1.5

Managing Resources

Saving Money

Learning Outcome Notes

LO 1.5 - Identify reasons for saving and borrowing money, relate the reasons to determining appropriate sources of finance with respect to their purpose, costs and risks.

CHAPTER QUESTIONS

By the end of this learning outcome, you should be able to do the following -

1. Define the term saving and borrowing and the different between the two.
2. List why and where people save.
3. List the services and products that are provided by financial institutions.
4. Calculate the interest on savings.
5. List the taxes that are applied to savings and when is the best time to save.

NOTE – This Learning outcome can be linked with Economic Indicators (3.9) and the indicator Interest.

WHAT IS SAVING

Saving Def This the part of our income that we choose not to spend. It is also known as deferred Income – as we put the money aside to spend it sometime in the future. These are generally low risk.

Investing Def This is putting money aside to try at get a return on it in the future. There is a greater risk as your investment can go up or go down. For example, investing in share The main difference between Saving and Investing is the risk and liquidity involved.

Liquidity Def This means how quickly you can get your money when you need it.

Examples of Investing included buying property, art and company shares.

REASON FOR SAVING MONEY

The following are some reasons why households save money -

1. Future planned expenditure
2. For emergencies
3. For major family events
4. For retirements
5. To improve you credit rating.

FACTORS TO CONSIDER WHEN SAVING OR INVESTING

You have a lot of options to save and invest your hard-earned money. The following are some factors that you need to consider before deciding where to save your money -

1. *Risk*

Will your saving be safe and secure? Money save in a financial institution is safer that under your mattress or in a drawer. Saving with An Post are state guaranteed which means you will definitely repaid by the Government

2. *Reward*

How much will you earn on your savings. Each financial institution offers different rates – so it is a good idea to shop around for the best APR.

3. *Liquidity*

Is it easy to withdraw (Take out) your saving if you need too? Some saving account require you to give them written notice and penalties may apply if you withdraw earlier then the terms agreed.

4. *Taxation*

Will you have to pay taxation on your interest? DIRT is the tax on interest earned on savings. Some saving are not subject to DIRT (An Post)

5. *Convenience*

Is it easy to make regular lodgment and withdrawals – where is the financial institution located and what are the opening hours.

6. *Future Benefits*

If you save in a financial institution that you want to borrow with in the future, you will have a credit history with them, and it might be easier to get a loan.

7. *Terms and conditions*

Are there fees and banking charges involved in operating a deposit account. Will you be penalized for withdrawing money early?

WHERE TO SAVE

Money can be saved in the following financial institutions in Ireland -

1. Commercial
2. Credit unions
3. An Post
4. Building Societies

1. *Commercial Banks*

A commercial bank offers a range of financial services to its customers. They all offer deposit accounts.

Opening a saving account

Opening a saving account is very similar to opening a current account and you will need proof of identify and address.

Types of Deposit accounts

The following are some saving accounts that are on offer from a building society. These accounts will depend on how much you want to save and how soon do you want to access your money.

(1) Demand Deposit	Allow you to withdraw your money when you want. You don't have to give the bank notice. This type of account has a low interest rate.
(2) Term Deposit	This requires you to leave your money in the account for a certain length of time (7 days to 5 years). These accounts have a higher rate of interest. If money is withdrawn before the term penalties may apply
(3) Notice Deposits	This requires you to give the bank notice that you are going to withdraw money – 21-day s notice means you must give the bank 21 working days' notice that you are going to withdraw money

2. *AN Post*

They offer a range of state saving product on behave of the National Treasury Management Agency (NATMA). They offer competitive rate of interest, are state guaranteed and may be DIRT Free. They also offer Prize Bonds. These offer weekly prizes that can be tax free but don't earn interest.

3. *Credit Unions*

These are located all over the country. It is owned by its members who save together and lend to each other at a competitive rate of interest. They offer savings and deposit accounts. Your savings are your shares – so the more you save the more share you have.

Savings Account	Def This type of account will give you a dividend at the send o the year. You can put money into this account at any time.
Dividend	Def This is a payment to shareholders. The amount received depend on the number of shares you have.
Deposit Account	Def There is a competitive rate of interest offer on this type of account, but they are subject to DIRT.

If you save in a credit union, you will be helping out your local community and you can get a loan for a car, holiday or home improvements

4. *Building Societies*

These financial institutions pay interest on savings and lends money to buy or upgrade a property. They offer the same services as banks.

CALCULATING INTEREST ON SAVINGS

Interest Rates Def This is the cost of borrowing and the reward for saving

High interest rate will encourage people to save money and the repayments on loan s will be high. People will get more of a return for saving their money. Remember that any interest will be subject to DIRT. Interest rates are controlled by the European Central Bank

Interest is the reward for saving money with a financial institution. There are two ways to calculate interest -

1. Simple Interest
2. Compound Interest

1. Simple Interest

This is also known as flat rate of interest and is the money earned by investing money (principal). A percentage of the principal is added to the principal to make it grow (Interest)

**Have a look at the class website to example and videos on how to calculate simple interest

2. Compound Interest

This is when the interest in added to the savings and that added interest also earns interest from them on. The saver is getting interest to their saving and interest on their interest. You will get more of a reward from compound interest than from simple interest.

**Have a look at the class website to example and videos on how to calculate compound interest

Annual Equivalent Rate (APR)

This shows the real interest you well get on savings at the end of the year. It shows you what you will earn in a year if you leave you money in for the year – but you don't have too. It is useful for comparing the return on savings.

**Have a look at the class website to example and videos on how to calculate APR

DEPOSIT INTEREST RATES

This is a tax on the interest earned on deposit accounts. It is deducted by the bank and given to the Revenue commissioners. The saver will be receiving the interest earned less the DIRT. The rate of DIRT in Ireland is 35% (2019)

**Have a look at the class website to example and videos on how to calculate APR

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Past Exam Questions and Answers

NOTE – Very Important

It is very important when answering exams questions use the following steps -

1. That you know the information for the learning outcome
2. That you understand the information from the learning outcome
3. That you can apply the information from the learning outcome to the question
4. Be able to give at least two full sentences for your answer (Fill up the space)

Questions are changing from rote learning to applying the knowledge to the Question

QUESTIONS

2022 - Question 17

When interest rates are high, it encourages saving and when interest rate are low, it encourages borrowing.

(i) What is interest?

(ii) Outline one reason why low interest rate encourage borrowing.

2022 – Question 18 – Part C

Now that Kevin has a steady income, he has decided to start saving

(i) List three reasons for saving.

1.
2.
3.

(ii) Interest earned from savings is subjected to DIRT. What does DIRT stand for -

D ___________	I __________	R __________	T _________

(iii) Kevin plans to save €8,000 this year. He researches two different options of places to save and found the following –

An post	**Commercial Bank**
Saving Rate 3%	Savings Rate 4%
No DIRT	DIRT 33%

Using the information above calculate the interest he will receive for each options and calculate the total value of Kevin's savings after one year

An Post	**Commercial Bank**
Workings:	Workings:
Interest Received: €	Interest Received: €
Total Savings: €	Total Savings: €

SUGGESTED SOLUTIONS

2022 - Question 17

When interest rates are high, it encourages saving and when interest rate are low, it encourages borrowing.

(iii) What is interest?

Interest is the reward given by a financial institution to customer for saving money with them.
It is also the financial cost (fee) of borrowing money and is the extra money that is paid back
When you borrow money Interest is generally expressed as a percentage, such as an annual
percentage rate (APR).

(iv) Outline one reason why low interest rate encourage borrowing.

When interest rates are low it means the cost of borrowing is low. Individuals and businesses
will be more likely to borrow money because they will not have to pay back as much money when
interest rates are low i.e., lower repayments.

2022 – Question 18 – Part C

Now that Kevin has a steady income, he has decided to start saving -

(iv) List three reasons for saving.

1. For major family events like a wedding or a college graduation
2. To improve your credit rating to help you get a mortgage from a bank
3. For retirement that you will have money to live off when you stop working

(v) Interest earned from savings is subjected to DIRT. What does DIRT stand for -

D eposit	I nterest	R etention	T ax

(vi) Kevin plans to save €8,000 this year. He researches two different options of places to save and found the following –

An post	**Commercial Bank**
Saving Rate 3%	Savings Rate 4%
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Using the information above calculate the interest he will receive for each option and calculate the total value of Kevin's savings after one year

An Post	**Commercial Bank**
Workings: €8,000 x 3% = €240 (Interest) Total Savings - €8,000 + €240 = €8,240	Workings: €8,000 x 4% = €320 320 x 33% = €105.60 Interest = €320 - €105.60 = 214.40 Total Savings - €8,000 + €214.40 = €8214.40
Interest Received: €240	Interest Received: €214.40
Total Savings: €8,240	Total Savings: €8214.40