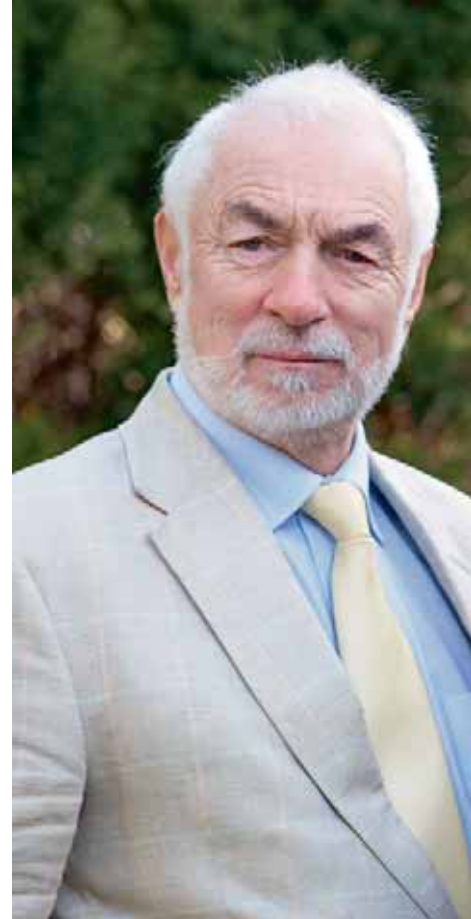


4 ways to beat the savings crisis



IN BRIEF

In this report we help you to:

- get a good return on your savings
- choose the right type of account
- decide whether switching is worth it.

With interest rates tumbling, we show you ways to find the accounts that still give you a good run for your money

This time last year cash was king, with average interest rates on easy-access savings over £5,000 at more than 4% compared with the current 1.14%. And Best Buy savings accounts and cash Isas were topping 6%, while the best are now paying around 3.6%.

Since the credit crunch hit, property prices have crashed down, bringing with them a few banks and other financial institutions. Joining them in freefall is the Bank of England base rate, cut five times since last October and

now at its lowest ever point of 1%, compared with 5.25% last March.

However, some things haven't changed. As usual, banks pass on the lower interest rate to borrowers at a snail's pace, but in many cases are almost indecent in their haste to slash savings rates, leaving savers struggling to find a good home for their cash.

Staying in cash

If cash is still where you need to be, here are four ways to help you get the best return on your money.

1 Best Buy accounts
Even when interest rates are falling fast, there will always be some accounts that are better than others. For example, as we went to press, Tesco paid 3.6% on its easy-access internet savings account, compared with a dire 0.05% from Yorkshire Building Society's Cash Transactor account.

Assuming interest rates remained unchanged, you would earn an extra £355 in interest over a year on £10,000 in the Tesco account.

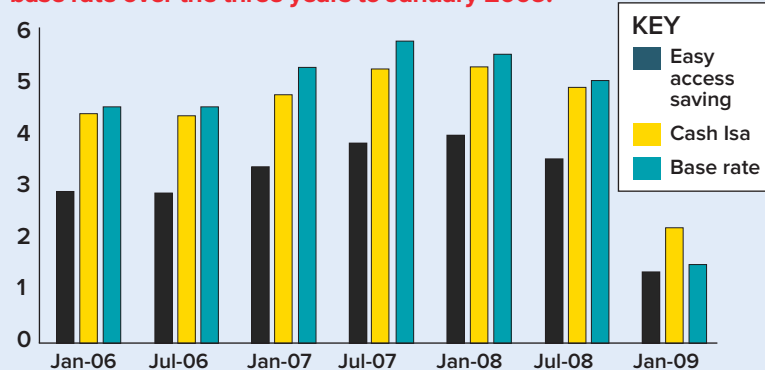
Our Best Buy cash Isas and easy-access savings accounts as at 2 February are on p28-29. For the very latest Best Buy information, go to www.which.co.uk/savings. Or if you want to search the market for the best savings accounts to suit your needs, try our interactive savings calculator at www.which.co.uk/savingsfinder.

If you're saving for the first time, don't just go with your bank because it's easy – shop around for the best rate you can get. And if you can tie your money up for one or two years, it's worth considering fixed-rate savings accounts. The best one-year fixed account from ICICI Bank currently pays 4.3%.



AVERAGE INTEREST RATES COMPARED

The chart shows the movement of the average rate for cash Isas and easy-access savings accounts against the Bank of England base rate over the three years to January 2009.





PLAYING IT SAFE

John and Mae Waterson, retired

John and Mae Waterson have a fixed-rate savings account with Anglo Irish Bank, which is about to come to an end. They have been offered another fixed rate of 4.75% to stay with Anglo Irish, but are worried about the safety of their money in the light of the bank's nationalisation.

The Irish government has guaranteed to cover 100% of money deposited into Irish banks. This is a higher level of cover than the UK compensation scheme (which covers you up to £50,000), but because of this Irish banks are no longer covered, even partially, by the UK scheme. So if an Irish bank does go into default, savers must rely entirely on the Irish scheme to pay out.

Because of what happened with the

Icelandic scheme after Icesave failed, Which? decided to exclude any bank not fully covered by the UK compensation scheme from our Best Buy tables. That's why Anglo Irish and the other Irish banks – despite offering good rates – are not currently Best Buys.

John and Mae are nervous that if more banks fail, this may put undue strain on the Irish compensation scheme and the Irish economy. John said: 'I think I will simply take a very cautious route and place my maturing funds, which are much less than £50,000, with a British bank or building society where I am totally protected under the UK compensation scheme. I will probably not earn as much interest, but at least I'll sleep at night.'

Time to invest?

If you're watching the interest you receive from your cash plummet, you may be tempted to opt for stock and shares.

Stock market investments have also fallen over the past year, but advisers and fund managers are trying to entice cash savers over to shares by reminding them that while share prices go down, they go up again – usually at a faster rate than cash.

However, don't be side-tracked by these messages. Think about where you're comfortable putting your money.

Just because interest rates are falling doesn't mean you should suddenly switch to more risky investments if they weren't right for you before. If you can't afford to lose your money or you need access to it within five years, stocks



and shares are not for you.

However, if you're prepared to take a risk and tie up your money for more than five years, now might be a good time to invest. If you're not sure, take independent professional advice.

2 Taxed vs tax-free
If you are a taxpayer, get as much as you can out of taxed accounts into tax-free accounts such as cash Isas. You can put up to £3,600 into a cash Isa before 5 April 2009, and another £3,600 from 6 April 2009.

With an ordinary savings account, any interest you earn will be taxed at 20% if you're a basic-rate taxpayer, and 40% if you're a higher-rate taxpayer. Some people may be taxed at just 10%, but only if some of their savings income when added to all their other income was less than £2,320 during 2008-2009 and

£2,440 after April 2009. Even if you are being taxed at only 10%, it's still 10% of your interest going in tax instead of to you.



If you put £3,600 into a cash Isa paying 3.5% a year, it would give you £126 in interest at the end of the year. A basic-rate taxpayer would only receive £101 if the same amount was saved in a taxed account, and a higher-rate taxpayer only £76.

So by moving your money into tax-free accounts such as Isas, you automatically increase your return by 10%, 20% or 40%, depending on the rate of tax you pay.

WHICH ACCOUNT SHOULD YOU CHOOSE?

The chart shows how much interest you would have earned from March 2008 to February 2009 on savings of £18,000 with a range of accounts. The tax-free Best Buy Isa is the clear winner.





Charity Bank, which pays 3% on its cash Isa, supports projects such as this training scheme for refugees

3 View the alternatives
Don't assume that you'll get the best rates from mainstream banks and building societies. Think about other savings-account providers such as smaller building societies, NS&I and credit unions.

For example, the Charity Bank (a bank that makes loans only to charities and community projects) is currently paying 3% on its cash Isa, and the Kent Reliance Building Society cash Isa has been a Best Buy since Isas were launched in 1999.

which? MONEY SAVER
The low rate of 0.15% from Halifax/Bank of Scotland's Isa Saver account would give you a miserly £15 on a £10,000 saving, compared with £300 from the Charity Bank's Isa.

One of the biggest credit unions, the No 1 Copperpot, is currently paying a huge 4.75% on its Isa – though it is only available to police staff and their immediate families. Other big credit unions often pay above-average rates. To find out more about credit unions, go to www.abcul.org.

4 Getting the right consistency
If switching your account every year to chase the Best Buy rate sounds like too much of a slog, then consider an account that has paid above-average rates for a number of years.

Checklist

Get the best rates and make your savings work harder for you

- Some accounts pay better than others, so shop around.
- If you are a taxpayer, move as much as you can from taxed to tax-free accounts. If you're saving for the first time, start by using your Cash Isa allowance.
- Don't assume mainstream banks and building societies

always offer the best rates. Look at alternatives like the Charity Bank, National Savings & Investments and Credit Unions.

■ If you are not prepared to chase the best rates all the time, consider a consistent good payer. The important thing is to make sure the

rate you get on your money beats inflation and is above the market average.



Our tables show consistent good payers over the past three years to 1 February 2009 for both cash Isas and easy-access savings accounts. We've ticked those accounts that are also currently Best Buys.

Is switching worth it? Chasing the rate can bring you a bit of extra interest, but you'll have to weigh up whether the extra you get is really worth all the time and effort that transferring an account and setting up new accounts can take.

We've calculated how much interest you would have earned if you had paid in £3,000 every year to a consistent good payer such as National Counties Building Society for three years, and how much you would have earned on the same amount if you had switched to a new Best Buy cash Isa every year to get the highest rate available.

which? MONEY SAVER
By switching, you would have been just over £22 better off over the three years than if you had stayed with the above-average payer.

This figure assumes that rates stay the same all year (which isn't always the case). Also, it doesn't take into account any interest lost during the transfers or any transfer penalties your Isa provider might impose.

So, while it's worth making sure your money is working as hard as it can for you, choosing an account with good consistency means you'll get a good rate, and save yourself time and hassle as well.

These accounts paid above-average rates consistently for three years (Jan 2006 – Feb 2009)

CASH ISAS FOR SUMS OF £3,000	BEST BUY	AER (%)
STANDARD LIFE BANK Direct	✓	3.50
KENT RELIANCE BS Direct	✓	3.01
YORKSHIRE BS e-Isa	✓	2.80
STAFFORD RAILWAY BS Cash Isa	✓	2.75
KENT RELIANCE BS Passbook Isa		2.26
NATIONAL COUNTIES BS Cash Isa		2.11
SCOTTISH WIDOWS BANK Cash Isa		1.87
BRADFORD & BINGLEY e-Isa		1.60

Minimum criteria: member of the Banking Code, covered by the FSCS, widely available, standalone – not tied, transfers in permitted, no restriction on withdrawals

EASY-ACCESS SAVINGS FOR £5,000	BEST BUY	AER (%)
EGG Internet Only	✓	3.50
NEWCASTLE BS NewcastleNet Savings	✓	3.34
YORKSHIRE BS Internet Saver	✓	3.25
AA Internet Savings	✓	3.07
TESCO Savings		2.85
ALLIANCE & LEICESTER Online Saver		2.50
BEVERLEY BS Postal Account		2.45
BATH BS Direct Saver		2.30
BIRMINGHAM MIDSHIRES Easy Telephone Savings		2.25
SCOTTISH WIDOWS BANK Instant Transfer		2.12
LOUGHBOROUGH BS Postal		2.10
AA Telephone Savings		2.05
DIRECT LINE Direct Access		1.30
ROYAL BANK OF SCOTLAND Direct Saver		0.90

Minimum criteria: member of the Banking Code, Covered by the FSCS, widely available, standalone – not tied, no restriction on withdrawals