Saving Money

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Why Save Money?

If you have worked out your budget and have money left over, these should first go to paying any creditors you may have. If you have none, or have made arrangements and still have some money left, you should seriously consider saving your money for emergency situations, as well as towards any short or long term goals you might like to set yourself.

Emergency funds are always a good idea, as it covers you for any unexpected payments, such as needing to replace a household item. Experts suggest that your emergency savings should be at least three times as much as your monthly expenses to make sure you are fully prepared for any emergency, but any amount is good for everyday crises.

Once you have worked out your budget, you should also look to set yourself financial goals. These can be short term or long term. Short term financial goals are any you aim to achieve within a relatively short period of time, and could be something like saving for a holiday or a new car. Long term financial goals are goals that are likely to take much longer, such as buying a house, starting a family, or starting a university fund for your children. Saving for a pension is also a long-term financial goal, which we will cover in another article.

There are a number of ways to start saving your money, including a variety of different savings accounts. Which of these methods you choose depends on what you are saving for as well as your personal preference. For example, your emergency funds will need to be accessed instantly, whereas if you are saving for an event, for example for Christmas, you may prefer a method that requires you to give notice before you withdraw your money. The rest of this article will deal with ways of saving, and each method's advantages for different circumstances

Instant Access Savings Accounts

As the name implies, this type of account allows you to access your money instantly, thus this is the best type of account to keep emergency savings in, as they will allow you to withdraw your money as soon as you need it. Interest can vary, and obviously the best accounts will be those with the highest interest. These tend to be telephone and internet accounts.

Some instant access accounts come with a card which allows you to withdraw money from your saving account from cashpoints. With these, there may be limits to how much you can withdraw, and though this will generally be enough to cover any emergency it may be worth checking this when considering your savings account. If your account is with a bank, you may be able or required to withdraw your money over the counter, which generally comes with no limit on withdrawals. Finally, many will allow transfers to your current account for free so you can access it.

However, as mentioned above, many of the highest interest instant access accounts are telephone or online accounts, which may make withdrawing your money harder. Many advertise being instant access, but you may have to wait a couple of days for a cheque or transfer to be able to access your money.

Cash ISAs

Cash ISAs do not necessarily have the best interest rates, but unlike other savings accounts, the interest you earn on your savings is free from income tax. This means that you often find yourself earning more interest than you would with a standard savings account advertising higher rates. There is a limit on how much you can deposit in a Cash ISA which changes yearly – for the current tax year (2014-15), you may deposit up to £5,940 in your Cash ISA. If you are a non-taxpayer, it is wiser to go for whichever savings account provides the best interest rate, regardless of whether it is an ISA or not, as your interest should be tax-free anyway.

Most ISA accounts will allow easy and instant access to your money, though a few ask for notice before withdrawing. You should be able to find this out before opening your account

Notice Accounts

Generally, notice accounts have a better rate of interest than instant access accounts, though this is not always the case. Rather than being able to access your savings instantly, you will have to give prior notice that you wish to withdraw money. Notice periods could be anything from 7 to 90 days, and withdrawing without giving proper notice can earn you a penalty, generally in the form of reduced interest. For this reason, it is not wise to keep any money you need to access instantly in a notice account – it would not be a good idea to keep your emergency savings in this kind of account. However, for any longer term financial goals that you will not need to access on short notice, such as saving for a house or for a child's education, these may be a good option. Similarly, if you are saving for a particular event on a set date and need to keep the money out of reach so you cannot access it, this type of account might be a wise choice.

Regular Savings Accounts

This type of account requires a regular deposit into your account. This is particularly useful for people who are just starting to save their money, but can come with restrictions – they may limit the amount of money you can put in every month, or the amount of withdrawals you can make each year. For this reason, it is not useful for emergency savings, but may be better for short term goals. Some can have high rates of interest, but this is generally offered by banks to customers with a current account with them to encourage loyalty. It is important to remember that the interest on this type of account may not be as good as it seems, as you are paying in small amounts regularly (for example, if you accumulate £600 in a year in your regular savings account by depositing £50 a month, you would not earn as much in interest as if you deposited £600 in one lump sum) and these often have many conditions that lead to loss of interest if broken, for example if you fail to make a monthly deposit.

Fixed-Rate Bonds

With fixed-rate bonds, you deposit your money into the account and it is essentially locked away for a long period, which could be anything between 1 and 5 years. These often offer large returns, but require a large initial deposit which cannot be removed or added to during the terms of the bond. For these reasons, this type of saving may not be appropriate for people just starting to save money as they may struggle to put together an initial deposit, and are not useful for those who wish to add gradually to their savings.

Investments

One final option you may have for saving your money is to invest it. This is generally useful for long-term saving, but it is risky, as the value of anything you invest in can rise or fall, meaning you may not get much return, and may even lose money. The more you invest, the more your potential reward will be, but the risk of losing your money will be higher. You can reduce this risk by spreading your money over a range of different investments. Investments can bring higher returns than savings, but there is no guarantee you will make a return, or even get your initial deposit back, so are only a wise option if you have an amount of money that you don't really need. It may be a good idea to get professional advice before considering investing your money.

Things to Remember

When choosing a method to save your money, remember:

- Choose the right method for your needs – if you need to withdraw your money quickly, a fixed term bond is not a wise option for you, and vice versa.
- Consider interest rates – and, if you are a taxpayer, whether you would earn more interest with a lower interest ISA account.
- Be aware of conditions or risks – failing to meet conditions with some accounts lead to a loss or reduction of your interest rates, and investing your money is risky, so it is a good idea to be aware of these before depositing your money!