seems to suit your needs better. You may find several that seem similar and it probably does not matter which one you choose.

The main points of difference between savings accounts are as follows.

- **The interest rate paid by the provider**

  There is not much competition between the large banks, but you may find one that pays slightly more – for example, an online bank or a building society.

- **The amount of money that you need to deposit**

  Choose an account that suits the amount that you have available. If you can save more, you might find an account that pays a higher interest rate for a larger deposit.

- **The length of time for which you agree to leave the money in the account**

  If you need instant access, you will be paid a slightly lower interest rate; if you agree to give a period of notice before withdrawal, you will be paid a slightly higher rate.

There are many providers of savings accounts and a wide range of products available.

Can you remember the four different types of savings account?

In this topic, we are going to look at all of the competition for the banks and building societies. You will see that there is a lot of choice for a person looking for a savings account.

Banks and building societies

Banks and building societies offer the widest range of savings and investment products, for different terms and with different interest rates. Some are for regular savers; some are for lump sums. Some pay a good rate of interest; others do not pay as well. They may also offer individual savings accounts (ISAs), which are tax-free. Some of them have a branch office in most towns; some of them have only a few offices in one area. Most of the banks offer online banking.

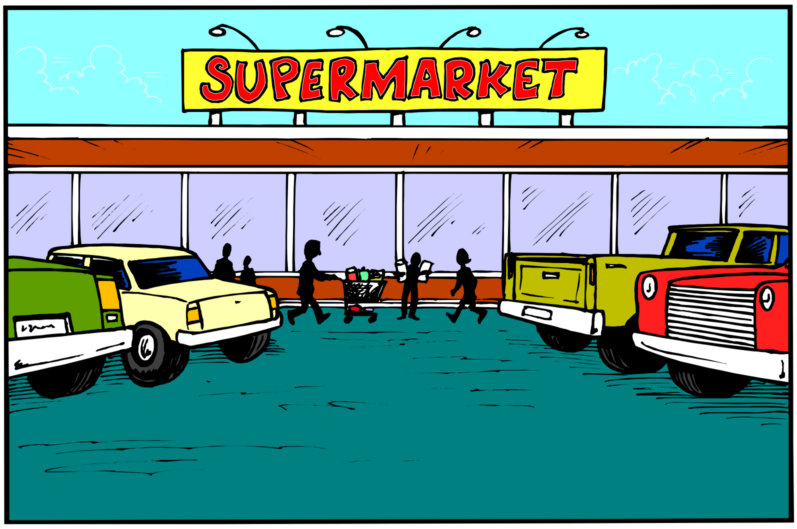
The Post Office

We are familiar with the Post Office: there are lots of branches on most high streets and in many villages. The Post Office provides a range of savings accounts, the main advantage of which is the provider's convenience and that access is simple.

The government owns the Post Office and, as well as savings accounts, we can buy NS&I products at the Post Office.

Supermarkets

Stand in any supermarket queue, and you will see the wide variety of savings and other products offered. Savings accounts are not the main business of the supermarkets, so some of them have a banking partner to help them to manage their savings accounts.



How do you think you can set up an account with a supermarket bank?

In terms of ease of access, do you think that being able to access your bank only through those routes is really that useful?

Did you know?

Tesco Bank opened for business in 1997 and by the end of 2015 it held 7.6 million customer accounts, with 86 per cent of its products bought online.

National Savings and Investments (NS&I)

NS&I is one of the largest and best-known savings organisations in the UK, and it offers a wide range of savings products to personal savers and investors. The money saved is lent to the government to help it to pay for public services that are not fully financed by taxes.

Did you know?

The National Savings movement began in 1861 at the Post Office Savings Bank. It has always had two aims:

- to give people a place in which to save that is safe, because the government backs it, and that is easy to manage, because it is provided via the Post Office; and
- to collect money from savers and lend it to the government.

Credit unions

Credit unions are financial co-operatives owned and controlled by their members. They offer savings accounts, and are local, ethical and know what their members want. Many credit unions now offer a range of services, including a savings accounts, ISAs and Christmas savings clubs.

Each credit union has a ‘common bond’ that determines who can join it. This common bond may mean that the members are all living or working in the same area, working for the same employer or belong to the same association, such as a church or trade union.

When compared to the other providers that we have studied, credit unions will seem small, because they are based around their local community. They have the advantages of access within the local area and can encourage their members to save small amounts on a regular basis or if people do not want to have a bank account.

Savings stamps schemes and savings clubs

Many supermarkets and some local shops run savings stamps schemes. The idea is simple: you put away a little bit each month over the year to pay for a big shopping spree. It can be to save for Christmas or it can be for any special event.

Another name for the same scheme is a ‘savings club’. You record your savings in a booklet with stamps in it or the scheme uses an electronic card.

These schemes usually allow you to save between £20 and £500.

The advantage of savings stamps schemes and savings clubs is that you can put a bit of money to one side each time you go shopping.

The disadvantage is you do not get paid any interest and you have to spend the money at the shop with which you have made the savings.

Christmas clubs

Christmas clubs are very like savings stamps schemes: you save a bit towards the high costs at Christmas time. This can be done through the supermarkets or shops such as your local butcher. There is the same disadvantage – that is, that you can spend the money only at the supermarket or shop with which you have saved.

Both savings stamp scheme and Christmas clubs involve a certain amount of risk. This is because your money is being looked after by the shop or business with which you are saving. If that shop or business were to go bust, you could lose some or all of your money. This happened to a Christmas club called Farepak, which collapsed in 2006, with a loss of £37m among some 114,000 savers (an average of £325 per saver).

After all of the administration involved in sorting out the financial affairs of Farepak was completed, customers were eventually paid back just over half of their savings. This was more than many had been expecting, but it still meant that each person lost half of the money that they had saved with Farepak.

Review questions

1. What is the difference between a savings product and an investment?

2. What factors would you take into account when choosing a savings account?

3. What factors might you take into account when choosing a savings provider?

4. When you purchase a NS&I product, to whom are you lending your money?

5. What is the disadvantage of saving with a savings club?

6. What is a ‘credit union’ and what is meant by ‘common bond’?

Learning activities

Internet

- Visit www.dailymail.co.uk/money/index.html and look at any financial headlines that catch your eye. Look at the best buy tables.
- Visit www.co-operative.coop/join-the-revolution/our-plan/. Click on the relevant tab at the top to read about its 'sustainability performance'.
- Visit www.islamic-bank.com, click on 'Useful info and tools' and look at 'Videos and animations' to find out more about Islamic banking.
- Visit a website of a credit union. Look at the interest rates and the types of savings product that it offers. You might try www.leedscitycreditunion.co.uk: look at the information found under all of the tabs at the top. Also, find information about Christmas clubs, or use the internet to find one in your local area.

Group

Visit the websites of several providers of savings accounts. Choose banks, building societies, the Post Office, some internet-only banks and two supermarkets.

Look at the savings products that each organisation has as its main offer on the website. Compare the best product rate by drawing up a table that summarises the:

- interest rate;
- minimum / maximum amount;
- length of time; and
- ease of access.

Compare your results.

- What similarities have you found?
- Where are the best interest rates?

Individual

Ask members of your family if they own, or have ever owned, NS&I Premium Bonds.

- Have they ever won any money from them?
- If so, is the amount that they have won more or less than the interest that they think they might have received on this money had they invested it in a savings account?

Key points for Topic 5

You should now understand:

- all of the factors that contribute to our savings decisions, including access, safety, amount, length of time, good deal, incentives, information, culture, ethics and risk;
- the reasons for choosing to store money in a certain way, including interest rate, amount, length of time and access;
- the different providers, including banks, building societies, the Post Office, Christmas clubs, credit unions and savings stamps providers.