

Good news for SAVERS



Hidden away in last month's Budget, the Chancellor announced the issue of a new national savings certificate. Jonathan Fry looks at the benefits offered by such a savings product

For some time now, it's been very difficult to know where best to invest your savings if you wish to avoid the volatility associated with stockmarket investments. With interest rates so low, many savings accounts haven't been able to offer an attractive return and mostly have failed to keep up with the rate of inflation.

Even the much-lauded ISA savings accounts have flattered to deceive, offering excellent rates for the first year or two but then plummeting in their growth afterwards.

A check of a leading bank's rate on a cash ISA taken out five years ago showed that it was only earning 0.1% interest, a pathetic return given that in its first year it earned over 3% interest. It shows why prudent savers must constantly check the interest being paid on ISAs that have a cash element and be prepared to move their savings to newer, more competitive products.

One of the options could be a savings certificate from NS&I (National Savings and Investments), announced in the recent Budget. We don't yet know when this will be launched, although it might be as early as May, or what rates will be offered but past performances suggest that it will be well worth considering.

NS&I savings certificates typically pay 1% over the rate of inflation as measured



by the Retail Price Index, they're tax free and the basis of the interest they pay doesn't change during their lifetime, although obviously if inflation falls, so does the savings return.

For a comparison, the most generous ISA products were offering first-year growth of 3.5% to 4% as the tax-year deadline approached this April, whereas an NS&I savings certificate taken out last year is still returning 6.5% tax free, based upon RPI of 5.5%. And the beauty of it is, the savings certificate doesn't use up any of the annual cash ISA allowance of £5,340 this tax year, so it's possible to invest in both.

The only downside to the NS&I certificate is that to get the highest rate of return, you generally have to lock your savings away for a fixed period of time, usually three or five years. If interest rates rise, as they are expected to, and inflation falls as a result, the savings rates offered by banks and building societies will also rise and the inflation-linked NS&I certificate interest

will fall, but the growth of the certificate is unlikely to be overtaken by ordinary savings accounts rates for some considerable time.

You can still access your money before the maturity time if you need to - and your initial investment is absolutely secure thanks to NS&I being the 'government bank' so to speak, with 26 million customers and almost £100 billion invested, including all Premium Bonds. Early withdrawals would carry very modest penalties in the amount of interest paid.

I would certainly advise anybody who is concerned at the prospect of rising inflation, who has savings currently languishing in a bank or building society account, or an old cash ISA, to keep a lookout for the issue of the next NS&I savings certificate.

If you require any advice about your investments and financial planning, talk to an independent financial adviser. ■

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