

# [Explain the distinctive features of two selected savings, investment and other fi...](https://assignbuster.com/explain-the-distinctive-features-of-two-selected-savings-investment-and-other-financial-services-that-render-them-suitable-for-two-contrasting-customers/)

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My manager has requested that I produce a detailed report explaining the distinctive features of two selected savings, investment and other financial services that render them suitable for two contrasting customers. Posteducationpre-families will make use of Premium Bonds as a means of saving. Premium Bonds are a government security that offers no interest or capital gain but is entered in regular draws for cash prizes. With premium bonds you can win anything from ? 25 to ? 1million of tax free cash; the odds being 26, 000 to 1. Premium bonds can give the saver prizes from ? 25 to ? 1 million of tax free cash.

However, thismoneydoesn’t earn any interest but can be withdrawn at any given time with no penalties. You can enter online or on the phone if you are 16 or over and can invest anything from ? 100 to ? 50, 000. People ages 17 to 22 will invest in premium bonds to try win extra money without having to pay any taxes. Premium bonds are suitable to savers who want the chance every month to win ? 1million and other tax-free prizes, have ? 100 more to invest, want 100% security for their money and want to make the most of tax-free investment opportunities.

They however are not for savers who want regular income, are looking for guaranteed returns, are concerned about inflation eroding their savings and want to buy them for a gift, unless for their child or grandchild. Premium bonds are suitable for post education pre-families because they may not have a lot of money and this is a secure way of having the chance to win a large sum of money; if they want their money back they can. Post education pre-families will also use a direct saver. A direct saver is a deposit account that provides principal security and a modest interest rate.

Similar to Premium Bonds and ISA’s the money can be withdrawn with no penalties and can be made anyone over 16 on the phone or online. However, the interest that is earned in a savings account which currently is 1. 10% is taxable. Anything from ? 1 to ? 2million can be saved in the savings account per person. A direct saver is suitable for savers who want to manage their account online or by phone and have easy access to their savings. They are not for savers who prefer to use an account at a branch or by post, want a fixed rate of interest, need a regular income on their savings and want an account for a child.

A direct saver is good for pre-families because they are able to use the interest and phones which makes using this saver very each for them to use. Unlike premium bonds you can earn interest on the money to put in to save which is guaranteed whereas premium bonds are not guaranteed, they can also withdraw their money whenever they want so its 100% secure. Pre-families can also make use of investment products. They can buy shares in various companies. Shares are a unit of ownership interest in a corporation or financial assets.

While owning shares in a business does not mean that the shareholder has direct control over the business's day-to-day operations, being a shareholder does entitle the possessor to an equal distribution in any profits, if any are declared in the form of dividends. People can buy existing shares which are already being traded on a stock market or new shares when a company first sells them to raise money for its business. Shares can be made online or through a stock broker through the London stock exchange. They can buy shares for the short or long haul.

Short haul is when you buy shares to sell them in the hope for a higher return or the long haul which is gaining dividends when the company is successful. Buying shares is risky because you cannot be certain whether the company will be successful and you will be able to get a good return on your investment. There are many advantages of investing in shares. One main advantage is you capital can grow; if the company is doing well then you can get dividends. By having shares you can be entitled to discounts and benefits to that company.

For instance, if you own shares of a retail company then you might enjoy a discount when you purchase a product from that company. And if you decide you no longer want these shares or you are buying shares for the short haul, it’s easy to sell them. You can sell them online or through a stockbroker. Investing in a company can be risky and there are also many disadvantages. It might take a long time before you see benefits of your investment. Unless selling shares, investment is a long-term venture and not a quick way to become wealthy and it will take a long time before you start earning a return.

Lastly, investing in shares can be unpredictable. Not all companies will guaranteed a good return, some may become bankrupt or make losses which means your investment won’t be worth it. They can also invest in unit trusts. A unit trust is an unincorporated mutual fund structure that allows funds to hold assets and pass profits through to the individual owners, rather than reinvesting them back into the fund. The investment fund is set up under a trust deed. The investor is effectively the beneficiary under the trust. You can buy or sell unit trust units through the fund manager.

Their value moves in line with the overall value of the fund, which in turn moves in line with changes to the underlying share prices in the fund. Hopefully the value of your units will rise in line with the underlying share values. But if these perform badly the value of the units could fall. You may also get dividend income or interest distributions from your units, based on the dividends or interest paid by the underlying shares or other investments. Unit trusts can be very beneficial and have many advantages to investing in them.

Unit trusts are a very convenient and a low cost way of investing in markets which you otherwise would have found difficult to access. Also the average returns from unit trust companies compare very favorably with returns from more traditional investment products and highly qualified portfolio manager specialists make investment decisions, and manage the unit trusts so you do not have to do it. Lastly, there is the advantage of liquidity and accessibility, because you can cash in all or part of your investment if necessary.

Along with advantages there are disadvantages also. Unit trusts are generally medium to long-term investments, which may not suit all investors. There is also unpredictability in the investment as prices fluctuate daily according to market movements, which also may not suit all investors’ needs. It is also easy to be tempted to redeem their unit trust in the short term which could make them loose good investment and because professionals administer unit trusts, there are extra costs involved.

They can use their savings and investments to a buy driving lessons, a car and insurance. They may also put the money towards a deposit for a house or save the money for when they have a mortgage and have less money. Post education pre-families have the excess money to put into premium bonds because they do not need to put the money towards their children and therefore will be able to buy more luxury items like clothes, electrical items like phones and tablets or use the money for nights out at concerts or clubs with their friends.

Pre families with also make use of other financial services and products. Firstly, they will use pensions. It is important that people make use of pension while they are still earning, so that they can maintain their standard of living after they stop earning. There are 3 sources of pension provision in the UK, state schemes, occupational schemes and private plans. The basic State Pension is a pension paid to you by the government when you reach State Pension age. It is based on the number of qualifying years gained through National Insurance contributions you have paid.

However, this isn’t enough money to live so it’s important to have occupational schemes or private plans. Occupational pensions are set up by employers to provide pensions for their employees on retirement. Rules vary for different company pensions but money is paid into the pension usually from your salary and employer. But I can be just from your employer or just your salary. Alternatively, a private pension is pension you pay a regular amount, usually every month, or a large sum to the pension provider who will invest it on your behalf.

These pensions are good if you are self-employed or are working but cannot afford the pension. Post education pre-families will make use of pensions to ensure that when they reach a pensionable age, they will have enough funds to survive and live a happy life on. Pensions are more positive than negative and have many advantages. When you reach retirement, your pension plan will give you monthly payments for the rest of your life which means you can still live a healthy happy life. Also if you run into a financial emergency, you can't count on the pension money to bail you out.

This could be seen both as negative and positive as if you need extra money you can’t use the money that you put into your pension even though it’s your money; however, it means when you do reach retirement you still have all the money that you put it. It’s important that pre-families make use of pensions to insure that when they do reach retirement age they have enough money to live on and have a content life. Lastly, they will get life assurance. Life assurance policies pay out a large sum of money to a benefiter when the individual who is assured has died.

The need for life assurance protection is found in many different circumstances includingfamilyprotection, debt protection, tax mitigation and bbusiness protection. Life assurance protection policies fall mainly into 2 categories, whole of life assurance and term assurance. Whole of life assurance is when the payment is payable whenever the death occurs; therefore has no fixed limit. On the other hand, term assurance is only payable if the death occurs before the end of a specified term usually up to 30 years.

Post education pre-families will use life assurance to protect their families from their death and are likely to use term assurance as it is cheaper. Established families can also make use of savings, investment and other financial products similar to pre-families. They too will use savings products such as premium bonds and direct savers and Invest in shares and unit trusts. Because in established families, their children may be older, they may their savings and investments to go towards their children’s university funds.

They may use the money to pay off their mortgage or buy a new house if they won or saved a lot of money; or maybe family holiday. They will also make use of pensions to ensure they have enough money when they are at a pensionable age. And lastly, they will get life assurance to protect them and their family of death. However, as younger people have less money they are likely to use term assurance. Established families are likely to use whole life assurance to protect them until they die.