

Interest Rates

Interest rates for savers

If you save money in a building society or bank, you are paid extra money called 'interest'. Interest rates are the percentages you earn on your money. The higher the interest rate and the more money you have in the account, the more interest you get.

For example:

If you put £100 into a savings account with interest of 5% per annum, at the end of the year you have the £100 and also an extra £5 in interest (5% of £100). Total £105.

Interest rates for borrowers

If you borrow money from a bank or building society you have to pay extra as interest on the borrowed money, so you need to look for high rates of interest when saving and low rates when borrowing.

Activity 1

Investigate the different accounts offered by financial organisations. You could go to your high street banks and building societies, look online, and don't forget, some supermarkets offer financial products and services too. Find out about:

- what you would need to do to open the account
- the interest rate offered
- the terms and conditions
- which services the account provides.

DID YOU KNOW?

Using Annual Equivalent Rate (AER) is a method of comparing interest rates on savings accounts fairly.

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Interest Rates cont'd

Activity 2

When choosing an account for your savings, you also need to consider the 'terms and conditions' of the account as well as the interest rate. Some accounts offer 'instant access' and let you take your money out straight away. Some ask you to give 'notice' and tell your building society or bank a certain number of days before they give you the money:

Look at the following and recommend the best account for Jaina, Dave and Gemma.

Super-instant saver account

5% Interest rate

- Online account
- Cash card for instant access
- Minimum balance £1

Real-save account

5% Interest rate

- Passbook account
- Cash card for instant access
- Minimum balance £1

Bestplan saver account

7% Interest rate

- Passbook account
- 30 days notice required to take money out
- Minimum balance £100

Jaina would like a high interest rate but needs to be able to take out her money whenever she likes. She is busy during the day and can't get to the bank or building society but she does have a computer with Internet at home.

Dave has managed to save £250 and wants a high interest rate. He plans to save regularly and only take out money occasionally for major purchases.

Gemma has just started a new job and wants to save money regularly. She needs to be able to access her money regularly from an Automated Teller Machine. She doesn't have the Internet.

As of May 2011, interest rates are currently much lower than in the examples above, these figures do vary from time to time.