

Under embargo until: Saturday 23rd March 2013

Savings Grow Three Times As Fast In Cash ISAs

Cash ISA savers are able to build their nest eggs three times as fast as it takes those putting their savings in instant access savings accounts according to research from HSBC.

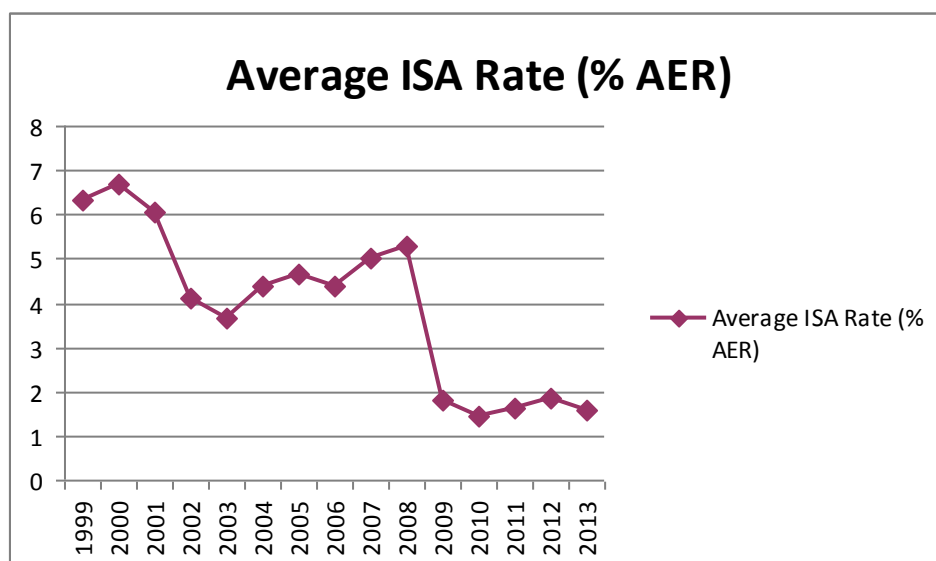
If a saver was to invest their full cash ISA allowance of £5,760 from 6 April, based on current average cash ISA rates, they could expect their pot to have grown to £6,291 in five years, an increase of 9.2%. In contrast, someone saving the same amount in an instant access savings account, paying tax on their interest, would see just 3.3% growth after five years if they were a higher rate taxpayer and 4.4% if they were a lower rate taxpayer. Higher rate taxpayers would have to wait a further nine years to surpass £6,291ⁱ, at which point cash ISA savers would have earned an additional £1,083 in tax-free interest.

Those willing to shop around could make even more of their tax efficient savings. HSBC's latest ISA range offers rates up to 2.75%. Based on this rate, ISA savers could increase their cash ISA pot by 14.5% in just five years if rates were to remain constant.

Table 1: Savings Growth: Cash ISA vs. Instant Access

	Cash ISA	Instant Access 20% taxpayer	Instant Access 40% taxpayer
Interest Rate	1.78%	1.09%	1.09%
Starting Balance	£5,760.00	£5,760.00	£5,760.00
Year 1 Balance	£5,862.53	£5,810.23	£5,797.67
Year 2 Balance	£5,966.88	£5,860.89	£5,835.59
Year 3 Balance	£6,073.09	£5,912.00	£5,873.75
Year 4 Balance	£6,181.19	£5,963.55	£5,912.17
Year 5 Balance	£6,291.22	£6,015.55	£5,950.83
Year 6 Balance	£6,403.20	£6,068.01	£5,989.75
Year 7 Balance	£6,517.18	£6,120.92	£6,028.92
Year 8 Balance	£6,633.18	£6,174.30	£6,068.35
Year 9 Balance	£6,751.25	£6,228.14	£6,108.04
Year 10 Balance	£6,871.43	£6,282.45	£6,147.99
Year 11 Balance	£6,993.74	£6,337.23	£6,188.19
Year 12 Balance	£7,118.23	£6,392.49	£6,228.66
Year 13 Balance	£7,244.93	£6,448.23	£6,269.40
Year 14 Balance	£7,373.89	£6,504.46	£6,310.40
Total interest	£1,613.89	£744.46	£550.40
Interest after 5 years	£531.22	£255.55	£190.83
Return after 5 years	9.2%	4.4%	3.3%

Graph 1: Average ISA Rates since launch in 1999



Source: Bank of England and Moneyfacts.co.uk

Bruno Genovese, Head of [Savings](#) at HSBC, said: *“The benefits of making the most of your tax-free allowance are clear even in this low interest rate environment. While ISA rates may not be as high as in previous years, savers are often still better off in comparison to the other products in the market.*

“When rates do return to higher levels, savers who have used their annual allowance each year will be able to benefit the most. Savers can still make above inflation returns by shopping around for the best rates available and taking advantage of their annual ISA allowance.”

HSBC has a competitive instant access **Variable Rate Cash ISA** available to all HSBC current account customers. The ISA allows transfers in from other providers and has a minimum starting balance of £1.

Premier Bank Account customers

- 2.75% AER for balances on or above £15,000
- 2.25% AER for balances up to £15,000

Advance account customers

- 2.15% AER for balances on or above £15,000
- 1.65% AER for balances up to £15,000

All other HSBC current account customers

- 1.70% AER for balances on or above £15,000
- 1.60% AER for balances up to £15,000

Rachel Springall, finance expert at Moneyfacts.co.uk commented: *“Savers may be limited by low rates compared to previous ISA seasons, however, they only have a short time to invest*

in this year's tax free allowance, so they need to use it or lose it. Any ISA paying above the 2.00% benchmark is considered a great rate in the current market."

- Ends -

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ⁱ Rates based on the latest Bank of England average monthly interest rate of cash ISA deposits (1.78%) and sterling instant access deposits (1.09%) (both including unconditional bonuses)

Cash ISA growth calculated as follows:

- Calculate annual interest: Starting balance*(1+0.0178)
- Repeat for each year of saving

Instant Access savings account growth calculated as follows:

- Calculate gross annual interest: Starting balance*(1+0.0109)
- Calculate net annual interest for lower rate: Starting balance + (gross annual interest *0.8)
- Calculate net annual interest for higher rate: Starting balance + (gross annual interest *0.6)
- Repeat for each year of saving