National Savings wields the axe

National Savings & Investments (NS&I) are cutting interest rates.

National Savings & Investments (NS&I) has announced that it will be cutting interest on five of its variable rate products, mostly from June. It blames the cuts in part on the fact that for 2016/17 the Treasury has set NS&I a lower net funding target than for 2015/16. There is an element of smoke and mirrors about this, as last year NS&I had the 65+ bonds on sale at rates widely seen as a pre-election carrot.

The changes will leave Income Bonds and the Direct ISA both paying just 1.00% interest, well below the latest (March) 1.6% rate of RPI inflation. The cuts will take NS&I out of the top rungs of the league tables and are a reminder of one of the more unwelcome side effects of ultra-low interest rates. NS&I are shaving 0.25% off its current rates on these two products, but that will represent a drop in income of a fifth.

Premium Bonds will suffer a smaller cut, with the annual prize fund dropping from 1.35% to 1.25%. To deal with this – which equates to a 7.4% drop in total prize payments – two changes are being made:

- The odds of a winning monthly draw will worsen from 26,000:1 to 30,000:1.

- The distribution of prizes will alter, with fewer big payouts. NS&I estimates that the number of prizes of £5,000 and above will drop from 204 in March 2016 to 88 in June 2016.

There has also been a minor change to the terms for *reinvesting* maturing index-linked savings certificates. The new rate is RPI + 0.01%.

There remain a range of opportunities to earn an income well in excess of NS&I rates, but advice is vital if your goal is maximising income. As a general rule, the higher the income on offer, the more risk needs to be considered, whether in terms of being locked in for a long period or losing capital security.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.