Topic 2(b) Storing money

You don't always spend all your money and you can store what's left over. There are different ways of doing this.

Q ***Suppose you have some money that you don't want to spend at the moment. What will you do with it? Where will you put it?***

Example

Ahmad works at the weekend and earns £30. He usually spends £20 of this every week and has £10 left over, which he doesn't want to spend. He needs to keep his money somewhere safe where his younger brothers won't find it!

Store it at home

Think of your bedroom or your house as a whole. What is the safest place you could hide your money? A place where nobody would think of looking or somewhere they couldn't get into. Here are some ideas:

- under the bed;
- inside your mattress;
- in a locked box in your cupboard;
- in the pockets of your jacket;
- under the floorboards.

Q ***What is the problem with choosing any of these places to store your money?***

It's not very safe

The first problem is that your money might not be very safe. You might forget where you've put it, it might get thrown out by mistake, another member of your family might borrow it or, worst of all, thieves might break into the house and steal it.

Like most people, you probably keep a small amount of money in your wallet or your room because you need access to cash on a day-to-day basis. But keeping larger amounts at home is not a good idea for the reasons we gave above. So you might keep £10 handy but if you had £100, you might have to think of some other way of storing it.

Give it to someone to look after

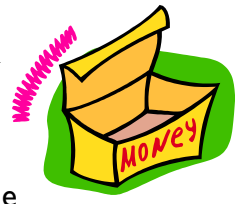
Another solution might be to give it to someone else to look after, e.g. your parents or friends. They could keep it safe for you and give it back to you when you needed it.

Q ***What are the problems with doing this?***

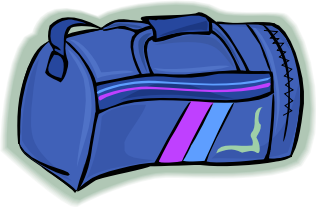
It means that you are dependent on the other person being around when you need the money. What will you do if they have spent it and haven't got any cash to give you?

- People need to take responsibility for their own money otherwise they will not learn to manage it.
- You might not trust the other person. They might spend it and be unable to give it back to you.
- The other person will only give you back what you stored with them and you will not earn any income on your money.

Changes in the value of the money you store



If you keep money in the house or give it to someone to look after for you, it does not earn any interest. If prices are rising, your money is losing value. Look at the following example.



Jemma is saving up for a new sports bag. She has seen the one she wants in a sports shop and it costs £30. She puts some money away every week and keeps it in a locked box in her bedroom. After a month, she has saved £30 and goes to the shop to buy it, but discovers that the bag has increased in price to £32.99. Now she hasn't got enough and will have to save some more.

By keeping her money at home, Jemma hasn't earned any interest. As prices are increasing, the value of her money is falling and she has to save more to be able to buy what she wants.

Q ***Where could you store your money and earn interest at the same time?***

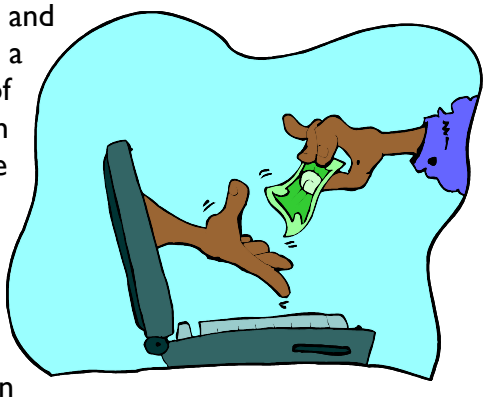
Saving at a bank or building society

Banks and building societies are financial services providers. One of the main services they offer is accepting deposits from customers, keeping the money safe and paying interest on it. Let's look at this in a bit more detail.

First of all, why is your money safe when you deposit it at a bank? Surely the bank could be robbed and then your money would disappear? The answer is that, even if robbers get away with stealing money from a bank, the bank can still pay you your money back.

Q ***Do you know how banks can do this?***

Most of the money we use nowadays is not notes and coins at all. It is electronic money, stored in a computer. So even if cash is stolen from a branch of a bank, it's only a very small amount compared with the amount of electronic money the bank holds. The bank can still afford to pay you your savings back. Computer hackers pose a bigger threat to a bank because they might be able to get into the bank's systems and transfer money out of customers' accounts electronically. But banks have very sophisticated security and it is very difficult for even the cleverest hackers to do this.



Banks pay interest on savings

So your money is safe if you deposit it with a well-known bank or building society. But there is another advantage – the bank pays you interest on what you save. This means that it pays you a percentage on your money every year and this is added onto your balance. You can either leave it there to grow or you can take it out and spend it. Here is how it works.

Example

Danielle has collected £100 from this year's Christmas presents and she has decided to open a bank savings account. She has found a bank that pays 5% interest. If she leaves her £100 in the account for a year without touching it, she will earn 5% of £100, i.e. £5, and then she will have £105. Next year she will earn 5% on the £105 and so her money will grow.

If prices don't increase, then Danielle is better off because her original savings won't lose value and the money has earned interest. If prices do increase but by less than 5%, then she will still win because her money will grow faster than the prices. But if prices rise by more than 5%, then she will be worse off. But she is still better off than if she had locked the money away in her bedroom because she has the extra 5%.

How can banks pay interest on your savings?

When you save money at a bank, you are lending your money to the bank. They pay you interest because they can use your money to make loans to other people, and charge these borrowers a higher rate of interest than they are paying you. But you don't mind because, if you left the money at home, you wouldn't get any interest at all and anyway, your money is safe in the bank. And you can have it back whenever you want (depending on the agreement you have made with the bank). Even though they have lent money to other customers, they still have enough left to pay yours back to you when you need it.

Who can you save your money with?

There are quite a lot of different financial services providers that offer you ways of saving your money. They come under different headings and it is good for you to learn about them because then you know what is on offer, and you can make informed choices.

1. **The Big Four banks**, which have branches all over the country: these banks are Royal Bank of Scotland (their group organisation includes NatWest), HSBC, Barclays and Lloyds TSB.

2. **The building societies**, which also have branches: in the UK there are 63 building societies of different sizes. The biggest is the Nationwide but some are much smaller, e.g. the Monmouthshire Building Society has branches in South Wales and the Scarborough Building Society has branches in the north of England. Building societies are different from banks but their savings accounts are very similar.

3. **Supermarkets** that offer financial services, including savings accounts, e.g. Tesco and Sainsbury's. They offer these accounts via one of the main banks but they are more convenient because you can get information when you do your weekly shopping.

4. **Internet banks,** e.g. Egg. All banks nowadays have online banking but Internet banks are **only** available online.

5. **National Savings & Investments**: this organisation collects money from savers and lends it to the government. They offer a range of different accounts, some of which are very suitable for children and young people because they pay interest in full (i.e. they do not take income tax off the interest amount).

All these organisations offer a wide range of savings accounts for you to choose from when you have some money to store. Actually, the choice can be a bit bewildering so here are some of the points you need to consider when deciding where to put your savings.

- What rate of interest is the account paying? The rate will depend on the answers to the other questions that follow.
- Is the interest paid tax-free or is income tax deducted by the bank?
- How much money do you have to save? Is there a minimum or a maximum?
- How much notice do you have to give before you can withdraw your money?
- Can you manage the account online?
- Are any other services offered?

Study the following table and then use the Savings Calculator provided on the Lloyds TSB website to find out how much money you would have in two years' time if you saved £1,000 in these accounts. Add your findings in the last column of the table.

Lloyds TSB Savings Products

Name of savings account	Minimum opening deposit	AER*	Money in account in 2 years' time
Mini Cash ISA	£10	5.65%	
Online Saver	£250	5.3%	
Young Savers	£1	5.23%	
Exclusive Saver Account	£250	4.6%	
Reward Saver	£500	4.2%	
Guaranteed Tracker	£500	4.15%	

- The Mini Cash ISA (Individual Savings Account) is tax-free and allows easy access to your funds, i.e. you can take your money out again immediately if you want to using a cashcard or a passbook. You can save up to £3,000 a year in an ISA.
- The Online Saver gives you instant access and online convenience.
- The Young Savers pays a good interest rate, gives instant access and allows children to save up for their future.
- The Exclusive Saver is available to higher-income customers who have a higher-grade current account.

- The Reward Saver gives instant access – the fewer the withdrawals, the higher the interest rate paid.
- The Guaranteed Tracker pays an interest rate that changes in line with the Bank of England's base rate.

*AER stands for 'Annual Equivalent Rate' and it is the interest you would earn in a year if you left all your interest in the savings account.

Buying goods as a way of storing value

Another way of saving money is to buy something valuable that you hope will keep, and perhaps even increase, its value. Here are some examples of the sort of things people buy in order to store their money. Each has advantages and disadvantages.

Gold and other precious metals and stones

Advantages

Gold and precious stones like diamonds are valuable because they are very rare. Although their prices go up and down on a market, they generally hold their value quite well. Gold is very well known and is particularly in demand in times of uncertainty; it is said to be a 'safe haven'. It is a metal that does not rust or spoil and quite a small amount is worth quite a lot. The current price of gold (in July 2007) is around $640 an ounce.

Disadvantages

There are some problems with storing your wealth in gold. The minimum amount you have to buy is quite a lot. You need to be sure that the gold you are getting is not fake. You still have the problem of storing it and it could be stolen if you are not careful. Some people store gold and other valuable items in a safe deposit box in a bank, but you have to pay for this service. Also, the price of gold can fluctuate on the market and you might lose value if you have to sell it in a hurry after its price has fallen.

Stocks and shares

Advantages

If you buy stocks and shares, you are lending your money to companies. If the companies you choose to invest in perform well and make good profits, then you get a good rate of return from dividend payments and your investment will increase in value because the share price increases.

Disadvantages

But the companies might do badly, so it is a risky way of storing your wealth. It's probably better not to invest on the stock market unless you know something about the companies you're investing in, and in any case the minimum investment would be quite large. Besides, to be fairly safe, you need to buy shares in a wide range of different companies so you don't put all your eggs in one basket! Then if some companies do badly and lose you money, other companies might do well and make some money.

Works of art

Advantages

Some wealthy people buy paintings, sculptures and rare books that they hope will keep their value. If you owned an Old Master by a very famous artist like Leonardo da Vinci, your investment would be almost guaranteed to hold its value.

Disadvantages

However, it is very difficult to get hold of such rare items and anyway, they would be very expensive. You could buy the works of a new and unknown artist and hope that he or she will become famous, but you are taking a chance. If you own a really famous painting or book, you have to keep it safe – you would probably need special security for it and this would be very expensive. Works of art as a way of storing money are probably only effective for the rich!

A house or a piece of land

This type of purchase is much more accessible to ordinary people. Nowadays a lot of people own the house they live in and, when they have finished paying off the loan they borrowed to finance it, the house belongs to them. House prices have increased a lot in the last few years and this means that anyone who owns or is buying their own house is making a profit on what they paid for it if they bought it several years ago. There will always be a demand for houses and for land and so it is quite a good investment. Some people buy a second house and rent it out to make an income and to gain if the market value rises.

How a house can lose value

Some houses stand on low-lying land near to rivers and are subject to flooding after heavy rain. Certain areas in the UK have suffered floods several times over the last two or three years. If a house has been flooded several times, the insurance policy on the buildings becomes very expensive and the insurance company might even refuse to insure it again. If this happens, it will be very difficult to sell the house and so its value falls a lot.

Review questions

1. Where in your house could you store money?
2. What problems might there be in storing money in your home?
3. What are some of the problems if you give your money to someone else to keep for you?
4. What is 'interest' in connection with saving money?
5. What happens to the value of your money if you don't earn any interest on it?
6. Why is money you keep in a bank safe even if someone robs the bank?
7. How can banks afford to pay you interest on your savings?
8. Name the five main types of organisations that you can save money with and give an example of each one.
9. What questions do you need to ask when choosing a savings account?
10. What does AER stand for? What does it mean?
11. Choose one of the following words to fill in the blank: **lower, higher**
    'A savings account which requires a longer period of notice of withdrawal would pay a _____ interest rate than an instant access account, other things being equal'.

12. What are the advantages and disadvantages of holding the following types of property as a way of storing your wealth?

    (a) gold

    (b) stocks and shares

    (c) works of art

    (d) land and houses.

Case study

Petula is 15 and has a weekend job. She is not spending all her money and she wants to save up for her studies – she is hoping to go to university in three years' time. She finds she can put by £15 a week. Advise her on the kind of savings account she can use to help her money to grow as quickly as possible.

Learning activities

Internet

Go to the website of the Building Societies Association (www.bsa.org.uk). Click on 'About the BSA' and then the list of UK building societies. Find a building society that is in your area of the country and go to its website by clicking the link. Find out some details about it, e.g. where its branches are, what savings accounts it offers and some of the details about them. If it is convenient, visit one of their branches and pick up some leaflets about savings accounts.

Individual

Ask an adult which bank they have their account with. Find out something about the savings accounts this bank offers. Pick up leaflets and go to their website.

Group

Gather leaflets from various banks about different types of savings and each group, based on the information they get from their leaflets, draws up a chart showing the savings accounts offered, the interest rate paid, the length of time the savings have to be held and whether or not income tax is paid on the interest. The groups then present their findings to each other and debate which is the best account for (a) regular savings of £10 a month (b) savings that are made occasionally such as birthday money that the saver does not want to touch for three months.

Key points for Storing money

- ☐ People don't spend all their money and they need a place to store it.
- ☐ Keeping money at home is not safe and doesn't earn interest.
- ☐ Giving money to someone else to look after is not safe either and it might not be easy to get it back when needed.
- ☐ When prices go up, the value of money stored falls because it buys less. Savers need to earn interest to enable their money to keep pace with price increases.
- ☐ Banks offer a safe place to store money and they pay interest on it.
- ☐ There is a range of organisations that offer facilities for saving money: the Big Four banks, the building societies, supermarket banks, internet banks and National Savings & Investments.
- ☐ These organisations offer different kinds of savings accounts.
- ☐ Another way of storing wealth is by buying property of some kind.
- ☐ Gold is always in demand, does not deteriorate and is likely to keep its value. However, it has to be stored in a safe place and its price could fall.
- ☐ Stocks and shares are a risky way of storing wealth because the companies people choose to invest in might not perform well. It is advisable to buy a wide range of different shares so that if one falls in value, another rises.
- ☐ Works of art are also risky unless they are very well known. Buying the work of an unknown artist is extremely risky if the intention is to make a profit.
- ☐ Many people buy the house they live in and this is a good investment because property can go up in value. Some people buy a second house and rent it out.