Can savers still beat inflation?

By Tony Hazell

NATIONAL Savings & Investments has withdrawn its popular index-linked savings certificates again, leaving savers with no obvious way to protect their money against inflation.

NS&I's certificates guaranteed to pay the retail prices index (RPI) plus 0.5pc tax-free over five years.

Half a million savers bought tranches of £100 to £15,000. The Government asked NS&I to raise £14billion from its products this year — the withdrawal is to avoid breaching this target.

Unless the Government suddenly needs to raise money, savings certificates won't be back until April at the soonest.

So where do savers go now? A summer of economic turmoil has at least settled one issue: interest rates are not going to rise for some time. Some economists predict the Bank of England may leave base rate at 0.5pc all next year — and possibly well into 2013.

Beating inflation might seem a daunting task with RPI at 5.2pc in July and the Government's preferred measure, the consumer prices index (CPI), at 4.5pc.

But inflation is expected to fall next year as January's VAT increase and energy price rises drop out of the system. A Bank of England analysis of 22 independent economists' forecasts last month found the average expected CPI to be 2.2pc next year, with the lowest predicting 1.3pc.

Most of us have three options for efficient use of savings: repay debt; put it into a bank or building society savings account; or invest it, which means gambling the capital in the hope of getting a bigger return.

If you have debt, it will usually make sense to repay some.

Bank of England figures show the average mortgage rate has been just under 3.5pc for most of this year, though many borrowers are paying more.

The average savings rate on easy-access accounts is 0.9pc — worth 0.72pc to a basic-rate taxpayer.

So over the course of a year each £100 of your mortgage would cost you £3.50 in interest while each £100 in a savings account would earn 72p. Worse is debt on credit cards, where the average interest rate is almost 12pc — costing £12 a year for every £100 owed.

The second option is to find a savings account that may beat inflation. Lloyds brand C&G's stepped bond pays an average 3.4pc after tax (4.25pc before tax) over three years. It starts at 3pc (3.75pc) in year one, finishes at 3.8pc (4.75pc) and should beat inflation by the middle of next year.

Over one year, Skipton offers a fixed rate of 2.76pc (3.45pc).

The best internet accounts with variable interest rates may just beat inflation over the coming year if you pay no tax or basic rate tax.

The top payer is Derbyshire NetSaver at 2.54pc (3.18pc).

The turbulent stock market may have put some off. But investment funds can pay decent income. Investors' favourite Invesco Perpetual Income pays 4.92pc income — but this will vary.

This fund has turned a £1,000 investment into £1,100 over the past year, according to data analyst Morningstar.