

An easy to understand and simple to follow guide to:

# Bank Accounts in the UK



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## Introduction

What do you look for in a bank? Chances are that you really haven't thought too much about it. Studies show that most people simply open up a bank account at the bank that is most convenient for them – that is to say, the bank that is closest to where they shop and work, that has the most ATMs in places that they frequent, or that offers them the best freebies for signing up for an account. And once they've enticed us in, those same surveys show, they've got us for life. Most bank customers surveyed have never changed the bank where they keep their money, whether in savings or checking/current accounts. Customer loyalty is one of the things that the banks have counted upon for decades – but new internet banks and other technology is seriously challenging the way that the High Street banks do business.

Here are a few facts for you to chew:

- A banking study showed that most people in the UK are getting .1% or no interest at all on their current accounts – while some accounts are offering as much as 4% annual earning rates
- Most people keep more money in their current accounts than they should.
- Standard savings accounts offer one of the poorest rates of return on your money that you can get.
- 60% of bank customers stay with the same bank throughout their lives.

Bank regulations and terms are a confusing morass to most people – and the banks like it that way. It's far easier to separate you from the money that you SHOULD be earning on your accounts if you don't understand what you could be earning for your business. In the past twenty years or so, though, the consumer has become far more savvy about investments and banking – thanks in very large part to an explosion of new banking services and companies. New technologies have made it feasible and attractive to bank in other places than your local bank, and for the first time since the unstable decades just after the wars, banks are having to scramble for your business.

This means that if you know and understand the banking products that are available to you, you can use your bank as more than just a storage vault for your hard earned cash. Choosing the right bank and the right accounts for your cash can help you earn money rather than just warehouse it.

Are you ready to step into the inner circle and make money with your money? By the time you finish reading this book, you'll understand enough about the types of bank accounts available and their advantages and disadvantages to make informed decisions about where to put your money. We'll tell you how much you should keep in savings, and why it's a bad idea to keep more than that in a low yield account. We'll even explain what a low yield account is and where you should put your money instead. Finally, we'll help you figure out how to cut your spending and increase the earning power of your money with a budget questionnaire designed to help you see how your money is being spent – and underused – if you're not using the full potential of the banking products available.

## What Is A Bank For, Really?

What is a bank?

- a) a place to keep your money so no one steals it
- b) a business that uses your money to make more money
- c) a place where you can get loans when you need money to buy things
- d) a business that exchanges one kind of money for another

***Bank (n.) –  
A business establishment in  
which money is kept for  
saving or commercial  
purposes or is invested,  
supplied for loans, or  
exchanged***

The correct answer is e) all of the above, and more. If you're like most people, though, you're not using the full resources of banking that are available to you. For most people, their relationship with their bank is one in which they pay and pay and pay – monthly fees, overdraft fees, under limit fees, charges for bank transfers and ATM withdrawals, even fees for speaking to an actual person instead of using

an automated system. In short, you're paying the bank to hold and use your money for their investments, and make it available to you in various ways.

It doesn't have to be that way. Banks offer many different kinds of accounts and services, and by choosing the right ones – and banking your money wisely among them – you can profit from your experience with your bank. Here's what you COULD be getting from a bank:

- Interest on your current account
- Higher interest on your savings account
- The opportunity to buy into a notice savings account at a still higher rate of interest
- The assurance that your money is safe and being invested wisely.
- Free online banking
- Excellent customer service
- Easy access to your money when you need it via cheques or debit/check card
- Free cheques
- Overdraft protection on current accounts

Your bank is far more than just a place to keep your cash from being stolen. Each banking product on offer is meant for a different purpose, and using them for their intended purpose can do more than save money for you – it can make money, and free up cash to be used for other, more lucrative investments. There are specialty savings accounts designed to encourage savings for education or retirement, most of them carrying significant tax advantages. There are accounts that are meant to allow you easy, quick access to your money, and to facilitate your ability to transfer cash directly to others for bill payment or purchases. Current accounts can be linked to savings and borrowing accounts to afford overdraft protection and avoid incurring high fees for returned cheques. In short, if it has to do with money,

chances are that there is a bank account designed to make it easier for you, and knowing what banks are offering is the first step toward making informed decisions regarding the handling of your money.

## Why You Need A Bank Account

Once upon a time, it was easy to do all of your business in cash. You got your wages in an envelope, paid out cash for all your accounts at the Post Office or at the merchant shop where you owed the money, paid for your purchases with pretty notes and coins, and kept your spare cash in your wallet or your piggy bank. This was especially true if your income just about met your expenses and there was no reason to think about savings or investments.

Times change, though. In a world that is increasingly automated, it's more and more difficult to do what needs doing without a bank account.

- Many employers now pay your wages directly into your bank account by electronic transfer – it saves them money and time, and is safer for you. If you still are paid by paper cheques, you may be paying 2-5% of your wages each week just to cash your cheque so you can use your money.
- If you receive any Government benefits or tax credits, they are paid directly into your bank or Post Office Cash Account.
- The companies that provide your utilities like electricity, telephone and gas often offer discounts if you pay your account by direct debit each month. In fact, according to the FSA, you can save about £75 per year by paying your utilities by direct debit from your bank account.
- You'll be in a better position to shop for other financial services. For instance, many insurance companies offer their best rates to those that can pay by direct debit.
- If you want to shop on the internet, or by catalog, it's far easier to do if you have a bank account. In fact, some banks offer ePay services that let you send money to anyone who has an email address – at no charge to you.
- If you want to borrow money or take out a loan for an automobile or a house, a bank account can help establish that you are credit worthy and know how to handle money.

Without a bank account, you'll be paying more for many services and accounts, and you may find that you can't do some things at all. Because having a bank account is so important these days, the Government has invested in various schemes to encourage people to open bank accounts. Basic bank accounts, the Children's Trust Fund and Individual Savings Accounts are just some of the ways that the Government supports saving and investing for all people.

Of course, not all bank accounts are created equal. Even among the various types of accounts, there are many variations at different banks – and even within the same bank. That's why it's important to know how to figure out which features of a bank account are most important to you, and how to compare bank accounts to find the one that will suit you the best.

## Quick Accounts Overview

Before we delve into detail about the various types of accounts and just how you should be dividing up your money and why, let's take a brief overview look at the various account types and their purpose.

### Basic Account

Basic accounts – or accounts with features like them – have been around for a while, but were actually established in 2003. They are no-frills bank accounts that are meant to make it possible for anyone to have a bank account. With a basic bank account, you can have your wages, benefits and tax credits deposited directly into the account, use your account to pay bills through standing order or through direct debit, get your money with a cash card and pay in money through your bank or post office. Basic accounts were designed to make banking accessible for those with low incomes.

Among the benefits of having a basic account are lower payments for gas, electricity and telephone, the convenience of having a bank card and access to products that require a bank account.

### Current Account

The main purpose of a current account is to make it easy to pay for things, whether those things are bills or purchases. Generally, current accounts (called current accounts in the UK) do not pay interest, though there are some interest bearing accounts available. When they do pay interest on your money, the amount is generally negligible, and the bank often requires that you keep a minimum amount in the account.

Among the benefits you may get with a current account are:

- a debit card to access your money through ATMs and at the till
- free cheques
- overdraft protection
- 

A current account is the place to stash enough money to pay off your monthly accounts and cover your day to day expenses. It doesn't usually make good financial sense to let money sit and accumulate in your checking or current account. If you're not going to spend it within the next 30-45 days, get your cash into an interest bearing account.

### Savings Account

While current accounts are meant for bill-paying and easy access to your cash, savings accounts are geared to paying you a bit for the use of your cash. Or at least, that's the original intent. When you deposit money in a savings account, you'll earn interest on it as long as it remains in the account.

Because you make no time commitment for it, and can access it easily, that rate of interest is generally low – from .1% to 1% depending on the bank and

the prevailing rate of interest. In most cases, the interest rate on a savings account isn't even high enough to keep up with the rate of inflation. Most financial experts recommend keeping enough money to cover three to six months of daily expenses in a savings account that offers ready access to your money in case of emergency.

If you have more money than that to invest, there are higher yield bank accounts that are tied to investment funds. They'll offer you a higher return on your savings, but will usually restrict your access to your money in some way.

In addition, there are specialty savings accounts that are meant for a particular purpose. In the UK, ISAs (Individual Savings Accounts) offer a tax sheltered solution to saving money, and special savings schemes for children provide attractive ways to save money for your children. Student and graduate savings and current accounts are designed to grow with a young person, and offer benefits specifically aimed at gradually teaching fiscal responsibility.

### **Notice Savings Account**

Once you've saved enough in savings account to cover yourself in case of a financial emergency – and we do mean emergency here, not a case of the 'I wants' – you can look more seriously at savings accounts that are investment accounts. Notice savings accounts generally have higher minimum deposit and minimum balance requirements than savings accounts, but the funds you deposit are also subject to considerably higher interest earnings. Your funds are also a bit less liquid. In most cases, you must give notice ranging from a week to several weeks before withdrawing your funds, and may be subject to penalties for early withdrawal.

Still, if you have money for which you won't have an immediate need for six months or more, money market savings accounts are a possible option to put your money to work for you. Do be aware that money market funds offered by brokerage and investment houses are not the same as notice savings accounts.

### **Capital Accounts**

The next rung up on the investment banking ladder holds short term certificates of deposit (CDs), or Capital Accounts. Capital accounts require that you make a commitment to leave your money in the account for a certain term, usually ranging from three months to six years. The longer the term you choose, the higher you can expect your annual yield to be. In the UK, some banks offer 50/50 capital accounts, in which 50% of your investment will yield periodic income and the other 50% yields long term growth based on a leading stock market index.

Capital accounts offer significantly higher yields on your initial deposit. On the other hand, you won't be able to withdraw your funds from account without incurring a penalty.

### **Individual Savings Accounts**

Individual Savings Accounts are a scheme to encourage people to save up by offering tax free interest on deposits. There are several different kinds of ISAs, some of which are cash only and some of which include stocks and investments. In general, you must be 18 years or older to open an ISA, though you can open a Mini Cash ISA at 16. There is a limit to how much can be deposited in an ISA each year, but the tax free status is currently guaranteed through 2010.

You can have up to £7000 in combined cash and stocks, depending on the ISA that you choose. There are no taxes on either the interest on your savings, or capital gains arising from your investments. In most cases, you'll have no-notice access to the money in your cash ISA, though some banks may require notice before allowing a withdrawal, or charge a penalty for withdrawing without notice.

### [Children's Savings Accounts](#)

If your child (or a child that you are raising) was born on or after 1 September 2002 and is living in the UK, that child is eligible to receive a £250 voucher to open a Child Trust Fund account. The Children's Trust Fund is a long term savings and investment account set up by the Government to help young people 'get a start' in life. In addition to the government voucher, parents and others may make deposits of up to £1200 per year into the account, but no one can withdraw from the account before the child reaches the age of 18. At that point, only the child may withdraw money from the CTF account.

This benefit is available to all children in the UK born after 1 September 2002 for whom the child benefit is claimed, and who is not subject to immigration restrictions. The government also makes further deposits to the CTF under particular circumstances.

If your child isn't eligible for a CTF account, there are still savings and investment accounts that offer tax free and low-tax alternatives to basic accounts designed specifically for children and teens.

### [Student Savings Accounts](#)

Banks are always particularly eager to acquire your business if you're a student just entering into an account for the first time. Study after study has shown that most people remain with the first bank that they chose throughout their lives, so 'get 'em while they're young' is a worthy mantra for the banking industry. In order to secure your business, they're willing to offer some very nice benefits and perks. Those perks include interest free overdraft protection, free bank, travelers and cashier cheques, free withdrawals through ATMs, credit cards and incentives that vary from bank to bank.

On top of student accounts, many banks also offer **graduate accounts**, with more flexible overdraft and loan policies than standard accounts. Both types of account are designed to help students manage their money and use banking products to their benefit.

### [Online Bank Account](#)

You've likely seen a few new names on the banking scene the last few years, names with a distinctly different flavor than the staid High Street banks and building societies you're use to. Names like smile, Egg and Cahoot – and the names are indicative of the way they do business. At internet banks, you can do all your banking without ever visiting a brick building. Ever. No waiting in line, no rushing to make it to the bank before closing – the bank is available to you twenty four hours a day, 365 days a year.

Because internet-only banks have lower overhead costs (do you know what it costs to heat one of those huge buildings?), they can pass their savings on to you in the way of higher rates of interest on your savings and current accounts, and lower rates of interest on your overdrafts and loans.

Internet banking isn't for everyone. There are still those with concerns about security, or who prefer not to use computers – but it's definitely worth a look if you're choosing a new bank or deciding where to move your money.

### **Where Do We Go From Here?**

Now that we've taken a quick overview of the different types of bank accounts available, let's take a look at how to decide where you should be putting your money. You'll want a pencil for this one – especially if you already have a current or bank savings account – and copies of your last few month's bank statements. You go gather those things together. I'll be waiting right here for you – on the next page.

## Where Does Your Money Go?

Where would you like to be ten years from now? Are you imagining yourself in a home of your own? A new auto? Your own business? If you're not already saving for those goals, this is the time to start, and we can show you how to do it the best way. If you're already saving up for your dreams, we may be able to show you how to get more work out of your money than you're getting now. The key to saving money is managing money and the key to managing money is knowing where it's going. This is the part that everybody hates, but it's got to be done, so buck up, sharpen your pencil and let's fill in the chart below.

Your Income	
Earnings from your job or self-employment	
Less tax and other deductions	
Pensions from former employer or your own plans	
State pension	
Child benefit and tax credits	
Other state benefits	
Interest from savings accounts	
Income from shares, unit trusts etc	
Other income from investments	
Miscellaneous	
<b>Total</b>	

Your Expenses	
Mortgage, rent, home maintenance	
Council tax and water rates	
Fuel and power bills	
Food and non-alcoholic drinks	
Alcohol	
Tobacco	
Clothing and footwear	
Household goods	
Home insurance, telephone, other household services	
Medicines, toiletries, hairdressing, other personal items	
Motoring, fares, other travel	
Going out, holidays, other leisure	
Life insurance, medical insurance	
Loan repayments (other than mortgage)	
Miscellaneous	
<b>Total</b>	

All set, then? The charts are self-explanatory, for the most part. In the 'Income' section, enter in the amount you get monthly from each of the sources listed. In the 'Expenses' section, enter how much you pay monthly for each of the expenses listed. Add up the columns, and enter the totals into the boxes below.

Total Income	
(less) Total Expenses	
Surplus/Shortfall	

Subtract your expenses from your income. The amount that you have left is the amount that you have to save or invest each month. If the amount is negative, you're spending more than you're earning, which is not a good situation at all. You could benefit from the services of a budget counselor to

help you find where to cut expenses. For some easy ways to find savings, see the [Hints and Tips](#) at the end of the book.

We've one more step to go before we start sorting out your money to where it will do you the most good. Hang tight there – it's another chart to fill out.

<b>Assets</b>	
Cash on Hand	
Current Account Balance	
Savings Account Balance	

Just to sort it all out quickly and basically before we move on:

The amount of cash you keep on hand is a personal preference, but most carry just enough to meet any necessary daily expenses. It's the account balances that you want to take a look at.

If your current account balance is more than a month's expenses – especially if you've already paid out your accounts, then it's time to consider moving the excess to a savings account where it will earn higher interest for you. Check the [savings account](#) section for tips on choosing the best savings account for you.

If you have a savings account and the balance is more than you'd need to live on for three months or so in case of emergency, then this is the time to look at your options for making some higher yield investments. Bonds, savings certificates and mutual funds are all low-risk investments that can help you get a start in growing your money.

## Where Should Your Money Be?

There we go. Now that you've got it all put down in black and white, we can take a look at it and figure out what you should be saving, what you should be spending, and what you could be investing.

**For managing your day to day expenses**, you have two choices of accounts – a basic account and a current account. The most obvious difference between the two is that current accounts usually offer overdraft protection while basic accounts do not. It's also far easier to get a basic account. You might choose a [basic account](#) because:

- Your credit history or income prevents you from getting a current account
- You worry that overdraft protection will make it easy for you to build up debt
- You don't want a current account, but do want the convenience of direct debit and direct payment.

A [current account](#) offers more benefits than a basic account, but it also carries a few possible pitfalls. The greatest of these is running up overdrafts on your account and finding yourself over your head in debt. If you manage your money carefully, though, and pay attention to your balance, you should be able to avoid that problem.

In most cases, it makes the most sense to have your income – whether it be wages, interest income or benefits – paid directly into your current or basic account. You can pay out money directly from your current or basic account in several different ways, depending on the account. Generally, those include:

- [Direct debit](#) to a creditor
- [Standing order](#)
- Paper cheque
- [Debit Card](#)
- [Cash card](#)

You can also use a debit card or cash card to take money out of your account, or withdraw it at the Post Office or bank. So how much money should you keep in your current or basic account?

The answer is – the amount of your monthly expenses, give or take a few quid for unusual expenses, or just enough to avoid ringing up fees for having less than your minimum balance in the account. In general, if you're allowing extra cash to accumulate in your current account, you're losing money. Anything above your monthly expenses should be moved into a savings or investment account, where you'll earn [interest](#) on your money that you're not using for your immediate needs.

There are many different choices of current accounts, including those that are specifically designed for use by [students or recent graduates](#), business accounts, joint accounts and combined savings and current accounts. You'll find more information on how to compare current accounts further on in the book.

[Savings accounts](#) also come in several different flavors. Most financial experts recommend that you should keep three to six months worth of monthly expenses in an instance access or easy access savings account. If you shop around, you'll find bank savings accounts that pay you interest ranging from .1% to 5% (the internet only banks tend to pay out far higher interest than most High Street banks). You can generally open a savings account with as little as £1, and there are no minimum deposit sizes. Some higher interest savings accounts will require higher minimum opening deposits, and may require that you keep a minimum balance in order to maintain the high [annual earning rate \(AER\)](#).

How do you get three to six months worth of savings? The conventional wisdom is that when you are doing your monthly accounts, you should 'pay yourself first'. If you have a current and a savings account, you can be sure that you pay into your savings each month by making out a standing order to transfer the money from one account to the other. As little as £2 a week will add up to £104 in a year's time – with interest added to that. If you can manage 5% to 10% put into savings every week, you'll find the account hitting the goal mark rather quickly. For more help on building your savings into an emergency fund, see the [Hints and Tips](#) section.

Instant and easy access savings accounts still keep your money at the tips of your fingers. You generally need to give no notice to make a withdrawal, and more and more savings accounts can be accessed with a debit or cash card. This account is your rainy day fund – and it should hold just enough to see you through a downpour or two. It needs to make access to your money relatively easy, so that it's available in case of an emergency, but it should also offer the best rate of interest that you can find.

Choosing the right savings account is a matter of comparing the different features that each offers and deciding which are the most important to you. You'll find more information on comparing savings account in the section on comparing accounts to find the best one for you.

### **Saving for Your Children**

Over the last decade or so, many financial experts have sounded alarms about us becoming a nation of debtors. To offset that fear, the Government has worked with the banking industry to set up a series of accounts to teach children the value of saving, and to help parents provide a starting cushion when their children reach age 18. Many banks offer children's savings accounts with special incentives, including debit cards when a child reaches the age of 13, and the ability to begin making decisions about what to do with their money at age 16. There are some special notes when it comes to saving for your children.

- **Child Trust Fund**

The Child Trust Fund is a long term savings and investment account that is meant to ensure your child has savings at the age of 18, help your child get into the habit of saving and help your child understand about personal finance. That's a direct steal from the Government web site that explains the working of the Child Trust Fund. The Child Trust Fund was established by the Government to benefit children in the UK who were born after September 1, 2002 and for whom the child benefit has been awarded. If your child was eligible for the Child Benefit, you were (or will be sent) a voucher for £250 which can be used to open a savings account for your child. Additional benefits will be paid to children depending on when they were born and the family income. Once you've opened a savings account in your child's name, you can add up to £1200 per year without any tax penalty. You'll find more information on choosing a CTF savings account for your child in the section on [Children's Savings](#).

- **Child Bonus Bonds**

Issued by the National Savings & Investments, Child Bonus Bonds are a way to save for your child's future in increments as small as £25. Technically, they're an investment rather than a savings account. Anyone over the age of 16 can purchase Child Bonus Bonds for any child under age 16. The bonds are held for a term of five years, and accrue interest each year, as well as a bonus every five years. You can invest in up to £3000 per issue of Child Bonus Bonds, with several issues per year. One of the major advantages of saving through Child Bonus Bonds is that the interest and bonus earnings are completely tax free, even if the child begins work and is paying taxes before they cash the bonds in.

## Investing in Your Future

Once you've built your savings account into a comfortable cushion against life's rocky road, you should move your sights from saving to investing your money.

### Four Kinds of Risk

#### Capital risk

Capital risk is what most people think of when they consider losing money. It's the risk that you might lose some or all of your original investment. An example of capital risk is buying a stock for £5 per share, and having its value drop to £3 per share. You lose £2 for every share that you bought.

#### Shortfall risk

Shortfall risk is making less than you'd hoped to make. If your aim is to save money for retirement and you choose low risk investments with low returns, you may not earn as much as you'd hoped.

#### Interest risk

You incur interest risk when your investments are keyed to interest rates. If you choose a variable interest rate investment, and the interest rate falls, you'll make less money than you planned. If you choose a fixed interest rate and the interest rate rises, you make less money than you could have with a variable rate.

#### Inflation risk

As prices rise, the buying power of your money falls. This becomes a problem when you invest a chunk of capital for the interest income. As prices rise, the value of your initial investment – the capital – is reduced.

### What's the difference between saving and investing?

Savings and investments may seem much the same – in either case, you're putting money aside to earn interest. The differences are the length of time that the money will sit, and the amount of interest that your money can earn over that term. Savings is for the short term – money that you may need to access, or that you intend for a specific short-term goal. If you're wanting a family holiday to the seashore, for instance, a savings account is the best place to sock your money away for it. You'll always get back at least what you put in, and if you've chosen carefully, you'll have a small bonus amount as well.

Investments are for the longer term goals – retirement, education, your children's future. It's for money that you can afford to tie up for several years. Most investments carry some risk, though the risk is higher with some products than with others. The golden rule of investing is the same as the golden rule of gambling – never risk more than you can afford to lose.

### Investing In Your Future

Investing is a tricky area, and there's no way to do it justice in a short book, but we can give you an overview of the types of products available, and the risks involved in them. Understanding risk and how to manage it is one of the keys to making investments that earn rather than lose you money. There are many UK banking and investment products that offer an entry into the world of investments and let you get your whistle wet without drowning in waters over your head. And now that I've horribly mangled that metaphor, let's take a look at some of the risks you might incur if you decide to step beyond a savings account as an investment,

and the types of investments that offer the lowest risks for beginning investors.

The box at the left lists the four main types of risk that investors face. As you can see, not all risk is about actually losing money. The fact is, even if you tuck £1000 away in a sock in your drawer, you're facing loss – at the very least, in ten years, that money will buy less than it will today: inflation risk. Let's take a look at what else could happen to that £1000 under various investment schemes.

### **NS&I Bonds**

National Savings and Investments offers a whole raft of bonds and products that carry low risk for beginning investors. Generally, you pay a fixed amount for a bond, and NS&I promises to pay you the face value of the bond at a certain date in the future. You can also choose NS&I Income Bonds which will pay out the interest monthly to your account. If you put your £1000 into an NS&I Income Bond, you'd earn about **£3.29** per month as long as the money remains in the bond.

If instead, you chose a fixed rate savings bond, you could leave your £1000 in the bond for a year, and at the end of the year, you'd get back **£1,032.80**. If you didn't need that money for a year, what are the chances you'll need it in three years? If you choose a three year term, your return will be **£1,104.22**. At five years, **£1,179.68**.

### **NS&I Investment Accounts**

Backed by the government and 100% secure, NS&I offers investment accounts with rates linked to the current prevailing rates of interest. All interest earned is tax-free, and the interest rate rises with the amount that you invest in the account. Unlike bonds, which are bought for a fixed amount, you can add to your investment account regularly as long as you deposit a minimum of £20 at a time. The more you deposit, the higher the rate of interest you earn.

### **Index-Linked Savings Certificates**

If your fear is that inflation will eat away at the buying power of your money while it sits there, then Index-linked savings certificates are the product for you. The return on your investment will always include a premium linked to the rate of inflation, plus interest on your investment. If you deposit your £1000 in one of these certificates and the rate of inflation erodes the value of £1000 so that you'd need £1040 to buy the same amount of goods, then your return will be £1040 PLUS the interest earned on your investment.

### **Capital Bonds**

Capital bonds offer a fixed rate of interest and a fixed term, so that you'll know exactly how much you'll get back at the end of the term. The term for capital bonds is five years – meaning you need to hold the bond for five years before cashing it in if you want the full amount of your benefit. If you used your £1000 to buy a capital bond today, in five years you could cash it in for **£1,243.20**. That's an increase of nearly 25% over five years.

## **Investment Funds and Collective Investment Schemes**

Pooled investments are a way of putting small contributions from many people together to make a larger investment. These include money market savings accounts and mutual funds investment accounts. The advantages of socking your money into an investment fund are:

- The risk is spread among many investments, which lowers the risk of losing your capital and increases the possibility of earnings. When you pool with others in a fund, your investment goes further. Your £1000 might only buy into one or two investments on its own, but if you pool it with hundreds of others, that money can be used to manage an entire portfolio of accounts.
- Reduced dealing costs are another advantage. Pooling investments with others under a management company allows the company to take advantage of discounts for buying in bulk.
- The expertise of the fund manager is yet another advantage, along with the chance to pass off all the paperwork and administration duties to someone else.

There are disadvantages as well, of course.

- there is, as always in investment, the chance of losing money. It's far less likely in a collective investment scheme, where the risk is spread among many different companies.
- You pay an administration fee, which you wouldn't have to do if you managed your investments yourself.
- You don't have a choice of which stocks and shares to invest – that choice is made by the fund manager.

## **Individual Savings Accounts**

Each year, you may save up to £7,000 in an Individual Savings Account. ISAs offer the advantage of tax free earnings, split between savings and investments. You can put up to £3,000 in the cash portion (or opt for a mini-cash ISA with cash only), and up to £4000 in the investments portion of the ISA. Most banks and building societies offer several different versions of ISAs so that you can compare and choose the one that benefits you the most. The major advantage of ISAs is that the interest and capital gains earned through an ISA is completely tax free. You don't even have to TELL the Government that you've earned it.

There are other forms of investment as well, but they're well beyond the scope of this book – and have little to do with banks. If you've made it through this far, you've a general idea how you can use bank accounts, current accounts, savings accounts and investment accounts to grow your wages into a nice, soft cushion against emergencies and the day that you retire. The next section of the book will take a look at specific types of bank accounts, how they work and how to compare features among them to choose the best one for you.

## How to Pick and Choose the Right Bank Account

Now that you've an idea what type of bank accounts should be used for which purpose, it's time to get down to brass tacks – how do you actually choose the bank that you want to hold your money? The answer is, of course, to figure out which features are most important to you, and then compare available accounts to see which offer the most of those features. If you've decided that earnings potential and a high rate of interest are important, then look for the account that offers the highest interest rate on your savings or current account. Is it important for you to access your money easily? Then you'll want to know where to find the bank's ATMs and branches. Each of the sections that follow discusses a particular kind of account in depth, and how to comparison shop for the best.

## Basic Accounts

Basic accounts are meant for those who have decided, for one reason or another, that a current account is not right for them at this time. With a basic bank account you can:

With a basic bank account:

- Have your wages, benefits, State pension and tax credits paid into your account. Simply fill out the appropriate paperwork to have it done. It costs you nothing to have your cheques paid into your account, unlike what it would cost to cash them at the corner shop.
- Take your money out at cash machines by using a cash card. Be sure to check with your bank to see if there are restrictions.
- With some accounts you can also withdraw money from branches of your bank or building society, or the Post Office
- Withdraw cash with a debit card using cash back, and pay for your purchases with a debit card.
- Pay your bills by direct debit. Some banks will also allow you to pay your bills by standing order.
- You do not get a cheque book.
- You do not have overdraft protection

How a basic account can benefit you:

- Pay less on some bills by paying with direct debit, especially gas and electric
- Get a better deal on insurance and other financial products
- Cash cheques for free instead of paying a percentage for the service
- Have a safe place to keep your cash

Minimum Opening Deposit:

- Varies with bank. Many accounts can be started with £1.

What fees will I incur?

Depending on the bank, you may be charged to:

- Set up a standing order
- Withdraw your money from some bank machines
- Set up direct debits, or alter them
- You may incur a fee if the bank has to turn away a direct debit

What will I need to prove my identity?

Banks are legally required to verify your identity when you open a bank account. Because there's little chance of going into debt with a basic account, those checks aren't usually rigorous. You may need:

- a passport
- driving license
- utility bill or other mail delivered to you at your address

Some banks will accept other forms of identification if you don't have any of those. Some commonly accepted forms are a letter from a social service agency, a teacher or a hostel manager who knows you and vouches for your identity. Check with your bank to find out what they'll accept.

How do I find out how much money I have?

At most banks, you can check your balance through an ATM. Once a month, you'll receive a written statement that shows all the activity on your account in the previous month.

How old do I have to be to open a basic account?

Generally, you can open a basic account at 16, though some banks require that you be 18.

What should I compare to choose the best basic account?

- Are there banks or branches near you? Or..
- Can you use the local Post Office to pay in or take out money?
- Are there cash machines that you can use free of charge nearby?
- Does it offer the services that you want – like a debit card or a cash card?

## Current accounts

Current accounts allow you to easily access your money and pay accounts and purchases directly from your account. With a current account you can:

- Have your wages, benefits, State pension and tax credits paid into your account. Simply fill out the appropriate paperwork to have it done. It costs you nothing to have your cheques paid into your account, unlike what it would cost to cash them at the corner shop.
- Take your money out at cash machines by using a cash card. Be sure to check with your bank to see if there are restrictions.
- With some accounts you can also withdraw money from branches of your bank or building society, or the Post Office
- Withdraw cash with a debit card using cash back, and pay for your purchases with a debit card.
- Pay your bills by direct debit. Some banks will also allow you to pay your bills by standing order.
- pay your accounts with a cheque
- Have overdraft protection to prevent you overdrawing your account
- Some current accounts pay minimal interest if you maintain a minimum balance

How a current account can benefit you:

- Pay less on some bills by paying with direct debit, especially gas and electric
- Get a better deal on insurance and other financial products
- Cash cheques for free instead of paying a percentage for the service
- Have a safe place to keep your cash
- A standing order can ensure that all your accounts are paid on time
- If you choose the a current account that pays interest, you can make some money on your deposits

Minimum Opening Deposit:

- Varies with bank. Many accounts can be started with £1.

What fees will I incur?

Depending on the bank, you may be charged to:

- Set up a standing order
- Withdraw your money from some bank machines
- Set up direct debits, or alter them
- You may incur a fee if the bank has to turn away a direct debit
- Interest charged on overdrafts
- Many banks also charge fees for sending paper statements, talking to a teller or other activities. Be sure to read all the fine print so that you know what fees you're likely to incur

What will I need to prove my identity?

Banks are legally required to verify your identity when you open a bank account. As current accounts usually include varying amounts of overdraft protection, the identity requirements may be more stringent than with a basic account.

You may be required to show any of the following:

- a passport
- driving license
- utility bill or other mail delivered to you at your address
- residence permit
- work ID
- letter confirming your state pension or other benefit

You will also have to prove your address by presenting one of the following:

- recent gas, electricity or phone bill
- water bill
- council tax bill
- driving licence
- letter confirming your state pension or other benefit
- income tax statement
- motor/home insurance certificate
- mail order statement

If you are opening a student account, you will also have to show proof of your student status.

Some banks will accept other forms of identification if you don't have any of those. Some commonly accepted forms are a letter from a social service agency, a teacher or a hostel manager who knows you and vouches for your identity. Check with your bank to find out what they'll accept.

How do I find out how much money I have?

At most banks, you can check your balance through an ATM. Once a month, you'll receive a written statement that shows all the activity on your account in the previous month.

How old do I have to be to open a current account?

Generally, you can open a current account at 16, though some banks require that you be 18.

What should I compare to choose the best current account?

**Ways to run the account and access money**

- Is there a bank branch near to you?
- Do you want to be able to bank by phone?
- By computer?
- At the Post Office?
- Are there cash machines nearby?
- Can you get cashback from nearby shops without a fee?
- Will the account pay interest?

- Compare interest rates
- Check restriction on withdrawals from your account
- Who offers cheap overdrafts?
- Can you get all the services that you want? Cash card, debit card, cheque book? Free overdraft? Cashback from supermarkets and shops?

## Savings Accounts

Savings accounts will pay you interest on money that you're not using for day to day expenses. The rates of interest on savings accounts vary a great deal from bank to bank, and even from account to account. In many cases, the fewer restrictions there are on the account, the lower the rate of interest you can expect. If your account offers instant access, for instance, it will probably pay out less interest than an account that requires 30 days notice for withdrawals.

These are some of the savings account types you might encounter and useful information about them:

Type of Account	Minimum Deposit	Access to Money	Interest	Points of Interest
Instant Access Savings	£1	Immediate by cash card, debit card or withdrawal	Variable – compare rates for best deals	Excellent choice for emergency savings
Easy Access Savings account	£1	May require up to a week notice, or incur a small penalty for withdrawals	Variable – compare rates for best deals	Good choice for emergency fund
Notice Accounts	£100 and up	May require up to 90 days notice for withdrawals	Usually variable, but may be fixed – compare rates	Best for mid-term savings and low yield investments
Monthly Interest Accounts	£100 and up	Depends on account – some require no notice, but may withhold interest in any month in which a withdrawal is made	Often fixed. Many pay out interest monthly and can be used as an income account	Useful for investing income
Term Accounts (bonds)	Several hundred pounds usually, often £1000 or more	Money is tied up for set term, which may vary from a few months to five or more years	Fixed, usually, with the possibility of receiving monthly interest as income	Investment income
Index-linked savings or income	Usually £500 and more	Access to money is restricted	Depends on growth of a stock market	Long term investment, with some

bonds		during the term, but may be allowed with some penalties	index, such as FTSE 100, but interest is usually less than the full increase in the index. If index falls over term, you just get back the amount you invested and no interest at all.	risk
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Points of comparison:

- Rate of interest
- Length of term
- Access to money
- Risk of loss

## Individual Savings Accounts

ISAs are Individual Savings Accounts, which replaced PESSAs and Personal Equity Plans. They are tax free savings and investment plans that are guaranteed by the Government through 2010. All interest and capital gains earned through an ISA are guaranteed to be tax free.

ISAs have two components that can be mingled or kept separate. The first, the savings component, allows you to save up to £3000 per year and escape paying taxes on the interest. The other component is a stocks/shares investment component, and allows you to invest up to £4000 annually, with no taxes attaching to the earnings on your investments. Banks, building societies and ISA managers offer various flavors of ISA, governed by strict rules for how much can be invested in each per year.

### **Individual Savings Accounts (Maxi ISA)**

An individual savings account consists of both parts of the ISA conglomerate. You can invest up to £7000 annually – up to s£3000 in cash and £4000 in shares or bonds. You are only allowed to have one ISA during a calendar year.

### **Mini cash ISA**

A mini cash ISA is the cash only part of an ISA. You are only allowed to have one Mini Cash ISA during a calendar year. ISAs can be opened with as little as £1, and you can pay money into your ISA in any increment and frequency until you have paid in £3000 in a year. That money can be withdrawn at the end of the year, or invested.

### **Mini Investments ISA**

The mini investments ISA allows you to invest up to £4000 per calendar year into an investment fund and pay no taxes on the capital gains or interest earned. You may have one mini investments ISA in a calendar year.

Remember that you may only have:

One Maxi ISA

OR

One Mini Cash ISA and One Mini Investments ISA

Or

One Mini Cash ISA

Or

One Mini Investments ISA.

You are not allowed to have both a Maxi ISA and any combination of Mini ISAs, nor two mini cash or two mini investment ISAs in the same year.

## Children's Savings Accounts

The Child Trust Fund was developed by the Government to ensure that all children born in the UK after 2002 reach their 18<sup>th</sup> birthday with sufficient savings to start out in life, as well as the education and knowledge to manage their money wisely. To ensure this, the Government has committed to starting off each child who is claimed as a Child Benefit with £250 to £500 in voucher form to open a savings account. Parents or guardians may choose the account in which they wish to invest their child's voucher. That money can only be withdrawn by the child when he or she reaches his 18<sup>th</sup> birthday. Parents, relatives and friends may make payments into the child's savings account up to £1200 per year. In addition, the Government will make two further deposits into each child's account – one when they begin school, and one when they reach their 16<sup>th</sup> birthday.

With a little foresight and thought, even parents with little income can provide their child with a tax-free leg up to start their adult lives. Here are things to consider when choosing a bank and account for your CTF savings account for your child.

### Types of Accounts

Before we talk specifically about types of CTF accounts, let's do a quick recap on risk – particularly your attitude toward risk. Would you rather put your child's money in a very safe account with lower returns on the investment (they'll never get less than what has been deposited, but another account may pay them more), or take a small chance to earn more money for them? There is no right or wrong answer to the question. It's all a matter of how comfortable you are with risk.

### Savings Account

A CTF savings account is the safest place to save. Keep in mind, though, that these are long term savings accounts, and on average, savings accounts do not do as well as shares based accounts, where there is some risk. That's because the interest rate is generally lower, and often fixed. If interest rates rise, then the money in your child's savings account is earning money more slowly than if it had been in a variable interest savings account. In addition, the effects of inflation wear away harder when interest rates are fixed.

### Shares Accounts

If you place your child's CTF vouchers in a share account, the account manager will invest it in shares in various companies. This carries a risk, as the value of your child's money will go down if the companies in which the money is invested don't do well. Financial experts note, however, that money left in shares accounts over the long term has yielded more than savings accounts in every 18 year period in the last 40 years. This is because poor performance in one year can be and often is made up in other years with excellent performance. This is not a guarantee though, and it is possible that your child will end up with less if you put the CTF voucher in a shares based account.

## **Stakeholder Account**

This is the default account. If you do not choose an account for your child's voucher, the Government will automatically place it in a stakeholder account in his name. A stakeholder account is a shares account where the risk of loss is minimized by a) spreading the investment over many companies instead of just one, and b) moving the money in the account out to less risky investments after the child reaches the age of 13. As with any shares account, there's a chance of loss, but there's also the very good possibility that the money invested in stakeholder accounts will do better in the long term than that in a savings account.

## **How to Choose an Account for Your Child**

These are questions suggested by Alvin Hall, of BBC's Your Money or Your Life:

- Can I manage the account by phone or online or will I need to come into the branch?
- Is there a minimum amount that has to be paid in each time someone contributes to the account?
- How can other people pay into the account?
- Will I be sent regular statements to show how much money is in the account or can I check the value of the account myself from time to time?
- Can I see the policy on social, ethical and environmental investments for this account?
- Is there an annual fee for this Child Trust Fund account and, if so, how much will I be charged for every £100 in the account?
- How will my child's money grow in this account?
- Who can I talk to if I have concerns about the account once it is opened?

If you open an account that invests in shares, here are some questions to ask:

- Where can I get more information about the companies in which the money is invested?
- By how much could the account drop in value, and is there any possibility I could lose all the money in it?
- Is there a way to limit the amount of loss so that I don't lose all the money in my child's account if the investments do badly?

If you open a savings account, here are some questions to ask:

- Is this interest rate fixed for a certain length of time and what happens after that?
- How can I guarantee that I'm always getting the best interest rate for my account?

(Taken from <http://www.childtrustfund.gov.uk>)

These questions will help you decide on where to invest in your child's future.

## Student Accounts

Student accounts (and Graduate Accounts) are designed to minimize the risk of going into debt for a young person just starting to manage his or her own money, while giving them a chance to learn the best and right ways. Because banks have bought into the philosophy that most people change marital partners before they'll change banking providers, they're especially keen to entice new custom from among students, and will often offer benefits and perks at freshers' fairs at all the unis and colleges in order to bring in new customers.

Student accounts are rather like current accounts with stabilizers. They often offer a low rate of interest on money left in the account, and interest free overdrafts up to a ceiling. That ceiling may rise as students get older and more experienced. A student opening a new account, for instance, may have a free overdraft limit of £600. That overdraft may be increased at his or her request, or it may rise on its own automatically. If the account goes over the limit on overdrafts, there may be a small amount of interest charged.

### **How to compare student accounts:**

In addition to the comparisons you'd make for any [current account](#), you might also compare the benefits offered. Some banks may offer enticements that will save you a great deal in the long run, such as railpass cards, discounts on other banking services and special offers at shops and merchants. Flying rings and fancy hats and CDs are all well and good, but other less flashy benefits will stand you in better stead in the long run.

### **Minimum Deposit**

Usually as little as £1

### **Proof of Identity**

You may need to prove your status as a student in order to qualify for a student account. Many colleges are now participating in a special program that makes it easy for banks and building societies to check student enrollment status when an account is applied for.

## Online Banking

Many regular banks offer access to your accounts online, but there is a whole class of banks that do business ONLY online. These banks can offer extremely competitive interest rates for your savings, and often on your current accounts as well. If you're looking for a higher yield on your money, it's well worth your while to take a look at the online banks to see if their accounts suit your needs.

### How to compare online banks

Just as you'll find a better deal by shopping around on the high street, so you'll get the best rates and services by shopping around if you choose to do business online. You can find nearly any banking service online that you'll find on the high street, but it's important to keep a few things in mind.

- Check around to a number of banks to find the ones that offer the best deals for your money.
- Stick with firms that are well-known. Currently, those include smile, Cahoot and Egg banks, but there may be newcomers. Before you choose, check whether they're authorised by calling the [Consumer Contact Centre](#) or looking at the online [FSA Firm Check Service](#).
- Knowing what you're looking for will make it easier to compare products and services. Before you start shopping, decide what's important to you in a bank account.
- Is it easy to find the information that you need on the firm's web site? If you'll be trusting your money to them, you'll want to know that you can find what you need easily if you have questions or concerns.
- Read the product details, terms and conditions, key features, etc before you commit yourself.
- Print off or save any information, especially terms and conditions - they may have changed if you go back to the website later.
- Be security conscious. Before keying in any personal details, be sure that you're on a secure web site.
- If you fill in forms online, check all option-choices you select - drop-down menus may have default options already filled in which you might want to change.
- If possible, print off forms you've filled in to keep for your own records - you may need them if you have to make a claim later.

- If you receive paperwork, check it when it arrives to be sure that it scans with what you've agreed upon.
- Get in touch with the firm straight away if you find a mistake.

## A Definition of Terms

**AER (Annual Equivalent Rate)** The annual rate of interest that is earned by your investments

**APR (Annual Percentage Rate)** The annual rate of interest that you pay out on loans or overdrafts

**Automated Credit Transfer (ACT) payments**

Payment of benefits, pensions and tax credits directly into a bank or building society account.

**Balance** The total amount of money in your account, or the amount you owe the bank if you overdraw. See *Overdraft* below.

**Cashback** A service that allows you to get cash from supermarkets or other shops, using your basic bank account debit card.

**Cash card** A card you can use to check your balance or withdraw cash from cash machines, Post Office® branches, supermarkets or other shops. You cannot use a cash card to pay for goods or services.

**Credit check** A search into your borrowing record, also known as your credit history. A bank or other organisation carries out a credit check on a person when deciding whether to lend them money or to open a bank account in their name.

**Debit card** A card issued by a bank that you use to pay for your shopping. The money is usually taken from your account immediately.

**Direct debit** A way of paying bills from your bank account, for example for your gas or electricity. You sign a form allowing the organisation that you are paying to take the money directly from your account on specific dates. The organisation then takes the money from your account automatically on the agreed dates. The organisation you are paying has to notify you in advance before changing the amount or the dates of the payments.

**Interest** A charge for borrowing money, or a reward for saving money. It is usually shown as a percentage of the amount borrowed or saved.

**Minimum Balance** Some accounts require that you keep a minimum amount of money in your account to access its benefits or avoid penalties

**Money laundering** Money laundering is the process criminals go through to disguise and hide the money they have made from their crimes.

**Overdraft** A facility allowing you to spend more money from your account

than you have in it. The bank will usually charge you interest if this happens, and sometimes other fees as well.

**Standing order** A way of paying bills from your bank account, for example for your gas or electricity. You sign a form sent to you by the organization you are paying. This sets out the amount to be paid and the payment dates. You then give this to your bank.

The bank pays the amounts from your account automatically on the agreed dates, and transfers them to the organisation you are paying. You must tell your bank if the amount or the dates of payment need to change.

**Statement** A detailed list of all payments in and out of your account over a period of time, for example three months. Ask y

## Hints And Tips

### How to Build Your Savings

Building your savings into an emergency fund is a basic financial goal. Having a pad against crisis can ease the stress of facing redundancy, illness or injury and leave you free to focus on getting back on track rather than surviving the financial storm. The problem for most people is finding the money to save. We're living in a spendthrift world, believing the buy-it-now mantra spouted at us by the credit card companies. You may look at your budget and think that there's not a spare ounce of fat on it anywhere, but the truth is that most people spend far more in pocket money than they realize. Just a few examples:

- Cut out that cup of coffee on the way to work in the morning. If you spend £1,44 a day on coffee at a shop, you can tuck away £400 by the end of the year by banking it instead.
- Bring your lunch from home. If you average spending £12 a week on lunch at the fast food shop, you can sock away £654 in a year's time by bringing your lunch instead.
- Leave your credit card at home. Impulse buying is easier if you've an easy way to pay – and when you whack your purchases on your card, you add the cost of interest. If you carry a balance as little as £200 on a typical credit card, you could be paying as much as £50 a year in interest charges alone.

The idea is to see exactly where you spend your money, and what you could do without. Chances are that your daily budget has far more meat in it than you ever imagined.

By cutting out just the few things mentioned above, you've saved £1100 – but it gets better than that. You'd have that £1100 if you just poke the bills into a sock in your drawer – but if you put it into a savings account, you'll end up with more. While many High Street banks are only offering APYs of .1 or so percent on your balance, careful shopping can find you accounts that pay as high as 5.54%, compounded daily. That means that at the end of the year, you'll have not £1100, but £1155. And all you need to do is leave the money there.

### Tips from the FSA on Building an Emergency Fund

**DO** work out how much you need. This varies with your circumstances and the crises you might face. Some advisers suggest you aim to save three months' pay.

**DON'T** panic if you haven't got that much money. Build up your fund gradually.

**DON'T** take any capital risks with this money. The best home is often an instant access or easy access savings account. Consider setting up a notice account which is not instant access if it would earn you more interest provided you could get your money in an emergency.

**DO** combine your emergency fund with other savings if this would earn you a better rate of interest and access is still easy.

**DON'T** be tempted to dip into your emergency fund except in genuine cases of emergency.

## **Where to Put Your Emergency Money**

### **Bank or building society account**

An instant or easy access savings account is usually best, but if you have ways to manage through a notice period, you'll get better earnings on a notice savings account.

### **National Savings & Investments products**

Consider the easy access savings account (instant access up to £300 a day), investment account (one month's notice) or premium bonds (allow eight working days for withdrawals), provided you can manage during the notice/withdrawal period, for example, by using a credit card.

### **Mini-cash ISA or cash component of a maxi ISA**

Usually, an instant or easy access account is best. But consider a notice account, provided you can manage during the notice period, for example, by using a credit card.