

23 March 2010

Inflation continues to take its toll on savers

Inflation figures released today show that the Consumer Price Index (CPI) has fallen to 3%, a level still well above the Government's target of 2%.

To stop their savings pot effectively eroding away, a basic rate tax payer needs to find an account paying 3.75%, while a higher rate tax payer needs to find an account paying 4.98%.

The only accounts that can achieve the level of return needed to combat tax and inflation are regular savers: where the amount that can be invested is limited, or fixed rate bonds. However, the latter requires savers to tie their money up for a minimum of two years.

Inflation continues to lessen the real return savers can achieve. The real return after basic tax and inflation on an average no notice account today stands at minus 2.42%.

Michelle Slade, spokesperson for **Moneyfacts.co.uk** commented:

"Despite the fall, inflation continues to erode the value of savers' money and with rates also declining, savers are being dealt a double blow.

"Prudent savers are being neglected and are finding it virtually impossible to combat the effects of tax and inflation.

"Basic rate tax payers need to earn 3.75% just to break even, while higher rate tax payers need to earn 4.98%, a level that is only available on a handful of products in the cash savings market at present.

"By taking full advantage of their ISA allowance, savers can lower the level of return needed by eliminating tax from the equation.

"From 6 April 2010, ISA savers will be able to invest more money tax-free, when the annual ISA allowance increases to £10,200.

"Savers have been tempted to tie their money up in fixed rate bonds where higher rates can be achieved, but with base rate likely to rise in the next few years, most savers are only looking for a short term commitment.

"Rates on shorter term deals have been the hardest hit of late, with the average one year bond paying 2.81%, just 0.03% off the lowest average rate on record experienced in March 2009.

"After suffering some of the lowest rates on record in the last year, savers will be hoping that when the Chancellor delivers his Budget speech he will bring them some good news."

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Looking for extra comment, a chart or more information, then please give us a call. We are always more than happy to help.

Press Office	Darren Cook Head of Press & PR	01603 476207 dcook@moneyfacts.co.uk
	Michelle Slade Press Officer	01603 476454 mslade@moneyfacts.co.uk
	Louise Holmes Press Officer/Administrator	01603 476204 lhomes@moneyfacts.co.uk
Out of hours	Darren Cook Head of Press & PR	07803 899935
	Michelle Slade Press Officer	07803 145643
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