JOIN THE SAVING REVOLUTION

Introduction

It is getting more and more important for people to save – to put substantial sums aside for retirement, a ‘rainy day’ or for those big life changes. State retirement support is gradually reducing, shifting the onus onto individuals to provide for their own long-term financial security. At the same time the stockmarket falls of recent years have eroded many people’s nest eggs, and costs of major life commitments such as raising children and university fees have risen sharply.

And yet against this backdrop, saving is fast becoming a thing of the past, a luxury many of us think we can no longer afford. A recent survey by unbiased.co.uk revealed that almost three quarters (70%) of people believe they are unable to save any more than they already are.

With ‘low-cost’ credit easily available for most people, consumer borrowing has risen to record highs over the past few years. This ‘spend, spend, spend’ culture is leaving an increasing number of people living beyond their means. Our survey also showed that if their income increased, more people would go on holiday than pay off debt or increase the amount they saved.

But this ‘borrow and spend’ attitude cannot continue indefinitely. If we are to stand a realistic chance of financial security further down the line many of us need to rediscover the lost art of budgeting – in short, saving needs to become the new borrowing.

Taking a good look at your monthly income and outgoings, and redressing the balance between a ‘want’ and a ‘need’, could leave you with more spare cash than you thought – cash which can be put away each month soon builds up. And cutting down on those costly luxuries that often pass unnoticed could make a huge difference to your long-term financial security.

This guide aims to give you the information you need to start budgeting, and to plan how much you can afford to save. It also offers some background to the various types of savings products you should consider. However there is no substitute for genuine expert impartial savings advice. At the back of this guide are details of how you can find independent financial advisers in your area.

So what are you waiting for? Take a moment now to review your spending, consider what you could be saving, and start paying yourself first – put a bit aside for yourself, no matter how small. It’s time to get saving!

Why save?

We live in an uncertain world where jobs are easy to lose, incomes fragile and where relying on the state for anything more than a basic financial safety net looks foolhardy. Britons are also living longer, with retirements of 20 to 30 years increasingly common.

State pension provision is unlikely to become generous, while many employers have also been cutting back on the pension deals they give their staff.

Most working people suspect they should be saving more for their retirement, but the need for savings is much more widespread than that.

The housing boom has meant that it has become increasingly difficult to get on the property ladder without a substantial deposit.

A survey by the Halifax showed that one in seven couples in their 20s said they didn't have the money to get married.

Children are also placing even greater financial demands on parents, who may want to send them to a private school or help cover university costs.

So saving is more important than people realise. One of the biggest problems is that whilst people are putting away some of their hard earned cash, they are servicing debt at the same time – often both from the same place, and therefore applying a brake to their savings efforts. In short, research shows that for every pound we manage to save we are borrowing 41p in 2006!*

*Source: Research by RAKM for IFA Promotion, June 2007.

How much should you save?

The simple answer here is ‘probably more than you are currently saving’ and ‘as much as you can’.

Independent financial advisers (IFAs) generally recommend keeping a savings cushion of around three months’ earnings in an easy-to-access account, as ‘rainy day’ money for emergencies or to tide you over if you lose your job.

It can be easy to fall into the trap of believing you don't have enough spare cash to be saving.

But even for longer term stock market investment there are schemes available which will take £50 a month or even less. However, while that is a start, bear in mind that £50 a month is just £600 a year – £3,000 over 5 years, ignoring any growth.

In deciding how much to put aside, it can also be helpful to consider what your goals are and work back from there.

The earlier you start saving into a pension, the bigger the pension you should end up with. Likewise the later you start the more you will have to save to achieve the required retirement income.

Most IFAs normally recommend you save at least 10-15% of your income to achieve a more comfortable retirement.

Note too that in the case of pension saving, your employer (if you have one) may well be contributing to your pension plan as well.

One way of making sure you maintain your savings discipline – and reducing the pain – is by using monthly direct debits or standing orders for your payments. It is surprising how quickly people come to hardly notice money automatically taken out of their pay packets or accounts.

How to beat low interest rates and risk

It’s true that recent years have been tough for savers. Interest rates have been low while many stock market investments have lost money. Here are some tips for improving returns and/or keeping down risk:

Cash ISAs pay some of the highest returns around on savings accounts. Better still, the interest is tax-free, and so worth more than from ordinary savings accounts, particularly for higher-rate taxpayers.

Investing into the stock market on a monthly basis rather than in a lump sum reduces the risk of being caught out by a crash. If the market falls then your next monthly sum will be buying at a lower price, giving you more chance of making money over the longer term.

A range of unit trusts, ISAs and other investment funds offer low-cost monthly saving schemes which allow investors to drip-feed money into the stock market and benefit from this ‘pound cost averaging’ effect.

Long term savers can refine this benefit even further by increasing the amount they save in months when markets are low.

Taking a long term view and spreading your money widely – putting it in a fund (see page 11) rather than all in one company’s shares, for example – will also help safeguard money you put in the stock market.

Lower risk stock market investments can offer share-based returns with some protection against the risk of falling prices (see page 10).

Savings options

One thing Britons are not short of in the world of savings is choice: there are literally thousands of savings products on offer from hundreds of financial companies. Here are the main categories and some idea of who they might be suitable for:

Bank accounts: Some bank accounts – particularly those operated over the internet – will pay interest rates as high as many savings accounts. You could find it convenient to use the account your pay-cheque goes into, and which you use for spending, for saving as well. But equally it could be confusing and you could lose sight of your saving goals.

Savings accounts: Again, many of the best-paying accounts will be operated over the internet. Nowadays 30-day or other notice accounts often pay little or no more than instant access deals. Fixed-rate accounts and bonds will generally pay more than ordinary variable rate savings accounts but they will require you to tie up your money for anything up to five years. Many savings accounts have introductory bonuses. Savers attracted by these initially high rates need to keep an eye on the rate once the bonus goes.

Cash ISAs: Many of these pay relatively high interest rates, with the advantage of that interest being tax-free. But you can only invest up to £3,600 for this tax year (2008/2009), and having a cash ISA will reduce the amount you can save in stocks and shares ISAs (see page 11).

Friendly Society Savings Schemes: Friendly society tax-efficient savings schemes benefit from an unusual tax concession which allows savers to put away up to £25 a month, or £270 a year, tax-free.

National Savings & Investments: National Savings & Investments also have a range of accounts and bonds which are particularly useful for higher rate taxpayers. There are many types of National Savings and Investments products available and information can be obtained from www.nsandi.com.

Bonds: This is an overused term in the world of savings. Generally implying some level of security for your savings, bonds can vary hugely in their riskiness. Your original money may or may not be guaranteed, returns can be fixed or linked to the stock market – or even a combination of stock market indices. Some bonds will not suit non-taxpayers because they automatically deduct tax from returns. Corporate bond funds have been a popular choice for ISAs, but are suited mainly to those wanting immediate income.

With-profits bonds are linked to the stock market and other investments, and are designed to reduce the investment risk by delivering returns through a series of possible annual ‘bonuses’.

Gilts: These are government bonds. The great attraction is the security of their returns, which are backed by the government. If you buy a gilt and hold it to maturity you know exactly what income and return you will get. But gilt investment funds and gilts traded in the market do not offer these guarantees.

Unit trusts/investment trusts/oeics: These are all types of investment fund, where your money is pooled with that of other savers and invested by a professional fund manager. Generally these funds invest in the stock market. With more than 1,000 to choose between from dozens of investment companies, it is possible to find funds investing in the most exotic stock markets and the most complex financial instruments. So-called hedge funds, whose main claim to fame is to be able to make money even when markets fall, can be extremely complex.

Stocks and shares ISAs: Most stocks and shares ISAs are a way to invest simply in funds free of personal tax. You can invest up to £7,200 for this tax year (2008/2009) into one of these stock market ISAs, unless you have already taken out a cash ISA in which case, if you have invested say £3,000 in the cash ISA, you are restricted to £4,200 to be invested in a stock and shares ISA.

Individual shares: Stock markets should always rise over the long-term but individual shares can be very volatile and sometimes even lose all your money. If you are saving for the short-term you should never invest in shares or in any other stock market scheme – you should only consider this option if you can afford to tie up your money for at least five years (and still accept that you might not make a profit even after that period). Building an investment portfolio of a range of shares is a bit like having your own fund, but without the experience or expertise of a professional manager of, say, a unit trust.

Pensions: You don't have to solely rely on a pension plan for retirement planning: many experts now also recommend ISAs while there has been growing interest in buy-to-let property for retirement saving. A big plus for pension plans is the upfront tax relief – a higher rate taxpayer effectively pays just 60p for each £1 in their pension fund – and the fact that, if the pension scheme is linked to your job, there is a good chance your employer will also be putting in money on your behalf. The ability to choose how your pension fund is invested is also increasingly common.

Where to get advice

Don't worry if you're confused: that's where an independent financial adviser can help out. IFAs can find the most appropriate savings products for your needs and outlook and help you to take a step back and assess your spending. If you do not already have an IFA you can get names and contact details in your locality by calling 0800 085 3250 or visiting www.unbiased.co.uk

The SaveFast Budget

The key to reining in your spending and borrowing, and getting back on track with your savings is first to step back and see where all the money is going. By filling in the budget planning sheet on page 14 you'll be able to see how much is coming in, where you're spending it, what your debts are costing you, and what you've got left to set aside for the future.

Once you've filled in the planner turn the page and see if any of our thrift tips could leave you with more money to save at the end of the month. At least they should give you some food for thought. We've developed an interactive version of this budgeting tool online at www.unbiased.co.uk/getsaving so you can see what a difference small lifestyle changes can make over time to your savings.

So try our SaveFast Budget and you could regain pounds in just minutes!

When filling in the planner (see opposite page), try to think about everything you earn, spend and save in an average month. Be honest, and where items you think of aren't included on the list, make sure you add them into the 'other' category.

MONEY COMING IN (per month)

Earnings	
Your take home pay	£
Your partner's take home pay	£
Other sources of income	
Income from savings and investments	£
Rent from tenants/lodgers	£
Other	£
TOTAL	£

MONEY GOING OUT (per month)

The basics	
Mortgage/rent	£
Council tax	£
Gas	£
Electricity	£
Water	£
Telephone	£
TV license	£
Groceries	£
Clothing	£
Childcare costs	£
Maintenance/alimony payments	£

Vehicle running costs	£
Other travel costs	£
Insurance (home, life, motor)	£
Other	£
The 'luxuries'	
Lunches/coffees (not homemade)	£
Eating out/social drinking	£
Outside entertainments (eg cinema/theatre)	£
Gym/health club/sports club	£
Hair/beauty treatments	£
Home entertainments (eg CDs/DVDs)	£
Satellite, cable or digital TV	£
Magazines/newspaper	£
Mobile phone bill	£
Lottery tickets/betting	£
Other	£
Non-mortgage debts	
Credit card/store card repayments	£
Personal loan repayments	£
Other	£
Monthly savings	
Stockmarket/fund investments (eg equity ISA)	£
Savings account/cash ISA/savings bond	£
Other	£
TOTAL	£
AMOUNT LEFT OVER TO SAVE (per month)	£

Ten top thrift tips

1. iTunes is so quick and easy. But watch out, 3 downloads a week mean a total cost of £125 every year.

2. Gym membership can cost from £400-£1,000 a year. Do you really use it? A run in the park is free!

3. Your morning Starbucks pick-me-up can cost over £360 a year- natural water is a cheaper and healthier option.

4. Shopping online is so easy- but do you really need another bargain off eBay?

5. Planning ahead pays off; making a sandwich at home instead of buying one from the local shop can save you over £500 a year!

6. Do you know someone else at work who lives near you? Why not car share - save money and the environment at the same time!

7. A monthly subscription to Sky can cost £500 a year. What did you do before satellite TV?

8. When you go shopping, do you make a list? You could save money by buying what you need, not what strikes you as being useful!

9. Trying to hit the jackpot on a weekly basis can cost you over £100 a year. How many friends can you name who've won more than that?

10. Libraries are free to join and local to most areas. If you buy and read two books a month, you could save over £200!

For further information on the subject contained in this guide, please contact Inshore IFA.

We can help for advice or further information please call **01425 282181** or email us at **info@inshoreifa.com.**

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