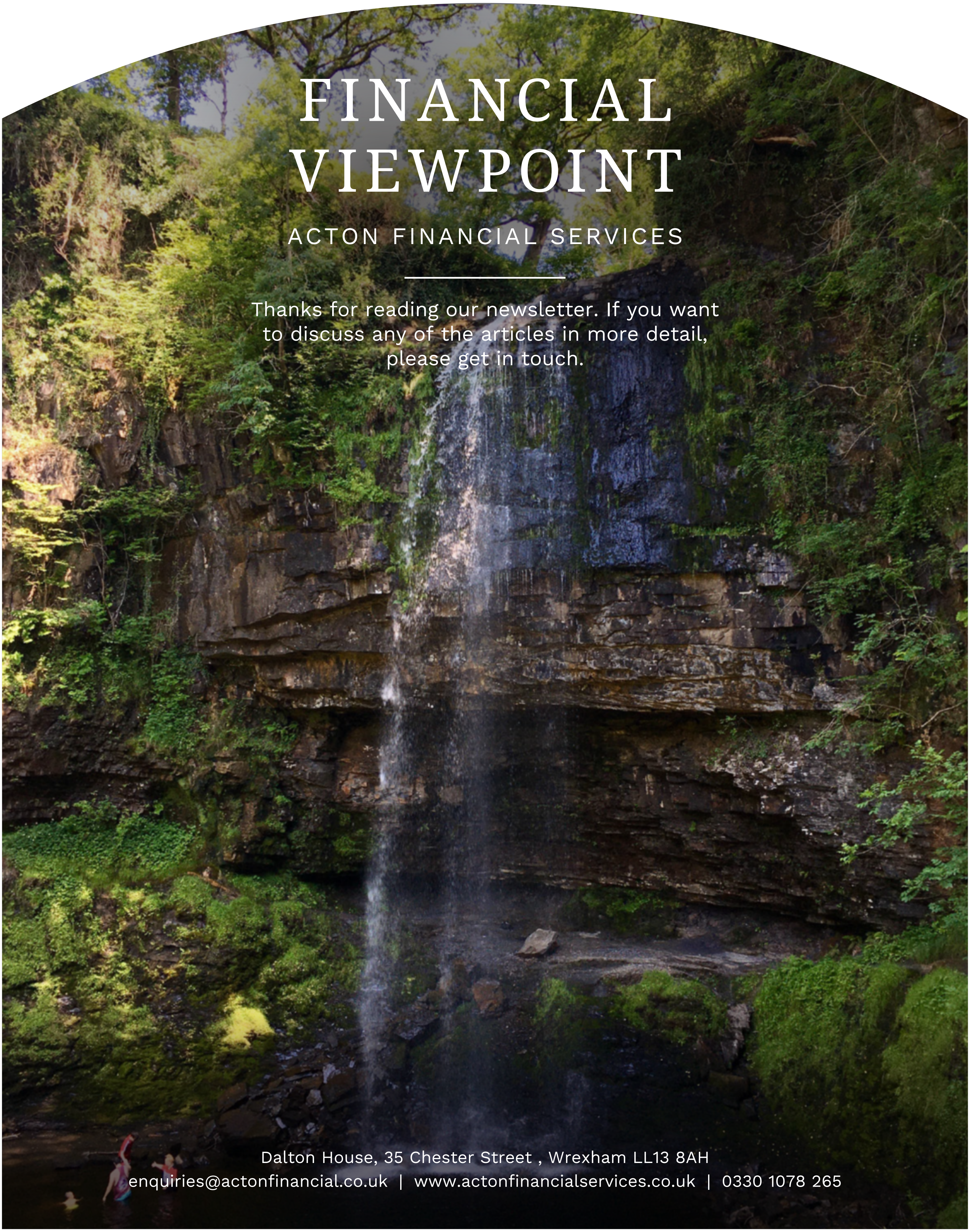

FINANCIAL VIEWPOINT

ACTON FINANCIAL SERVICES

Thanks for reading our newsletter. If you want to discuss any of the articles in more detail, please get in touch.

Dalton House, 35 Chester Street , Wrexham LL13 8AH
enquiries@actonfinancial.co.uk | www.actonfinancialservices.co.uk | 0330 1078 265

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.

Rising inflation affects everybody differently depending on their circumstances. If you are approaching retirement, or have already retired, here are a few points to help you understand what the cost of living crisis means for you and some practical tips to help weather the storm.

What does the cost of living crisis mean for your retirement savings?

What's happening to interest rates and how might your pension be affected?

The Bank of England (BoE) is tasked with keeping inflation at the government-set target of 2%. Whenever it falls more than one percentage point above or below that target, the BoE must explain how they will address the difference.

In December 2022, they increased the base rate to 3.5%, which, in turn, will push up interest rates on the high street.

Higher interest rates will affect your pension differently depending on how it is invested:

- If your pension is invested in the stock market, its value could drop since the stock market tends to go down when interest rates rise
- If your pension, or some of it, is invested in bonds, its value could go up, since bonds can increase in value when interest rates rise
- If you hold savings in cash, you are likely to get increased returns as high street banks pass on some of the increases in interest rates.

While current headlines are worrying, it's best to tune out the noise and focus on your personal circumstances.

What is your personal inflation rate?

The UK inflation rate is measured by the Office for National Statistics (ONS), who monitor the fluctuating price of goods in an average shopping basket.

So, how you experience inflation depends on what you spend your money on.

For example, the ONS assumes that an average household allocates 9.8% of their monthly budget on a car or other vehicle. If you don't own a vehicle, your personal inflation rate might be lower than average.

Understanding your personal inflation rate, by using an online calculator, allows you to make informed choices about how you allocate your monthly income and to locate possible savings.

In spite of inflation, here are three ways you can make your retirement income more sustainable.

1. Annuity rates have risen recently

If you've saved into a defined contribution (DC) pension scheme, you have a few different options for drawing an income. One is to buy an annuity that will guarantee you a certain level of income, usually for the rest of your life.

With yields on government bonds increasing, annuity rates have risen through 2022 and are currently enjoying a 14-year high. This means you can get a much higher income for the same level of initial investment than you might have before this year.

If you are approaching retirement or already in retirement and looking for ways to generate an income from your accumulated savings, annuities could be worth considering.

2. Maximising other savings accounts

If you're about to retire, consider whether you have other savings that could provide an income before you start drawing from your pension. This would allow your pension to remain invested for longer, potentially generating bigger returns that, in turn, could provide a better income in the later years of retirement.

This could also help to reduce the Inheritance Tax bill after you die, since pensions usually fall outside of your estate.

3. Using cashflow modelling for greater understanding

We can help you forecast what your savings will look like throughout your retirement using cashflow modelling. When you know whether you're likely to encounter a shortfall, you can create a strategy that will help protect you.

Ensure you also consult us on how best to invest your pension savings. Some pension providers automatically reduce the risk profile on your investments as you approach retirement. This is called "lifestyling" and isn't suitable for everybody as it could harm your pension performance.

OW4297 expires 01.02.2024

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 01.02.2023

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

Think twice: Why cancelling your financial protection during the current cost of living crisis could be a bad idea

Centuries ago, Benjamin Franklin announced that

"By failing to prepare you are preparing to fail".

This is especially true when it comes to ensuring your personal finances are protected from the rainiest of days. However, with the rising cost of living likely putting pressure on your spending, you may be considering cancelling your cover, even when this could leave you more vulnerable than before. Read on to discover some of the reasons you should consider prioritising your financial protection over other cost of living worries.

Rising costs should highlight the necessity of financial protection

A recent survey by Which? has revealed that 65% of households have resorted to cutting back on essentials, selling items, or dipping into savings to pay their rapidly rising bills.

Financial protection products such as life insurance, income protection, and critical illness cover are sometimes the first things that people decide to cancel when things are tight.

However, without financial protection, one unexpected event or serious illness could plunge you into having to deal with a crisis with no financial support in place.

Life insurance means your family will not face financial hardship

Keeping your life insurance policy can ensure your family benefit from financial support if the worst happens.

Without protection in place, your family could perhaps no longer afford their regular outgoings, leaving them in a difficult financial position at what will already be a stressful time.

Cancelling your policy could jeopardise the financial security of your loved ones.

If you're the main breadwinner, without your contribution to the household, your family may struggle to meet their regular financial commitments.

Income protection could support you while you're unable to work

Injury, illness, or an accident could prevent you from working and earning your living at any time, making it hard to meet everyday expenses.

Even if you receive Statutory Sick Pay (SSP), paid at £99.35 a week in 2022/23, it may not be enough to cover your usual expenses and could force you (and your family) to adapt your lifestyle while you recover. Moreover, if you're self-employed, you aren't eligible for SSP.

Income protection could save you from such stress. If illness or injury prevent you from working, you can expect to receive up to around 60% of your wages.

Just as important as a payout, an income protection plan could give you access to rehabilitation services that grant you the ability to work again. As an example, 78% of Aviva customers who had rehabilitation support returned to work.

You could receive cover during a critical illness

If you cancel your critical illness cover to save money, you could find yourself out of pocket if you're diagnosed with a serious condition. You may have to take an extended period off work on a significantly reduced income.

Critical illness provides a lump sum if you are diagnosed with a specified illness such as the following:
Heart attack / Stroke / Cancer / Multiple sclerosis
Conditions may vary between providers.

While it's unpleasant to think about, you should consider your own circumstances and whether you might be vulnerable if you cancel.

Having protection to offset unexpected healthcare expenses could be essential to preserving your financial wellbeing.

You may not feel you need insurance in all the areas discussed here. For example, some employee benefit packages include life insurance, so it's worth checking to see if this is something you already have through your work.

The type and level of protection that is most suited to you will depend on your circumstances. We can help you decide what would provide you and your family with the most benefit and help you understand which policy is right for you, too.

Potential consequences

If you cancel your protection now with the intention of taking out cover again when your finances permit, you may find the premiums are significantly higher – especially if your health has deteriorated since you took out your original protection. You may also find there are exclusions based on pre-existing conditions.

The short-term savings often may not be worth the potential long-term vulnerability you cause yourself.

Your pension could be your "secret weapon" of protection

According to Pensions Age, 86% of savers are not on track to achieve their retirement expectations.

This serves as a caution that foregoing pension contributions could leave you short when it comes to your retirement funds.

So, pausing or cancelling your contributions now could have a negative effect on the size of your pension pot when you come to retire. This may leave you having to compromise on your later-life plans.

Discussing your pension with us could help to prevent overspending or under budgeting that may affect the funds you'd like use for your retirement.

GET IN TOUCH

We can help to assess your financial wellbeing and assist in finding the right protection for you. This can help to safeguard your finances when confronted with unexpected circumstances. Please get in touch to discuss your needs.

Life insurance plans typically have no cash in value at any time and cover will cease at the end of the term. If premiums stop, then cover will lapse.

A pension is a long-term investment not normally accessible until 55 (57 from April 2028). 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. The Past Performance warning can be deleted as we are not illustrating any historic returns in this article.

The tax implications of pension withdrawals will be based on your individual circumstances. HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen. Tax concessions are not guaranteed and may change in the future. Tax free means the investor pays no tax. subsequent Finance Acts.