

MoneySense Factsheets

Saving for the future

Saving regularly is one of the best financial habits you can have. You should look to put away some money each month, and ideally to have around three months wages saved up to give you a buffer should your circumstances change. But what about saving for something bigger? Or putting away money for your future?



Making your money work harder for you

Once you've got your rainy day savings pot sorted, you may want to look at saving more, or investing some money for a longer period. It makes sense to have some of your savings where they can easily be accessed for emergencies, but this isn't necessarily the best place to have all of your money.

Things to consider before you invest

Short term, or easy access savings accounts don't usually have a very high interest rate, and while they're safe - you could be making your money work harder for you. This is where considering investments comes in.

The amount you choose to invest and where, will depend on how much you have, but also your attitude to risk.

Investments can offer you the chance of a much higher return but:

- Your money may be tied up for at least three years depending on what investment you choose.
- The value of your investment can go down as well as up.

There are so many different investment products to choose from, but broadly speaking, to help you narrow down your choices, you'll need to answer these questions:

- What are your long term goals?
- Can you afford to leave the money tied up for a minimum of three years, ideally more than five?
- Can you afford to lose some or all of the money you're looking to invest?
- Do you want an income from the money (i.e. interest or dividends) or growth (reinvesting any money made back into the fund) or both?

This will help you find the right investment products for your needs, the amount you want to save or invest, and your attitude to risk.

It's a good idea to follow the principles of not putting all your eggs in one basket. The nature of investments means they can go up as well as down, so having a good spread of short and longer term products, in different areas, will help you spread the risk.



Different types of investment

It's true there are lots of individual investment products on the market, but which one is right for you will depend on how much you have to invest, for how long, and what level of risk you're prepared to take. Broadly though there are four basic categories of investment:

Cash - where money is in a bank or building society to gain interest in a savings account for example.

Fixed interest - often known as Bonds – these are a type of loan issued to a range of companies, including the Government (often referred to as GILT). You're agreeing to lend the money for a fixed amount of time with the aim of receiving your initial investment and interest, at a higher rate than you'd receive in the bank. They offer a lower level of risk than say stocks and shares.

There is a risk you may not get your money back if the company you're investing in goes into liquidation. So do your research before you commit to anything. Bonds are usually graded to help you determine the level of risk and are now routinely offered by most high street banks, with higher levels of interest than a savings account.

Property - can be invested in directly, through buying a property yourself, with the aim of it growing in value, or providing an income through rental - or both. You can also invest in commercial property (shops, offices, retail parks) which can provide an income and growth, or property related shares.

Of course, the value of a property is often just the opinion of the surveyor or person who is asked to value it for sale, plus there's the risk that your investment can go down as well as up.

Shares - when you buy shares, you're buying a small piece of a company. They're traded on the stock market, but you can also invest in them indirectly through a stock market-linked investment product like a Maxi ISA or index-linked fund, where money is invested on your behalf.



There are a number of things that affect the value of shares. When the profits of the company go up, so usually does their share price, if there's any negative press about the company, or something happens within that company's industry, this can push the value of their shares down - and this can change by the minute. This is perhaps the riskiest type of investment, it also has potential for high returns.

Tax-free investing

If you're able to put some money away, knowing how to do it without having to pay tax on anything you make in interest or capital gains is useful. An Individual Savings Account (ISA) allows you to invest up to £7,200 each tax year and not pay tax on the interest.

ISAs are somewhere between a saving and an investment. You can invest up to £3,600 per tax year in a Cash ISA that will pay you tax-free interest. Or a Stocks and Shares ISA lets you pay in as much as £7,200 each year - which will be used to buy stocks and shares. These can go up or down in value, in line with the stock market.

You can mix the two, as long as you don't exceed the overall total of £7,200 in a single tax year.

Get more help with

Understanding your options

Money Made Clear from the FSA
www.moneymadeclear.fsa.gov.uk

Planning what to do with your money

Talk to a MoneySense Adviser about your options
www.natwest.com/moneysense

Free, impartial advice

Find an independent financial adviser
www.unbiased.co.uk

Talk to your local branch

They will be able to talk to you through the options they offer, and help you budget for savings and investments

MoneySense has been developed by NatWest to offer free and impartial support and guidance around money management. Having worked in schools for over 15 years, the programme now offers help to people of all ages and does not promote NatWest products or services.

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