

## Premium Bonds – An update in a rising interest rate environment

At MGP Financial Planning we have many clients who hold National Savings & Investments (NS&I) Premium Bonds. In this newsletter we aim to answer many of the common questions about this savings product, whilst providing an update on the ‘interest’ rate and the all-important chances of winning.

**Premium Bonds are the UK's biggest savings product, with more than 22 million people saving over £121 BILLION in them.**

NS&I Premium Bonds are essentially a savings account which you can put money into (and take out when you want), where the interest paid is decided by a monthly prize draw. You buy £1 bonds, and each has an equal chance of winning, so the more you buy, the more your chances improve.

The nearest thing Premium Bonds have to an interest rate is their annual prize fund rate, which will increase to **4.00%** (from the August 2023 prize fund draw), following the continued rise in the Bank of England base rate.

It is important to note that the interest rate simply describes the mean average payout, indicating that for every £100 paid into bonds, on average £4.00 a year is paid out – yet in practice this is impossible, as the smallest prize is £25.

The highest prize is £1 million, with two £1 million prizes paid out in July 2023. In the same month, the odds of winning the £25 prize (per £1 bond) were 1 in 24,000, with odds of scooping the £1 million jackpot being a whopping 1 in over 60 billion!

Many clients hold Premium Bonds as the prizes (the interest) are paid **tax free**. However, for some clients that's no longer a bonus.

Since 2016, the personal savings allowance (PSA) has meant all savings interest is automatically paid tax-free. You only need to pay tax on it if you're a basic 20% rate taxpayer earning more than £1,000 interest a year, a higher 40% rate taxpayer earning more than £500 interest a year, or a top 45% rate taxpayer.

Another attraction of Premium Bonds is the **risk-free** nature of the account.

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Registered in England 13995207. Registered office as above.

With Premium Bonds there is no risk to your capital – so the money you put in is totally safe – it is only the 'interest' that is a gamble. And as Premium Bonds are operated by NS&I which, rather than being a bank, is backed by the Treasury, this capital is as safe as it gets.

This safety used to be a big benefit because you didn't get the same protection with other savings. However, under the savings safety rules all UK-regulated savings accounts are now protected up to £85,000 per person, per institution by the Financial Services Compensation Scheme (FSCS) – and the maximum you can put in Premium Bonds is £50,000.

In summary, Premium Bonds offer a reasonable rate of headline 'interest', but this is less than some of the top paying savings accounts and to benefit from a return on your Premium Bonds you need to be lucky enough to win a prize. It is also important to consider some of the headline advantages of Premium Bonds, in terms of tax-free returns and risk to capital, as these may have little benefit when considering the wider financial circumstances.

Finally, at the time of writing NS&I estimate there are over £88 million in unclaimed Premium Bond prizes so, if you do hold bonds, you may wish to check at [www.nsandi.com](http://www.nsandi.com) whether you are a prize winner.

***If you would like to discuss how Premium Bonds interact with the other areas of your financial circumstances, please do get in touch by contacting the office on 0161 839 8229 or [rob@mgp-financialplanning.com](mailto:rob@mgp-financialplanning.com).***

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