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VIEWPOINT

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If any of these articles pique your interest and you want to discuss more, please get in touch.

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5 practical ways to protect your money during the cost of living crisis

With inflation at its highest level in 41 years and energy prices skyrocketing, the cost of living crisis has dominated headlines since inflation began to creep up from historic lows in mid-2021.

While the Covid pandemic began the inflationary increase, this was further exacerbated by the war in Ukraine pushing up energy and food prices even further.

Following such an extended period of price rises, you may be concerned about your household finances and long-term plans. So, here are five ways to protect your finances during the cost of living crisis.

Get in touch

If you're worried about the rising cost of living and would like to discuss ways to protect your finances from the effects of inflation, we're here to help. Please get in touch to arrange a time to chat.

01 Review your budget and personal inflation rate

Reviewing your spending will clarify where your money is going and highlight potential areas to cut costs and make savings.

Despite a lot of noise about inflation and its impact on UK households, the good news is that your personal rate of inflation depends on how you spend your money. It won't necessarily match the official inflation rate and so changing your spending habits can help bring it down.

For example, since much of the rise in prices has been caused by soaring fuel prices, your personal inflation rate may be lower than the average if you don't drive or own a car.

Energy prices have also risen significantly throughout 2022. However, if your home is especially energy-efficient, you may use less energy than an average household. This could bring your personal inflation rate below the average.

You can use an online calculator – such as this one from the **ONS website** – to help you work out your personal inflation rate online.

02 Manage debt

Higher interest rates mean increased borrowing costs. So, check the rates and see if you can reduce the interest you're paying.

Focus on repaying credit card debt first. Credit cards typically charge high levels of interest and the negative compounding effects can be difficult to escape.

If you have high credit card debt, transferring to a limited-period nil-interest rate account could help you repay the debt sooner.

03 Ensure your savings are working hard for you

Around £160 billion in savings accounts pay less than 0.5% interest, so it's worth shopping around for higher interest rates on your savings.

Alternatively, Insignis can help you secure the best cash savings rates.

As interest rates change, Insignis moves your money to secure optimal rates. The one-time sign-up is quick and easy to set up, plus you'll never need to open or close another account again.

04 Resist the temptation to dip into your investments or stop saving for your future

You may be tempted to dip into your pension or investments to tide you over but consider the long-term effect on your retirement plans.

Selling investments or drawing from your pension could leave you worse off in the long run, so assess every option before you act.

It's important to continue to pay your future self first, too; be sure to maintain regular, tax-efficient contributions to your pension and ISAs.

05 Remember your long-term financial plan

Making rash financial decisions during the current crisis could jeopardise your long-term financial security. If you're worried about the rising costs of living and what you can do to protect your short- and long-term financial plans, we can help.

OW4294 expires 14.02.2024

Decumulation

Why a plan is crucial when you start to spend your wealth

Making your retirement savings last a lifetime

To help ensure a sustainable income, you first need to understand how much you'll need to live on.

— **On the go** – during the early stages of retirement, there's a strong likelihood that you'll spend more on travel, hobbies, or home improvements

— **Slowing down** – while you may be slightly less active, you're still busy with hobbies, but you may be less inclined to long-haul travel

— **Coming to a stop** – in later life, your mobility may be more limited, and you may require care.

Structuring a sustainable income

The most efficient retirement income strategy should be planned well in advance and ensure that:

— Allowances and exemptions are used to their full capacity

— Married couples plan together so income and assets are allocated effectively.

Regarding capital withdrawals, you may want to consider decumulating using cash first, followed by taxable investments, ISAs, and finally pensions.

Tax efficiency is key

While tax-efficient accumulation helps enhance your wealth for the retirement you desire, tax-efficient decumulation helps preserve your capital and increases the chance of having money to leave to your loved ones.

So, maximise all your tax allowances including:

— Income Tax allowances

— The Dividend allowance

— 5% return of capital allowance from investment bonds

— Personal savings allowance

— ISA allowance

— Capital Gains Tax allowance

By planning together, couples can use these allowances to maximise the amount of tax-free income available.

Consider spending excess cash first

Ideally, you should hold an emergency fund to cover around six months of regular expenditure. If you have more cash available, consider using this before withdrawing from pensions investments. Using excess cash allows you to leave funds invested, which may provide enough time for funds to recover any lost value.

Get in touch

If you'd like help to create a financial plan to structure a tax-efficient income in retirement, we can help. Please get in touch to arrange a time to chat.

Think twice before drawing on your pension

While you may consider your pension as the foundation of your retirement plan, if you have other income that uses your tax allowances, it may be prudent to defer drawing on your pension.

Since pension funds benefit from tax-free growth, interest, and dividends, leaving your pension invested is especially useful for maintaining capital value. Plus, pension funds are usually not subject to IHT. So, leaving your pension fund intact while drawing on other investments may help to reduce your IHT liability.

Enjoy flexibility from ISA savings

ISAs are considerably more flexible than pensions. Growth, interest, and dividends are all free of tax and you can withdraw money tax-free without restriction. As for IHT, ISAs can be passed between spouses on death, which preserves the tax-efficient treatment.

Useful in reducing tax in retirement, you can use your ISA to:

— Fund large, one-off purchases

— Top up your income – especially useful if your pension exceeds your tax-free allowance

— Make your portfolio more efficient over time, by gradually moving taxable funds across.

Take a savvy approach to investment accounts

A basic and flexible wrapper, investment accounts can hold funds, shares and investment trusts. Interest and dividends are taxable at your marginal rate and selling assets can incur Capital Gains Tax (CGT) if your profit exceeds your annual exemption *(£12,300 for 2021/2022 or, for a couple, £24,600. In the 2023/24 tax year, the CGT exempt amount will fall to just £6,000, or £12,000 for a couple).*

The following strategies can help reduce tax:

— Phase your taxable investment accounts into ISAs

— Use your annual CGT exemption to avoid large gains rolling up

— Structure your investments depending on the type of income they generate

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Past performance is not a guide to future performance and should not be relied upon. An ISA is a medium- to long-term investment, which aims to increase the value of the money you invest for growth or income or both.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Inflation explained – why is it so high and how could it affect you?

With inflation at its highest level in 41 years and energy prices skyrocketing, the cost of living crisis has dominated headlines since inflation began to creep up from historic lows in mid-2021.

Following such an extended period of price rises, you may be concerned about your household finances and long-term plans.

On the right are some key points summarising what brought the UK economy to this point and what might happen next.

What is inflation?

Inflation measures how the average price of goods and services changes annually, and is the main driver of the cost of living crisis.

Each month, the Office for National Statistics (ONS) monitors the price of 700 goods and services to determine how much an average household's shopping basket changed in the preceding 12 months. This provides the Consumer Prices Index (CPI), which is one of the key ways we measure inflation.

The Bank of England (BoE) is tasked by the government to keep inflation to 2%.

A small level of inflation each year is good for the economy. However, when inflation rises above the 2% target, it can put more pressure on consumer finances and lead to problems in the economy.

Inflation could soon start to fall

In response to rising inflation, the BoE has raised the base interest rate several times throughout 2022, most recently to 3.5% on 15 December 2022. This is expected to encourage more people to save, reducing demand for goods and services, so slowing the pace of price increases.

However, experts predict that inflation will remain high for some time, not returning to the 2% target until 2024. Interest rates are expected to continue to rise into 2023, which could lead to higher mortgage rates and monthly repayments for borrowers.

Your experience of inflation may be different

The ONS makes certain assumptions when calculating UK inflation, such as that the average household allocates 9.8% of their monthly budget to personal travel costs like owning a car. If you do not own a car, your personal inflation rate might be lower than average.

Using an online calculator to understand your personal inflation rate will make it easier to focus on the facts that affect you rather than noisy, often sensationalist, headlines.

A combination of world events raised inflation

Several events in recent years have led to the sharp rise in inflation.

1. The Covid pandemic

During Covid lockdowns many workplaces closed, so normal manufacturing stopped temporarily. This led to a shortage of products. So, when the lockdowns ended, and we resumed our day-to-day lives, demand outstripped supply and prices rose.

2. The war in Ukraine

Food prices – specifically animal feed, fertiliser and vegetable oil – have risen directly because of the war, which had a knock-on effect on the price of everyday products such as sugar.

Energy prices have also soared to the highest level in 10 years as many European countries rely on Russia for imported natural gas.

3. The weakened pound reduces buying power

The value of the pound against the dollar has slowly dropped throughout 2022 from $1.335 on 4 January to $1.146 on 1 November.

GET IN TOUCH

If you're worried about the rising cost of living and would like to discuss ways to protect your finances from the effects of inflation, we're here to help. Please get in touch to arrange a time to chat.

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Why having an emergency fund matters and where to hold extra cash reserves

Having ready cash on hand is an essential part of any successful financial plan.

When investing, it's important to hold an emergency fund. This readily available cash will mean you're prepared to protect yourself against the unexpected and also plays a vital role in maintaining your financial wellbeing.

It's generally advised to keep between three and six months of household expenditure in an easy access account – more if you work in a particularly volatile sector. If you're approaching retirement, you may want to keep even more of your wealth in cash.

An emergency fund and a retirement "buffer" are only two aspects of how to think about cash – it can also be integral to a diversified portfolio.

Cash tends to be the asset with the least associated risk. While cash offers the benefit of easy access, it also tends to provide lower long-term returns than other asset classes.

Over time, cash value can be eroded by inflation. So, any additional cash reserves should be placed in accounts that can earn you more interest.

Cash savings are protected

Cash savings are protected by the government's Financial Services Compensation Scheme (FSCS). This provides protection for up to £85,000 for individuals and £170,000 for joint accounts per provider.

So, if you're a single account holder, avoid having more than £85,000 with any single institution. If the savings provider holding your funds fails, you could lose everything over this threshold amount.

If you're a single person with £170,000 in savings, you could protect the full amount by investing £85,000 in two separate accounts held by different savings providers.

Inertia is every saver's worst enemy

Unfortunately, savers often fail to make the best choices about where to hold their cash.

UK savers could be missing out on more than £1.6 billion in interest every year.

There's around £160 billion in savings accounts paying less than 0.5% interest and more than £246 billion sitting in savings accounts earning no interest at all.

So, it's important to spend time considering the right places to hold cash reserves. Here are some of the main options and potential benefits and drawbacks.

High interest current accounts

These accounts often pay more than standard savings accounts. While they can be used as an easy access account, most high interest accounts will come with certain restrictions.

So, check the small print – the promise may not suit your needs. For example, you may have to save a set monthly amount into the account or there could be limits on how much of your balance will earn interest.

Earn more with fixed-rate accounts

Fixed-rate accounts typically offer higher rates of interest. However, to gain maximum benefit, you'll need to lock your money away for a set amount of time.

If you have a healthy emergency fund and are comfortable with the commitment and timescale, these can be great for growing your balance.

The longer you're prepared to tie your money up, the higher the interest you could gain.

The rate available on fixed savings has been creeping up in recent months. As of early November 2022, it's possible to find two-year fixed-rate accounts paying up to 5% interest.

As the Bank of England continues to battle against rising inflation, the City expects more rate rises. So, we should see the rates on fixed savings continue to rise, too.

Consider Premium Bonds – Ernie (Electronic Random Number Indicator Equipment) could deliver big

Premium Bonds are one of the most popular UK savings options. In October 2022, more than 21 million people had a total of £119 billion of savings allocated to the National Savings & Investments (NS&I) monthly prize draw.

Instead of earning interest, each £1 bond is an entry into the prize draw. All prizes are tax-free and range from £25 to £1 million. Premium Bonds are also Treasury-backed and 100% secure.

The downside is that, with no interest being paid, if Ernie doesn't draw your number you'll effectively be losing money as your savings won't be keeping up with inflation.

You can save from as little as £25 and the maximum you can hold is £50,000 – a couple can invest up to £100,000.

Cash can create additional leg work

Because interest rates and offers are constantly changing, ensuring your cash is working as hard as possible can take a lot of time.

Fortunately, there are services that can do all the work for you.

For example, Insignis removes the complication by securing optimal interest rates for your cash deposits across a variety of banks. The simple proposition helps you to reduce risk, increase potential returns on your cash, and save time.

GET IN TOUCH

We can help you understand how much emergency cash to keep on hand and how best to allocate additional cash reserves alongside your diversified portfolio. To discuss your options, please get in touch to arrange a time to chat.

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Cost of living crisis: Why you should review your budget and plans

The cost of living is rising. Reviewing your finances now is crucial for understanding what effect inflation could have on your lifestyle and long-term plans.

Inflation was at an almost 40-year high. In the 12 months to August 2022, it was 9.9%. There are several factors contributing to rising inflation, including the conflict in Ukraine, which has disrupted energy and food supplies.

Rising inflation means now is the ideal time to review your budget

Keeping track of your finances during the cost of living crisis is crucial. In the short term, you should review your budget. Can your budget absorb the higher costs, or do you need to make lifestyle changes?

The Bank of England expects inflation to peak at around 13%. It's also said it doesn't expect the rate to fall to its target of 2% for several years.

So, you should look at what that means for you in the coming years. Will rising energy prices mean you need to be more mindful of energy use or cut back expenses in other areas?

While the headline inflation figure can give you an idea of how prices are changing, your personal inflation rate may be very different. If you commute long distances, for instance, the steep rise in fuel costs may mean your outgoings rise more than you expect.

Going through your budget and calculating how your regular costs have changed in the last year can help you better manage your finances.

In some cases, you may decide to draw on savings or other assets to bridge a gap if your expenses rise. You should ensure this is sustainable.

The steps you take could affect your long-term plans

While it's important to focus on how the cost of living crisis is affecting your finances now, don't forget to consider the long-term effects too. Decisions you make now could affect your income and financial security for years to come.

If you're using assets to create an income, such as your pension, you need to be aware of how increased withdrawals may affect you. Could taking a higher income from your pension now to cover costs mean that you deplete your savings faster than you expect? If so, it could mean you face an income shortfall later in life.

Research also suggests that some people are cutting back outgoings that could improve long-term financial security. According to Canada Life, 5% of adults have already stopped contributing to their workplace pension due to budget pressures. A further 6% are actively thinking about pausing their pension contributions.

While pausing contributions for a few months may seem like it will have little effect on your retirement, it can be larger than you think. The power of compounding means that pausing pension contributions for just a year could reduce the value of your pension at retirement by 4%.

It's not just stopping pension contributions that could affect your long-term plans. Things like reducing how much you add to your savings account or investment portfolio could affect whether you can reach your goals in the future, whether that's to support children through university or retire early.

Contact us to review your finances

Amid the current economic uncertainty, reviewing your financial plan can give you peace of mind and confidence. We'll help you understand how your current budget has been affected and the steps you can take now to create long-term financial security.

Please contact us to arrange a meeting to discuss your goals and the effect the cost of living crisis could have.