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WEALTH
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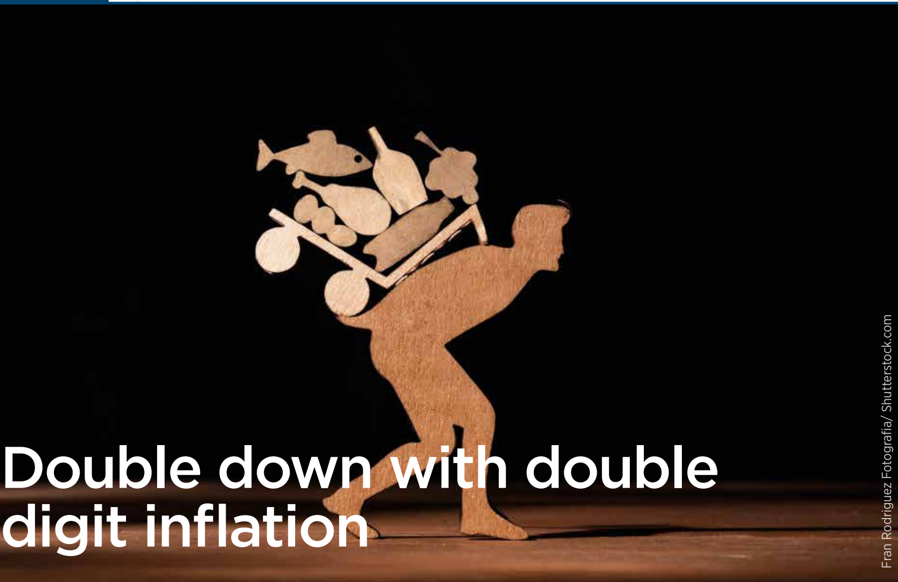
PLANNING



Double down with double digit inflation

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The 'triple lock' increase to state pensions offers two important lessons.

In November's Autumn Statement, the Chancellor, Jeremy Hunt, announced that the 'triple lock' would again operate on State pensions, meaning that from next April pensions rise by 10.1%, in line with the September 2022 rate of inflation. Mr Hunt applied the same increase to nearly all other benefits, a move with two important lessons for your own financial planning.

Firstly, it is a reminder of the paucity of social security benefits. The Covid-19 pandemic gave many people an unwelcome insight into the low level of benefits. In response, the government was forced into a temporary £1,000 a year increase to the main benefit, Universal Credit (UC). It also relaxed waiting period rules on statutory sick pay (SSP) although, like the £1,000 UC uplift, the easing has since been withdrawn.

From next April, SSP will be just £109 a week. For a couple aged 25 or more with two children, the maximum UC payment will similarly rise to just under £1,118 a month. In comparison, a 35-hour week at next April's National Living Wage rate equates to earnings of just under £365 a week or £1,580 a month before taxes.

> *If you had life assurance of £100,000 in October 2017, you would need cover of £121,113 in October 2022 to maintain your policy's buying power.*

Impact of devaluation

The second lesson from the benefit increases is that the impact of inflation must be built into any financial planning. Ignore rising prices and the targets you have set steadily devalue, whether in terms of your savings goals, planned retirement income or your health and life insurance protection. For example, if you had life assurance of £100,000 in October 2017, you would need cover of £121,113 in October 2022 to maintain your policy's buying power.

With the new year in sight, now is a good time to review how your current financial plans have been affected by inflation. One consequence could be increased outlays, but as the Chancellor demonstrated, reviewing plans and implementing changes is the only way to maintain the same level of safety net.

✢ *The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.*

PLANNING

Cash is making a comeback

Although some retailers are sticking with card payments only for now, increasing numbers of people are returning to cash.

More people are now making cash withdrawals and using this money to pay for goods and services. Paying with physical money can help keep track of spending and staying within budgets amid a background of rising prices.

Controlling spending

The Post Office handled £801m personal cash withdrawals in July – a record figure and an 8% increase on the month before. The Post Office said this change in behaviour suggested that the cost of living was impacting the way people manage their money. It coincides with the rapid rise in food prices and energy costs, and seems to suggest that we are still some years away from switching to a cashless society.

Impact of the pandemic

This recent uptick comes after years of declining cash payments. Figures show that since 2017 the use of cash for payments has fallen by around 15% a year, with a marked drop in 2020 as the Covid-19 pandemic hit. Many businesses switched to card-only payments to avoid handling notes or coins with the potential of spreading the virus.

Of course, most shops and businesses do accept both, but some have continued not to accept cash, for either convenience or security reasons. More people may be relying on cash, but it is worth bearing in mind that businesses do not have to accept cash payments, and are not in fact breaking any rules or regulations by only requesting payments by card.

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PENSIONS

Retirement now and later

The retirement market changed considerably in 2022, largely driven by market volatility and soaring inflation. Your retirement plan may have been knocked off its original course and need reviewing in the light of changed circumstances.

The lessons learned about pensions in 2022 have been both surprising and sometimes alarming. For example, if you are close to the time when you draw your retirement benefits, then the performance of investment markets in 2022 has been a double-edged sword:

- Both share and bond markets have been volatile. This has made the year an uncomfortable ride for some retirees relying on pension fund withdrawals. If you choose this option, you need to accept it comes with investment risk, so ongoing investment advice is vital.
- Annuity rates rose sharply in 2022. By mid-November the 65-year-old rate had risen by more than half since January, to just over 7.5%.

The improvement in annuity rates is worth noting even if you are already making pension fund withdrawals. Now could be a good time to lock in a guaranteed lifetime income from part of your drawdown fund by buying an annuity.

Working for longer?

If retirement is some years away, recent research from the Office for National Statistics (ONS) could make you think about when you can afford to stop work. The working population aged 65 and over has rapidly recovered from the pandemic-induced fall. About 11% of that age group are still working according to the latest ONS data. Predictably most are part time, but the hours are still considerable –averaging 21.7 hours a week.

One reason more people are working beyond age 65 is that the state pension age (SPA) has been 66 since October 2020. The SPA is due to start increasing again in just over three years, with the two-year phasing in of age 67 beginning in April 2026.

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The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances.

Occupational pension schemes are regulated by The Pensions Regulator.

INVESTMENTS

Bonds come in from the cold

As interest rates tick up, those seeking an income from their investments may want to look at their options again.

Interest rates have remained at historically low levels for more than a decade, with UK base rates below 1% from March 2009 to May 2022. Since then, however, rates have increased four times and stood at 3% at the start of November. This has had a knock-on impact on fixed-income investments, with yields now rising.

Corporate bonds and gilts are debt issued by companies or the UK government respectively. They generally pay a level income, known as a 'coupon' over a fixed term, with capital returned at the end of this period. These investments can look less attractive as interest rates rise, as the fixed income paid may be a smaller margin over what investors can get from 'risk-free' deposit accounts.

But we have been living through unusual economic times. Sustained ultra-low interest rates have led to negligible returns on deposit accounts. Demand for bonds and gilts increased significantly, and institutional investors were forced to step up the risk to generate returns on their money, leading to inflated market prices.

With higher interest rates the reverse is now happening. Demand has fallen, dampening prices. Lower prices and higher yields mean bonds may now look a more attractive option for income-seeking investors, particularly those that don't want the risks of equity markets.

Most retail investors don't buy individual bonds or gilts but invest via a fund which buys a broad spread of bonds. This means if one defaults its impact should be minimal on overall returns.

As ever, expert advice is the first port of call.

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FRAUD

Regulator warns on financial scams

The Financial Conduct Authority (FCA) has stepped up efforts to curb misleading financial adverts and scam promotions, designed to persuade people to part with their money.

In total, the FCA shut down or ordered significant changes be made to more than 4,000 financial campaigns between July and September this year; a record number of interventions. The regulator said it had seen a number of cases where unscrupulous firms were using the cost-of-living crisis to try to defraud people, and it said it was worried consumers could be tempted by high-risk unregulated products or become a target for scammers "preying on moments of vulnerability".

The FCA also highlighted the growing issue of 'Buy Now Pay Later' promotions which were misleading about fees. It said it was increasingly targeting adverts appearing on social media and was working with tech companies to try to protect users from harm.

This newsletter is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. The FCA does not regulate tax advice, so it is outside the investment protection rules of the Financial Services and Markets Act and the Financial Services Compensation Scheme. The newsletter represents our understanding of law and HM Revenue & Customs practice.

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