



# Safe saving

Putting money aside used to be a straightforward choice of bank, building society, ISA, stocks, shares or bonds. But post-recession and banking crash, what does saving look like in 2016? **Linda Aitchison** asks the experts

**M**oney in the bank (or under the mattress)? Perhaps you've been able to put some away over the years thanks to regular income or maybe you are the recipient of a windfall. Whatever the reason for your monetary good fortune, seeing a clear way forward can seem high on impossible in these post-recession days.

The first thing to understand is when you truly are in a position to start long-term saving and/or investing – and then get to grips with the difference between saving and investing. Received wisdom says that it's a good idea to have the equivalent of three months' income saved as an emergency measure in case things should go wrong for whatever reason.

Once you have built this up you are then in a position to save or invest any further spare cash. So where should you turn for impartial advice?

Unsurprisingly, financial advisers will advise you need their services. Lee Maddock, director at Nottinghamshire-based Millbank Financial Solutions (millbanks.co.uk), says: "It's always best to use an independent financial adviser, and ideally a chartered financial planner – this means they have the highest qualification industry provides in independent financial management. These qualifications demand high standards so if you engage a chartered financial planner you know you are getting the highest quality advice from a trustworthy source."

"You can find your nearest IFA or chartered financial planner by using sites like unbiased.co.uk, Moneywise or the Chartered

Insurance Institute database. As a final check, you should always make sure that the firm you choose is authorised through the Financial Conduct Authority (FCA)."

But it may be you can go it alone. If you are purely researching savings accounts then this can be done with a keen eye and the time needed without the need to speak to an adviser.

According to the Government's Money Advice Service if you're thinking of investing in shares, unit trusts and other investments, you can go DIY but it will be more risky because these products are harder to understand than savings.

## ON THE MONEY: USEFUL SITES FOR SAVERS

- [moneyadvice.org.uk](http://moneyadvice.org.uk): Straightforward advice on savings and investments.
- [unbiased.co.uk](http://unbiased.co.uk): Find a reputable, trusted adviser.
- [moneysavingexpert.com](http://moneysavingexpert.com): As always, this brilliant resource offers regularly updated information and forums where consumers share their real-life experiences.

## TOP FIVE FINANCIAL STEPS FOR 2016

Finance expert Kevin Edwards reveals his top tips for making money this year

1. Make sure any debts like personal loans or credit/store cards are cleared – they are expensive debts to have – and if you have disposable income after this, save it.
2. If you are over 40, consider the value of contributing to a pension rather than other investments such as ISAs and seek professional advice.
3. If you are close to 55 or above, look at the flexibility your current pension offers and decide what route is the best for your situation – be sure to seek independent advice before you decide on a preferred route – a mistake now could cost you or your loved ones a great deal.
4. Consider if you would like to pass on your wealth, and if so, get advice on the most tax efficient way to do this – taking into account the changes to Inheritance Tax that are being phased in from 2017.
5. If you don't currently have independent financial advice from a chartered financial planner, shop around and find the person that suits you and your requirements best.

Ask yourself these questions:

- Do you have the time to do the research?
- Do you have much experience, knowledge or skills when it comes to investing?
- Can you afford to lose any money?
- If things go wrong, are you comfortable taking responsibility for any bad investing decisions?

If you answer 'no' to any of the above questions then you should seek the help of an adviser.

How do saving and investing differ? Lee explains the key facts: "Saving is appropriate if you need to have access to your funds in the shorter term. If you are able to save small amounts on a regular basis, there are some savings accounts that offer better rates than current accounts – although they usually come with conditions such as cannot increase the regular amount above a certain limit, or you are tied in for a period of (typically)

12 months in order to gain the full savings interest rate."

And investing? "It's more of a long term commitment – for example a period of five years or more. You are able to choose whether you would like to invest on a regular basis or invest a lump sum, or lump sums. Investments include financial options like pensions, ISAs, property, unit trusts and many forms like investing in cash or stocks and shares.

"When deciding which investment is right for you, it's important to consider your attitude to risk and, more importantly, your capacity for loss. Would losing a significant amount of your investment affect your standard of living? If it would, maybe you should consider a lower risk investment."

It's vital to ensure that the investment is regulated by the FCA. "Consider your attitude to risk and capacity for loss and ask yourself, can you make a long term commitment?" says Lee. "You also need to consider any penalties for early

encashment and, if investing in shares and property, there are going to be periods of volatility and times when the value falls."

Chartered financial planner and director of Derbyshire-based Midland Financial Solutions (midlandfinancialsolutions.co.uk) Kevin Edwards says: "The simplest way to establish whether saving or investing is best for you is to consider three key things: What access you need to your money, what level of risk you are willing to take and the timescales within which you need to see results."

"If you invest, you could incur penalties if you need to access your money sooner than expected and it may not be a good time to sell investments if markets have fallen." There could also be tax implications to consider, Kevin says. "Therefore, if the money you have may be needed for emergencies, a saving account is your best option."

But there's a complicating factor thanks to a recent development in tempting offers from banks. These days some current accounts have better interest rates than savings accounts. For example at the time of writing, Lloyds, TSB, Santander and others have current accounts where your money can earn up to four per cent in interest each year. Some canny savers have even opened up more than one of these types of accounts to maximise returns.

Lee says things are not as straightforward as they seem. "Terms depend very much on the individual, the bank or building society. Some current accounts give a better rate of interest but there are conditions attached, like the requirement for a minimum amount to be credited into the account each month, for the account to have a consistent minimum balance – and there is often a monthly fee applicable too, which when calculated as an interest deficit has a big effect on the overall interest rate payable."

What about ISAs? Given current low interest rates are they still worthwhile, especially when you consider bank and

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building societies may offer equal or higher rates of interest, even after tax? "These are still worthwhile," says Lee. "This is especially true now, as you can replenish ISAs when money is withdrawn. Interest or growth on an ISA is tax-free, no matter what your income is, and they are a great addition to an investment portfolio."

Kevin adds: "If you are a UK tax payer, but particularly for higher rate taxpayers, ISAs are most definitely worthwhile. From April 2015, individual ISA allowances increased to £15,240, and if you don't use your ISA allowance each year you will lose it. With an ISA, your money is usually still accessible, if interest rates do rise, so will ISA rates and ISAs are a tax-free source of income."

However much the economy changes into 2016 and new financial products come on to the market, the old-fashioned advice of spreading your money around

is still as relevant today as it has always been. Lee says: "Diversification is important in any investment portfolio. It makes more financial sense and offers more opportunity for stability than putting all of your eggs in one basket."

And outside of everything offered through banks, building societies and stocks and shares, don't rule out property as a sound investment as the housing market continues to pick up.

"Property is still a sound investment choice," says Lee. "Commercial property can be utilised through pension plans and can provide good returns via rent and increased capital value. It is also tax efficient if used through your pension plan. Buy to lets are still popular as property prices seem to be rising again, and rents are also on the increase."

"You do need to consider the longer term costs and risk - maintenance costs,

meeting certain standards required by law, securing good tenants and any costs related to paying a management company, if you choose to employ one.

"There are also downsides to property as an investment - it can be difficult to sell your property quickly if you need the funds and, as we know from the past few years, property can fall in value as well as rise. In addition, if you will need a mortgage to buy the property, mortgage companies are more stringent than ever and even people with the best financial status may struggle to get a mortgage."

One final word of advice. "It is probably sensible to have a combination of both savings and investments, as part of a diverse investment portfolio that has a range of investments at a variety of risk levels," Lee counsels. "Talk to your adviser to work out the exact match for your requirements." ■

## DANGER! THE PITFALLS OF SAVING AND INVESTING

- Following the financial collapse of 2008, the Government vowed to protect deposit account investors in the future by insuring that every individual would be protected to the tune of £85,000 - per investor, per institution. However, as of December 31, 2015, this sum became just £75,000. This means that it is vital to protect your savings and, wherever possible, make sure that you hold no more than £75,000 at any one institution.

- Be wary of 'Best Buy' savings accounts. Often these accounts that are touted as having the best savings rates are offered by institutions registered overseas - which may not offer you protection through the Financial Services Compensation scheme (FSCS). Even if they do, you could still suffer a long delay before being compensated.
- To entice savers in, financial institutions will often offer a fixed savings rate for a period of several years. Now is not the time to take advantage of this type of offer, the Governor of the Bank of

England has indicated that the UK's interest rates are likely to rise at the end of the year - which will be good news for savers as rates on accounts should follow suit.

- Don't leave your money where it is for too long. Often you will be drawn into opening a specific savings account because of a preferable rate for the first, for example, 12 months, however, it's important to revisit your savings options after the offer finish date as there may now be better alternatives on the market. Don't be afraid to move your savings if you can get a more competitive rate elsewhere.

- Make sure you never invest in any investments that are not FCA (Financial Conduct Authority) regulated and not procured through unauthorised, regulated financial adviser - ideally an independent, chartered financial planner.

