

Savers suffer due to low base rates

Whilst low interest rates are good news for many borrowers, a negative impact of the severe cuts in base rates that we have experienced in 2009 is the low rates of return paid by financial institutions to their investors.

When base rates fell to 0.5% in March, many accounts were already paying rates below that level. This has led many individuals to switch their deposits to providers offering more attractive deals.

The government regularly talks about the need for savers to save more in the UK, but at the current time there is very little incentive to save because the returns are historically low.

When it comes to alternative investments, savers are put off by the volatility and risk of the stock market and buy to let investors have kept away due to property price falls. Those savers with a mortgage, or other loans, will be attracted now by the opportunity to make increased loan repayments and reduce their debts.

So given all of this, why do – or should - individuals choose to save ?

- To give a buffer for rainy day needs.
- To build up a deposit for property.
- To make a large purchase such as a new car or a holiday
- Fear of unemployment or other loss of income.
- To earn interest.

At Loughborough Building Society we are aware that our investors include pensioners and people that depend on their savings to meet their daily needs. We have tried to protect savers, as far as possible, from the numerous cuts in the base rate and this has been reflected in the substantial inflows we have seen in the six months to 30th April. The over 50s Classic account has been very attractive as investors seek a competitive return, without undue risk in the current low interest environment.

The savings market is rarely unchanged for a long period of time and in recent weeks we have seen an upsurge of interest in fixed rate products offering rates well above base rate, but where funds are tied up for the fixed period. As always the decision to take a fixed rate product depends on the individual's view of future movements in interest rates.

Tax free savings are always popular and in the recent budget, the Chancellor announced an increase of £1,500 in the annual ISA subscription, to £5,100, for each tax year from 6th April 2010 and from six months prior to this date for investors aged 50 and over.

With base rates expected to stay low in the short term, it's likely that investors will continue to seek a safe home for their savings alongside a competitive return.