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What are Singapore Savings Bonds?

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WHAT DOES THE TERM REFER TO?

Introduced in July 2015, the Singapore Savings Bonds (SSB) give retail investors a regular interest payment every six months. The bonds are issued on the first business day of the month. The longer investors hold the bonds, the higher the interest payment they receive over the life of the bonds, which is capped at 10 years.

The step-up interest rates are determined based on the average rates of benchmark Singapore Government Securities the month before the issuance.

Investors can buy the bonds through their Central Depository securities accounts.

Investors have the flexibility to redeem SSBs in any month without additional penalties, although there is a $2 transaction fee.

The minimum amount for each investment is $500, and each individual investor can invest up to $50,000 in each issue and a total of $100,000 in different SSBs. Investors do not need to pay tax on the interest received.

WHY ARE THEY IMPORTANT?

SSBs offer several benefits, which include having almost zero default risk because the Government guarantees the interest payment and the initial capital investment. Singapore has a credit rating of "AAA", which represents the lowest possible default risk.

The bonds also give investors flexibility and higher interest payments if they invest for longer. For instance, for this month's SSB, the effective annual return comes to 1.02 per cent in the first year and 2.16 per cent for a 10-year holding horizon.

The bonds offer reasonable diversification benefits because stocks and bonds are usually not highly correlated. For buy-and-hold or risk-averse investors, SSBs could be a reasonable vehicle to consider if they want to diversify.

The main difference between an SSB and a traditional bond is that there is no capital gain from buying and redeeming an SSB because it is sold and redeemed at the same value and there are no transactions allowed between SSB investors. So interest income is the only gain from an SSB investment.

IF YOU WANT TO USE THE TERM, JUST SAY:

"SSBs can offer higher interest rates over a longer holding horizon, but are flexible enough to let the bond holders exit any time if better investment opportunities arise."

• The writer is senior lecturer of the department of finance at National University of Singapore (NUS) Business School. The opinions expressed do not represent the views and opinions of NUS.