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Five ways to take advantage of rising interest rates to boost your savings

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It's always a good time to save more, if you can. tommaso79/Shutterstock

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With the Bank of England base rate currently the highest it has been since early 2008, you may have a valuable opportunity to increase your earnings on pensions, investments and savings accounts. After all, when the central bank raises its main rate – the base rate, which is typically used as a benchmark for loans as well as savings accounts – it is trying to encourage people to spend less and save more.

But UK banks and building societies have recently been accused of letting their savings rates lag the recent rapid rise in the base rate. UK regulator the Financial Conduct Authority has urged these financial firms to offer "fair and competitive" savings rates in response to the increasing interest rates.

Read more: ***Interest rates: why your mortgage payments are going up but your savings aren't – and how better monetary policy could help***

Many financial institutions do offer accounts with rates of 6% or more. This is good news for avid savers – but only if you keep an eye on the market so you can switch from less competitive products. This is why it's important to establish a regular savings habit, but many people are unsure about what that should involve.

My colleagues and I have studied the correlation between people's savings goals (if they have any) and how they invest their money. We also looked at how seeking financial information advice, and being "good with numbers", both influence this correlation.

We analysed data from more than 40,000 individuals in 21,000 UK households from five waves of the Office for National Statistics Wealth and Assets Survey (WAS), conducted between 2006 and 2016. This data captures comprehensive economic wellbeing information and attitudes to financial planning.

Our research shows the importance to your finances of setting multiple savings goals, keeping up with financial news, and seeking professional advice. Based on this, here are five research-based ways to make the most of your money.

1. Set specific savings goals

Establishing personal savings goals is one of the first steps most financial institutions and advisers will recommend to their customers, because it's a good idea to save regularly. Plus, our study shows that total financial assets increase in line with the number of savings goals you have, and that setting specific, rather than vague, goals leads to higher performance.

Specific savings goals should have an end date, target figure, and even a meaningful name – for example, "£1,000 for 2024 trip to Asia" or "£250 for 2023 Christmas present fund". This will create tangible reference points that encourage self-control and increase the pain you feel if you fail to meet your goal.

Savings goals – but try an interest-bearing account, rather than a jar. simon jhuan/Shutterstock

2. Seek professional financial advice

Rather than relying on friends, family and social media for financial advice, speak to an expert.

Our research shows households that access professional financial advice were more likely to allocate a higher share of their wealth to stock portfolios than those that rely on friends, family and social media for financial advice. This result was consistent even across different wealth and income levels, with lower earners possibly using products like ISAs to make investments in stocks and shares. Other research shows stock portfolios outperform most other types of investment in the long term.

We also found that access to professional financial advice can substitute for setting goals, because your adviser should help you to determine the kinds of products to invest in (which is called asset allocation) for specific timelines and aims.

3. Brush up on your maths

Several studies show numerical skills affect how households gather and process information, set goals, perceive risks, and decide to invest in various financial assets. So, by brushing up on your basic numeracy and financial literacy skills – even with free online videos – you could boost your savings for the long term.

Our study shows that individuals with high confidence in their numerical skills tend to have better financial planning habits – such as investing more in stocks and bonds than cash, which carries more risk but also the potential for greater returns. This trend is particularly evident among households with no savings goals, suggesting that numerical ability could compensate for failing to set such goals.

Brush up on your maths skills. Ground Picture/Shutterstock

4. Adopt appropriate savings strategies

Diversified stock market portfolios generally outperform bonds and cash savings over longer periods. However, stock markets can be volatile, so putting savings into less risky assets like bonds and cash is wise for savings goals of less than five years.

In the longer term, investing across different global stock markets for more than five years can help counteract inflation. And you can access low-cost, diversified investment portfolios via financial products based on indices of stocks or other assets, such as exchange traded funds.

5. Set, monitor and adjust your plan

Free financial planning and budgeting apps can help you save money by tracking your spending and savings goals, and encouraging you to adhere to a budget.

Most importantly, once you set savings goals and create a budget, don't forget about them. Check regularly to see how your savings are building up and to monitor for any spending changes. A growing array of fintech tools can prompt and encourage this kind of long-term planning.

Keeping an eye on savings rates is also important. As banks change rates or create new accounts, consider switching to get a better deal if you can do so without falling foul of account closure fees.

It's important to make sure your savings are working for you at any time, but its crucial in the current economy, when finances are tight but interest rates are rising.