# Family life is nicer with


## The Which? family shows you how buying a good cash Isa could leave you a lot better off

Moving your money from a savings account to an individual savings account (Isa) can earn you a small fortune – in the case of the Which? family £270 a year.

Darren and Toni Jones were putting any spare earnings into their online savings account. 'We have always used Lloyds TSB for convenience,' Darren says. 'We just never got round to looking at what else provided better returns.'

**MONEY SAVED £270**

### Tax savings

You can put up to £7,200 into an Isa in the current tax year. Of this, £3,600 can go into a cash Isa, with interest paid tax-free. And the savings can be excellent. For example, compare a Best Buy Icesave cash Isa, paying 6.1%, with a savings account paying the same rate. The Icesave account would pay £220 interest over the year on a balance of £3,600, £44 more than you'd get from the savings account after deducting tax at the basic rate. Higher-rate taxpayers can save even more.

### Risk factor

Cash Isas are low risk, as long as the interest keeps pace with inflation. Equity Isas, invested in stocks and shares, are higher risk and should be viewed as a longer-term investment. As Toni and Darren plan to spend most of the money in the next 18 months, they have chosen a cash Isa.

### Choosing a cash Isa

Last tax year, Darren and Toni selected the Icesave easy-access cash Isa, paying 6.1% interest.

'The reason for choosing an Icesave Isa was the high interest. It does not bother me that it is not a well-known provider as I feel my money will be safe,' Darren says.

He found the online application form took less than 10 minutes to fill in and was easy to understand, although he did have to send off a bank statement and utility bill as proof of identity. The paperwork arrived about five working days later.

### No move

For the current tax year, Darren and Toni each had originally decided to invest the full £3,600 in a Barclays instant-access Tax Haven cash Isa paying 6.5% variable interest in the first year. They had some questions they wanted to ask Barclays, but the bank was unable to give them an in-branch appointment for two weeks, so they decided to stick with Icesave.

Interest rates on cash Isas differ markedly. Our current Best Buy Isas offer tax-free interest rates of up to 6.1%, compared with one of the poorest high-street rates: just 3.26% on a balance of £3,600 from Halifax's variable rate Isa Saver.

### Running the account

With two small children and limited spare

## CHILD TRUST FUNDS

### What the family did with theirs

Toni and Darren's children, Sam, 5 and Harriet, 3, received child trust fund (CTF) vouchers when they were born. Darren and Toni invested these in a Police Mutual share-based stakeholder CTF, but have not made any further contributions. Police Mutual stakeholder CTFs are available to the general public, not just the police.

Share-based CTFs are riskier than cash alternatives, although the returns may be greater. While the charges for the account are relatively high at 1.25% a year, both children's accounts have performed well (around 9% a year over their first two years) and Darren and Toni have decided to stay with Police Mutual.

The couple considered paying more money into Sam and Harriet's CTFs. However, this cash would be locked up until each child turns 18.

Instead, Darren and Toni have decided to repay unsecured debt and deposit extra cash into their own Isas, as they feel they can give the children more security in the long run by being debt-free.

Future share growth could still provide a nice little nest egg for the kids from their existing CTFs when they reach 18.

PHOTOGRAPHY DAVID MURRAY

# an Isa

time, Darren was only interested in Isas that could be accessed online – the Icesave Isa was ideal. 'I don't need a high-street branch,' he comments, 'as I use the internet for all my banking needs.'

Isas can be operated in branch, online, and by phone or post. Different providers offer different services, so make sure you choose one that suits you best.

### Instant access and better rates

Getting at their money fast is important to the Joneses in case of an emergency.

You may assume you'd get a higher interest rate if you agree to give up to 90 days' notice when you want to withdraw cash. However, the instant-access Icesave cash Isa currently offers a better rate (6.1%) than even the best notice accounts (see 'Money monitor', p28).

### How much extra they'll earn

Darren and Toni will earn around £270 a year more from their Isa than from their Lloyds TSB savings account.

'I should have set up an Isa years ago,' Darren says. 'I would recommend everyone to open one. Ten minutes of my time could earn me up to £270 extra this year. It is worth doing it.'

### Review and switch

All our Best Buy Isas ('Money monitor', p28) allow you to transfer your existing cash Isas from other providers.

Some other Isas, such as the Barclays Tax Haven Isa, do not allow transfers in. Switching is straightforward, but you must ask your new and old providers to do the transfer for you.

## How you can do it

**Making the most of your cash**

- If you have a cash Isa, check the rate. You may earn more interest by transferring to a Best Buy.
- Decide if you want to access the Isa by post or phone, in branch or online.
- If you decide you may need access to your cash in a hurry, choose an instant-access Isa.
- Some providers insist on an initial deposit of at least £1,000 to get the best rates. Consider how much you want to deposit.
- If you've opened a Barclays Tax Haven Isa, shop around after a year, as the rate includes a bonus 1% for the first year only and may not be competitive afterwards.
- Check Best Buy cash Isas at www.which.co.uk/isas or see page 28.

## FAMILY UPDATE

**The family have undertaken financial coaching sessions to help them make the most of their money. We'll be reporting on their experiences in September.**

## Know what you're buying

**If you want a risk-free Isa, make sure you get it**

When opening an Isa, it is vital to know what sort you want. Toni's parents, John and Kath, opened a Co-op Isa several years ago.

Despite wanting a cash Isa, they were surprised to see they had been sold an equity Isa.

They would have considered filing a mis-selling complaint, but have actually done better with the equity Isa than they would have done with the cash option.

It is now possible to transfer existing savings in a cash Isa into an equity-based one, but not the other way round.

The couple plan to transfer some of the money in the Isa into a more cautious corporate bond fund to avoid the higher risks of the UK stock market. But when they asked the Co-op to send them further information on the other schemes available, the bank wrongly suggested that they would have to see an adviser face-to-face.