GCSE

Mathematics and Numeracy

Unit 1.8 Personal/household finance and enterprise - Saving and Investments

Savings

A sum of money that has been set aside or saved over a period of time.

This is not the same as saving money when you get a good deal on something you purchase, such as saving money when renewing your mobile contract.

Some people will set aside a specific amount each month to contribute to their savings.

Why put money into savings?

People put money into savings so that it can be used at a later date for reasons such as:

- Unexpected costs
- A deposit on a house
- A wedding
- A holiday

Moving money into a savings account keeps money safe and allows you to earn interest on it.

Investments

Examples of financial investments include:

- Shares
- Products, for example, gold
- Properties

Savings account

A savings account allows its user to earn a higher rate of interest than a current account. Some companies will give you a higher interest rate if you don't withdraw your money for a set period of time.

Investing money into a savings account is low risk.

Current account

Most people will have a current account, which is used for wages to be paid in and for making payments, such as with a debit card.

Savings account

A savings account allows its user to earn a higher rate of interest than a current account. Some companies will give you a higher interest rate if you don't withdraw your money for a set period of time.

Investing money into a savings account is low risk.

Length of time

The longer you leave your money in the account, or the more money you have in savings, the more interest you will earn.

Simple interest

The interest is not added to the investment, so the interest amount remains the same each year.

Example

Investing £100 in a savings account for 3 years with 5% simple interest will result in a balance of £115 at the end of the 3 years.

5% of £100 = £5

Total investment after 3 years = £100 + (3 × £5) = £115

Compound interest

The interest is added to the investment each year, so the interest amount will change annually.

Example

Investing £100 in a savings account for 3 years with 5% compound interest per annum will result in a balance of £115.76 at the end of the 3 years.

Year 1 Increase £100 by 5% = £105

Year 2 Increase £105 by 5% = £110.25

Year 3 Increase £110.25 by 5% = £115.76

This can also be calculated like this:

$$£100 \times 1.06^3 = £115.76$$

This type of interest is seen more often than simple interest.

Risks

Investments carry risks because their success relies on the value of the assets you invest in increasing.

Investing in products can be risky because they can lose their popularity over time.