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10 DOWNING STREET

From the Private Secretary 30 October 1985

NATIONAL SAVINGS: INDEXED-INCOME BOND

The Prime Minister has seen your letter to me of 29 October. She has noted that Treasury Ministers plan to launch a new National Savings instrument called the Indexed-Income Bond on 11 November.

(David Norgrove)

M. J. Neilson, Esq.,
HM Treasury.

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Prime Minister 2
An ingenious development of National Savings: To be aware.
DLW
30/10.

Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove, Esq
10 Downing Street
LONDON SW1A 0AA

29 October 1985

Dear David,

NATIONAL SAVINGS : INDEXED-INCOME BOND

The Prime Minister will wish to be aware that Treasury Ministers plan to launch a new National Savings instrument called the Indexed-Income Bond on 11 November. The Economic Secretary intends announcing this when he speaks to the 2nd Savings Banks International Business Symposium on 5 November.

Unlike indexed gilts, the principal will not be indexed. The running yield will be higher. Reason.

Indexed-Income Bonds will in many respects be similar to conventional Income Bonds (which we will continue to sell): both offer a monthly income upon the investment of a lump-sum. However, whereas the conventional Income Bond offers an interest rate that is variable throughout the Bond's life, the new Bond will offer a fixed interest rate in the first year, which is then uprated annually in line with inflation during the Bond's 10 year life. The initial rate of interest will be 8% gross of tax compared with the current interest rate on the conventional income bond of 12%. The index-linking produces the equivalent of a ten year indexed pension.

The aim of the Indexed-Income Bond is to fill a gap in the savings market, and at the same time broaden the range of National Savings instruments. It should appeal particularly to people at or near retirement, or anyone with a lump sum to invest, who is looking for an income that will be protected against inflation.

The inflow that the new Bond will generate cannot be firmly estimated, but it might produce additional sales of between £100 million and £300 million in a full year and although some of this may be offset by lower conventional income bond sales it should assist National Savings in meeting the £3 billion target for 1985-86.

Yours sincerely

M J NEILSON