

18 May 2010

Jump in inflation continues to punish savers

Inflation figures released today show that the Consumer Price Index (CPI) has increased again to 3.70%.

To stop their savings pot effectively eroding away, a basic rate tax payer needs to find an account paying 4.63%, while a higher rate tax payer needs to find an account paying 6.17%.

Basic rate tax payers have a choice of 20 accounts to break even, while only one account is available to higher rate tax payers.

The 20 accounts on the market that do beat inflation are only likely to be suitable for a small proportion of savers. To qualify for these accounts, savers need to open a fee paying current account, invest in a riskier investment product or commit funds for five years.

Paying 8.00%, the HSBC Preferential Saver is the only product that beats inflation for higher rate tax payers, but savers need to hold or open a fee paying account with the provider to qualify. Thereafter the amount that can be invested is restricted to £250 per month (£3,000 over the one year term).

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 4.72%.

Darren Cook, spokesman for **Moneyfacts.co.uk** commented:

“Rises in the rate of inflation continue to antagonise savers who are already struggling to achieve a competitive rate of return on their money.

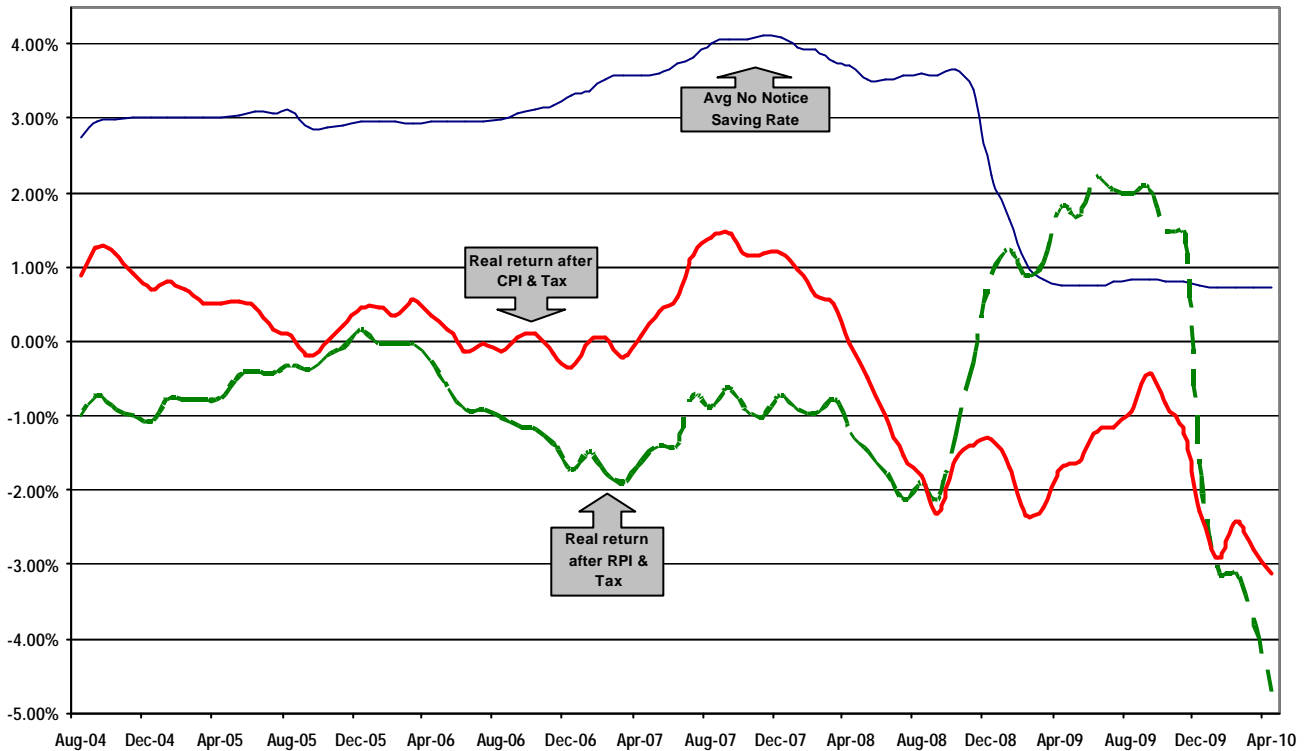
“Prudent savers are being left out in the cold and are finding it near impossible to combat the effects of tax and inflation.

“Basic rate tax payers need to earn 4.63% just to break even, while higher rate tax payers need to earn 6.17% a level that is only available on a handful of products.

“The qualifying restrictions on those products that do beat tax and inflation are likely to be suitable for only a small proportion of savers.

“A spiralling inflation rate, which could be aggravated by the predicted rise in VAT can only point towards a bank base rate increase sooner rather than later.”

Real return on average savings rate
(basic rate taxpayer)



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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.

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