GNVQ INTERMEDIATE BUSINESS

PERSONAL FINANCE

ASSIGNMENT 1

I am an advice worker for 'Life Start Bradford', which is an advice centre for young people in the Bradford. Many of my clients are young employed adults who are in their first jobs and living away from home. I see most of them on a regular basis because they have difficulty managing their personal finance, so now I feel it is time to write a guide for them which will help them avoid some of their financial problems.

TASK

1. The importance of planning personal finance

It is important to plan personal finance because money and finance are part of every day life so you need to keep track of the money coming in and money going out which will probably help you achieve your financial goals. You probably won't be able to achieve every financial goal you've ever dreamed of. So if you identify your goals clearly and decide which are most important, by concentrating your efforts, you have a better chance of achieving what matters most. The best way to do this is by having money stashed in savings accounts or invested in stocks and bonds, which would grow gradually. You should draw up a list of goals, you should look for things that will help you feel financially secure, happy or fulfilled. Some of the items that you need save on are:

- a emergency fund
- getting out of debt
- and paying the kids education

Financial planning also helps you:

- make the most of your money
- sort out your priorities
- work towards long-term goals, allowing you to carry them out as and when you can afford it
- find the right products to meet your needs
- be prepared for unexpected financial shocks, such as illness or losing your job

You should organise your money requirments on an ongoing basis and you should have a system, which you use to meet the bills and costs of your daily living.these costs would be

- Food and drink
- Electricity bills
- Council tax
- Rent
- Phone bill

- Insurance
- mortgage

If you save your money rather than spend you could ensure the provision of cash funds for your future requirements such as buying your first house and car. You should check and record your cash sums both into and out of your personal funds. The choices you make now will determine your financial security in the future so you need to always plan ahead and establish a financial plan to keep track of your income and expenditures like a short-term and long-term plan such as:

DAY TO DAY	SHORT-TERM	LONG-TERM
Entertainment	A 2 year plan	Employment
Phone bill	Holidays	Getting married
Driving lessons	Car	Starting own business
Relationships	Deposit on flat	Buying own house
Maintanance		Cost of children

There are many demands on your money and even more firms willing to help you spend or save it. Before you commit yourself, work through these steps:

Think about your financial aims for the future, e.g. are you interested in?
- saving for retirement
- protecting your income in case you fall ill
- saving for a rainy day
- saving for something special (weeding)

2. Sources of advice for financial planning

There are many places where you could go to for financial advice and planning. Most of them are leading high street banks such as:
- HSBC
- Natwest
- Abbey National
- Barclays
- Lloyds TSB

You can also get financial advice from the organisations below:

Independent Financial Advisors (IFA) - they offer various products from any providers and are obliged to recommend products that are suitable for your needs.

Tied Agents - are company representatives and can only recommend their company's products. Insurance companies, banks and building societies that sell financial products can put you in touch with their own financial advisers. In most cases, tied agent's recommend only the products of the company they work for, but they may be able to offer the stakeholder pensions of other providers.

Financial Product Direct - these are insurance companies, bank, building societies, unit and investment trust companies all offer a large range of financial products and services.

3. The different types of savings accounts available from different institutions

There are different types of saving accounts available from different institutions such as banks and building society's. Here are just a few of them listed below:

1. ISA (Individual Saving Account)

New tax-exempt savings account launched in April 1999 as a replacement for the Personal Equity Plan and Tax Efficient Special Savings Scheme. The main difference with the ISA is that there is a wider choice of eligible investments, including foreign shares, cash and investment-based insurance products. The annual investment limit is £7,000. Any income and capital gains made within an ISA are tax-free.

Component	**Mini option**	**Maxi option**
Cash	up to £3,000[1]	up to £3,000
Insurance	up to £1,000	up to £1,000
Stocks and shares*	up to £3,000	up to £7,000 (less any money invested in the cash and insurance components)
Total	not more than £7,000	not more than £7,000

This table above shows how much of your ISA allowance you can invest in the stocks and shares. Source: **www.abbeynational.co.uk**

2. Instant savers account

Instant Saver account can offer instant access to your savings using the branch counter as well as a range of convenient ways to manage your money. This is a traditional passbook-based savings account with unlimited branch access on balances of £500 or more.

3. Remote access accounts (e.g. Postal account)

Most banks have designed these accounts so that they can offer their customers a convenient way to save from home or work, attractive rates of interest. This means their customers can deposit and withdraw money via the post, access their account via telephone banking and they also can go on-line to access their account via the Internet.

4. Bonds

Bonds provide a guaranteed rate of interest in return for saving over a fixed period of time. They are ideal for savers who are looking for security and are happy to leave their money untouched for a year or more. There are lots of different types of bonds, some maturing in a few years, and some maturing after 25 years. Bonds are also called Fixed-interest securities.

5. Bank deposit accounts

High street banks now offer a full range of deposit accounts, many new banks were building societies before they converted. Like building societies, interest rates can vary widely across banks, even on similar deposit accounts,

6. National Savings

National Savings now offer an extensive range of savings accounts, from deposit-style accounts through to products targeted at people with specific savings needs such as a monthly income or tax-free growth. Although the interest rates on offer are sometimes uncompetitive, the tax treatment of a number of National Savings accounts increases their appeal. For people looking for a deposit-type account, National Savings offer the Ordinary Account and the Investment Account. Both have their attractions. The first £70 of annual interest from an ordinary account is free of income tax, while interest from an investment account is paid gross-although taxpayers are liable to pay tax on it.

7. Tax-free accounts

Tax-free accounts include National Savings Certificates, which allow savers to put money away for two, or five years, with returns either being fixed at the outset or linked to inflation. As a result of their tax freedom, National Savings Certificates are attractive to higher-rate taxpayers, National Savings offer both Pensioners' Bonds and Income Bonds

8. Unit Trust

A unit trust is a long-term investment where your money is shared with the money of other investors and is distributed across a range of stocks and shares.

9. Notice accounts

To withdraw money from this account you need to give a particular amount of notice, if you don't do this you could lose interest for not giving notice.

10. Pensions

This is a tax-efficient way to save money for your retirement. The best way to do this is by paying in to a private pension scheme rather than relying on a state pension.

Account	Gross	AER	Notice period	Min. investment	Max. investment

CHESHIRE BS Combined Bond (Fixed Rate)	4.75%	4.75%	Term	£1000	£500000
LEEDS & HOLBECK BS New Year Bond 2003	4.4%	4.4%	See Details	£100	£250000
ABBEY NATIONAL PLC Choices Bond (4 Year Fixed)	4.3%	4.3%	4 Years	£1000	£2000000
CHELSEA BS Guaranteed Bond Issue 4	4.25%	4.25%	60 Days	£2500	£500000
LEEDS & HOLBECK BS Flexible Bond (Issue 4)	3.5%	3.98%	2 Years	£100	£250000
COVENTRY BS Fixed Bond (22) 30.06.2004	3.9%	3.9%	See Details	£1000	£250000
CAHOOT Savings Account	4.22%	4.3%	Instant	£1	£250000
BIRMINGHAM MIDSHIRES Telephone Plus Account	4.2%	4.2%	Instant	£1000	£25000
HALIFAX BANK PLC Web Saver Without Cash Card	4.05%	4.05%	Instant	£1	£250000
COVENTRY BS NetSave Instant III	4%	4%	Instant	£500	£250000
INTELLIGENT FINANCE Direct Access Savings	3.8%	3.8%	Instant	£1	£999999
SCARBOROUGH BS Scarborough 80	4.3%	3.9%	80 Days	£100	£999999
SCOTTISH WIDOWS BANK 60 Day Notice	4.05%	3.8%	60 Days	£100	£10000
FURNESS BS Bonus Builder 2nd Issue	5%	5%	5 Years	£10	£1000000
LEEDS & HOLBECK BS Regular Saver	5%	5%	See Details	£20	£999999

HALIFAX BANK PLC Monthly Saver	4.8%	4.83%	Instant	£1	£999999
BIRMINGHAM MIDSHIRES Regular Saver	4.8%	4.8%	Instant	£20	£999999
COVENTRY BS Monthly Saver	4.75%	4.75%	3 Years	£10	£999999
YORKSHIRE BS Monthly Saver	4.6%	4.6%	See Details	£10	£500000

Source: **www.iii.co.uk,** as at 23rd Jan 2003, all rates are before deduction of tax.

4. The different methods of borrowing money showing app ropriate uses for the borrowing

Different methods of borrowing suit different types of people and situations. Whatever type of borrowing you choose, make sure you will be able to afford the repayments. When choosing credit deals, it's important to make sure you are getting value for money. One way to compare deals is working out the interest and APR.

1. Current account overdraft

This is a flexible method of short-term borrowing to get you through temporary cash flow difficulties. Overdrafts that include a fee on top of interest can make them an expensive way to borrow.

2. Credit cards

This is a handy form of free short-term credit if you pay your bill in full each month. If you are careful to control your spending credit cards can be a cheap way to borrow.

3. Store cards

Store cards entitle you to special offers at your favorite shops. Some store cards charge around twice the interest rate of a reasonably competitive credit card. It may be best not to use them unless you are sure you'll clear your bill in full every month.

4. Secured loan

A secured loan is against the equity you have in your home. It can be a sensible way to borrow for certain expensive items, such as home improvements. Because the loan is secured against your home, the interest rate should be cheaper than an unsecured loan and you may be able to borrow more. Also, you can cut your monthly payments by stretching the loan over a longer term.

5. Methods of ensuring accuracy on financial records

To ensure your money is correct and accurate you always need to check your bank statement at the end of each month.

A bank statement is a paper that a bank would issue every 3 months to show your bank balance. This would include how much money you have withdrawn in the last 3 months and how much money you have put in. It also shows how much interest you have been charged. If you want at the end of every month you can request a mini statement from the bank to make sure your money is safe.

Another way to check how much money you have spent is to keep and save all your receipts for the products you have bought. By doing this you will know where and when you purchased a product, and it usually shows who you were served by.

To make sure the calculations on the bank statement are correct you need to analyse it with the receipts you have collected over the past couple of months. This is called 'Reconciliation'.

A cash-flow forecast shows you your day-to-day expenses such as- food and clothing. The information on the forecast shows if your cash is correct and accurate. If you have made a mistake it will definitely show up on your cash-flow forecast.