throp | FINANCIAL PLANNING

# MONTHLY NEWSLETTER

THROP FINANCIAL PLANNING

Please enjoy reading our newsletter. If you would like to discuss any of the articles further, please do not hesitate to contact us.

PART OF THE Openwork PARTNERSHIP

Pinnacle House, Suite 3/5 Mill Road Industrial Estate, Linlithgow EH49 7SF
infoVT@theopenworkpartnership.com | 01506 848 799

# 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.

Approved by The Openwork Partnership on 31.01.2023

OW4296 expires 31.01.2024

# 5 practical ways to make your pension go further during the cost of living crisis

**Household bills have increased rapidly during the past year.**

**The current cost of living crisis began with the Covid pandemic, causing problems for economies around the world and creating global supply chain delays. The war in Ukraine simply heightened an already difficult situation.**

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

**If you are retired and rely on a defined contribution (DC) pension for your income, read on for five options that could help you make your pension stretch further.**

## 01 Use existing savings for income

If the value of your DC pension has fallen recently, one way to help it to recover could be to keep as much of it invested as possible. Consider whether you could live on less income than you are currently taking.

Using alternative savings or investments could help reduce the amount you need from your pension. By leaving your money invested in your pension, you'll retain more fund units, which may increase in value when markets recover.

When things are looking better, if you have depleted your emergency fund you could use some of your income to rebuild it gradually. This will provide a buffer to support you if markets drop again in the future.

## 02 You could take a phased retirement

Many people are choosing to take a phased retirement to fight the effects of the cost of living crisis. This might include:

- Taking a part-time job
- Setting up your own business or working as a contractor
- Staying in your old job but on reduced hours.

Continuing to work means you could contribute more to your pension, helping it to grow further.

Keep in mind that the Money Purchase Annual Allowance (MPAA) might limit the amount of tax relief you can receive. Once you start drawing income flexibly from your pension, you can only receive tax relief on contributions up to £10,000 a year, although you can make contributions over this amount.

You could also receive your State Pension payments alongside any income you make from work once you reach State Pension Age. If you are struggling to cover your monthly expenses, this could provide a welcome boost to your income.

We can help you understand all the financial implications of phased retirement and pension contributions.

## 03 An annuity could provide guaranteed annual income for the rest of your life

If you would like a guaranteed annual income but don't want to go back to work, you could consider an annuity.

Buying an annuity with a lump sum from your pension can deliver a guaranteed annual income for the rest of your life.

Annuities are becoming an attractive option for retirees again. Rates have risen to a 14 year high in 2022, meaning you can now get much more for your money.

For example, in December 2022 a 65-year-old with a pension pot worth £100,000 could secure a guaranteed income of £6,873 a year for life.

The same person would only have been able to receive £4,521 a year if they had bought the annuity at the start of 2022.

## 04 A lifetime mortgage could free up cash from your home

A lifetime mortgage is a loan that you take out against the value of your home, allowing you to exchange equity for tax-free cash. To be eligible, you must:

- Be over 55
- Own your home, which must be worth/valued at more than £70,000
- Have little or no mortgage left to pay
- Be a UK resident.

A lifetime mortgage has several benefits and disadvantages, as illustrated below.

| Benefits of a lifetime mortgage | Disadvantages of a lifetime mortgage |
|---|---|
| You retain ownership of your home. | Interest will be charged on the original loan and the interest accrued, so the amount you owe will grow. |
| The cash can be used to pay for anything. | The interest rates on lifetime mortgages tend to be higher than on residential mortgages. |
| You don't need to repay the loan, or the interest accrued, until you move into long-term care or pass away. | You may have less to leave your beneficiaries in your will. |

## 05 Downsize your home to reduce monthly bills

Moving to a smaller property with a better Energy Performance Certificate rating could offer a win-win situation.

Not only could this help free up some cash from the sale of your old property, but a smaller, more efficient home could also reduce monthly bills.

## 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 and rising energy prices, we're here to help. Please get in touch to arrange a time to chat.


**Important Information**

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.

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

A Lifetime Mortgage is not suitable for everyone and may affect your entitlement to means tested benefits, so it is important to seek financial advice before taking any action. If you are considering releasing equity from your home, you should consider all options available before equity release.

The interest that may be accrued over the long term with a Lifetime Mortgage, may mean it is not the cheapest solution. As interest is charged on both the original loan and the interest that has been added, the amount you owe will increase over time, reducing the equity left in your home and the value of any inheritance, potentially to nothing.

Although the final decision is yours, you are encouraged to discuss your plans with your family and beneficiaries, as a Lifetime Mortgage could have an impact on any potential inheritance. We would also encourage you to invite them to join any meetings with us so they can ask questions and join in the decision, as we believe it is better to discuss your decision with them before you go ahead.

Approved by The Openwork Partnership on 18.05.2023

# Investment myths

Understanding investments can be daunting, and there are several myths that are likely to put you off if you are new to investing. In this blog, we'll debunk five misconceptions about investing. By unravelling these myths, you'll gain a clearer perspective on how to navigate the world of finance and make informed investment decisions.

## 1 You need to be wealthy

You can invest with less than you may think. Making small regular investments can provide more benefits than investing a lump sum. You can invest a small amount into the markets every month. One big benefit of investing a small regular sum is that, instead of saving your cash until you have a lump sum, you're putting your money to work straight away. Even with rising interest rates, leaving money sitting in a bank account can be less profitable than investing it in the market.

## 2 It's too much of a risk

With any type of investment, there is a risk of losing your money. It's all a balance between risk and reward, meaning the greater the risk, the greater the potential reward. If you understand the risks involved and the level of risk you're comfortable with, you'll be able to make an educated decision as to whether it's worthwhile.

## 3 You need to know the best time to buy

Most people think you need to invest when stocks are low and sell when they're high, but there are so many factors that can change the stock market, it's pretty much impossible to predict the outcome. The best thing to do is start investing as soon as you can for as long as you can. There may be fluctuation, some good and some bad, but the longer you're able to hold on to your investment, the more time you'll have to recover from any lows.

## 4 Your money will be inaccessible

It is true that the longer you keep your money invested, the more chance you have of making a return, however this doesn't have to mean your money is inaccessible. There are lots of investment options where you can access your money at any time. You should leave your investments untouched for them to have the most potential, but should a situation arise where you may need your funds, you will be able to access them.

## 5 You have to monitor your investments every day

Checking your investments every day can lead to risky decisions such as changing investments or withdrawing funds altogether. Investments usually span over a long period of time, so it's best not to make potentially harmful decisions based on short-term market performance. If you're opting for a low-risk investment, you won't need to check it often. It's recommended to monitor your investments every three months just to see how they're doing.

## Get in touch

If you're interested in finding out more about how you could invest your money wisely, we're here to help.

**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.**

**Approved by The Openwork Partnership on 30/06/23.**

OW4477 Exp. 30/06/2024