BT Explains

New bonds, old comforts

Singapore plans to launch Savings Bonds in the second half of 2015. To offer a low-risk, long-term investment option for individuals, the bonds are endowed with an unusual package of features. **KENNETH LIM** helps to figure out just how it all works

WHAT

The Savings Bond combines features of a fixed deposit and a regular government bond. Notably, the early redemption feature, the long tenure and step-up coupons make for a unique offering.

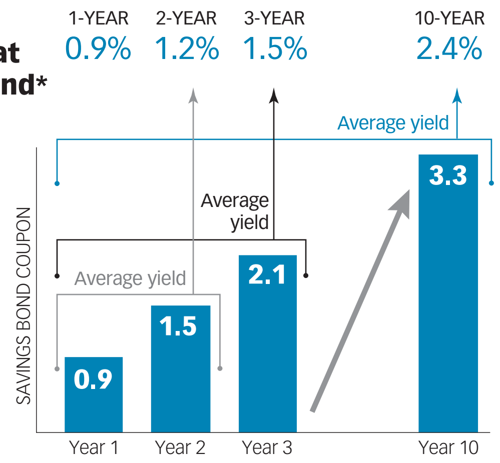
	FIXED DEPOSIT	SAVINGS BOND	S'PORE GOVERNMENT SECURITY
Maximum tenure	3 years usually	10 years	30 years
Yield	Set by bank at start	Steps up to match starting SGS yields	Set at start through auction, subsequently by market
Early redemption amount	Principal, no interest	Principal plus accrued interest	No early redemption
Frequency of interest payment	At maturity	Six months	Six months
Source of guarantee	S'pore Deposit Insurance Corp	S'pore government	S'pore government
Ability to trade	No	No	Yes
Maximum investment	None	To be determined	None
Minimum investment	Varies	S$500, thereafter in multiples of S$500	S$1,000, thereafter in multiples of S$1,000
Eligibility	Anyone	Individuals	Anyone
Issuance	Any time	Monthly	Varies
Buy with CPF funds	No	No	Yes

HOW

One critical feature of the Savings Bond is its coupon, which steps up every year. The to-date average interest rate of the Savings Bond at any one point in time will be as if an investor had bought a Singapore Government Security right from the start of the Savings Bond and that matures in the current year. Investors are therefore incentivised to hold the bonds for as long as possible, but are not punished for early withdrawals.

Prevailing SGS yield at start of Bond*

** Example*



WHY

Savings Bonds have a long history around the world. In many instances, governments have used them for fiscal purposes, such as paying for wars. But the Singapore government does not need to borrow money to finance its budget, and proceeds from the Singapore Savings Bonds are estimated to be small relative to what the government could get from the capital markets with plain vanilla issues. The main impact of the Savings Bond will be on investors, who will have a new low-risk, long-term instrument for their cash.

WHO

The Savings Bonds offer an alternative at the lower end of the risk spectrum for investing cash.

Who the Savings Bond will benefit...

CASH HOLDERS

HIGHER RETURNS
Returns pegged to government bonds can offer better yields than lower-risk investments like savings accounts

LONG-TERM INVESTORS

FLEXIBILITY
Early-redemption feature provides long-term returns but allows for rainy-day withdrawals

RISK MANAGERS

DIVERSITY
The unique features and risk exposure give investors another tool to supplement portfolios

WHICH

The returns of Savings Bonds could match or underperform fixed deposits at short maturities, but fixed deposits rarely last beyond a few years.

Comparison of current yields (%)

	1-YEAR	2-YEAR	5-YEAR	10-YEAR
Fixed deposit*	1	0.55	NA	NA
Savings bond and Singapore government securities	1	1.32	1.88	2.32

** Average of advertised rates, including promotions, on websites of DBS, OCBC and UOB as at March 30*

Source: Monetary Authority of Singapore, DBS Bank, OCBC Bank, United Overseas Bank

BT Graphics: Kenneth Lim & Gareth Chung