BEWARE THE CLIFF EDGE!

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NATIONAL SAVINGS & INVESTMENT (NS&I) RATES SHARPLY REDUCE

On 24th November National Savings and Investment (NS&I) will begin to implement their recently announced reduction in interest rates that apply to their variable rate products and some fixed term products, come maturity. Premium Bond rates will decrease after their December prize draw. The rate reduction is so dramatic, that it is worth considering an alternative investment.

NS&I were due to reduce their rates in May but in April they put off the reduction as a result of the pandemic. This caused NS&I to become the market leading rate provider in a few instances and as a result, they are well ahead of their target on raising capital. NS&I say they must “strike a balance between the interests of savers, taxpayers and the broader financial services sector”. However, it appears they have swung the pendulum a long way so that many of their products will now become very uncompetitive.

NS&I Income Bonds have been hardest hit. The rate reduces from 1.15% to a mere 0.01%. However, other accounts have also been hit hard, with the Direct Saver Account reducing from 1% to 0.15% and the Standard Investment Account from 0.8% to 0.01%, and the Junior Isa interest rate has been more than halved from 3.25% to 1.5%.%. Premium Bonds average prize draw has not been as hard hit, reducing from 1.4% to 1%, but this does mean the chances of a £1 Bond number winning a prize has reduced from a one in 24,500 chance to a 1 in 34,500 one.

The rate offered on Fixed Term products will also reduce by a similar margin for those maturing after 24th November, making these uncompetitive as well. If your product matures before then, however, you may consider locking in to the current rate for a further period – while you still can.

This is unusual for NS&I. Up until now they have always avoided attracting investors with competitive rates only to drop the rate when they have reached their investment targets, such as normal High Street Bank traditionally have done. However, it now appears that NS&I have gone down the same road.

As mentioned above, their competitive interest rates do not reduce immediately. NS&I is still a safe haven for monies, particularly those investors that have far more than the £85,000 afforded by the Financial Services Compensation Scheme. NS&I is backed by Government (HM Treasury) and is fully protected. However, better rates can be found elsewhere, and it will now pay investors to source alternative accounts and move their holdings, albeit the advice is always to not exceed £85,000 per person per registered financial institution

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This may also be a good time to look more closely at your overall cash holding. In difficult times, the natural instinct is to run to a safe haven yet this large rate reductions announced by NS&I highlights how difficult a decision it is to remain in a cash-type asset for the long term.

As a broad ball park guide, your cash holding should consist of three constituents:

1) Day to day money in a current account;
2) Six to twelve months income held in an instant access account, sometimes known as ‘rainy day’ or emergency money;

3) Cash should be held for a purpose, for example, purchase of a new home, payment of school fees, holiday or car purchase or perhaps some building work, where these are to occur within a short to medium time frame.

After that, any excess cash that is held in accounts paying a rate lower than inflation is guaranteed to be losing money in real terms and you really should consider a more suitable investment strategy for this investment that still fits with your risk profile.

During times like these, the biggest threat that savers face is lethargy. Yet, failing to review your cash holdings and/or doing nothing will be very expensive. A word of caution, however, because at times like this scammers are lurking to take advantage of this low interest environment, so please remember that if a proposed interest rate or investment return sounds too good to be true – it probably is. Extra caution please.

If you wish to discuss this matter in more detail, please do not hesitate to contact me.

In the meantime, if you have any questions concerning this or any other matter, speak to your Financial Planner.

The value of your investment (and any income from them) can go down as well as up and you may not get back the full amount you invested. Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.

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