

ifs Student Investor 2009/10 – Worksheet 1

SAVINGS

How do you handle your money? Do you spend all of it, or do you save some? Different people make different choices about whether to **consume** (ie to spend now on goods and services), or to **save** for the future. The main factor affecting consumption is your **net pay**, or **disposable income**, which is the money that remains once taxes and National Insurance (NI) have been deducted from your salary. Once you receive your net pay you have to decide what to spend now and what to save for the future.

Saving is very important for your financial peace of mind, as it will determine how much **net worth**, or wealth you will have in the future. In order to save you need to organise yourself so that you can control your expenses based on the money you receive. The best way to do that is to have a **budget**, which involves planning your income and expenditure. Budgeting will help you determine priorities and identify expenses that can be cut without affecting your well-being. You will be able to organise and control your finances, set goals and achieve them, and decide how your money will work for you. It is very important in life to learn not only how to earn money but how to spend it wisely. To be financially successful you will have to respect your budget, stick to your planned expenditure and avoid compromising your future savings.

Activity 1.1

Jo is 19 years old and works as a gym instructor. She earns £250 per week in gross pay. If she pays 20% of her wages in income tax and another 11% in NI contributions, what is her weekly net pay?

Now let's take a look at Jo's monthly budget and her saving plans.

Jo's monthly budget

	£
Disposable income:	712.00
<i>Expenditure:</i>	
Rent (to mum)	250.00
Car (running costs)	200.00
Mobile phone contract	25.00
Clothes (average)	80.00
Going out	85.00
Total income	712.00
Total expenditure	640.00
Income less expenditure	72.00

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Jo wants to open a savings account as she is planning to give up her job and travel around the world in 18 months' time. How much do you think she could save each month? What percentage of her net pay would be consumed and what percentage would be saved? What costs could Jo cut in order to save more money? What are other alternative sources of income for Jo?

Note The figures in this activity have been simplified. For more detailed information on actual tax and NI rates, refer to www.hmrc.gov.uk.

Activity 1.2

Keep track of your expenses for one month. Take a note of all the money you receive and everything you spend each day. This exercise requires commitment but it is also very empowering because it gives you a view on how your money flows. What monthly expenses surprised you? Were you aware of all your expenses?

Tip Even if you are not working, write down the money you receive from your parents, say, and how you spend it. Start recording it for one day, then for one week and finally for one month.

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Activity 1.3

Work out your own budget for the next month. First write down your income. Then list all your expenses, from the most important to the least significant ones. Separate fixed costs (rent, mobile contract, bills) from variable costs (clothes, shoes, snacks, etc) and think about periodic payments (tuition fees, etc). Write down your priorities and see if you can cut the expenses that are not relevant. Are you able to plan your savings from your budget? What expenses can be minimised?

Tip Look back at your notes from activity 1.2 and think about how much money you spent yesterday, then how much you spent last week, and then last month.

Activity 1.4

Let's say you decide to make monthly deposits to a savings account. Use the following website to choose the best savings account for you:

www.fsa.gov.uk/tables

Find 'Savings Accounts' and choose 'Compare Savings Accounts'. Follow the instructions. You'll see that the choice of the best savings account depends on a number of factors: do you want to make regular deposits? Do you want interest earned to be tax free? How much notice are you prepared to give for withdrawals? And so on.

Note The Financial Services Authority (FSA) is the body that regulates the financial services industry in the UK. It was empowered by the Financial Services and Markets Act 2000 to 'promote efficient, orderly and fair markets and to help retail consumers achieve a fair deal'.

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Given your situation, what is the best choice of savings account for you? What is the annual equivalent rate (AER)?

Activity 1.5

Compare the above choice of savings account with other sources of information. For example, go to:

www.compareandsave.com

Go to 'Savings Accounts' under 'Compare Money'. Are the results the same as on the FSA website? What is the most important criterion when choosing the best savings account? What other conditions are relevant?

Now try the following site:

www.find.co.uk

Look for "Top 10s" then choose 'Savings Accounts Top10'. Is there additional information here that helps you choose your savings account? Is the ranking here also based on AER?

Based on the information you gathered from all of the above websites, what is the best savings account for you?

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