The FRS asks adults about all liquid assets, that is, money held in accounts and investments, because these financial holdings can affect people's eligibility for means-tested benefits. There is a huge variety of financial products available. For convenience, the FRS distinguishes three main types:

Accounts	-	Cash holdings for day to day use and for longer term savings
Investments	-	Investments in the financial markets, eg. ISAs, Unit Trusts, stocks and shares
National Savings & Investments (NS&I)	-	Investments issued by the Department of Savings to finance Government borrowing

After Tax or Before Tax?

Accounts and investments typically pay interest *after tax* ('net of tax'). In such circumstances, the bank, building society, supermarket/ store, investment fund, etc. will deduct the tax due and pay it directly to the Inland Revenue. Sometimes the interest after tax may not be separately identified on a statement/ passbook. Although the gross interest and the tax deducted will be shown, the net interest will not. There is a question on the FRS which covers the different possibilities and asks whether interest recorded is after tax, before tax but tax has been/will be paid, or before tax because the person is a non-taxpayer.

Most National Savings & Investments (formerly National Savings) products pay interest *before tax* ('gross'), ie. without deduction of tax. A few products are *tax-free*, not subject to tax at all: eg. the ISA, SAYE, and National Savings Certificates. Non-taxpayers, eg. children, students, non-working spouses, and some retired people, can fill in a special form to register their accounts with the Inland Revenue, and thereby receive the interest gross of tax. On other investments or on accounts not registered, non-taxpayers may be able to claim back the tax deducted from the Inland Revenue.

A Note on 'Bonds'

There are at least 3 financial products called 'bonds'. Best-known are **National Savings & Investments** products, such as Income Bonds, Pensioners Guaranteed Income Bonds, Children's Bonus Bonds. On FRS these are recorded separately from other investments.

Friendly societies, insurance companies, and more recently banks and building societies issue 'bonds', whereby large sums are deposited, long-term, to earn high rates of interest. On FRS these are not counted as investments as they cannot be bought and sold on the financial markets, and so are included with bank/building society, etc. **savings accounts**.

Less common are bonds issued by private companies ('corporate bonds'), foreign governments, local authorities and others in order to raise money. They are counted as **investments** on FRS, along with other holdings of stocks, shares, etc. as investors can usually trade these securities on the financial markets.

A Note on the Child Trust Fund (CTF)

Introduced in April 2005, the CTF is a long term investment and savings account for children born after 1st September 2002. Eligible children receive a voucher which must be paid into one of three different types of account with a bank, building society or stockbroker. A further payment is received when the child turns seven. Additional funds can be added up to a limit of £1200 per annum and interest is credited tax free.
All Child Trust Fund providers offer Stakeholder accounts. They may also offer non-stakeholder shares accounts or non-stakeholder savings accounts. For details of Child Trust Fund types offered by different providers see the laminate titled 'Child Trust Fund Account Types'

ACCOUNTS: Showcard N1

Current Account with Bank, Building Society, Supermarket/ Store or other organisation.

Such an account is used for day to day transactions and will have a cheque book and generally offers both the facility to withdraw cash by means of a card and an overdraft. Internet and telephone accounts <u>should be</u> included. Any interest on such accounts will normally be minimal. The majority of respondents will have a current account.

Basic Bank Account/ Post Office Card Account

From April 2003, many benefits and some tax credits became payable by credit transfer directly into bank or building society accounts. These accounts were introduced to allow those who did not have or want a current account to receive money via direct payment. Basic or Starter Bank Accounts are offered at high street banks and building societies, and the Post Office has introduced the Post Office Card Account for this purpose. These should be coded separately at the question 'Accounts' but will then be treated in the same manner as current accounts.

National Savings & Investments Bank/ Post Office Ordinary Account

From 29 January 2004 no new accounts were allowed to be opened. From 31 July 2004 all existing account holders were asked to transfer their accounts to the new Easy Access Savings Account.

National Savings & Investments/Post Office Easy Access Savings Account

Card based account which replaced the NS&I/Post Office Ordinary account. Minimum balance £100, maximum holding £2 million (£4 million joint). Interest paid gross.

National Savings & Investments Bank/ Post Office Investment Account

Similar to the old Ordinary account but one month's notice is required for withdrawals. Minimum investment £20. Interest is credited to the account annually, on 31 Dec, gross of tax.

Tax Exempt Special Savings Account (TESSA)

These accounts ceased to exist from 5 April 2004. From 5 April 1999, the capital from a maturing TESSA could be transferred into a TESSA-ISA (or TOISA).
<u>Although TESSAs can no longer be held, TOISAs still exist and must be counted as an ISA (see below).</u>

Individual Savings Account (ISA)

ISAs are tax-shelters in which the income is tax-free. They were introduced to replace TESSAs, which ceased to exist in April 2004, and PEPs, all of which automatically became stocks and shares ISAs in April 2008. Up until 5 April 2005 there were 3 components – cash, securities (stocks and shares, unit trusts, etc) and life insurance. Following this date the life insurance ISA merged with the stocks and shares leaving two components. These components could be held singly (known as 'mini ISAs'), or collectively (known as 'maxi ISAs'). From April 6 2008 ISAs were restructured to remove the distinction between mini and maxi ISAs. Individuals are now able to subscribe to either a cash ISA, a stocks and shares ISA or both. All savers have an annual ISA investment allowance of £7,200. Up to £3,600 of that allowance can be saved in cash with one provider. The remainder of the £7,200 can be invested in stocks and shares with either the same or another provider.
TESSA-ISAs (TOISA) were allowed to be opened with the capital from a maturing TESSA on an annual basis and did not affect entitlements to other ISAs. As TOISAs can no longer be set up with the withdrawal of TESSAs they should be counted as ISAs. The securities component similarly should be counted as an ISA, not recorded at the question on stock market investments. Any PEPs that are reported by respondents should be recorded as ISAs as all PEPs have now been converted to stocks and shares ISAs.

Savings or investment account/ bond with Building Society, High Street Bank, Supermarket/ Store or other organisation

Savings (or 'deposit') accounts/bonds and investment account/bonds are not normally used for day to day transactions, and typical features are a minimum deposit and a period of notice for withdrawals. Interest can be paid yearly, half-yearly, quarterly, or monthly, and will be relative to the amount of money in the account and current interest rates.

Credit Unions

Similar to mainstream Building Societies, members can deposit as much or as little money as they like as often as they wish to. Loans can also be taken out. Dividends are usually paid out annually, typically around 2-3%, but they can be higher (the maximum legal limit is 8%)

INVESTMENTS: Showcard N2

Government Gilt-Edged Stock (incl War Loan)

'Gilts' raise money for the UK Government by offering a secure ('gilt-edged') investment, usually over a fixed period and with a fixed rate of interest, although some are index-linked. Gilts can be bought and sold. At the end of the fixed term the holder is repaid the original purchase price. Interest is paid half-yearly, before tax if bought from the National Savings Stock Register. The *value* of the gilt is its current market price.

For the FRS it is important to get the name of the gilt (eg. 'Treasury 7.25%') the year in which it will be repaid, (called the redemption date) and the period plan. Gilts can be 'shorts' (up to 5 years to redemption date), 'mediums' (5 to 15 years) 'longs' (over 15 years) or undated (no fixed redemption date). The certificates will give this information. <u>Note: Gilts held in a PEP should be coded as ISAs</u>**.**

Unit Trusts

Collective funds which allow private investors to pool their money in a single fund, thus spreading their risk, getting the benefit of professional fund management and reducing their dealing costs. Investors buy 'units' of a fund that invests in shares, stocks, gilts, etc. Interest (the 'dividend') is paid net of tax, usually half yearly, but some schemes pay a monthly income or reinvest the interest. Investment decisions are made by professional fund managers appointed by the trustees. These managers make annual charges. There are many types of scheme. The value of the units is the amount of money they would raise if they were sold (the 'bid' price). Enter the full name of the company and the investment. <u>Note: a Unit Trust holding via a PEP should be coded as an ISA</u>**.**

<u>ICVC / OEIC</u>

Investment Companies with Variable Capital (ICVC) and Open Ended Investment Companies (OEIC) should be coded as Unit Trusts/ Investment Trusts. ICVC's are a replacement of OEIC and there is little difference between the existing unit trusts and the new ICVC's apart from the structure of the fund and the fact that ICVC's have a single price rather than a bid offer spread

Investment Trusts

Pooled schemes are similar to Unit Trusts, giving their investors exposure to markets that they may not be able to reach themselves. The difference is that the Trust is a company, and investors hold shares in that company, rather than directly in its various investments. For FRS purposes, the value of a shareholding is its current market price. <u>Note: if held in a PEP, then code under **ISA.**</u>

Stocks, Shares, Bonds, Debentures, other securities
Types of investment usually bought and sold on the financial markets. A **share** is a single unit of ownership in a company. The units are of equal value, hence 'equities'. (Please record whether the shares are 'ordinary' shares or 'preferential' shares to enable the value to be determined). **'Stocks'** is the general term for various types of security issued by companies to attract investment in the form of loans. **Bonds** and **debentures** are two such types of stock; others include unsecured loan stock and convertible loan stock. (Bonds issued by foreign governments and local authorities should also be recorded here.)

Unlike shares, whose dividend earnings may fluctuate, stocks give a fixed-interest return. They are issued for a set period, during which time they can be traded by investors; at the end of the period they are redeemed at the original price. Dividends on shares and interest on bonds and other loans is typically paid half-yearly, net of tax. The value of these holdings is their current price on the financial markets. <u>Note: if held in a PEP or ISA, then code under **ISA**.</u> [Note: A few investors may hold stocks and shares that cannot be publicly traded, eg. in 'private' companies not listed on the Stock Exchange. If so, at the Assets questions enter the price of the investment and the date of purchase.]

PEP (Personal Equity Plan)
Since 6 April 1999 no new investments have been allowed to be placed into PEPs following the introduction of ISAs. On 6 April 2008 all existing PEPs automatically became stocks and shares ISAs.

PEPs were a tax-sheltered, managed investment in the financial markets of a lump sum or regular savings.
PEPs could include holdings in Unit Trusts, Investment Trusts, bonds, and gilts. Any dividend earnings and growth in value were free of tax.

Miscellaneous
The Moneyspinner Account is a with-profit savings plan available to the police through Police Mutual. Other Police Mutual products include the Gold and Silver accounts and the Platinum Bond.

NATIONAL SAVINGS & INVESTMENTS (NS&I): Showcard N3

Capital Bonds (NS&I)
Minimum purchase £100, maximum holding £1 million. Interest is fixed for 5 years, and is credited annually, gross (before tax), but is taxable. For the FRS it is important to obtain the series number.

Savings Certificates (NS&I)
Two types of investment for lump sum savings: Fixed Interest and Index-linked certificates (where the value is linked to changes in the Retail Prices Index). Minimum investment £100, maximum investment £15,000. Investment terms - Fixed 2-5 years, Index-linked 3-5 years. The interest on both investments is tax-free.

Pensioners Guaranteed Income Bond (NS&I)
Available only to people over 60 years. It pays out monthly interest before tax at a fixed rate for either 1, 2 or 5 years. The interest is taxable. Minimum investment £500. Money can be withdrawn early, but there is a 60 or 90 day interest penalty.

Save-As-You-Earn (NS&I/Bank/Building Society)
A government scheme which allows tax concessions to persons making regular savings from their salaries into certain building society, bank and National Savings & Investments accounts. Although National Savings SAYEs were abolished in November 1994, previous schemes remain valid. Bank and building society schemes still exist. Under some of these schemes people can save money to purchase share options tax-free, provided it has been approved by HMRC. Under these schemes you pay a fixed monthly amount over 3, 5 or 7 years with fixed interest.

Premium Bonds (NS&I)
These don't earn interest, but are entered in a monthly draw for tax-free money prizes.

Income Bonds (NS&I)
Minimum purchase £500, maximum £1,000,000, sole or joint. Interest is paid monthly, before tax (but taxable), into a bank/building society or similar account. <u>On the FRS, please be sure to differentiate clearly between National Savings Income Bonds and National Savings Deposit Bonds.</u>

Deposit Bonds (NS&I)
These were withdrawn from sale in 1988 and the remaining bonds were redeemed in 2002.

Fixed Rate Savings Bonds/FIRST Option Bonds (NS&I)
FIRST Option Bonds were replaced with Fixed Rate Savings Bonds in 1999. People who held FIRST Option Bonds from before October 1999 can keep them and receive interest at the rate for a one year Fixed Rate Savings Bond. Fixed Rate Savings Bonds can be purchased with the interest guaranteed for 1, 3 or 5 years. Interest can be credited annually or monthly and is paid into a bank or building society account or added to the value of the bond. The minimum holding is £500 and the maximum holding is £1,000,000. For the FRS it is important to obtain the month and year of purchase, the issue, the value, the length of period (1,3,5 years) and whether or not interest is paid monthly or accrued to the bond.

Yearly Plan (NS&I)
Yearly plan certificates can still be held, though new applications stopped in January 1995. Under the scheme monthly standing order payments of £20 were made (to a max. of £400); after 12 months a Yearly Plan certificate was issued. The certificates earn tax free interest, paid monthly, and reach maturity value after 4 years. After the 4th year interest is paid 3-monthly at a lower rate.

Except for Child Trust Funds, children are not asked about individual accounts held or the income from them, just whether they have any savings. They are also asked to give the total amount held (banded) and this will include all types of savings mentioned above, plus Children's Bonus Bonds and Child Trust Funds.

Children's Bonus Bonds (NS&I)
(Nicknamed Baby Bonds) are long term tax free investments for children, with interest rates guaranteed for 5 years at a time and a special bonus on every fifth anniversary of purchase. Anyone over 16 can buy bonds for anyone under 16. Any sum from £25 to £3,000 can be invested per child in the current issue. The bond will accrue low interest in the early years, but sustain a large 'bonus' in the five year anniversary of purchase or whenever the child reaches 21 years.

Guaranteed Equity Bonds (NS&I)
A 5 year investment giving a return linked to the performance of the FTSE. If the FTSE increases in value the investment will increase up to a specified maximum percentage. If it loses value, the investor will get their original sum back, so it offers potential for stock market growth with no risk to capital. Minimum investment is £2,000 and the maximum is £1,000,000.

Endowments not linked to property
Endowments originally taken out to pay for a property can be held solely as an investment (rather than with the intention of paying back a loan on a property). A decline in their value has meant that for many they are not worth enough to pay back a loan on a property.

Family Resources Survey

April 2009

Interviewers' Pocket Guide To Savings & Investments

Note: this Guide is for interviewer use only. It is <u>not</u> intended to be an authoritative statement on savings and investments; it is designed to give FRS interviewers a basic picture of savings and investments for which details are required from respondents to the survey.