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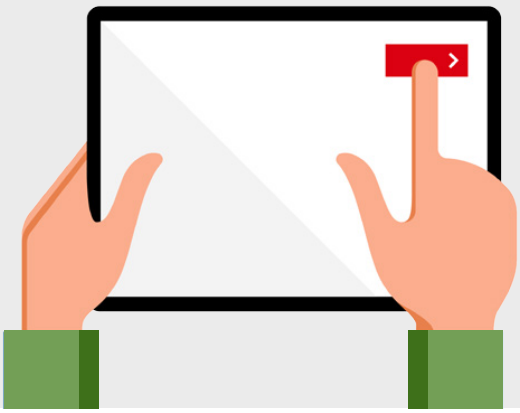
Module 4
Session 8

Short and Medium Term Savings

Lesson summary

Knowing where to start with saving can feel daunting but with a few changes to your financial habits you can be soon working towards your goals. This session focuses on the different types of savings products and how compound interest can accelerate achievement of our saving goals.



Learning Objectives

To be able to understand the basics of AER and saving money.

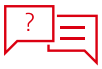
To be able to understand the impact of compound interest.

To be able to discuss the pros and cons of financial products in a given scenario.

Lesson preparation

1. HSBC UK PowerPoint slides to facilitate lesson: Module 4 Session 8 Short and Medium Term Savings
2. HSBC UK Worksheet M4W8 used to complete activity.
3. HSBC UK Stretch Challenge M4SC8 to further embed learning as homework or a class project.
4. Calculators to support compound interest calculations.
5. Prepare examples where you have had to save money and research the different options available.

Slide 2: Saving money – 3 mins



Ask the group: What do we mean by saving money?

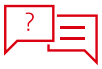
CLICK to reveal answers

- Saving is putting money aside until you need it
- If you save your money in the bank, the bank will reward you with interest for not using that money
- You can save for goals in the short, medium, and long term

Ask the group: What is AER? How is this different from APR?

CLICK to reveal answers

- Annual Equivalent Rate is the interest rate for savings and investment accounts
- This tells you how much you will earn on your savings in one year
- It helps you to compare savings products and always relates to one year of the term of the account
- Reminder: APR is only used for the interest rate when borrowing money



Ask the group: How do savings work? Why do banks pay interest on savings?

CLICK to reveal answers

- Your savings are used to back the bank's lending to other customers
- You are rewarded with credit interest for leaving your money in your savings
- The longer you save for, the more interest you will earn
- The higher the AER, the faster your money grows
- Don't forget, any interest you make will in turn make interest too (compound interest)
- Reminder: FSCS Protection up to £85,000 per savings institution

Slide 3: Impact of changing interest rates - 5 mins

Group work: Worksheet M4W8 Part 1. In table groups, discuss the impact of changing interest rates and record your thoughts on the worksheet. We have already completed a similar exercise for debit interest during module 3. This time consider the impact of interest rates on savings accounts.

Optional delivery:

- Assign a stakeholder type to each group (saver/banks/society) and ask them to discuss the impact of both high and low interest rates for that stakeholder; or
- Assign an interest level to each group (high or low interest) and ask them to discuss the impact of this for all stakeholders (saver/banks/society); or
- Assign an individual interest rate and stakeholder to each group and ask them to discuss how that level of interest will affect the stakeholder.

After groups have fed back their answers, confirm the actual impact of changing interest rates on the slide

	Savers	Banks	Society
Interest Rates are HIGH	Money grows quicker Preference for fixed rates Reach goals faster Feel incentivised to save.	Brings in higher deposits Greater returns on own deposits with Bank of England More capital to lend to borrowers	Bills become more expensive Budgets are reviewed Change in spending habits
Interest Rates are LOW	Need to save for longer to meet goals Demotivating to save Value of savings may decrease if interest is lower than inflation	Customers spend more and save less Less capital to lend to borrowers	May put off paying off debts May put off emergency savings May stretch finances only based on current interest rates.

Ask the group: For your current situation would you prefer interest rates to be high or low?

Slide 4: Saving goals – 5 mins

Goal setting is an important part of getting into the psychology of saving.

There may be times we have multiple goals and will need different accounts to help our build our savings.

Group work: What financial goals do you think you might have in the short, medium, and long term?

Worksheet M4W8 Part 2

Note: You may want to model your own financial goals first before asking young people to complete their answers. This worksheet will need to be saved for session 9 when we focus on long term savings goals.

Discuss answers with the group.

Slide 5: Short term savings – 5 mins

Short term saving is for goals you are looking to achieve within one year of starting saving.

Read through the pros and cons of each section:

Ask the group: Try and match this to a type of saving using the headers at the bottom of the screen.

Less than 1 Year	Change Jar	Flexible Saver	Regular Saver	Cash ISA
Pros	You can save your change from days outs and shopping Easy to access	Money can be accessed easily Often no limits on how much you can save Useful emergency fund	Fixed for 12 months Higher AER in comparison to more flexible products Useful for saving up for annual events	Instant access account May have higher AER than other instant access savings. Tax Efficient
Cons	No Interest Easy to access the money for impulse purchases	Low interest in comparison to other savings products Need willpower to not dip into your savings	You are limited by how much you can deposit each month You may lose some of the interest earned for closing account early	Maximum deposit £20,000 per tax year. You can have multiple accounts in the same tax year, but not more than one of the same type.

Lesson commentary

CLICK to reveal each header:

Column 1: Change Jar

Column 2: Flexible Saver

Column 3: Regular Saver

Column 4: Cash ISA

(Tax Efficient refers to the fact you can save, or invest money, without paying income tax on any earned interest, or capital gains tax.)

Slide 6: Short term saving strategies – 3 mins

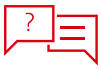
For short term savings, the money is not in the savings account long enough to earn large amounts of interest.

Reviewing day-to-day financial habits is important to drive growth of savings.

Ask the group: What do you think is meant by the term 'Round up your purchase'?

CLICK to reveal answers

- Your account/debit card may be able to round up your purchases and save the difference in a digital savings pot. For example, saving the penny on a £1.99 purchase and putting it into your savings.
- You could also do this manually with your end of day balance by rounding it to the nearest pound
- The savings pot may then earn interest on the amount you have saved



Ask the group: What savings challenges have you heard of?

CLICK to reveal answers

- **£1 a day challenge**: £365 saved by the end of the year
- **1p challenge**: Increase the amount you save by 1p each day: £667.95 saved in one year
- **12-month challenge**: Increase the amount you save each month by £10: £780 saved in one year

Ask the group: How does cutting back on spending habits help us to save?

CLICK to reveal some ideas for cutting back our spending habits

- No Spend Week: Try not to spend any money on impulse purchases for a whole week. Those drinks and snacks soon add up and can help you save a large amount
- Review your budget: Change a habit and save the money instead. Cutting out that weekly £10 takeaway could save you £520 a year

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Slide 7: Medium term savings – 3 mins

Medium term borrowing is for goals you are looking to achieve within one to five years of starting saving.

Read through the pros and cons of each section:

1-5 Years	Lifetime ISA	Fixed Bond	Fixed Cash ISA
Pros	• 25% Government bonus on deposits and high AER • Can be cash or investment ISA • Tax Efficient	• High AER earnt by locking away access to money • Fixing the interest means you know what you will earn • Stops you dipping into the money early	• High AER earnt by locking away access to money • Fixing the interest means you know what you will earn • Tax Efficient
Cons	• Only suitable if your goal is buying a home or saving for retirement • Lose 25% on withdrawals for any other reason	• You cannot add any more money • If rates rise you may miss out • You may face penalty for closing account early	• Same restrictions as Cash ISA • Same restrictions as Fixed Bonds

Ask the group: Which borrowing type matches the pros and cons? (Run through answers to confirm understanding)

Column 1: **Lifetime ISA** – These are designed to help you save for your first home or for later life. They're available for people aged under 40 and you can save up to £4,000 a year up until the age of 50.

The government will top up your savings adding 25% up to a maximum of £1,000 each year. You can withdraw the money at any time to buy your first home or to use as you wish if you're aged 60 or over.

Column 2: **Fixed Bond** – holds your money for a set period of time at a fixed interest rate.

Column 3: **Fixed Cash ISA** – Offers a higher interest rate than an instant access cash ISA because you have agreed to lock your money away for a set period of time – so you can't touch your money until the fixed term ends.

Tax efficient refers to the fact you can save, or invest money, without paying income tax on any earned interest, or capital gains tax.

Slide 8: Medium term saving strategies – 5 mins

Talk through the things we should consider when looking at a medium term savings strategy:

- Seek out the best AER – use comparison websites to find the best accounts for your goals
- Pay yourself first – transfer your savings on payday or as soon as possible after this
- Automate savings – set up standing orders to send money into your account automatically so that you don't need to remember
- Pay off debts – sometimes it is worth prioritising paying off debts in the short term so that you can afford to save more in the medium term
- Pay bills annually – check if you can save money by paying for subscriptions and ongoing costs yearly
- Compound interest – compound interest is interest earned on interest. So, the earlier you put money away, the more interest you can earn over time

Talk through the compound interest example:

For example, if you were to put £1,000 in your savings account at an annual interest rate of 4% AER, you'd earn £40) of interest in the first full year.

But in the second year the amount you'd earn would increase – even if the annual interest rate stayed the same – because compound interest starts to kick in.

So, if you left your £1,040 (£1,000 principal, plus £40 interest earned in the first year) in the same savings account, you'd earn £41.60 (4% AER of £1,040) in the second year.

This might not seem like much of a difference, but the impact of compound interest increases over time. It's also more pronounced when starting with a larger principal amount. The earlier you start saving, the more time you have to earn compound interest.

It's a good idea to regularly add to your savings account if you can and it's also best to avoid taking money out of your savings account as that reduces the amount of interest you're earning.

Slide 9: Have a go at compound interest 3% – 15 mins

Worksheet M4W8 Part 3

Group work: Complete the compound interest table. How much money will I have at the end of 5 years?

Note: You may want to go back the previous slide to ensure the group understand the task before completing the table with the 3% interest rate.

Row 2:

£1,030 X 3% (0.03) = £30.90 Interest earnt

£1,030 + £30.90 = £1,060.90 Closing balance

Row 3:

£1,060.90 X 3% (0.03) = £31.83 Interest earnt

£1,060.90 + £31.83 = £1,092.73 Closing balance

Row 4:

£1,092.73 X 3% (0.03) = £32.78 Interest earnt

£1,092.73 + £32.78 = £1,125.51 Closing balance

Row 5:

£1,125.51 X 3% (0.03) = £33.76 Interest earnt

£1,125.51 + £33.76 = £1,159.27 Closing balance

Ask the group: What is the total amount of interest earnt over 5 years:

£1,159.27 - £1,000 = £159.27

Slide 10: Rates of credit interest – 10 mins

Read through the case study:

Jas is looking to save money towards buying his first house. It is going to take a long time to save for his deposit, so he is looking around for the best options. Over the next 5yrs he hopes to pay in around £100p/m.

Ask the group: Looking at the four different types of savings account, which is the best savings option for Jas?

1. Instant access saver
2. Lifetime ISA
3. Regular saver
4. Cash ISA

Slide 11: Rates of credit interest - calculations – 5 mins

Reveal answers and discuss.

1. Instant Access Saver

AER – Around 3%

Total Saved = £6,481

2. Lifetime ISA

AER – Around 4% + Government Bonus

Total Saved = £8,152 (£1500 government bonus included)

3. Regular Saver

AER – Around 5%

Total Saved = £6,829

4. Cash ISA

AER – Around 4%

Total Saved = £6,652

The Lifetime ISA has grown the most over the 5 years taking advantage of the government bonus and resulting extra compound interest. Remember this account has a 25% charge if you want to close the account to use the money for another reason so you need to be sure that this is the goal you are saving for. This is why it is important to complete your research and find the best accounts for your specific goals.

Slide 12: Stretch Challenge

This can be used as you see fit for a homework, group project or additional lesson during school hours. Stretch Challenge worksheet provided to record answers.

Stretch Worksheet M4SC8

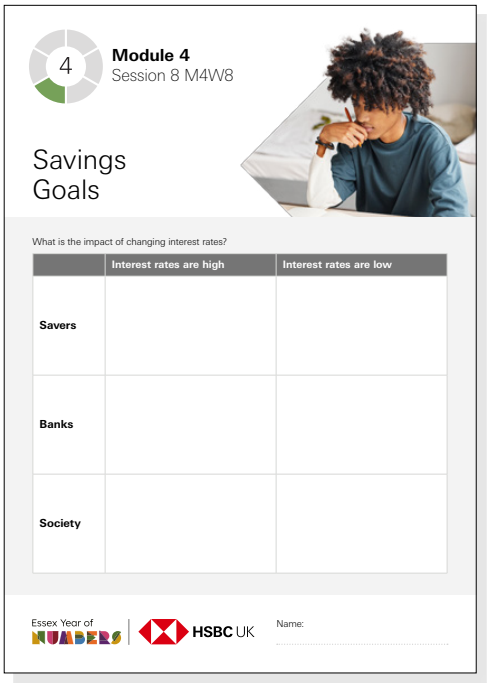
Using a comparison website or your own bank, research the APR on 4 savings accounts.

How much interest would you earn on savings now and in the year 2021?

How do you think low savings interest rates affects people's financial health?

Where would you like to see interest rates move to in the future?

Part 1



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Module 4
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Savings Goals

What is the impact of changing interest rates?

	Interest rates are high	Interest rates are low
Savers		
Banks		
Society		

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Name:

In table groups, discuss the impact of changing interest rates and record your thoughts on the worksheet. We have already completed a similar exercise for debit interest during module 3. This time consider the impact of interest rates on savings accounts.

Optional delivery:

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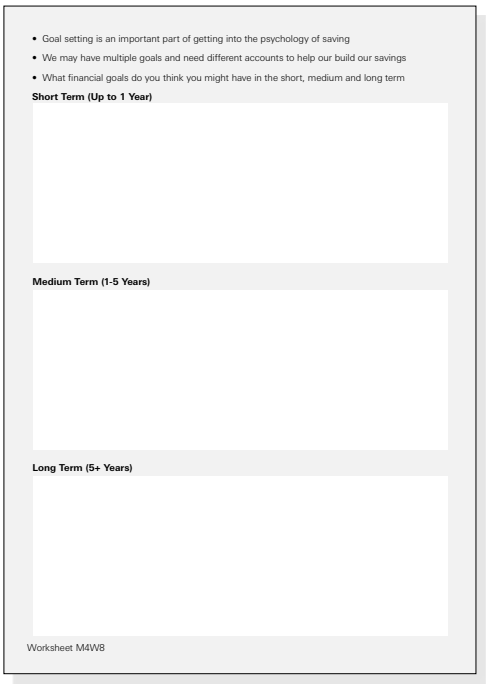
Part 2



- Goal setting is an important part of getting into the psychology of saving
- We may have multiple goals and need different accounts to help our build our savings
- What financial goals do you think you might have in the short, medium and long term

Short Term (Up to 1 Year)

Medium Term (1-5 Years)

Long Term (5+ Years)

Worksheet M4W8

What nancial goals do you think you might have in the short, medium, and long term?

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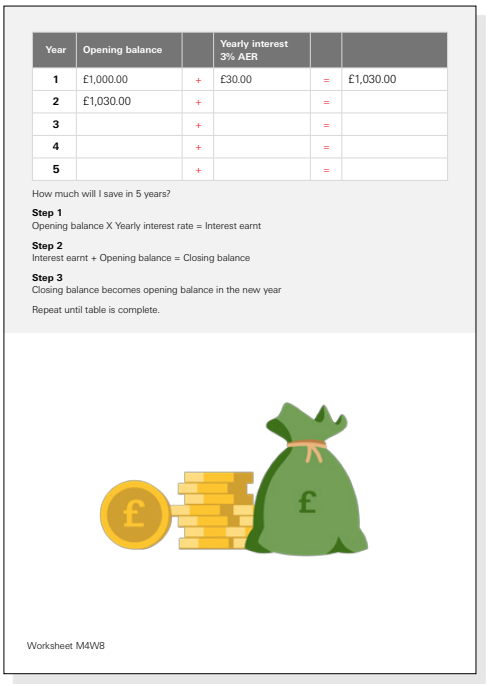
Part 3



Year	Opening balance		Yearly interest 3% AER		
1	£1,000.00	+	£30.00	=	£1,030.00
2	£1,030.00	+		=	
3		+		=	
4		+		=	
5		+		=	

How much will I save in 5 years?

Step 1
Opening balance X Yearly interest rate = Interest earnt

Step 2
Interest earnt + Opening balance = Closing balance

Step 3
Closing balance becomes opening balance in the new year

Repeat until table is complete.

Worksheet M4W8

Complete the compound interest table. How much money will I have at the end of five years?

You may want to demo a line or two as group first before asking the young people to complete the rest themselves.

Step 1

Opening Balance X Yearly Interest Rate = Interest Earnt

Step 2

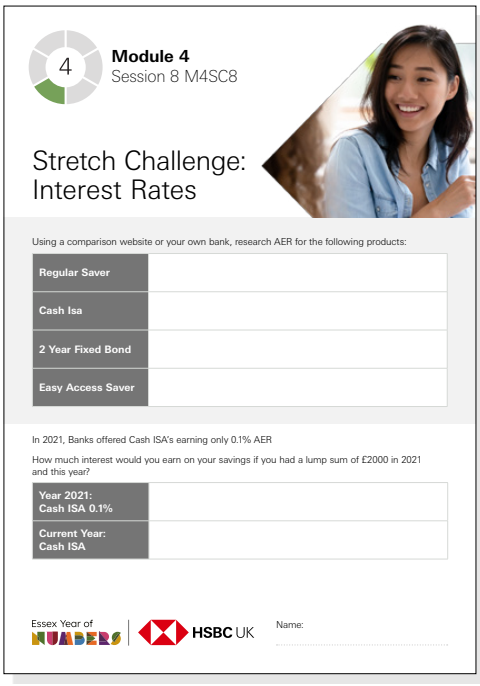
Add Interest Earnt + Opening balance = Closing Balance

Step 3

Closing Balance becomes opening balance in the next year.

Repeat Steps until you complete all 5 years.

Stretch Challenge



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Stretch Challenge:
Interest Rates

Using a comparison website or your own bank, research AER for the following products:

Regular Saver	
Cash Isa	
2 Year Fixed Bond	
Easy Access Saver	

In 2021, Banks offered Cash ISA's earning only 0.1% AER

How much interest would you earn on your savings if you had a lump sum of £2000 in 2021 and this year?

Year 2021: Cash ISA 0.1%	
Current Year: Cash ISA	

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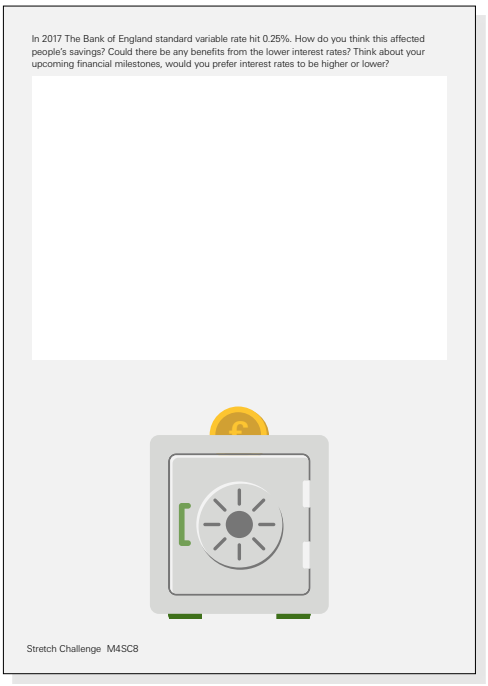
Name:



In 2017 The Bank of England standard variable rate hit 0.25%. How do you think this affected people's savings? Could there be any benefits from the lower interest rates? Think about your upcoming financial milestones, would you prefer interest rates to be higher or lower?

Stretch Challenge M4SC8

This can be used as you see fit for a homework, group project or additional lesson during school hours. Stretch Challenge worksheet provided to record answers.

Stretch Worksheet 4.1

Using a comparison website or your own bank, research the APR on 4 savings accounts.

How much interest would you earn on savings now and in the year 2021?

How do you think low savings interest rates affect people's financial health?

Where would you like to see interest rates move to in the future?