

PRESS ARTICLE

SOME GOOD NEWS FOR SAVERS FOR A CHANGE | MAY 2011

Last week Mervyn King, Governor of the Bank of England, signalled an expectation that inflation will hit 5% later this year, with interest rates at 0.5%.

This is not good news, I hear you say.

However, the same week saw the return of one of the most popular savings products of recent years. Index-linked bonds are being reintroduced by National Savings & Investments (NS&I), giving savers a protection against inflation for their savings.

Inflation is when prices rise over time, so the 'cost of living' goes up. Most savings accounts and investments give you no guarantee that the value of your money will keep pace with rising prices – if the rate of inflation is higher than the rate of interest you earn, then the real value of your savings will go down. Put simply, this means your savings will have less spending power over time. Savers will be able to invest between £100 – £15,000 tax free, in a five year bond with an interest rate of 0.5% above the Retail Prices Index (RPI).

NS&I Index-linked Savings Certificates guarantee that your investment will grow in spending power each year, whatever happens to the cost of living. That's because they ensure the value of your savings always stays ahead of any rise in the Retail Prices Index (RPI).

On the previous occasion when these bonds were available – in July 2010 – they had to be taken off sale due to exceptional demand.

The interest is calculated on an annual basis, not a monthly basis, and on each anniversary NS&I calculates the interest by using RPI figures at the start and end of each year of investment.

Investments are government backed and therefore 100% secure and free of UK Income tax and Capital Gains tax.

During the financial crisis, the 100% guarantee that savers would be secure at the government backed NS&I, led to a "flight to safety" by some worried savers. The government then slowed this by effectively securing that no saver would lose any money if a bank or building society went bust.

Subsequently, low interest rates offered elsewhere meant that the inflation-linked bonds proved extremely popular and so were halted. NS&I work under rules that say it must not dominate the savings and investment market

In the Budget in March, the Chancellor of the Exchequer, George Osborne, increased the net financing target for NS&I by £2 billion. To meet this target, NS&I needs to achieve inflows from savers of some £14 billion. This has allowed the potentially attractive, inflation beating, savings products to be reintroduced.

However, savers should be reminded that they must tie up their money for five years to benefit fully from the inflation linked compound interest rate and there is a chance that the offer could be withdrawn again if the quota is filled.

"Our aim is to keep Savings Certificates on sale for a sustained period of time and to enable as many savers as possible who wish to invest to do so" said Jane Platt, NS&I chief executive.

These bonds are not available through post offices – only online, telephone or by post.