Pembroke
Financial Services

THE ULTIMATE GUIDE TO National Savings & Investments

FINANCIAL GUIDE

INTRODUCTION

Introduced over 150 years ago, National Savings & Investments (NS&I) were introduced to encourage a culture of (unsurprisingly) saving! Formally an Executive Agency of the Chancellor of the Exchequer, your money with NS&I is backed by HM Treasury.

When you save with NS&I there are pros and cons:

- When you invest in an NS&I product you are essentially lending money to the Government. For this reason, your money is 100% secure - there is zero chance of losing your investment. The perfect safety net - excellent!
- The rate of interest returned on NS&I products isn’t very high compared to alternatives, such as investing in stocks and shares. This isn’t so great, especially in the long term.

The perfect safety net

Just recently, an increase in stock market volatility has resulted in renewed anxiety for some investors. But, while volatility is a normal part of investing in stocks and shares, many people are uncomfortable with it.

As NS&I products are backed by HM Treasury and guaranteed to never fall in value, they can be ideal for a wide range of savers - especially the twitchy!

25 million people have saved more than £167 billion with NS&I products.

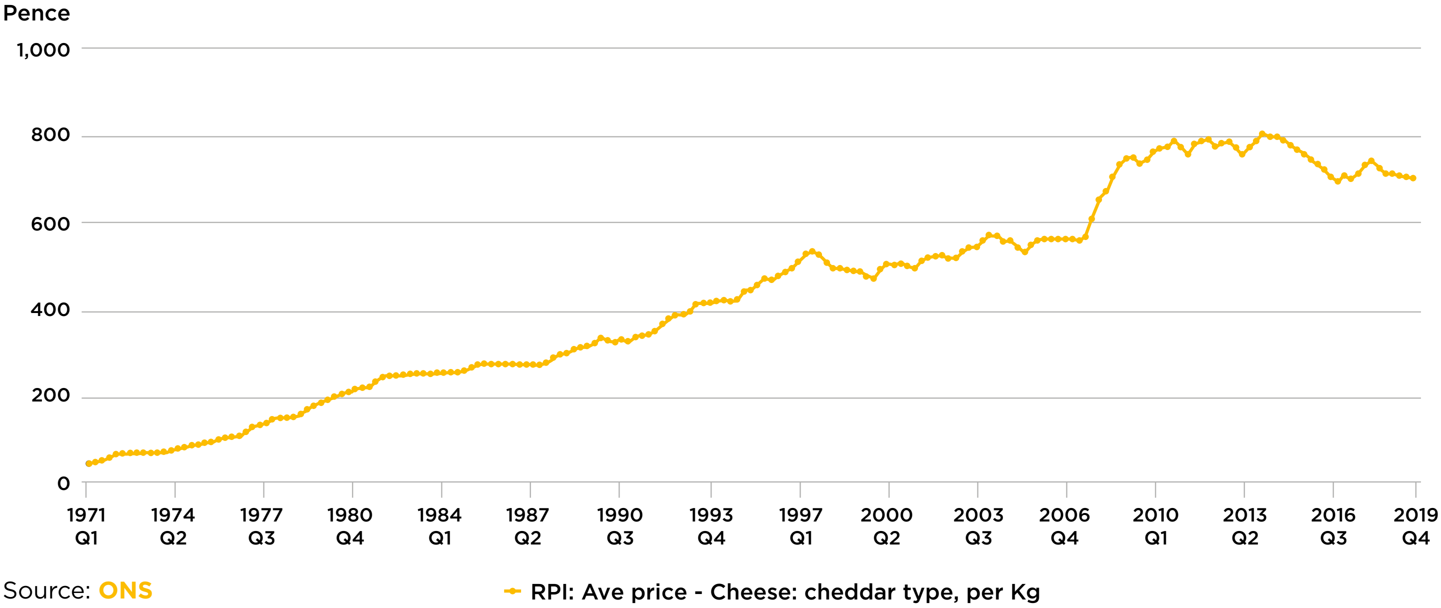
Your savings vs inflation

The interest rates offered by NS&I and other cash alternatives can be undermined by the effect of inflation in the long term. Unlike the immediate and obvious influence interest has on your savings, it's easy for the negative effect of inflation to go unnoticed. It can, however, have a direct and significant impact on the value of your money.

The official measure of inflation is the Consumer Price Index, which tracks the cost of hundreds of items and services all over the country. Currently, the shopping basket includes everything from popcorn to smart speakers and is updated annually to reflect our evolving spending habits.

Data from the **Office for National Statistics** tells us that in 2018 the average rate of inflation was 2.8%. That basically means the cost of living was 2.8% more than in 2017. If your savings return a 1% interest rate over the same time, the buying power of that money will have been eroded by 1.8%.

The best way to demonstrate inflation is with real-world figures. The graph below isn't the history of the Consumer Price Index, but the steadily increasing cost of cheese since 1971...



Source: **ONS**

Between 1990 and 2010 the humble block of cheddar increased in price 133%. So, if you had saved £6,000 under your mattress in 1990, that didn't attract any interest at all, in 20 years your £6,000 would buy a metric ton less cheddar than it would have originally!

The face value of your money will have remained the same, but the buying power will have reduced dramatically. When you're saving towards a long-term goal, like retirement, it's important to make sure your savings receive interest (or investment growth) higher than the rate of inflation.

Comparing savings accounts - what does AER mean?

AER stands for Annual Equivalent Rate. It lets you directly compare the amount of interest different accounts and products offer. The higher the AER, the higher the return on your savings.

6 NS&I savings products currently available

1. PREMIUM BONDS

Launched in 1956 by then Chancellor of the Exchequer Harold MacMillan, Premium Bonds were to encourage post-war saving.

You don't earn interest on your investment. Instead, each £1 bond you own is entered into a monthly prize draw to win tax-free prizes.

Over a year, those winnings average out to the equivalent of 1.4% interest. However, in reality, it's likely to be a little less as this 'mean' average suggests that for every £100 of bonds £1.40 is paid a year. In practice, this is impossible, as the smallest prize is £25.

But, overnight, you could become a millionaire!

Every month in the draw there are:

- **Two top prizes of £1 million**
- **Over three million minimum prizes of £25**
- **More than £93 million of prizes paid**

More than 21 million people have Premium Bonds and the odds of winning the smallest £25 prize are 24,500 to 1. The odds of winning a million are much longer, but still a little better than winning the UK Lotto jackpot.

Every month, winning premium bond numbers are drawn by ERNIE. In one form or another, ERNIE (which stands for Electronic Random Number Indicator Equipment) has been around since 1957.

The original used the same technology as Second World War codebreakers. But, as technology has come on a little since, we're currently on the 5th iteration of ERNIE that uses quantum computing technology.

Premium bonds are perfect for:

- **A low-risk element of a diversified investment portfolio**
- **People who enjoy the thrill of potentially winning a million pounds**

Premium Bonds at a glance:

- 1.4% representative rate
- £25 minimum investment
- £50,000 maximum per person
- You can withdraw anytime
- Prizes are tax-free

2. DIRECT SAVER

From just a £1 minimum investment, Direct Saver accounts have a huge £2 million maximum investment per person.

The interest rate is variable (and below the current rate of inflation), but you can withdraw your money immediately without paying a penalty.

Anyone aged 16 and over can open a Direct Saver account, but money needs to be paid in from a UK bank account in your name. You can also pay in and make withdrawals online or by phone.

Direct Savers are perfect for:

- **Temporarily holding large sums of money in a very safe place**
- **Easily managing your savings online**

Direct Savers at a glance

- 1.00% AER variable
- £1 minimum investment
- £2 million maximum per person
- Returns are taxable

3. INCOME BONDS

In NS&I's own words, Income Bonds offer a safe, simple way of earning an additional income every month.

Like all NS&I products, they offer a variable rate of interest. That means that unlike some alternatives from the high street and online banks, returns are not guaranteed. Again, there is no notice to withdraw your money and no penalty for doing so.

Income Bonds are perfect for:

- **Investors with £500 or more**
- **People wanting to hold their savings in a Trust**

Income Bonds at a glance

- 1.16% AER variable
- £500 minimum investment
- £1 million maximum per person
- Returns are taxable

4. DIRECT ISA

Individual Savings Accounts (ISAs) are especially attractive as you don't pay any tax. They grow free from Capital Gains Tax and you don't pay any Income Tax on withdrawals.

In the UK, there are currently four main types of ISA:

- **Cash ISAs**
- **Stocks and Shares ISAs**
- **Innovative Finance ISAs**
- **Lifetime ISAs**

A Direct ISA is a type of Cash ISA. That means that if you're a UK resident, unlike other types of ISA, you can save from age 16 instead of 18.

Across all ISAs, the total you can pay into them in the 2019/20 tax-year is £20,000. You are unable to transfer existing ISAs into a Direct ISA, so you must plan ahead if you'd like to invest in a Direct ISA and not use your annual ISA allowance elsewhere.

Direct ISAs are perfect for:

- **Investors with a low-risk tolerance and a remaining ISA allowance**
- **People wanting tax-free returns**

Direct ISAs at a glance

- 0.90% AER variable
- £1 minimum investment
- £20,000 maximum in 2019/2020
- Returns are tax-free

5. JUNIOR ISA

Offering by far the highest interest rate of the current range of NS&I products, there is a catch to Junior ISAs - you or your child are unable to withdraw anything until they reach 18 years of age.

On their 18th birthday, the savings are automatically transferred to a Direct ISA, which increases the amount you can pay in from £4,368 a year to £20,000. The interest is significantly less though.

The interest rate is again variable but is typically higher than the rate of inflation. Just like an adult ISA, it's completely tax-free.

Junior ISAs are perfect for:

- **Parents wanting a long-term savings account for their children**
- **16-year-olds wanting to start saving themselves, from as little as £1**

Junior ISAs at a glance

- 3.25% AER variable
- £1 minimum investment
- £4,368 maximum in 2019/2020
- Returns are tax-free

6. INVESTMENT ACCOUNT

You need at least £20 to open an Investment Account with NS&I, but once open you can keep it with as little as £1.

Accounts can be in single or joint names and can be opened by a parent, guardian or grandparent on the behalf of under 16s. In theory, if you wanted to, you can save on behalf of anybody if you place the Investment Account in Trust (which you can't do with all NS&I accounts).

The administration of an Investment Account is a little antiquated, with no online access or phone service available. Again, there's no penalty for making withdrawals, but it will take a little longer to organise as requests need to be sent by post.

Investment Accounts are perfect for:

- **Saving on behalf of your child or grandchild**
- **People wanting to manage their savings by post**

Investment Accounts at a glance

- 0.80% AER variable
- £20 minimum investment
- £1 million maximum per person
- Returns are taxable, paid gross

Are you interested in interest?

The vast majority of NS&I accounts are easily set up and accessed online or by phone. You don't need a financial adviser or planner to help you, but ensure you understand the pros and cons of saving with them.

If, however, you would like to explore other investment options with potentially higher rates of return, or are considering using an NS&I product as part of a diversified investment portfolio, why not get in touch?

If you'd like to discuss how NS&I products can be used as part of your financial plan, please get in touch. We would be happy to help you understand how they could support your goals and complement other financial products.

PLEASE NOTE: The Financial Conduct Authority does not regulate NS&I products.

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