

British Expats with Premium Bonds should sell now

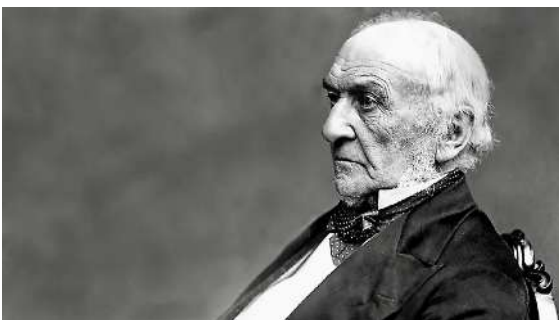


They are nowhere near as good as they used to be and now that you are an expat, they simply don't work!

I know this will sound odd for some British Expats living in popular expat locations such as the Middle-East and South-East Asia, but it is time to take a long hard look at the real value of your Premium Bonds, and probably time to end this particular love affair.

This once beautiful relationship was a way to save tax-free and support the UK government in 100% safety.

A Potted History of 'National Savings & Investments' (NS&I)



Although by 1861 the British Empire was a global economic force, the common man had little opportunity to save. However, the then Chancellor of the Exchequer, William Gladstone, liked and supported a scheme that had been proposed by a Huddersfield Banker called Charles Sikes.

Sikes wanted to help ordinary people throughout the country to save. Gladstone's vision was to see a savings bank within the post office, and "within an hour's walk of every working man's fireside" to help them save for their future.

As a government scheme, deposits were safely guaranteed, and it was able to offer reasonable interest rates. The deposits also provided an ideal, and cheap source of government borrowing. In its first 50 years (by 1911), the NS&I had grown to £176million (equivalent to £5.65billion today).

Two World Wars later, and on 1st November 1956, to encourage more money into NS&I, Antony Eden's poverty-stricken Conservative government launched Premium Bonds.

Instead of paying interest, the bond maintained its face value, each £1 bond having a unique number and an equal chance to win a prize in each monthly draw.



The maximum investment at that time was £500 and the maximum prize available was £1,000, which was a lot considering the average weekly pay was £10 a week but with average house prices at just under £2,000, it wouldn't have been enough to buy your dream home.

Today, the maximum holding is £50,000 and the maximum prize is £1,000,000 and there are two chances to win this jackpot each month. These prizes, in lieu of interest, equate to the rate of interest paid on savings, but not on premium bonds.

Today's Investors

Today, there are some 22 million people in the UK with over £121billion in Premium Bonds. You could, just maybe, win a million, but is it time to set aside the emotion?

Currently the prize fund is 4% of total holdings (as of August 2023), but most win far less on average. For every £1,000 invested into Premium Bonds, an average of just £40 a year is paid out. The smallest prize is £25.

Statistics now start to wreak havoc.

Logic suggests the average premium bond holder wins, on average, £40 each year in lieu of interest.

However, the truth is that even if you line up everyone with £1,000 worth of Premium Bonds in order of their year's winnings, the person halfway along would have won NOTHING! In fact, you'd need to walk past nearly two-thirds of the line before you reach the first £25 winner.

NS&I promised guarantees, so what is happening?

As Premium Bonds are operated by NS&I which is Treasury-owned, your capital is as safe as it gets. The “interest” is a gamble (though for almost everyone over the long term, their holding will steadily shrink with inflation anyway).

Safety used to be an important issue for savers, but nowadays all UK-regulated savings accounts are protected up to £85,000 per person, per institution, by the Financial Services Compensation Scheme, whilst the maximum you can put into Premium Bonds is £50,000, so safety is enshrined in law anyway.

The odds of winning for each £1 of premium bond is a staggeringly slim 34,000/1.

The seduction of the big win

Premium Bonds do have a certain attraction of ‘the win’.



There is a certain anticipation when opening a “you’ve won” letter; and this sense of joy can override logic, with excited declarations such as “I win £25 every few months – it’s fantastic!”

But maybe it is time to remove those rose-tinted spectacles.

The genius of Premium Bond marketing is that the usual “risk premium” rules are reversed. Normally if you take a risk, you expect to earn more. Here, people seem to be happy to earn less to gain a gamble.

It is clear that Premium Bonds are certainly not as good as our parents will remember, but ultimately, it's only worth re-allocating your cash on the understanding there's something better out there.



There are unclaimed premium bond prizes £61million in total, so always check via their website, which is

<https://www.nsandi.com/prize-checker>

Check using your premium bondholder number.

Ultimately, it is worth taking time to consider the real value of the slim possibility of a big win, or are there alternatives likely to yield better returns?