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Page: 40



# Time to review your funds

With the UK economy in turmoil it is more important than ever to keep tabs on your personal finances, explains **Harvey Jones**

YOUR personal finances are constantly changing and you simply can't afford to ignore them. A market-leading savings account one week might become an also-ran the next. Your competitive fixed-rate mortgage may end dumping you on to your lender's pricey standard variable rate (SVR) of interest. Or your motor insurance premiums may shoot up after renewal.

The credit crunch may have also turned your finances upside down, destroying your pension plans, or dumping you into debt.

That is why you need to review your finances regularly to make sure they still meet your needs.


### SAVINGS RATES

THE credit crunch has been cruel to savers. With the Bank of England slashing base rates to 0.5 per cent, many savers are earning pitiful interest on their money, or nothing at all.

Banks and building societies are equally cruel, reserving their most competitive rates for new customers, while ignoring loyal savers.

Best-buy savings tables are dominated by newly launched accounts with short-lived introductory bonuses, says David Black, banking specialist at Defaqto. "Loyalty doesn't pay, you must review and switch your savings accounts constantly to get the best rate.

"If you have had the same account for some time you will almost certainly do better elsewhere."

If your account pays an introductory bonus for the first 12 months, move on when that bonus ends. "However, watch out for any withdrawal restrictions or penalties," Black says.

If you can tie your money up for a year or two you may secure a better rate.

"Only open a fixed-rate bond if you are confident you will not need access to the funds during the term because early withdrawals, where allowed, will be subject to interest penalties," Black says.

Five-year fixed rates which pay more than 5 per cent look attractive right now but when base rates start to rise, as they surely will, it may not look quite so competitive. However, at least you won't have to switch accounts for some time.

### MORTGAGES

YOUR mortgage is probably your biggest expense so it pays to keep tabs on the rate.

If you are on a fixed or tracker rate, you should review your mortgage three to six months before it comes to an end, says Mark Harris, managing director at brokers Savills Private Finance. "That should give you time to secure another competitive rate and switch the moment your existing deal runs out."

Although base rates have plunged, cautious lenders will only offer competitive mortgages to those borrowing for up to 75 per cent of their property's value. "That means it could take longer than you think to find a good deal so act sooner rather than later."

**'Loyalty does not pay. Switch your accounts'**

You should also review your mortgage if you are stuck on your lender's standard variable rate (SVR). "Before the credit crunch, most borrowers could get a better rate by switching from their lender's SVR, but with some as low as 2.5 per cent, this is no longer automatically the case. You might struggle to find a better deal elsewhere but it's worth checking," Harris says.

When reviewing your mortgage decide whether you need the protection of a fixed rate.

At some point, base rates and mortgage rates will increase, quite rapidly if inflation returns. If you would struggle to pay your mortgage, consider fixing. But you are likely to pay more than your current deal, with three-year fixes starting at 4.5 per cent and five-year fixes at 5 per cent. "You have to decide whether this is a price worth paying for the security of fixing your monthly repayment," Harris says.

### PENSIONS

YOU should review your personal and company pension once a year when your annual statement lands on your doormat, says Nigel Callaghan, pensions analyst at Hargreaves Lansdown. "Your statement should show how big your fund is, where it is invested and how it has performed over the past year. It should also show how much income it is likely to buy when you retire."

This is important information so read it carefully. "Many people keep the same pension for 10, 15 or even 20 years without asking whether it is right for them. If you check every year this could help you avoid nasty surprises later."

You should also review the performance of the pension funds because many are absolute stinkers.

The stock market crash has hit every pension fund but if yours has underperformed over the longer term it is time to switch.

More than £18billion is languishing in pension funds that consistently underperform, according to new research from website HowmuchdoIneedtoretire.co.uk. Among funds with more than £1 billon invested, Abbey Equity, Friends Provident UK Equity, Scottish Life Managed and Clerical Medical Balanced are the four worst performers over 10 years.

Check the charges on your pension because some older contracts are expensive. "If you are paying more than 1.5 per cent a year, or even 1 per cent, this eats into your money and you could get a better deal by switching," Callaghan says.

Many people don't realise they can switch their personal pension to a different insurer or assume it is too difficult. "It is much easier than you think and could make a big difference to your final pot," adds Callaghan.

MAKE A DECISION: Check your finances so you get the best deals

## Insurance policies should be adjusted on renewal

THE time to review your motor and household insurance is when your annual policies come up for renewal.

However, brace yourself, because the cost of comprehensive motor insurance has risen by more than 11 per cent in the past year, according to The AA. That's the fastest rise for almost a decade.

The credit crunch is partly to blame, with more cash-strapped motorists breaking the law by driving without insurance — an astonishing 1.6 million in total. There has also been an increase in fraudulent claims.

The average premium for comprehensive cover is now £778 a year but shopping around cuts this to £526, saving £252.

Examine your policy to check it still meets your needs, says Peter Gerrard, head of insurance at Moneyextra.com. "Tell your insurer if you have bought a new car, added a new driver, changed your annual mileage, installed a car alarm, or had an accident or motoring conviction because it will all affect your premium."

Cheaper isn't always better. "You may have to pay a higher excess on claims, or have lower cover limits."

You should also update your household buildings and contents cover in line with any personal changes. "Tell your buildings insurer if you have added an extension or loft conversion and inform your contents insurer if you have splashed out on, say, jewellery or a plasma screen TV. If you don't, you may be under-insured," Gerrard says.

If you bought an annual multi-trip travel insurance policy, decide whether you need to renew this when it runs out.

"People are taking fewer foreign holidays due to the recession. You could save money by taking out single trip cover when you do go away," Gerrard says.

### LIFE INSURANCE

IF YOU are the main family breadwinner and don't have life insurance, the time to review your needs is now, says Neil Thomas, director of adviser Simpsons of Brighton. "If a partner or children depend on your income, protect them with life insurance. Otherwise they could lose everything when you die, including the roof over their heads."

Term assurance a tax-free lump sum if you die within the term of the policy, typically 25 years. "The good news is that thanks to growing life expectancy the cost has actually been falling in recent years," Thomas says.

If you took out a policy more than five years ago you could buy the same level of cover for a lower premium.

You should also consider protecting yourself with critical illness cover, which pays a tax-free lump sum if you suffer a serious illness. "Alternatively, income protection pays a regular income if you fall ill and can't work. It continues until you are fit enough to return, or reach retirement age," adds Thomas.

### DEBTS

THE credit crunch makes Britain's £1,458billion debt mountain look steeper than ever. Somebody is declared bankrupt every four-and-a-half minutes and a house is repossessed every 10 minutes, according to Credit Action.

If you are in debt, face up to it now, says Frances Walker of the Consumer Credit Counselling Service (CCCS). "Start paying down the most expensive debt first."

Don't simply repay the minimum amount each month. "If you borrow £2,000 and only repay the minimum it will take you 20 years to clear it."

As a rule of thumb, if you spend more than 20 per cent of your take home pay on unsecured debt such as credit cards and personal loans, or 50 per cent when you include your mortgage, you are overstretched. "Serious debt needs constant attention, otherwise it can quickly spiral out of control," Walker says.