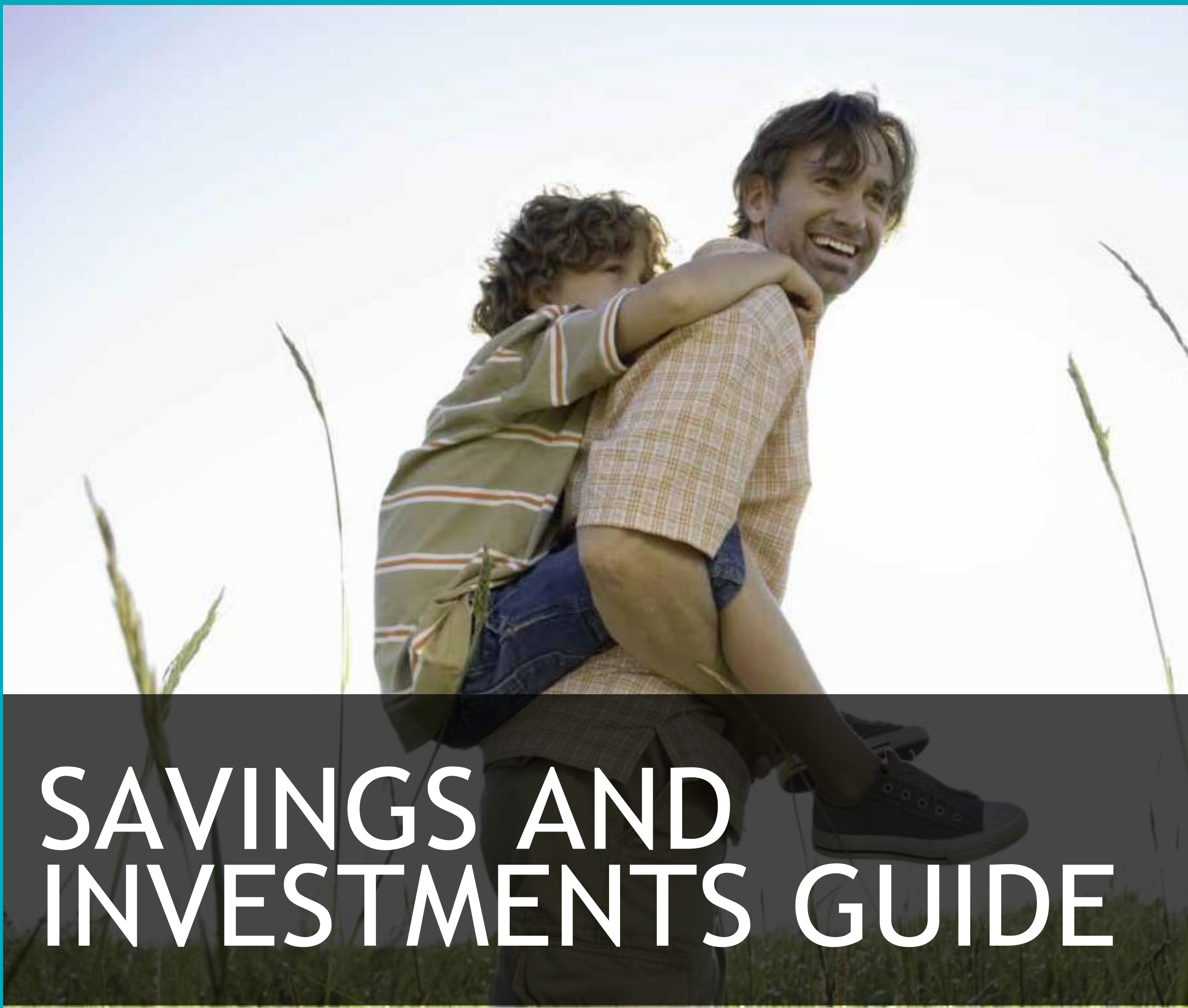

SAVINGS AND INVESTMENTS GUIDE

If you're looking for ways to save your money, this guide explains some of the things you need to consider.

We hope you find this guide useful as a first step in your research before deciding which type of savings option would be best for you.

WHAT'S INSIDE

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Why save?

There are lots of reasons to save. It might be rainy day money to fall back on if something unexpected happens. Or it might be for a holiday, a car or to pay for your children's education or a wedding.

Whatever the reason, getting the savings bug early is a great first step for a sound financial future for you and your family.

Of course, you can put your money under the mattress but, as the price of goods and services and the cost of living increases, the real value of your money, i.e. what you can buy with it, will actually go down. And, obviously, it's not a very safe place for your cash!

Using a savings or investment account will keep your money safe and your hard earned cash will also start working for you.

How could my money grow?

With most savings accounts, your savings pot increases by the addition of interest. You will be quoted a percentage % rate of interest, and this is how much will be added to your account each year. The % rate can be fixed for a time, or it can be variable which means it can change.

Some longer term investments may invest in assets like company shares and property that can go up and down in value. The money you earn on an investment of this kind is known as investment return, and reflects how much the assets you are investing in have gone up or down in value.

What about tax?

Each tax year HM Revenue and Customs gives you some allowances that mean you can earn interest on your money before you have to pay tax. How much of an allowance you'll get depends on any other income you get.

The allowances each tax year run from 6 April to 5 April the following year and might include:-

- Your Personal Allowance of £12,570. This is the amount of income you can earn tax-free. This amount may be bigger if you claim Marriage Allowance or Blind Person's Allowance. It's smaller if your income is over £100,000.

- The starting rate for savings may allow you to get up to £5,000 of interest without paying tax if your other income from your wages or pension is less than £17,570

- Your Personal Savings Allowance. This is separate from any ISA allowance you may have. The amount of allowance you have depends on the type of taxpayer you are. If you're a UK basic-rate taxpayer, up to £1,000 of interest on your savings income is tax-free. And if you're a higher rate taxpayer, up to £500 is tax-free. Additional rate tax payers earning over £125,140 a year don't get the personal savings allowance.

The interest rates promoted for savings accounts are usually the gross rate of interest they'll apply to your savings. The gross rate of interest is what they'll earn before any tax has been taken.

What you need to do

You don't need to do anything to get the tax-free interest you've earned under your Personal Savings Allowance, it happens automatically.

If the interest you earn is more than your allowance, you may have to pay any tax due. HMRC will normally collect tax by changing your tax code or through your self-assessment.

If you're a tax payer or not there are savings plans that allow you to earn interest without having to pay any tax at all. This guide tells you about some tax free savings options that are available.

Questions to ask yourself

When you're considering the best way to save your money, there are three key questions you need to ask yourself.

1. How much can I afford to save?
2. How long do I want to tie my money up for?
3. How much risk am I prepared to accept?

In general, the longer you tie your money up for or the more you are prepared to accept the risk that the value of your investment may go down as well as up, the higher the potential return.

1. How much can I afford to save?

To help you work out how much money you could save, try the handy tools and calculators at MoneyHelper.

It's important to be realistic or you might struggle to keep it going. It's far better to save a lower amount that you can stick to than try to save a higher amount and give up because it puts too much strain on your lifestyle. Remember, saving shouldn't be a chore!

Or it may be that you have a single lump sum of money to invest, for example from an inheritance, a bonus from work or, if you're really lucky, a Lottery win! You can often get higher rates of interest for investing larger sums of money.

Disposable income is the amount of money you have left over from what you earn once you've met all your regular expenses. This is the amount you could regularly afford to save or invest.

2. How long do I want to tie my money up for?

One thing we can be sure of in life is that the unexpected happens. And, for this reason, it's a good idea to keep a sum of money in an easy access savings account that you can get at straight away, without any penalty. Think about your lifestyle and what could happen that you may need money for instantly, for example for car or house repairs, and keep this amount easily accessible. After that, you can start thinking about putting your money away for longer, which will normally give you a higher return.

Saving tip: Debt busters

Before you start building up your savings or investments, you should seriously consider using some of your disposable income to reduce, or pay off, any credit card or other short term debt that you may have. If you don't, the high interest rates charged on this type of debt could wipe out the money you earn on your savings.

Saving tip: Get the regular savings and investment habit the easy way

If you want to save a regular amount, set up a standing order with your bank. This way, you don't need to remember to put money into your savings account every month and there's less temptation to spend it instead!

3. How much risk am I prepared to accept?

Whatever you decide to do with your money, you need to consider the level of risk you are comfortable with. In deciding this, you should consider a number of things, including what you're saving for, the length of time you are prepared to wait for your money to grow, whether you are prepared to risk losing money and any other savings and investments you may have. We've looked at what saving and investment options you might want on the next page.

Remember to consider all the options and think carefully about talking to your financial adviser to ensure the decisions you make suit your circumstances.

Your savings choices

There are lots of different savings and investments products available. These range from low risk cash-based savings accounts through to more risky stocks and shares investments.

	Type of investment	Minimum term	Who offers them?	Type of risk
Instant access account	Cash	None	Banks and building societies	Low risk, low return
Notice account	Cash	Typically 30 days or more	Banks, building societies, Post Office	Low risk, higher return, normally need a minimum investment of £1,000 +
Bonus account	Cash	None	Banks, building societies, Post Office	Low risk
Cash ISA	Cash	None	Banks, building societies, insurance companies	Low risk, tax-free
Stocks and shares ISA	Stocks and shares	None, but usually taken out for 5 to 10 years	Banks, building societies, insurance companies	Tax-free, more risky than a cash ISA, but with higher potential returns
National savings	Cash and stocks and shares	Varies according to product chosen	UK Government	Visit www.nsandi.com for information on the risk involved
Fixed rate bonds	Cash	Usually 1 to 5 years	Banks and building societies	Low risk
Gilts	Fixed interest	Short, medium, long term and undated (no set maturity date)	UK and foreign governments	Risk varies depending on the chance of the government not repaying the loan
Corporate Bonds	Fixed interest	Short, medium, long term and undated (no set maturity date)	UK and foreign companies	Risk varies depending on the chance of the firm not repaying the loan
Buy-to-let	Property	None, but property is usually a longer term investment	Estate agents and solicitors (in Scotland)	More risky than cash or fixed interest. Legislative change continues to see the loss of tax breaks

Saving tip: Shop around

Interest rates vary between different account providers, so it's worth shopping around to make sure you get the best deal for your savings. Why not try using a price comparison website? You can also check out the money sections in the weekend papers for some useful advice.

Saving tip: Divide and conquer

Your current account with your bank is a kind of deposit account, but don't mix your savings with your monthly living costs - it's far too easy to lose track when it's all in the same account. Your savings might disappear before you realise! Keep your savings separate.

Instant access accounts

Some of these accept regular or one-off savings from as little as £1 and, as the name suggests, usually give you access to your money at any time. These types of accounts are useful for emergency money.

Notice accounts

Usually pay higher rates of interest than an instant access account but in return will expect you to give notice (typically 30, 60, 90 or 120 days) before you take your money out. If you need to take your money out sooner then you risk losing interest. They will also often require you to have minimum initial investment of £1,000 to £5,000 to open an account.

Bonus accounts

These are basic savings accounts that offer a bonus in the form of a higher interest rate, either for a fixed period (often 12 months) or in return for not making any withdrawals, or only making a small number of withdrawals over a period of time. The bonus rate is guaranteed, but the total amount of interest you receive might go up or down because the underlying interest rate is variable. Some bonus accounts also ask for a minimum investment, with the bonus rate matched to the amount you put in.

Cash ISA

Just like an instant access or notice account because you can have access to your cash whenever you want to, but in an ISA the interest you earn is tax-free. That means your savings could potentially grow faster. Any UK adult (in this case, a person of 16 years or older) can have a Cash ISA and pay in up to £20,000 in the 2025/26 tax year. This limit, or annual allowance, is reviewed each year. April 2016 saw a move to a more flexible approach to the way the annual allowance works. You can now take out what you have invested if you need to, and replace this amount later in the same tax year.

Stocks & Shares ISA

These allow you access to a broad range of investments such as Unit Trusts, Open Ended Investment Companies (or OEICs – similar to unit trusts) or Investment Trusts – as well as Government and Corporate Bonds. The value of all of these can go down as well as up, therefore your original investment is not guaranteed. These accounts are more suited to longer term savings (5 years plus).

Unlike a Cash ISA, they are not completely tax-free – you can't avoid the 10% tax on dividends even if you hold shares in an ISA. Any UK adult (in this case, a person of 18 years or older) can use a Stocks & Shares ISA and the annual allowance in the 2025/26 tax year is £20,000. (Please note, this allowance is reduced by any amount you have already invested in other ISAs during the same tax-year). April 2016 saw a move to a more flexible approach to the way the annual allowance works. You can now take out what you have invested if you need to, and replace this amount later in the same tax year.

Innovative Finance ISA

April 2016 saw the Government take a long term view on product development with the introduction of the IFISA. This is designed specifically to allow you to lend money via peer-to-peer lending and crowdfunding, and benefit from tax-free returns.

The annual ISA limit of £20,000 can be fully invested in an Innovative Finance ISA or spread across the different types of ISA.

Lifetime ISA

While you can use the proceeds to purchase a first house, you can also use this ISA to save towards your retirement. You must be 18 or over but under 40, but you can save up to £4,000 each year, with a 25% government bonus granted on this (up to a maximum of £1,000 each year). The bonus is paid at the end of each tax year, rather than when you buy a first house, so any interest or growth the fund sees will apply not just to your contributions. Rather than there being a financial limit to the bonus, it ceases at age 50. A penalty of 25% will be due on any withdrawals made before age 60 (apart from as a first time buyer purchasing a property), which is when you can put the funds towards your retirement. The Lifetime ISA market remains small, with most of the current providers being specialists stockbrokers rather than banks. While you can withdraw from this ISA, the way in which the government top-up works may make this unattractive. The Lifetime ISA of £4,000 counts towards your annual ISA Limit.

Junior ISA and Child Trust Funds

As the name suggests, these allow you to invest money for your children or grandchildren. You can set up a Junior ISA for any child, whether they're family or not. The account is opened in their name and once money has been paid in it can only be accessed by the child when they reach age 18.

The money you pay in for them grows tax-free and the annual savings limit for 2025/26 is £9,000.

There are two types of junior ISA: a junior cash ISA, where the interest is tax-free and a junior stocks and shares (investment) ISA, where no tax is paid on any capital growth or dividends.

The Child Trust Fund scheme closed in 2011 but you can continue to add up to £9,000 a year to an existing Child Trust Fund account.

Fixed rate bonds

Fixed rate bonds may suit you if you have a lump sum to invest. They pay a guaranteed amount of interest for a set length of time, but you wouldn't be able to access your money while it is invested. The length of time your money is tied up for will vary with each product and provider, so make sure you understand the terms before you invest.

Fixed Interest

Whether you purchase gilts or corporate bonds, the basics are the same. They have two parts - market value, and the interest you will earn (coupon). The market value will vary depending on demand for the security, while the coupon is fixed throughout the term. The key risk with fixed interest is in the title. As the interest rate is fixed, the worth of the security will vary with interest rates at the time. If the Bank of England increase the base rate for instance, the value of the fixed interest return will be relatively smaller, demand will decrease, and with it the market value.

Buy-to-let

These investments suit people who prefer to have a physical asset. This would see you buy a property, and rent it out to tenants. It isn't as simple as that though – you need to look after the property, secure tenants, and accept that some tenants will be better than others. You will also have spells where you are unable to find tenants. How much you earn from renting the property out will vary depending on location, and the target market that comes with the location. Employing a firm to manage the property may make sense. While the government used to incentivise buy-to-let with generous tax breaks, they are continuing to pull these back.

Other long term investments

If you are looking for a longer term investment, speak to a financial adviser. If you do not have one, you can visit www.unbiased.co.uk for a list of independent financial advisers in your local area.

Other tax-free savings and investments

National Savings & Investments offer other types of tax-free savings and investments such as Premium Bonds and Fixed Interest Savings Certificates. These are bought with a lump-sum but could be considered if you build up your savings somewhere else and can afford to invest for the longer term. Visit www.nsandi.com

Friendly Societies have a special tax exemption which means they can offer savings plans with no income or capital gains tax to pay. Everyone is eligible for a tax-free savings plan, in addition to their ISA allowance. Your savings plan is invested in the stock market so it could go down as well as up. Some life insurance cover will be included as a condition for the tax exemption to apply. You'll have to pay the cost of the life insurance cover.
Visit www.financialmutuals.org

Pensions

No matter what life stage you're at, it is important to start saving for your pension as soon as possible. That's because, the longer you save towards your retirement, the more pension you can build up.

The government recognises just how important pension planning is and personal pensions are subsidised by the taxman - basic rate tax payers receive a 20% boost to their pension savings and higher rate tax payers can get even more.

You can find out more about pensions by visiting MoneyHelper.

Ready to start saving and investing?

If you're confident in what you want to achieve, you can take the final step yourself. It's quite easy to find out who's currently offering the best rates or lowest charges - a simple internet search can lead you straight to the best deals for the type and level of savings or investment you want to make. The weekend papers also include money sections that have tips, advice and useful round ups on the latest offers available.

Not sure which account or investment is best for you?

If you're not totally sure of what you should do, don't worry, there's plenty of help available. You could ask at your bank or building society or you could seek financial advice from a financial adviser.

Don’t stop once you’ve started

Once you’ve started saving, it’s important to keep up to date with how your pot is building up.

- Many providers allow you to manage your savings and investments online without having to go into a branch or phone a call centre.
- Regularly review how much you’re putting away. If you get a pay rise or come into some money, consider adding some or all of it to your savings account or investments.
- Make sure you keep on top of interest rates. Switching between some types of accounts can be easy if you find a different provider offering a better interest rate.

More information

If you’re interested in finding out about products and savings options that aren’t covered in this guide, including pensions, we would recommend that you seek independent financial advice. Phoenix Customer Care can introduce you to an independent financial adviser or you can find one yourself in your local area by visiting www.unbiased.co.uk.

Independent financial advisers will explain the charges for their advice.