Lesson 2:

Savings Savvy

There are lots of different choices around what to do with money. In relation to savings products, you'll hear people talk about "Cash" versus "Investments" or "Stocks and Shares"... but what's the difference?

What are cash savings?

These are typically kept in a bank or building society account, e.g. current account or savings account.

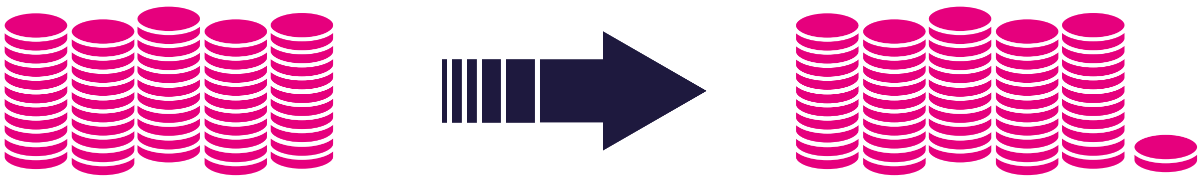
Your money is kept safe, plus you earn interest (extra money that is a percentage of the amount in your account). Interest rates can be fixed (stay the same for an agreed period) or can change over time, based on the percentage that the financial provider wishes to offer.

Did you know? The interest rate financial providers offer to savers is influenced by the Base Rate, which is set each month by the Bank of England. It can go up or down, so interest rates can rise or fall.

What does that actually look like?

You save £100 in a building society cash savings account that pays 2% per annum (year).

After 12 months, you have £102 (your original £100 + £2 interest)



Pros and cons of cash savings

Pros	Cons
Safety – Your original £100 is pretty much guaranteed to be safe. Even if the bank or building society goes out of business, you get your money back through a government policy called the 'Financial Services Compensation Scheme (FSCS). Predictable growth – You can calculate by how much your money will grow in the coming year(s), unless the financial provider changes interest rates. Good for short term savings (less than five years)	Because of inflation (the rise in prices over time), the cost of the thing(s) you want to buy might increase faster than the percentage you're earning on your savings. Current inflation rate is 1.9% Some cash accounts (e.g. current accounts) pay little or no interest.

What are investments?

You will typically invest in a fund – you buy 'shares' or 'units' (this is just a way of dividing up the fund so multiple people can invest in the same fund). An investment manager then invests this money on savers' behalf.

When the investments grow the unit/share price will increase; when the investments fall, the unit/share price will fall.

The key difference between cash savings and investments is the risk of losing some of the money. Although investments can potentially grow more than cash savings over the long-term, they can fall in value too.

Want to explore investment options further? Visit the OneFamily website
https://www.onefamily.com/our-products/

What does that actually look like?

You buy shares in a company which costs £100 each. The company does well and the share price rises to £110 next year, which means your money has grown by 10%.

However, if the company is not doing so well then the share price value may fall to £90 and then the value of your investment has fallen by 10%.

What is an investment fund?

You invest £100 in a fund. The unit price is £1.00 therefore you buy 100 units.

If the investments in the fund fall in value by 10%, the unit price will fall to £0.90.

Your investment will be worth 100 units x £0.90 = £90.00

If the investments in the fund grow by 10% then the unit price will increase to £1.10. Your investment will be worth 100 units x £1.10 = £110.00

Pros and cons of investments

Pros	Cons
Growth – Investments tend to increase more than cash savings over a medium/longer time period. Typically, the longer you invest, the more likely you are to have good growth.	Investments are unpredictable – they fall as well as rise. There's a risk of losing money in the short-term. There are charges on investments (either a lump sum or a percentage of the investment value) charged by the provider to manage the funds.

How do I choose the best option for me?

There's no right or wrong answer; it comes down to your preference and how you feel about taking a risk for a potentially greater reward. Generally:

- investments are more suitable for longer-term saving.
- cash savings are more suitable for shorter-term saving, e.g. for a car, holiday or the latest gadget.

You can even decide to split your money between cash savings and investments. For both options, topping up the savings with small amounts fairly regularly is a popular way to help savings grow.