Changes to NS&I Interest Rates

You may have already seen in the financial press that NS&I will be reducing the rates of interest paid on a large number of its savings products with effect from 24 November 2020. Yet more disappointing news in what has already been a challenging year.

Many people are attracted to NS&I products as savers are effectively lending money directly to the government and deposits are 100% secure (unlike other banks which offer protection under the Financial Services Compensation Scheme, limited to £85,000). Combined with accessibility and competitive interest rates, this has made NS&I a safe haven for cash on deposit.

NS&I had announced a reduction in their interest rates earlier in the year and subsequently put this on hold to support savers during the coronavirus pandemic. Demand for NS&I accounts has been extremely high since the Bank of England reduced rates to 0.1% in March which has left NS&I in danger of breaching its government mandated funding limit. Whilst it was expected that rates would be cut later in the year, the actual reductions in interest rates are more severe than originally anticipated.

Rates will reduce as follows:

NS&I Product	Current Rate	New Rate
Direct Saver	1.00% gross/AER	0.15% gross/AER
Income Bonds	1.16% gross/AER	0.01% gross/AER
Investment Account	0.80% gross/AER	0.01% gross/AER
Premium Bonds	1.40% tax free	1.00% tax free
Direct ISA	0.90% gross/AER	0.10% gross/AER
Junior ISA	3.25% gross/AER	1.50% gross/AER

Whilst it may be tempting to chase a better rate, it is worth reminding ourselves that the security and reassurance of knowing your money is backed by HM Treasury and that you can access your cash at short notice is worth far more than the returns available.

Furthermore, we can reasonably expect other banks to follow suit which means reacting to this news and jumping ship could well be futile. Better to wait and see how the land lies once the dust has settled.

This is something we will be monitoring as a firm and if you have any concerns, please get in touch with your adviser.