

Hornbeam Guide to Saving

Most accountants and Independent Financial Advisers take the basic rules of saving, investing and accumulating wealth for granted but here in on this page is a condensed version of 'sound advice'.

The Hierarchy of Savings

Anyone designing a strategy for savings needs to think in terms of layers – (read from bottom to top not top down)

3. Investments (Higher Risk looking for higher reward)
2. More committed savings and (Medium, or 'balanced' risk) investment
1. Immediate Access Savings. (Low risk)

You need these to meet foreseen and unforeseen spending requirements.

Tip 1

We would suggest that you also look 'under the waterline' at borrowings that you can pay off. In general, borrowing in order to save or invest adds to risk and therefore perhaps the safest way of 'saving' is to pay off borrowing. We suggest that you rank borrowings in order of cost to you (net of tax relief where appropriate) then pay off the most expensive borrowing first (after considering any early redemption penalties).

If you would like some help to do this, just ask. If you can't pay it all off we could look at ways of reducing the cost of borrowing for you.

Tip 2

It is hard to overstate the importance of immediate access savings, although it takes real discipline to maintain a cash hoard without spending it. Such a hoard is the most useful, most universal insurance any individual or business can have. As an individual, cash savings cover you against unexpected bills from car repairs to leaking roofs. As a business it is almost impossible to overstate the advantages, from negotiating discounts, to taking opportunities, cash is invaluable. Furthermore, personal accounts with banks and building societies are protected by the Financial Services Compensation Scheme (FSCS) up to £85,000 per individual per firm (for firms declared in default since the 31 December 2010). The FSCS also covers insurances, investments and certain home finance with varying levels of protection offered. Further details can be found at www.fscs.org.uk/what-we-cover/eligibility-rules/compensation-limits/. Did you know that some 'no notice' accounts pay more interest than 30, 60 or 90 day accounts? For more information just ask.

Tip 3

When making investments you should never start on more risky investments until you have a layer of relatively safe committed savings, sufficient to discharge all of your financial liabilities to yourself and your dependants. If you want help in quantifying these, just ask.

Tip 4

When making investments it is almost always best advice to diversify. For example when saving for retirement, one or more reputable pension schemes are best supplemented with some long-term savings and perhaps some investments in property or shares. Then if, like now, annuity rates are low when you wish to retire the chances are that some other investments will be riding high. "Eggs and baskets" is the key here.

Tip 5

You should take advantage of various tax effective savings schemes to the extent that they fit into your overall strategy, not just because they can save you tax.

Tip 6

When making investments (shares, property, unguaranteed bonds, unit trusts etc)

- You should be in a position to survive a total loss in the worst case.
- You should diversify your investments to minimise your risk but not excessively – statistically a handful of well-picked shares should give no worse a risk profile than an index tracker.
- Consider investments other than listed shares and their derivatives for example, property, private investments, premium bonds, antiques or whatever.

For more information, just ask.

Tip 7

The worst enemy of successful saving or investment is inertia. The greatest gains can often be made not by high-risk strategies but just from moving money from low interest accounts to higher interest accounts elsewhere. See the remarks at Tip 2. And the same applies to bank charges and bank interest rates; shopping around can reduce your costs and increase your income. For more information, just ask.

Tip 8

Don't forget that you have many personal allowances for tax purposes:

- A personal allowance for capital gains that can allow you to increase the value of your share or property portfolio free of tax
- A personal allowance for most kinds of tax free investments (such as pensions and ISAs at the time of writing)
- A personal allowance for the amount of money you can give to your children/grandchildren free of inheritance tax.

Tip 9

Do not waste your ISA allowances. This is the only tax-free* savings account available to a UK taxpayer and if you do not use your allowance it cannot be rolled over to the next year.

*Please note since 6 April 2006 the 10% tax credit on UK dividends cannot be reclaimed and therefore an ISA is not completely tax-free! However, there is no further tax liability for a higher rate taxpayer.

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