How to beat
low savings rates

Which?

Welcome

Savings rates have never been so low. Today, if you have cash deposited in a bank or building society, there's a good chance you're earning less than the rate of inflation – even if the interest you earn is tax-free. That means, in effect, that your savings are falling in value.

For thousands of people who depend on their savings income this is causing real problems. And even if you're not reliant on this money, it's frustrating to be earning such paltry returns on your hard-earned cash. You may even be tempted to think there's little point in saving for the future, if the value of your money is being eroded in real terms.

Which? is here to help. In this guide you'll find advice on how to find a better deal for your cash, and how you could earn more with a different approach to saving. You'll also find links to our online comparison tools, providing continually updated analysis of the best savings deals on the market.

Don't put up with unnecessarily low rates for a moment longer. Even in this difficult environment, savers who take control of their money can earn substantially more from it.

Harry Rose
Editor, *Which? Money*

Which? Money

Our magazine is the UK's best-read personal finance title, with in-depth coverage of the savings market, including regular analysis of the best rates and options for your cash. It also features original research and trusted advice on investing, pensions, scams and money-saving every month. As a Which? title, we're entirely independent and unbiased. Call **01992 879264** if you'd like to try *Which? Money*.

All information provided in this guide about bank accounts and other savings products, including interest rates and account rules, is correct as of March 2017.

Contents

Time to take action on low rates

The Bank of England's record-low base rate has left savers earning next to nothing, but there are ways to get a better return

Times are tough for savers struggling to earn a decent return on their money. The Bank of England began cutting interest rates at the end of 2007 as the financial crisis began to wreak havoc, and by March 2009 its base rate stood at an unprecedented 0.5%, where it remained for more than seven years.

Worse was to come in 2016, at least from a saver's perspective, as the Bank cut rates even further, to 0.25%, as it sought to stabilise the economy in the wake of the UK's referendum vote to leave the European Union.

For much of that period, one consolation was that inflation also remained exceptionally low. This at least meant savers' cash was growing in real terms, despite the low interest rates on offer. More recently, however, inflation has begun to rise again. By the end of 2016 it stood at 1.6%, the highest level for more than two years. As a result, not a single instant-access cash Isa (individual savings account) paid an inflation-beating rate of interest.

Savings account providers were quick to respond to the 2016 base-rate cut, with more than 300 rates cut in the month following the reduction alone, and more than 1,100 over the course of the year.

Moreover, those reductions were often disproportionate. The best instant-access savings account on 1 January 2016 paid 1.65% annual interest; by the end of the year, the best rate on offer was 1%. That was a reduction of 0.65 percentage points, even though the Bank of England's base rate fell by only 0.25 percentage points.

Nor is there any guarantee that interest rates will start to rise again in the near future. Economists have repeatedly put back their estimates of when the Bank might start raising rates, and few expect to see any increases before 2018.

> "Be prepared to think creatively about savings products. You may be able to earn more if you're willing to tie up your cash for a fixed period"

A route through the gloom

The good news is that there are still steps you can take to earn better rates. While you may need to take a more proactive and flexible approach to saving than ever before – by hunting for the best deals and considering a wider range of savings products – the guidance provided on these pages will help you make the most of the savings options on offer today.

Five ways to beat low rates

We'll cover your options in detail in this guide, but keep the following key points in mind when reviewing your approach to saving.

1 **Shop around for the best rates.** Whatever savings product you choose, it's more important than ever to shop around for the best deal. The difference in cash terms between the best and worst accounts can be significant. For example, on a balance of £10,000, you'd earn around £72 more after a year from the best instant-access account compared with an average deal.

2 **Take full advantage of tax-free allowances.** Under the new personal savings allowance, introduced in April 2016, you can earn up to £1,000 of interest tax-free (£500 if you're a higher-rate taxpayer). So now an Isa is not the only way to protect your savings from tax.

3 **Consider tying up your cash for a set time.** Be prepared to think creatively about savings products. You may be able to earn more if you're willing to tie up your cash for a time in a fixed-rate deal.

4 **Take advantage of high-interest current accounts.** Many high-street banks offer current accounts that pay interest – these are an increasingly valuable option for savers.

5 **Think about investing.** Investing offers greater growth, and income, potential than cash savings, particularly over the longer term, but always carries an element of risk. If you have decided that now is the time to put your money into the markets, a stocks and shares Isa is a good place to start.

Find out more

The Which? Money Compare savings and Isas tables are an impartial and easy way to compare all the latest savings deals and find the best option for you. Visit **moneycompare.which.co.uk**

Why you should still consider Isas

Individual savings accounts come in a variety of different forms and could help you earn more on your money

Individual savings accounts (Isas) are tax-free 'wrappers' that can be used to put money into a broad range of savings and investment products, up to a maximum amount each year – £15,240 in 2016-17, rising to £20,000 in 2017-18. Any interest earned from this money is free of all taxes, whereas income (and profits) outside of an Isa can be subject to tax.

The main differences between a cash Isa and other bank and building society savings accounts are that interest from an Isa is automatically tax-free and there's a maximum amount you can put into an Isa each year.

Until recently, a cash Isa was seen as the best way for most people to earn tax-free interest on their savings. Since April 2016, however, the attractions of cash Isas have been somewhat diminished by the introduction of a new personal savings allowance. This allows basic-rate taxpayers to earn interest of up to £1,000 per year on non-Isa savings (or £500 for higher-rate taxpayers) without owing any tax. So, the vast majority of savers no longer need a cash Isa to save themselves a tax bill.

The new personal allowance means you now have a wider choice of tax-free savings – pretty much any savings deal, as long as you don't earn over the £1,000 or £500 interest limits. But it is still worth considering cash Isas, if they pay decent rates and you're not using your tax-free Isa allowance for any other type of investment. If interest rates start to rise again in future, the personal savings allowance may start to appear less generous, but your Isa earnings will remain free of tax, no matter how much they may grow.

Remember, cash Isas come in different forms. You may be able to get a better deal by fixing your rate, usually over a set term during which you agree not to make withdrawals. Also, you're entitled to switch previous Isas to new providers, and you should do so if this will increase what you earn, though it's essential to arrange the transfer through your new provider.

> "Lifetime Isas are new tax-free accounts designed to help under 40s buy their first home or save for retirement"

More Isa options

Cash Isas are only one of several options for savers looking to maximise their returns, with a series of new products introduced in recent years. Depending on your circumstances, consider the following types:

- **Help to Buy Isas** – these will be available until 2019 and are targeted specifically at would-be first-time buyers. For every £200 you save, the government will add an extra £50 towards a deposit on your first home, up to a maximum of £3,000. You can't contribute to a Help to Buy Isa in the same year as a cash Isa.
- **Lifetime Isas** – these new tax-free accounts are designed to help the under-40s buy their first home or save for retirement, and are available from April 2017 for those aged 18 to 39. In a lifetime Isa, for every £4 you save, the government will add £1 (up to a maximum of £1,000 a year), which is paid at the end of tax year, up to the age of 50. Plus you can open other cash Isas in the same year, as long as you don't go over the overall Isa allowance. Lifetime Isa cash has to be used either for a first-home purchase or left untouched until you reach the age of 60.
- **Stocks and shares Isas** – these allow you to use your tax-free Isa allowance to invest in the stock market and other assets that can fall in value as well as rise. The idea is that in exchange for taking this risk, the long-term returns, including both income and profits, will potentially be better. See p14 for more details.
- **Innovative finance Isas** – these let you invest in peer-to-peer lending; you earn interest by lending cash to individuals or small businesses without paying tax. See p18 for more details.

Find out more
Our Savings Booster tool can help you maximise your saving returns. Visit **which.co.uk/savingsboost**

How to make the most of Isas

1 **Get the best possible rate** on cash Isas by shopping around. Consider accounts that pay more if you commit to making regular deposits or locking your money away for longer.

2 **Use your allowance wisely.** Isas guarantee tax-free returns on your savings, even if interest rates rise in future. But remember you can also spread your allowance across more than one type of Isa – don't put all your savings in a cash Isa if you don't need to.

3 **Find out if you are eligible for specialist accounts**, such as Help to Buy or lifetime Isas, where a government top-up boosts the returns you earn.

4 **Consider taking additional risk.** If you're prepared to invest for the longer term, via stocks and shares Isas or innovative finance Isas, you could enjoy higher returns.

5 **Monitor your Isa returns and rates.** Keep track regularly of the rates you're earning, and be prepared to switch if better deals are available elsewhere.

Savings deals: options for everyone

By looking across the whole savings market, you'll increase your chances of finding the best deals

The new personal savings allowance means cash Isas are no longer the only option for savers looking for the best tax-free returns (see p6). While there are still benefits to a cash Isa, with stubbornly low rates it pays to consider all the options available. Here are the main types of non-Isa savings accounts on the market.

Easy-access savings accounts

Easy-access savings accounts allow you to withdraw your money quickly. Some allow you to take out money from cash machines, some offer over-the-counter withdrawals, and many allow you to transfer money out of your account online, penalty-free.

Saving in an easy-access account makes sense if you think you might need to withdraw some of the cash you've put aside. Keep emergency savings in an easy-access account so you won't struggle to get at them in a crisis.

Check the small print carefully. There may be a limit on the number of withdrawals you can make each year without losing interest. Also, while many easy-access accounts offer an introductory 'bonus' interest rate, these accounts are typically variable-rate deals. After any introductory bonus expires, the rate you get on your cash may drop.

Some easy-access savings accounts pay more than cash Isas, particularly if you're savvy about moving on once any introductory bonus expires.

Notice savings accounts

Saving in a notice account means you'll have to tell your provider in advance if you want to make a withdrawal. For some of these accounts you'll have to give 30, 60 or 90 days' notice before withdrawing money – so they're not suitable if you may need to get at your savings unexpectedly. If you do make an emergency withdrawal from a notice savings account, you're likely to lose some interest.

In the past, notice accounts generally offered higher rates than instant-access deals, but this is no longer always the case. Before opening a notice account check whether you could get the same return elsewhere without restricted access to your money. Again, notice accounts are likely to come with variable interest rates, so it's important to keep an eye on your return.

Unless you can secure a significantly better rate in a notice account, stick to easy-access options.

Regular savings accounts

Regular savings accounts require customers to deposit money each month – so they're ideal for savers who wish to drip-feed cash into their account in a disciplined way. They don't usually allow unscheduled withdrawals, which means they're not a great place for emergency savings. These accounts limit the amount you can invest each month – the maximum deposit is typically between £250 and £500 – preventing you from placing extra cash in your account as and when it suits you.

Regular savings accounts often pay very good interest rates, but only for 12 months. To access the top-paying accounts you need to hold a current account with the same provider.

Fixed-rate bonds

Fixed-rate bonds offer a fixed interest rate on your cash for a set period. While they often come with higher interest rates than easy-access, notice or regular savings accounts, opening one will mean giving up access to your money for the entire term of the bond.

Fixed-rate bonds typically extend over one or two years, but some can last up to five years. In general, the longer you're prepared to lock away your cash, the higher the return you can get. While it may be possible to get your money out of a fixed-rate bond in an emergency, it's likely you'd pay a hefty interest penalty for doing so.

Investing in a fixed-rate bond is one way to protect your savings return in an era of falling rates, but be aware the opposite is also true: if you lock your money up in a fixed-rate bond just before rates rise, your cash won't benefit from the increase.

Fixed-rate bonds pay higher rates to those prepared to lock up their money for longer periods.

A new option from National Savings & Investments

A new Investment Guaranteed Growth Bond was launched by NS&I in April 2017. Offering interest of 2.2% a year over three years, it should be a market leader. The bond is expected to be popular, although it is only available online and is subject to a maximum investment limit of £3,000.

Bank accounts that give your savings a boost

Earn up to 5% with an interest-paying current account

For relatively small sums, interest-paying current accounts, available from several high-street banks, are a good option. These have emerged as white knights for struggling savers in recent years, with some accounts paying up to 5% interest. There are drawbacks – you earn returns on a limited balance only, and must comply with account terms, conditions and restrictions – but as we show on p12–13, you can use the system to your advantage.

Start by finding the bank accounts paying the best rates of interest on the amounts of cash you have available – the number of accounts you can open is limited only by the amount of money you have to save and the bank's rules. Our online comparison tables can help with all the detail, as well as revealing which banks are rated highly enough to be named as Which? Recommended Providers. Visit **which.co.uk/bestaccount** to get started.

> **"Study the interest rules carefully. Each account limits the balance on which you can earn interest"**

Next, check account requirements. Banks often expect you to meet criteria, such as minimum monthly deposits and direct debits, to qualify for interest or to avoid paying a monthly fee on the account. For example, Lloyds Bank Club and Santander 123 account holders must set up at least two direct debits in order to qualify for the best interest rates.

Study the interest rules carefully. Each account limits the balance on which you can earn interest but, in most cases, banks will allow you to open a second main or joint account, essentially doubling that amount. Watch out for accounts with tiered interest (where you get a higher rate for having a higher balance) as you must have a balance within the top tier to earn the top rate. At lower tiers, these accounts become less competitive.

Earn more with multiple accounts

Once you've identified the best accounts – including criteria such as bonuses for opening an account in the first place – you can start to explore ways to make the most of the system.

Is my money safe?

Banks are covered by the Financial Services Compensation Scheme (FSCS), which means your savings are protected by the government up to £85,000 if a financial institution goes bust. If you have more than this in savings, spread your cash across different institutions to ensure your money is protected. Check our guide to who owns which savings providers to make sure all of your money is fully protected at which.co.uk/bankingwho

By setting up your first account so that it makes regular payments from your savings into additional high-interest accounts – and repeating this method until the last account returns money to the first – you can meet all the banks' account requirements and earn interest from all of them. You'll just need to be sure you have enough money in each one to meet the minimum balance requirements.

Managing high-interest current accounts in this way requires you to be organised and disciplined. You'll also need to keep a close eye on the deals each bank is offering. Santander, for example, halved the rates payable on its popular 123 current account following the 2016 Bank of England base-rate reduction.

Nevertheless, playing the system in this fashion can generate unexpected bonuses (see p12–13 for examples). The banks are keen for you to open their current accounts, since they hope they'll be able to cross-sell their other products, so take advantage where you can.

How to get the best deal from the banks

With a little research and careful planning, you could boost your savings by transferring cash between a number of interest-paying bank accounts

Below, we've set out a step-by-step example of how you could make the most of interest-paying current account deals. Of course, this is just an example. The best way for you to maximise returns will depend on your own personal circumstances.

1 Earn cash by switching

Start by making a Halifax Reward current account your main account. Although this isn't an interest-paying account, you could begin with this switch to take advantage of the account's £75 tax-free switching incentive. The account also pays a £3-a-month reward as long as you pay in at least £750 a month. For our example, you will need to start with £1,000 in this account that will be used to circulate around your high-interest current accounts and return to the Halifax each month.

2 Open multiple accounts

Let's imagine you have another £5,000 to play with. You could put £2,500 in a Nationwide FlexDirect account and another £2,500 in a Club Lloyds account from Lloyds Bank. If you have more to save, use our money tables to identify the next best high-interest accounts – visit **which.co.uk/banking**.

3 Transfer cash from your main account

Transfer the £1,000 from your Halifax Reward account into your Nationwide FlexDirect account. The FlexDirect account offers an interest rate of 5% for 12 months on deposits up to £2,500, but you must make a minimum £1,000 deposit each month. Your transfer-in of £1,000 means you'll comply with this condition and get 5% on your £2,500 deposit. Your FlexDirect balance will now stand at £3,500.

4 Circulate it between your other accounts

Next, transfer £1,500 from your Nationwide FlexDirect account to your Club Lloyds account. This account offers 2% interest on deposits up to £5,000. The minimum monthly deposit on a Club Lloyds account is £1,500, so your transfer has met this requirement, meaning you have just earned 2% on a further £1,500 of your savings. The balance on your Club Lloyds account will now stand at £4,000.

5 Transfer it back to your main account

Finally transfer £1,000 from your Club Lloyds account back into your main Halifax Reward account, along with any interest you have earned. You have just earned 5% interest on £2,500 and 2% on another £2,500.

6 Repeat steps 3 to 5 each month

Repeat steps 3 to 5 every month, ensuring that you meet the requirements of all the accounts in order to earn the maximum interest on the whole £6,000.

Which? Money Compare

Whether you're looking for a bank account, savings account or credit card, you can use our comparison tables to find the best deals. The tables provide easy-to-use, impartial comparisons of the best products from the main providers, all in one place. Our unique customer satisfaction scores also tell you how thousands of people rate the quality of service that they've received from their provider. We'll also warn you when an account limits withdrawals or deposits, so you can pick an option that lets you manage your money with the minimum of hassle. Visit whichcompare.co.uk to get started.

My smart saving tips: Joe Elvin, Which? money expert

In 2016 I decided to maximise the returns on my savings by spreading money across three current accounts. Here's how I went about it,

I deposited £2,500 in a Nationwide FlexDirect account and £2,000 in a TSB Classic Plus account, which both paid 5% interest in the first year. The rest was kept in a Santander 123 current account. All of my utility bill payments came out of this account, as Santander offered cashback on these.

Both the TSB and Santander accounts had regular savings accounts paying 5% interest linked to them, into which I drip-fed money each month. I also opened a Help to Buy Isa with Halifax back when this account offered 4% interest.

It takes a while to set up all of the standing orders you need to ensure that all the accounts are credited with the minimum monthly deposit but, once that's done, you can sit back and watch the interest accumulate. With a little bit of patience, you can still make your money work for you, even when interest rates are at an all-time low.

Watch out!

Multiple current-account applications in a short space of time may affect your perceived credit-worthiness. Because most of these accounts come with an overdraft facility, it will be recorded on your credit file that you've opened a credit account, and opening several credit accounts in quick succession makes you more likely to be viewed as high risk by lenders. Although it won't have a permanent impact on your credit rating, it's worth being aware of this, especially if you have plans to apply for other loans or credit.

Interest rates and account conditions correct as of March 2017.

Boost your long-term returns by investing

Taking a calculated risk may be the best way to beat low interest rates over the longer term

With interest rates now expected to stay lower for longer, consider taking some additional risk to earn better returns on your money. This isn't the right option for everyone: concentrate first on paying off debts, building up an emergency buffer of cash savings worth six months' pay and protecting your family with insurance where relevant. But if you are in a position to take a longer term view, investment could prove to be a fruitful option.

In the past, investments such as shares listed on the stock markets have tended to outperform cash savings over the longer term – over a five- to 10-year period, say. That hasn't always happened, and the past isn't necessarily a guide to the future, but if you're prepared to accept the risk of your money rising and falling in value over short-term periods, the pay-off could be a better long-term return.

There are lots of different investment options – they include not only the stock market but also bonds issued by governments and companies, property, and even commodities such as oil, gold and diamonds. You can usually choose to invest either directly in these assets or via a collective investment fund, run by a professional fund manager who pools your money with that of other investors and decides where to invest it.

Stocks and shares Isas

Most investments can also be held within a tax-free individual savings account (Isa). Your Isa allowance for the 2017-18 tax year is £20,000 (rising from £15,240 in 2016-17), but any contributions you make to a cash Isa come out of the same allowance. So, if you subscribe £5,000 to a cash Isa with a bank or building society, you can subscribe a maximum of £15,000 to a stocks and shares Isa in 2017-18.

Be aware that you can only pay into one cash Isa and one stocks and shares Isa in each tax year (although from 2017-18 you can also pay into a lifetime Isa alongside the two main types – see p7). If you want to switch provider and then make additional contributions, you'll need to transfer your Isa first. For more information on the rules covering stocks and shares Isas, visit **which.co.uk/investing-isas**.

Since there is no tax to pay on investments within an Isa, the shelters can be valuable, especially over the longer term, when your profits might otherwise be subject to capital gains tax. But you don't have to use Isas for these investments – if you're using your Isa allowance in a different way, you can hold investments separately.

Cash can be risky, too

The risk associated with putting money into the stock market may sound off-putting, but remember that you're also taking a risk by staying in cash. If the returns you earn are lower than inflation, you're effectively losing money in real terms – the purchasing power of your cash will steadily be eroded by rising prices.

"Regular savings plans, available from many fund providers, can be an excellent way to invest in the stock market and other assets over time"

Consider regular investment plans

Regular savings plans, available from many investment brokers, can be an excellent way to invest over time. You typically set up a monthly direct debit to an investment fund – from as little as £25 – so that you're investing a regular sum each month. This can be a very disciplined way to invest, inside or outside of an Isa.

Drip-feeding money into your fund in this way may also see you benefit from a statistical quirk known as 'pound-cost averaging', which can help smooth out the ups and downs of the stock market. Paying in the same amount on a regular basis means buying shares at different prices, rather than all at the same price, helping to limit exposure to volatile markets.

Find out more

For more guidance on the basics of investing, visit **which.co.uk/readytoinvest**

Seven steps for getting started with investments

If you've decided to move beyond cash and into investments, here are the basics of how to do it

1 Advice or DIY?

Good financial advice could be the best investment you ever make. An independent financial adviser will assess your personal circumstances and attitude to risk before making recommendations. Only use an adviser registered with the Financial Conduct Authority, as they have a strict code of conduct to follow. However, many investors prefer to go it alone – in which case, the following steps will help.

2 Find a provider that suits your needs

You'll need a provider through which to buy and manage your investments, whether within an Isa or not, and there are several options:

- The banks – several big banking names offer stocks and shares Isas, although investment options are usually limited.
- Fund supermarkets – these online platforms offer a convenient way to buy a wide range of funds (inside or outside of an Isa) and to hold all your investments in one place. They include providers such as Hargreaves Lansdown and Charles Stanley Direct, which offer a range of tools and research information to help your investment decision. Cheaper budget fund supermarkets offer lower charges but fewer resources. Which? members can find reviews of fund supermarkets at **which.co.uk/fundsuper**.
- Stockbrokers – these more traditional firms also offer plenty of resources to help investors; most are also available online.

3 Decide how you want to invest

With lump-sum investing, you invest larger sums upfront to get your money working for you, with any earnings compounding the value of your fund. If you're investing for the long term – at least five but ideally 10 years or more – timing the market should not be an overriding concern. It's time *in* the market that matters.

You can also make regular savings, either with ad-hoc contributions or through a monthly direct debit for a fixed sum. This can be a disciplined way to save while smoothing out some of the ups and downs of the market.

4 Asset allocation

Investing in a diverse portfolio is key to managing the risks you take in your investments. Different assets, such as equities (shares), corporate bonds and gilts, and commercial property, move in value at different times and for different reasons, so a balanced portfolio will provide a degree of protection against falls in any one area.

5 Active or passive funds?

Some fund managers actively pick shares or bonds according to an agreed strategy in an effort to beat the market, while other funds invest passively, meaning they simply track a particular stock market index. This might be, for example, the FTSE All-Share, which includes all companies listed on the main London stock exchange.

The trouble with active fund managers is that few manage to beat the market on a consistent basis. And because they take higher charges out of their funds it's likely that many will disappoint in the future. By contrast, index funds come with much lower charges than active funds – but you do give up the opportunity to beat the market.

6 Review but don't tinker

Once your investments are in place, particularly if you use an online platform, it can be tempting to log in and view your account on a regular basis. The danger with this is that you will be drawn into tinkering with your portfolio.

If your original portfolio is set up on a sound basis, you should aim to leave it in place for the long term. Use annual reviews to make sure your investments haven't strayed too far from your desired asset allocation, rebalancing only if necessary.

7 Consolidate

If you end up having different stocks and shares Isas from different tax years, held through different providers, it can make managing your Isa investments unwieldy. If you decide that one provider suits your needs, you can transfer investments from previous years into the one account, making it easier to monitor and administer your investments. You can also hold your Isas alongside other non-Isa investments.

How do I find the best advice?

To decide if an independent financial adviser is the right option for you, and for tips on how to choose one, visit **which.co.uk/financialadvice**

Is it time to trust peer-to-peer lending?

Online peer-to-peer platforms offer savers the chance to lend their money direct to borrowers and to earn interest in return

Savers looking for a better return on their money have increasingly been attracted to online peer-to-peer lending platforms since these began launching a few years ago. Such platforms do indeed often offer higher returns than conventional savings accounts and are certainly worth considering, but they're also riskier. Do your homework before committing your money so that you understand the dangers and are comfortable with them.

The basic principle is that peer-to-peer lending sites match up savers, who have cash they are willing to lend, with borrowers – either individuals or small businesses. In return, savers earn a rate of interest, typically higher than anything a bank or building society would offer. The downside is that if borrowers default on their loan, savers could lose money – and peer-to-peer sites aren't covered by the Financial Services Compensation Scheme, which guarantees savings with banks and building societies up to the value of £85,000.

Peer-to-peer lending sites manage this risk in different ways, and they also advise savers to invest in a spread of loans, to mitigate the damage any single default might cause. Some offer compensation funds to cover you if a borrower defaults. Others pay higher returns upfront to compensate for additional risk.

Check the rates on offer carefully to be sure you understand exactly what you're being offered. In many cases, the platforms offer different classes of loan – where they judge the creditworthiness of the borrower to be weaker, the returns will be higher, but you'll be taking more risk. Also check whether the return quoted takes all charges into account.

“Do your homework before committing your money so that you understand the dangers and are comfortable with them”

Peer-to-peer Isas

In April 2016 the government launched innovative finance Isas, which enable investors on accredited platforms to hold their portfolios of loans within a tax-free Isa account. Normally, income you earn from a peer-to-peer platform counts as interest for tax purposes and therefore goes towards your personal savings allowance. Above the thresholds (£1,000 for a basic-rate taxpayer and £500 for higher-rate taxpayers), it would be taxable.

In the first year of the scheme, however, innovative finance Isas have not been widely available. Peer-to-peer platforms need approval from the Financial Conduct Authority (FCA), the main financial regulator, before they can offer their services through innovative finance Isas. So far, the FCA has processed only a small number of applications.

This will change over time, and innovative finance Isas are likely to become much more popular, especially while low interest rates persist. That's fine, as long as you understand exactly what you're getting into. Peer-to-peer lending is a relatively new phenomenon that hasn't been tested in all market conditions; it's certainly more risky than conventional savings, especially without access to the government's compensation scheme, and in a full-scale economic downturn or credit crisis, losses might be far higher than the relatively low default rates seen so far.

Find out more

Which? asked its members to rate their experiences of using the three largest peer-to-peer lending platforms in the UK. Visit **which.co.uk/p2psites** to find full results of our survey.

Make sure your money works hard all the time

If your money isn't earning a competitive rate of interest, move it to a better deal elsewhere

In one sense, the prevailing interest-rate climate should not affect the way you think about your savings – it should always be a priority to make sure your money is working as hard as possible. That means keeping a close eye on what your money is earning and switching it if a better opportunity becomes available elsewhere.

Your starting point is to identify exactly what interest rate you're currently earning on your savings – the answer may surprise you, if an attractive introductory bonus rate has now expired, or your provider has cut its rate without you noticing. Check online with your provider, or in person by phone or in a branch, to get definitive information.

Armed with that information, the Which? Money Compare tables can help you to determine how much more you could earn by switching to a different provider or even to a different type of savings product. The tables let you search available savings accounts and Isas from all the major providers, helping you choose the best savings option based on quality of service as well as cost and benefits.

Importantly, our tables show the top interest rates for savings accounts and cash Isas, grouped by the different types available – regular, instant-access or fixed-term accounts, for example. Remember, the best deal for you today may not be a like-for-like swap – it may make sense to move from a cash Isa to a taxable account, for example, if the latter pays more interest and you're not currently using up your personal savings allowance (see p6). Likewise, you could secure a better return by switching your savings from a regular account to a fixed-term deal.

Which? Money Compare

Which?'s comparison tables offer a comprehensive snapshot of the savings market, helping you to pinpoint the best deal for your needs. The tables are updated three times a day. We don't carry advertising and we don't allow providers to pay to optimise their search results. Visit moneycompare.which.co.uk.

> "When you've identified the account you want, double check the terms and conditions of your existing account before taking the plunge"

Get ready to switch

When you've identified the account you want, double check the terms and conditions of your existing account before taking the plunge. In some circumstances, there may be switching costs that would cancel out the benefits of a transfer. If you're currently locked into a fixed-term deal, for example, it may work out cheaper to wait for the current deal to expire before switching. Even if your provider allows you to cancel early, penalty charges may wipe out any potential gains.

When you're ready to proceed, contact your new provider. If you're transferring an Isa, there's only one way to do it: fill in a transfer form with your new Isa provider, who will then make the arrangements to ensure you don't lose your tax protection. For other transfers, it should simply be a question of opening a new account and moving the money across, though check your existing provider's terms: some allow you to make a Bacs transfer straight into your new account, while others will require you to transfer the money to a current account first.

Finally, having made the switch, don't rest on your laurels. If the new savings account has an introductory bonus, make a note of when it ends, as you may need to switch again. Even if that's not the case, make regular checks on what you're earning, and keep switching to make sure your rates stay competitive.

Money expertise you can trust

The Which? Money Helpline gives independent one-to-one guidance over the phone. The Helpline is staffed by a team of experts who can help you deal with your financial issues – from saving and investing to insurance, pensions and tax queries. Which? members benefit from unlimited access to the Helpline. If you'd like the reassurance of receiving expert help that's 100% unbiased, from an organisation that you can trust, visit which.co.uk/helpline to learn more.

Premium bonds: taking a chance on a payout

Premium bonds offer the potential of a big win, but there is no guarantee you'll earn anything at all on your money

Premium bonds are the nation's favourite investment. Instead of paying interest, every bond is entered into a monthly prize draw, with winners being selected at random by National Savings & Investments (NS&I). You can invest from £100 up to £50,000 in total. Monthly prizes start at £25 and there are two £1m monthly jackpots, although NS&I reduced the number of other big prizes in June 2016.

NS&I's computer – known as Ernie (electronic random number indicator equipment) – generates random numbers that are then matched against eligible bond numbers to determine the winners. Landing a prize is a lottery, so you could hit the jackpot, or never win a single prize, but the odds of each £1 bond number winning a prize are around 30,000 to one.

Prizes are tax-free, but it's difficult to compare premium bonds to other types of savings account. The annual prize fund interest rate was reduced from 1.35% to 1.25% in June 2016 and will come down to 1.15% in May 2017, but in practice you could earn much more or less – or even nothing – depending on the luck of the draw.

If you don't win, you can cash in your premium bonds at any time – and NS&I, as the government-run savings bank, is very safe – but over time their value will still be eroded by inflation. That risk aside, this is one gamble where you do get your money back if unsuccessful, but there's no guarantee you'll get any return on top.

Track down old bonds

If you think you may have old premium bonds, but you've lost the details, National Savings & Investments offers a free tracing service. Vist nsandi.com for details.

Jargon buster

Don't let financial jargon stop you identifying the best savings deals

- **AER** – the annual equivalent rate is a representative interest rate designed to help compare savings accounts. It shows the actual interest rate you would get, including bonuses and other payments, if you kept money in the account for a full year.
- **Base rate** – an interest rate set by the Bank of England that banks and building societies use as a reference mark.
- **Bonus** – an interest payment that's not part of a product's standard interest rate; for example, a bonus payment may be available for a limited introductory period or in return for you managing the account in a particular way.
- **Cash Isa** – a tax-free savings account (see also, 'Isa').
- **Deposit** – the amount you pay into a savings account.
- **Early access** – withdrawing your money ahead of the schedule laid down in the terms of your savings account; there may be penalties to pay.
- **Easy access** – a savings account offering immediate access to your money without penalty.
- **Financial Services Compensation Scheme (FSCS)** – the government scheme that guarantees compensation to savers, up to a maximum of £85,000, should they lose money if a bank or building society goes out of business.
- **Fixed rate** – a rate of interest set at a specific level for an agreed period, no matter what happens to the base rate.
- **Inflation** – the rate at which, on average, the cost of goods and services in the country are rising, measured by the consumer price index. If inflation outstrips the returns you're earning on your money, it is losing value.
- **Isa (individual savings account)** – a tax-free 'wrapper' or shelter that can be used to hold a variety of savings or investments, within certain annual limits. The Isa allowance for 2016-17 is £15,240, rising to £20,000 in 2017-18.
- **National Savings & Investments (NS&I)** – the government-backed national savings bank.
- **Peer-to-peer lending platform** – an online service that matches savers who have cash to invest with borrowers who are looking to secure a loan.
- **Personal savings allowance** – the amount of interest you may earn each year tax-free; this is currently £1,000 for basic-rate taxpayers and £500 for those on the higher rate.
- **Regular savings account** – an account that requires you to deposit money regularly, usually monthly, in order to qualify for the interest rate advertised.
- **Tiered interest** – an interest rate that changes according to how much you hold in the account; typically, higher rates are paid on balances above certain levels.
- **Variable rate** – an interest rate that the account provider is entitled to change, either at its own discretion or in specific circumstances.