

Annex 9

Savings Bonds – A Survey of US and UK

	US – I Bonds	US – EE Bonds	UK Savings Bonds -
Charateristic	Designed for investors seeking to protect the purchasing power of their investment and earn a guaranteed real rate of return. An accrual-type security ie. interest is added to the bond monthly and paid when the bond is cashed.	These are discounted accrual securities and are issued at 50 per cent of their face value. EE bonds increase in value every month (earn monthly interest) instead of every six months. Interest is compounded semiannually. Bond gets revalued on the interest reset dates.	Three types of choice: (i) variable rate, (ii) inflation linked and (iii) fixed rate.
Objective	To encourage savings	lets investors use savings bonds for truly long-term goals like education and retirement.	
Benchmark	CPI-U	Average yields on 5-year Treasury securities	
Reset	Every six months	Every six months	
Maturity	30 years	Original Maturity – 20 years. Final maturity -30 years	
Interest Rate Determination	Two components: (i) fixed rate (1.10%) and (ii) variable rate – linked to CPI-U	The new rate for EE bonds will be 90% of the average yields on	Fixed in a non-transparent manner except for inflation linked

Fixing the Fixed Rate	The fixed rate of return announced in May (November) of a given year is the same over the entire life of the I Bonds purchased between May (November) and October (April) of that (next) year. The fixed rate has declined from 3.60 per cent in May 2000 to 1.10 per cent since November 2003	5-year Treasury securities for the preceding six months	savings instrument. Factors determining interest rates are “general level of rates in the market, the specific terms of the product and rates offered by the competitors”, The interest spread over comparable securities varies from (-) 102 bass points to (+) 32 basis points.
Determining the Variable Rate	The semiannual inflation rate is based on changes in the Consumer Price Index for all Urban consumers (CPI-U). The semiannual inflation rate announced in May (November) is a measure of inflation over the preceding October through March (April through September).		
Investment Ceiling	US \$ 30,000 per annum (equivalent of per capita GDP)	US \$ 30,000 per annum (equivalent of per capita GDP)	
Formula	Composite rate = Fixed rate + 2 x Inflation rate where inflation rate is the semi-annual CPI-U inflation rate. With semi-annual inflation rate at 0.54 per cent, the annualized inflation rate is 1.08 per cent. Adding to the fixed rate of 1.10 per cent gives a composite rate of 2.19 per cent (for the period November 2003 – April 2004).		
Deflation	Value of bond is not lowered		

Liquidity and Penalty	A 3-month interest penalty will apply to bonds cashed before five years	Can be cashed after 12 months. A 3-month interest penalty will apply to bonds cashed before five years	
Guarantee		To reach face value (become double) in 20 years (original maturity) No guarantee thereafter	
Tax benefits	Available	Available	Available