

Special Savings Incentive Scheme

The Special Savings Incentive Scheme that the government introduced in the recent Finance Act came into effect on 1st May.

Under the SSIS, savers may save between £10 and £200 per month over a 5 year period and for every £4 saved the Government will invest an additional £1 on the account holder's behalf. This subsidy is worth about 8.9% per annum to an investor who saves over the full five years before any interest earnings. If there is a withdrawal from an account (other than on death) before the full term of 5 years, the full amount withdrawn (both the savings and investment return) will be subject to a tax deduction of 23%. This in effect takes back the government contribution if the fund is withdrawn early. If the saver maintains his account for 5 years or more then tax at 23% is withheld only on the interest paid or the investment gain realised. So the key to success with a SSIS is DON'T cash in early.

As each individual can only have one account, careful consideration needs to be taken to assess the products on offer to find the one best suited to one's financial needs. There are two broad categories of accounts on offer by financial institutions – Cash type deposit accounts or equity-based investment accounts – and with each there is a risk.

Deposit Account Features:

- Capital Secure
- Fixed/Variable rate of interest
- *'What you see is what you get'*, that is, no further charges
- Possible future inflation risk, that is, loss of future purchasing power

- Most competitive offer interest at the European Central Bank rate – now 4½% p.a. - but inflation is currently over 5% p.a.

The characteristics of a deposit account probably suit those who are risk-averse and/or do not want an investment period of longer than 5 years – but remember the inflation risk.

Equity Product Features:

- Not Capital Secure
- Potential for higher medium/long term returns
- 5 year time horizon very short
- Charges can be complex – bid/offer spread, entry/exit charges, policy charges, and management and administration fees
- Risk of negative investment returns in the sector/market or choosing a poor investment manager

- Higher risk should reward by higher positive returns over longer term
- Wide range of funds available from less volatile (low risk) ‘With Profit’ options to high risk sectoral (e.g. Technology) funds.
- Possible option to switch funds mid-term without penalty

These products probably suit those who wish to take a longer term view than just the 5 years of the subsidy. In addition, availing of the higher risk of an equity-linked vehicle should provide a higher reward through extra investment return, but this cannot be guaranteed. The charges are important because of their potential impact on the returns achieved.

Comparing the typical expected returns from a Deposit Account and an Equity Investment

Type of Account	Amount Saved per month	Government Contribution	Cumulative Contributions after 5 years	Gross Interest or Gain	Tax at 23%	Total Gain
Deposit Account	£200	£50	£15,000	£1,809.48	£416.18	£4,393.30
Equity Product	£200	£50	£15,000	£2,655.01	£610.65	£5,044.36

Assumptions:

Deposit Account: - Fixed interest rate of 4.5% for the 5 years.

Charges – no explicit charges.

Equity Product: - Constant 8% gross return over the 5 years.

Charges: - only a 1.5% annual fund management charge.

The returns of equity related investments are not an indication of expected returns.

For further information on SSIS contact Damien Prior at (01) 6059474 or on email: damien_prior@aon.nl or go to [Financial Services](#)