Moneyfacts Group

# Savers Friend®

GUIDES YOU

# Regular Savings **Guide**

**While some people are born with the instinct to save, for others putting money away for a rainy day can seem like the hardest thing in the world.**

Thankfully, for those who see money come in one hand and disappear just as quickly from the other, regular savings accounts can help to instil some savings discipline. That the accounts often pay some of the best interest rates around means the more discerning saver will be drawn to them too.

As the name suggests, a regular savings account requires money to be put away on a regular basis. In return for knowing that they can expect to receive a minimum payment each month, banks and building societies will usually pay a better rate of interest. There are often, however, other terms and conditions of which a saver must take note. Indeed, missing a monthly payment or withdrawing cash before the term is up can mean the better rate will be lost. As the higher rate is usually only paid for a set period, what to do once an account has matured is another important consideration.

Ideal for anyone who has a savings goal in mind, regular savings accounts are often used as a means to put money aside for a wedding, a new car or maybe Christmas. In particular, how the accounts operate make them the perfect savings vehicle for people who lack a certain self control when it comes to putting money away. As long as the amount saved is affordable, it is likely that within a couple of months the money will hardly be noticed as missing.

### Contributions

Making contributions usually involves setting up a standing order into the account. As to how much can be put away, payments need to fall within a minimum and maximum monthly limit. The minimum amount will typically be relatively low, with some accounts requiring as little as £1 per month.

**continued overleaf**

## Key Facts

- **Regular savings accounts pay higher rates of interest in return for savers promising to make regular contributions.**
- **If too many monthly payments are missed or a set number of withdrawals exceeded, the rate paid by an account will usually drop.**
- **A maximum limit is usually imposed on the amount that can be saved each month.**
- **The rate of return can be expected to drop once the account matures.**
- **Savers often over-estimate the returns they expect to receive from a regular savings account. The small print will reveal exactly how interest is paid.**

## Useful Links

**See latest Regular Savings rates**

- Variable
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- Cash ISAs

**Link to Reviews**

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- Cash ISAs
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Because of the favourable rates of interest paid by the accounts, providers restrict the maximum amount that can be saved. A top limit of £250 or £500 a month is normally applied, although in some instances it can be as high as £2,500. It is usually possible to alter monthly payments, as long as the amount remains within the upper and lower limits.

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It is important, however, not to over commit. Savers should be confident they can meet the minimum payment requirement each month, as missing a payment can result in a permanent drop in the interest paid or an interest penalty being applied. For anyone concerned there might be a month or two when they could struggle to make a payment, accounts are available which allow a specified number of payments to be missed without penalty.

The terms and conditions of an account also reveal whether any withdrawals are permitted during the term. In some cases, they will not be allowed at all, while in others they will, but be restricted to a set number per year. Exceeding the permitted amount of withdrawals will also normally see the rate drop or an interest penalty applied.

### Calculating interest

Regular savings accounts will almost always beat other accounts in a straight comparison of headline interest rates. However, some savers who see the headline rate of interest are left feeling short-changed by the returns they eventually receive. In this respect, the disappointment usually stems from a lack of understanding over how the accounts operate.

The most common misconception is over how interest is applied. If a regular savings account pays 12% interest over a year, some people incorrectly assume that because they have paid in £3,000 in total during the year, the interest they should receive will be £360 (assuming no tax is payable).

This will not, however, be the case, as providers typically pay a proportion of the annual interest each month. In very simple terms, if a one year account has a headline rate of 12%, savers should probably expect to receive a rate of around 1% each month.

Another key thing to remember is that interest is only paid on the savings that are in the account at any given time. This means that in the first month, 1% interest is paid on the first regular payment of £250 alone; in the second month, 1% interest is being earned on the £500 that has now been amassed in total.

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So despite the apparently high rate of interest on offer, this will be spread over the course of the term and in the early months, it will only be paid on a small amount of money. For this reason, anyone with a lump sum of money is likely to gain a better overall return by opting for a fixed rate bond, into which all the money can be invested at the start, and interest received on the whole amount straight away.

### Further considerations

It is also worth considering that the contribution limits mean more affluent savers are likely to have more money than a single regular savings account will accept. In this instance, it should be remembered savers are allowed more than one regular savings account.

To secure one of the top paying regular savings accounts, however, providers will often ask that savers either hold or take out another of their products.

Typically this will be a current account, although in some instances it might be an investment plan or a protection plan. Whether it is worthwhile opening or switching to these products to secure the better regular savings rate is an important consideration.

### Maturity

Noting the date when the term on an account has run its course is a must. This is because the higher rate of return can be expected to disappear once the term comes to an end. At this point, accounts tend to revert to a normal savings account and therefore earn interest at a lower rate. In most instances, the regular payments will continue to be collected, unless the saver calls the contributions to a halt.

For anyone wanting to continue to save on a monthly basis, opening a new regular savings account paying a higher rate is the sensible option. This could be with the same provider or a different one altogether.

If the account was set up with a specific goal in mind, hopefully the total sum achieved is sufficient to cover the cost of the purchase. If the money is not going to be spent, however, it is essential not to leave it earning a low rate of interest. In this instance, savers should consider withdrawing the lump sum and reinvesting it into an account paying a better rate.

As to the safety of the accounts, as long as the provider is regulated by the Financial Services Authority, it is protected under the Financial Services Compensation Scheme. This means savers are guaranteed to receive the first £85,000 of their investment back should the institution fail.

**See latest Regular Savings rates**

Variable    Fixed

Cash ISAs