

# money matters

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As inflation hits a 30-year high in the UK, double-digit price increases could be on the horizon.

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Plan for tomorrow, live for today!

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## The price of surging inflation

As inflation hits a 30-year high in the UK, double-digit price increases could be on the horizon.

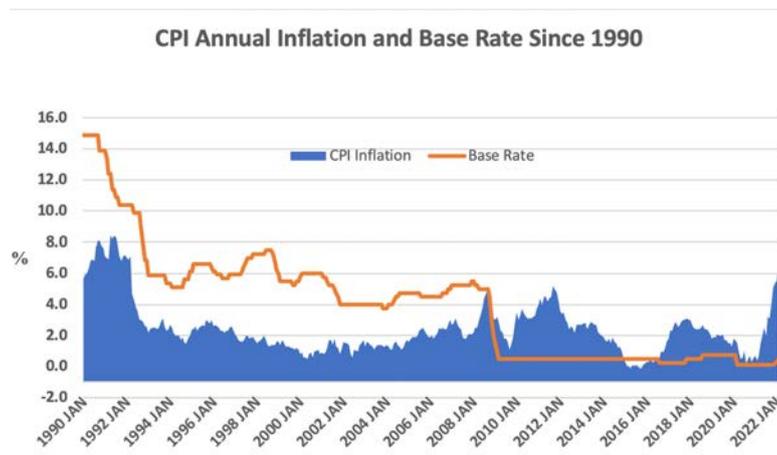


At the start of 2021, inflation measured by the CPI yardstick, was running at a benign 0.7%, having been driven down by the impact of the pandemic. A year later, the rate had jumped to 5.5%, close to triple the Bank of England's official target of 2%. It will not be stopping anywhere near there:

- In mid-March, the Bank of England said, "Inflation is expected to increase further in coming months, to around 8% in 2022 Q2, and perhaps even higher later this year."
- Later in the same month, the Office for Budget Responsibility (OBR) in its Economic and Fiscal Forecast went further: "If wholesale energy prices remain as high as markets expect, energy bills are set to rise around another 40 per cent in October, pushing inflation to a 40-year high of 8.7 % in the fourth quarter of 2022."
- With the old Retail Prices Index currently running at around 2% above the CPI, it is possible headlines about double digit inflation will be appearing before the end of the year.

As the OBR suggests, one of the main drivers of high inflation is the surge in energy prices, which was exacerbated by the Russian invasion of Ukraine. However, other commodity prices are on the rise and hospitality prices have had to reflect an April VAT rise from 12.5% to 20%. The worry for the Bank of England is that price increases will feed through to wage demands, producing self-feeding inflationary spiral.

So far, the Bank of England has raised interest rates in 0.25% steps. Its ability to increase rates is constrained by the weak growth prospects for the UK economy, which could be tipped into a recession if rates reverted to those before 2008, let alone in the early 1990s, the last time inflation was as high. The corollary is that for the time being, deposits will continue to see their buying power eroded, whether or not interest is accumulated. If you have more than your rainy-day reserve sitting in cash, you need to have a very good reason or, better still, a discussion with your investment adviser.



## Looking after your pennies

As inflation hits a 30-year high in the UK, double-digit price increases could be on the horizon.

We explore some ways to help keep your money where it belongs.

### Tip 1: Make sure you have the right tax code

Now that the new tax year has started, it is worth checking your tax code if your earnings and/or pensions are taxed under PAYE. HMRC does not have an unblemished record of setting these correctly and, unless you complete a tax return, you could end up paying tax that you cannot reclaim – you have just missed the chance to receive a refund for overpaid tax from 2017/18. Go to [www.gov.uk/check-income-tax-current-year](http://www.gov.uk/check-income-tax-current-year) to check your code.

### Tip 2: Review what money is leaving your bank account

It is easy enough to set up a direct debit to meet regular expenditure, but it is equally easy to forget about the ones you have already set up. Have a look through your bank statement or, better still, the list of direct debits (and standing orders, if you have any). Are they all still necessary or are you paying for a membership you no longer need or a service you never use now?

### Tip 3: Consider salary sacrifice to pay your pension contributions

If you are a member of a workplace pension arrangement, you may have the opportunity to make your contributions via salary sacrifice arrangements. In most – but not all – instances, this will be preferable to the more obvious method of having personal contributions deducted from your pay because of the savings on national insurance contributions that can be made. At best, your pension contribution cost could be reduced by over a quarter.

**Tip 4: Check if you can now claim Universal Credit**

In last October's Budget, the Chancellor announced two changes to Universal Credit (UC): a £500 a year increase in all work allowances and, more significantly, a reduction from 63% to 55% in the rate at which the benefit is withdrawn. The combination of the two meant that the income limit for UC entitlement increased significantly. You may be able to make a claim this year, which would have been pointless a year ago. For example, a single earner couple with two children paying monthly rent of £750 can have income before tax of up to £61,150 before losing all UC entitlement.

By their very nature, financial tips are general, not personal. Do ensure you seek professional advice tailored to your circumstances, should you need it.

## 2022: an unexpected first quarter

Despite the numerous shocks that occurred in the first quarter of 2022, the world's share markets held up surprisingly well.



Cast your mind back to the start of the year. The world was coming to terms with the latest Omicron variant of Covid-19, which was supposedly proving less serious than its predecessors.

The latest available UK inflation figure (for November 2021) was 5.1% and the Bank of England had delivered an early Christmas present of a 0.15% rise in interest rates to 0.25%. Across the Atlantic, US inflation was higher at 6.8%, but the US central bank, the Federal Reserve, had delayed its first increase in interest rates. Investment markets had enjoyed a generally good 2021, particularly in the US, and while interest rate rises were expected in 2022, the post-pandemic investment outlook was reasonably sunny.

Two events in the first quarter of 2022 changed that benign picture:

- Central banks decided that they need to take much stronger action against rising inflation. The Bank of England raised rates twice in the quarter, taking them up to their pre-pandemic level. In the US, rates rose just once, but the Federal Reserve had not yet quelled suggestions that there could be rate rises at each of its next six meetings in 2022.
- Russia invaded Ukraine on 24 February, creating political and economic disruption that continues to echo around the globe.

Against such a background, it would be surprising if stock markets had continued posting fresh gains. As the table shows, most markets registered modest falls, although what the table does not show is that all ended the quarter above the lows they hit in early March.

The FTSE 100 was one of the best performing indices over the quarter, a position it has rarely seen in recent years. Ironically, that performance was largely due to what had previously made

Index	Q1 2022 Change
FTSE 100	+1.78%
FTSE 250	-9.88%
Dow Jones Industrial	-4.57%
Standard & Poor's 500	-4.95%
Nikkei 225	-3.37%
Euro Stoxx 50 (€)	-9.21%
Shanghai Composite	-10.64%
MSCI Emerging Markets (£)	-4.66%

the index open to criticism – its heavy weighting to 'old world stocks' of oil majors, miners and banks.

Given the shocks that occurred in the first quarter of 2022, global share markets held up well. One reason put forward, which is worth all investors considering, is TINA – There Is No Alternative.

When fixed interest bonds are threatened by sharply rising interest rates, but deposit rates are still hugely outpaced by inflation, shares can look like the best option for your money and investments – especially if they are cheaper now than at the start of the year.

# State Pension - How much will you receive?

Knowing what to expect can be an important part of planning for life after work



How much do you think you'll need to fund your retirement? Of course, the answer to that question will depend on what you want to do when you stop work. Worryingly almost half of non-retirees (46%) are unable to identify how much annually they believe retirees receive from their state pension according to a survey from the Pensions & Lifetime Savings Association (PLSA).

Only 53% knew that retirees receive around £9,000 per year from their State Pension, with those aged 55 and over being more likely to identify correctly how much retirees receive (70%), compared to only 40% of those aged between 18 and 34.

## **Saving in a Pension**

The survey also showed that over half of non-retirees with a pension are worried that they are not saving enough for their retirement (56%), with only one in five (21%) confident that the amount they are saving in a pension is enough to let them live the lifestyle they want when they stop working.

In fact, three-quarters (75%) of non-retirees say they believe they could save extra into their pension to boost their pension savings, with the average additional contribution being £68 per month.

## **Additional Contributions**

One in six (17%) say they could only pay in less than £25, just over a quarter (26%) say they could pay in £25 to £50 in additional contributions, while a further quarter (25%) say they could pay in between £51 and £200 in additional contributions.

Seven per cent say they could pay in more than £201 per month in additional contributions.

Most people in the UK who work or undertake caring responsibilities will be eligible for a full State Pension if they have worked and paid National Insurance contributions or been a carer for 35 years.

In 2021/22, the full level of the new State Pension is currently £179.60 a week (£9,339.20 a year).

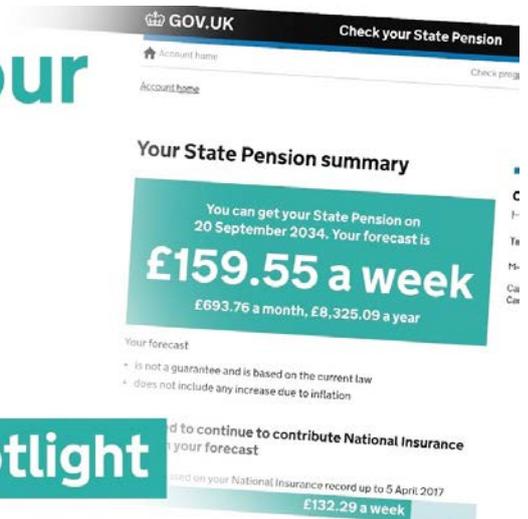
### Rely on the State Pension

But the research finds that the majority of the public (78%) do not know how much new retirees with a full State Pension will receive.

As could be expected, older people and those who are retired tend to have the highest, with half (46%) of those aged 65 and over and two in five retirees (43%) saying they are aware how much retirees will receive from a full State Pension.

# Check your State Pension

## Services Spotlight



However, even among these groups, many are unaware of the amount that retirees receive (54% of those 65+ and 57% of those who say they are retired).

When asked if savers plan to rely on the State Pension come retirement, just over a third (36%) said that they expect to rely on it as their main source of income, especially those aged between 55 and 64 (49%).

However, one in five said that they remain unsure what they will rely on in retirement (18%).

### Adequate income at retirement

Furthermore, younger people (those aged between 18 and 34) and those with other types of pension are less likely to say they will rely on the State Pension as their main source of income (26% and 31% respectively).

For many people, the best way to provide an adequate income in retirement is to save gradually throughout their entire working life and save what they can afford.

However, depending on their financial circumstances, some may prefer to save less when they are younger and more when they are older, especially if they expect to receive an inheritance before they retire.

### Option to add to your nest egg

Unfortunately, many of us struggle to put enough into our pension pot during our working lives because the costs of buying a house, raising a family and covering day-to-day living expenses eat into disposable income.

The earlier you start retirement planning, the better. However, with the demands of managing a busy working and personal life, this is something that can understandably be neglected.

But it's never too late to think about saving for retirement – even if you are planning to give up work in just a few years' time, you will have options to add to your nest egg.



## Setting Financial & Lifestyle Goals

Plan for tomorrow, live for today

Financial success doesn't happen by accident. It's a process starting with having a goal, planning carefully and being confident of making the right decisions at the right time. It is easy to stray from basic, solid principles of finance. These remain true no matter what your age or circumstances. It's those same principles that need to be applied to your financial affairs.

The start of the new year is the perfect time to obtain professional financial advice and in doing so help secure your future – and that of your family – for years to come. Whether it's advice on significant lifestyle changes, such as preparing for your retirement, helping your children buy their first home or investing to beat inflation, we can help.

### Life goals

Part of the process should also include articulating and writing down your financial and life goals. Doing this can actually have an impact on achieving them, by helping you to maintain focus in the face of distractions, setbacks or challenges.

You might write down, 'I want to be mortgage-free by the age of 50' or 'I want to retire by the age of 55.' Think of each goal as a financial milestone. This will enable you to check that you're on course, without worrying too much about how much longer you've got to reach your destination.

### Reach milestones

Developing effective money habits, having a lifestyle you can afford and thinking carefully about your family priorities will help you identify and reach these goals or milestones – the key to having money serve you well over your whole lifetime.

Whatever stage you are at, a new tax year offers the chance to rethink your earning, spending, saving, investing and giving behaviours and habits to ensure they are aligned with what really matters. It's also a good time to make sure that your financial life is well organised so you feel in control.

### Clear objectives

Any goal (let alone financial) without a clear objective is nothing more than a pipe dream, and this couldn't be more true when setting financial goals.

It is often said that saving and investing is nothing more than deferred consumption. Therefore, you need to be crystal clear about why you are doing what you're doing. This could be planning for your children's education, your retirement, that dream holiday or a property purchase.

Once the objective is clear, it's important to put a monetary value to that goal and the time frame within which you want to achieve it by. The important point is to list all of your goal objectives, however small they may be, that you foresee in the future and put a value to them.

### **Realistic**

Just setting goals doesn't guarantee success—setting goals is only one part of a process that can lead you to success.

Setting goals is key to planning, executing a plan, staying motivated and ultimately evaluating your success.

Set realistic goals. It's important to set goals that you can achieve. It's good to be an optimistic person, but being a Pollyanna is not desirable. Similarly, while it might be a good thing to keep your financial goals a bit aggressive, being overly unrealistic can definitely impact on your chances of achieving them.

A realistic goal is one that you can reach given your current mindset, motivation level, time frame, skills and abilities. Realistic goals help you identify not only what you want but also what you can achieve, and help you stay the course by keeping you motivated throughout your journey until you get to your destination.

### **Divide goals**

Now you need to plan for where you want to get to, which will likely involve looking at how much you need to save and invest to achieve your goals. The approach towards achieving every financial goal will not be the same, which is why you need to divide your goals into short, medium and long-term time horizons.

As a rule of thumb, any financial goal that is due within a five-year period should be considered short-term. Medium-term goals are typically based on a five-year to ten-year time horizon, and over ten years, these goals are classed as long-term. This division of goals into short, medium and long-term will help in choosing the right savings and investments approach to help you achieve them, and it will also make them crystal clear. This will involve looking at what large purchases you expect to make, such as purchasing property or renovating your home, as well as considering the later stages of your life and when you'll eventually retire.

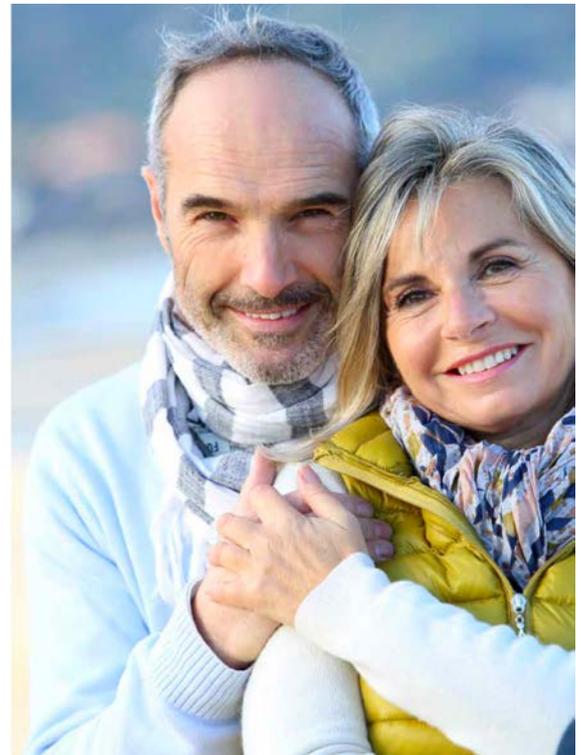
### **Inflation matters**

It's often said that inflation is taxation without legislation. Therefore, you need to account for inflation whenever you are putting a monetary value to a financial goal that is far away in the future. It's important to know the inflation rate when you're thinking about saving and investing, since it will make a big difference to whether or not you make a profit in real terms (after inflation).

You could use the 'Rule of 72' to determine, at a given inflation rate, how long it will take for your money to buy half of what it can buy today. The Rule of 72 is a method used in finance to quickly estimate the doubling or halving time through compound interest or inflation respectively. Simply divide 72 by the number of years to get the approximate interest rate you'd need to earn for your money to double during that time.

### **Risk protection**

There's much to be said for 'protecting before investing'. If loved ones are relying on you financially, your priority should be ensuring their security rather than taking on investment uncertainty. Discuss your goals with those you're closest to and make plans together so that you are well aligned. An evaluation of your assets, liabilities, incomings and outgoings will provide you with a starting point. You'll be able to see clearly how you're doing and may find areas you can improve on.



Risk protection plays a vital role in any financial plan as it helps protect you and your family from unexpected events. Make sure you have put in place a Will to protect your family, and think about how your family would manage without your income should you fall ill or die prematurely.

### **Tax liability**

With tax rules subject to constant change, it's essential that you regularly review your own and your family's tax affairs and plan accordingly. Tax planning affects all facets of your financial affairs. You may be worried about the impact that rises in property values are having on gifts or Inheritance Tax, how best to dispose of shares in a business, or the most efficient way to pass on your estate. Utilising your tax allowances and reliefs is an effective way of reducing your tax liability and making considerable savings over a lifetime.

When it comes to taxes, there's one certainty - you'll pay more tax than you need to unless you plan. The UK tax system is complex, and its legislation often changes. So it's more important than ever to be tax-efficient - particularly if you are in the top tax bracket - making sure you don't pay any more tax than necessary.

### **Take control**

Developing a comprehensive financial plan allows us to take control of our money, assess our current financial situation, set goals and prepare a strategy to achieve those goals. By better understanding your finances, setting goals and creating a strategy, you will live more comfortably and with greater confidence. This will help you develop a clear picture of your current financial situation to see the big picture and set long and short-term life goals, which is a crucial step in mapping out your financial future. When you have a comprehensive financial plan, it's easier to make financial decisions and stay on track to meet your goals.

### **Retirement decisions**

Retirement planning goal setting is important because it can help you avoid running out of money in retirement. It enables you to calculate the rate of return you need on your investments, how much risk you should take, and how much income you can safely withdraw from your portfolio. The number of options available at retirement have increased with changes to legislation, which have brought about pension freedoms over the years.

The decisions you make regarding how you take your benefits may include tax-free cash, buying an annuity, drawing an income from your savings rather than pension fund, or a combination of these. Beginning your retirement planning goal setting early gives you the best chance of making sure you have adequate funds to support your lifestyle.

### **Life changes**

There is little point in setting goals and never returning to them. You should expect to make iterations as life changes. Set a formal yearly review at the very least to check you are on track to meeting your goals. Monitoring your financial performance in this way creates more certainty and confidence in making both short and long-term decisions.

We will help you to monitor your plan, making adjustments as your goals, time frames or circumstances change. Discussing your financial and lifestyle goals with us is highly beneficial as we can provide an objective third-party view, as well as the expertise to help advise you with financial planning issues.

### **Finally, get SMART**

To make sure your financial and lifestyle goals are clear and reachable, each one should be: Specific (simple, sensible, significant); Measurable (meaningful, motivating); Achievable (agreed, attainable); Relevant (reasonable, realistic and resourced, resultsbased); Time bound (time based, time limited, time/cost limited, timely, time sensitive)

