5 ways to supercharge your finances for the year ahead

Joanne Hunt

Cutting back on luxuries is one thing but taking full financial control calls for more proactive measures

This year will be different. You'll take lunch to work, crack down on the cappuccinos, can the Friday night takeaway – that will help, right? Well it won't hurt, but if you really want to supercharge your finances in 2020, there are bigger fish to fry.

Get these five things sorted in January and you will reap the rewards in 2020, and maybe even for the rest of your life.

1 Pay down debt

Credit card debt is expensive. If you've built up credit card debt, you need to get it under control before doing anything else.

Meet Mary. She has credit card debt of €1,000 and pays off €50 each month at an interest rate of 17 per cent. It will take Mary two years to repay the balance – if she stops using the card. But if she increases her monthly repayments to €100, she could clear the balance in 11 months.

So first off, stop using your card. Leave it at home. Then, if you have any spare euro, try to make more than the minimum repayment each month. Use the "clearing your credit card calculator" on the Competition and Consumer Protection Commission's (CCPC) website to see how a small extra repayment can get you debt-free faster.

Switching to a card offering 0 per cent on balance transfers is another option. But this only works if you repay the balance during the interest-free period and stop using the card. Check out the CCPC's credit card Money Tool for the best rates on offer.

2 Switch and/or overpay your mortgage

Your home is likely the biggest financial commitment of your life. Your hard earned cash drops into your account each month, only to be hollowed out days later by your biggest expense, your mortgage.

First-time buyers settling in Dún Laoghaire Rathdown pay over a third of their income after tax on a mortgage. In Wicklow it's 26 per cent, and in Kildare it's 22 per cent. Nationwide, it takes on average a fifth of a working couple's combined post-tax income, according to the EBS DKM Housing Affordability Index. If there was a way to cut this cost, shouldn't you look at it?

Call your lender today and find out what your current mortgage rate is, the outstanding balance on your mortgage and the remaining term, and then get on the phone to a mortgage intermediary. If the value of your home has risen since you borrowed, this could bring a further boon, with some lenders offering better rates for lower loan-to-value balances.

"Regardless of your loan-to-value, nobody should be paying more than 2.3 per cent interest because there's a couple of lenders offering that all the way to 90 per cent [loan-to-value]," says Joey Sheahan of mymortgages.ie and author of The Mortgage Coach.

Take Mick and Fiona. They have a €300,000 mortgage with 32 years remaining at a variable interest rate of 4.2 per cent and loan to value of 80 per cent. Their monthly repayment is €1,421. They will pay interest of €245,908 over the term of their mortgage.

Switching to another lender would reduce the variable rate to 2.95 per cent, reducing their monthly repayment to €1,209. That's €212 back in their pockets. Cappuccino anyone? Their interest saving over the course of the mortgage would be €82,000. That's college for the eldest sorted.

If they switch to the lower rate but keep

their repayments the same, say €1,415, they could cut seven years off their mortgage and pay just €123,454 total interest, a saving of €122,000.

If they didn't switch lender and could afford to overpay €200 a month, they would save €61,000 in interest. This will also knock about seven years off the mortgage term.

Those who opted for a cashback upfront offer should now look again at the deal, says Sheahan. "A lot of people took a three-year fixed rate with the cash back. If you are coming to the end of that three-year period, the rate is likely to increase significantly." So shop around.

3 Save wisely

Irish householders have over €90 billion languishing on deposit, some of it earning near zero return. With a Dirt charge of 35 per cent on that, your money may as well be under the mattress.

But there's nothing like a big bill to focus the mind. The cost of third level education is up to €50,000 for children living away from home, according to Technological University Dublin figures. Investing in a well-managed, long-term multi-asset fund while your child is still young can help you prepare for the expense, says Carol Brick managing director of CWM Wealth Management.

Investing €50 a month, or the full €140 child benefit if you can afford it, can yield far more than the same amount on deposit. Of course, unlike a deposit account, your investment can go down as well as up in value, but the longer you invest, the longer time you have in hand to ride out fluctuations. You can also manage your risk.

"If the client has a very low risk tolerance, the fund can have more in bonds and cash, a medium-risk fund could have more equities, and a medium-high might be 80 - 90 per cent equities with some commercial property," says Brick.

"The medium to medium-high risk funds would have the highest volatility, but they also perform the best", says Brick. "The average return over five years on our medium- to high- risk funds across all four life companies would be 7.46 per cent per annum after all your charges are taken into account," she says. "Even the low to medium risk [option] is [delivering returns of] 2.9 per cent after the annual management charge." That beats bank deposit rates.

"Someone with a four year-old who invested the children's allowance plus another €50 a month into a medium to high risk fund from birth would have at least €60,000 when the child is 18," says Brick.

The fund's annual management charge should be no more that of 1.25 per cent, she says. If you are using a financial adviser, understand how he or she is being remunerated for the product too, as this can eat into your returns.

4 Plump up your pension

Pensions. I know. Yawn. But here's where you can spend money and get free money in return. If you are in a scheme where your employer matches your contributions, you'd be a fool not to max this out. If for an extra 4 per cent you contribute, they'll match it, do it. It's free money.

There's tax relief to be had too, depending on the rate of income tax you pay and subject to a maximum earnings limit of €115,000.

"If you are under 30, you can put 15 per cent of your salary into pension, between age 30 and 39 it's 20 per cent, at 40-49 its 25 per cent, at 50-54 it's 30 per cent. Once you get to 55-59, you can put 35 per cent, and if you are 60 and over, you are looking at 40 per cent," says Sinead McEvoy, pensions technical manager with Standard Life. So, a 42 year-old employee who earns €40,000 can get tax relief on annual pension contributions up to €10,000.

Up your contributions, yes, but make sure your pension is performing.

Think of every euro you pay in as a little soldier. Are your troops lolling in the default, middle ground investment zone, lacking direction, not achieving very much, or are they actively directed, super invested, doing their very best for you?

"If you are young and you have your investment in cash or government bonds, you are wasting a valuable opportunity," says McEvoy. "Investing in low-returning assets isn't going to generate the return to meet your retirement savings goals."

Those with a way to go to retire can afford to take greater risk, she says. If the stock market falls, your investment has time to recover. Those nearing retirement age however, say 55-60, need to do the opposite. The priority here should be capital preservation.

What return should you be after? "Everyone's appetite to risk is different, but I'd be thinking between a 4 and 6 per cent return," says McEvoy. "But if you are close to retirement, you are looking at one to 1.5 per cent."

5 Haggle or switch

Health insurance, car insurance, broadband, phone – the list of monthly direct debits is endless, each one leaving less for you. New year, new contracts. If you get an email or letter prompting you to roll over and automatically renew, it's unlikely to be the best deal available.

Yes, automatically renewing is easy, but that's what providers bank on. Taking 30 minutes to get a competitor quote, check a comparison website or haggle pays off.

Saving €200 or more of your after-tax income on your annual health insurance bill for 30 minutes' legwork work is a good return. So haggle or switch to save.

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