MURRAY JOHN
& Associates

FINANCIAL VIEWPOINT

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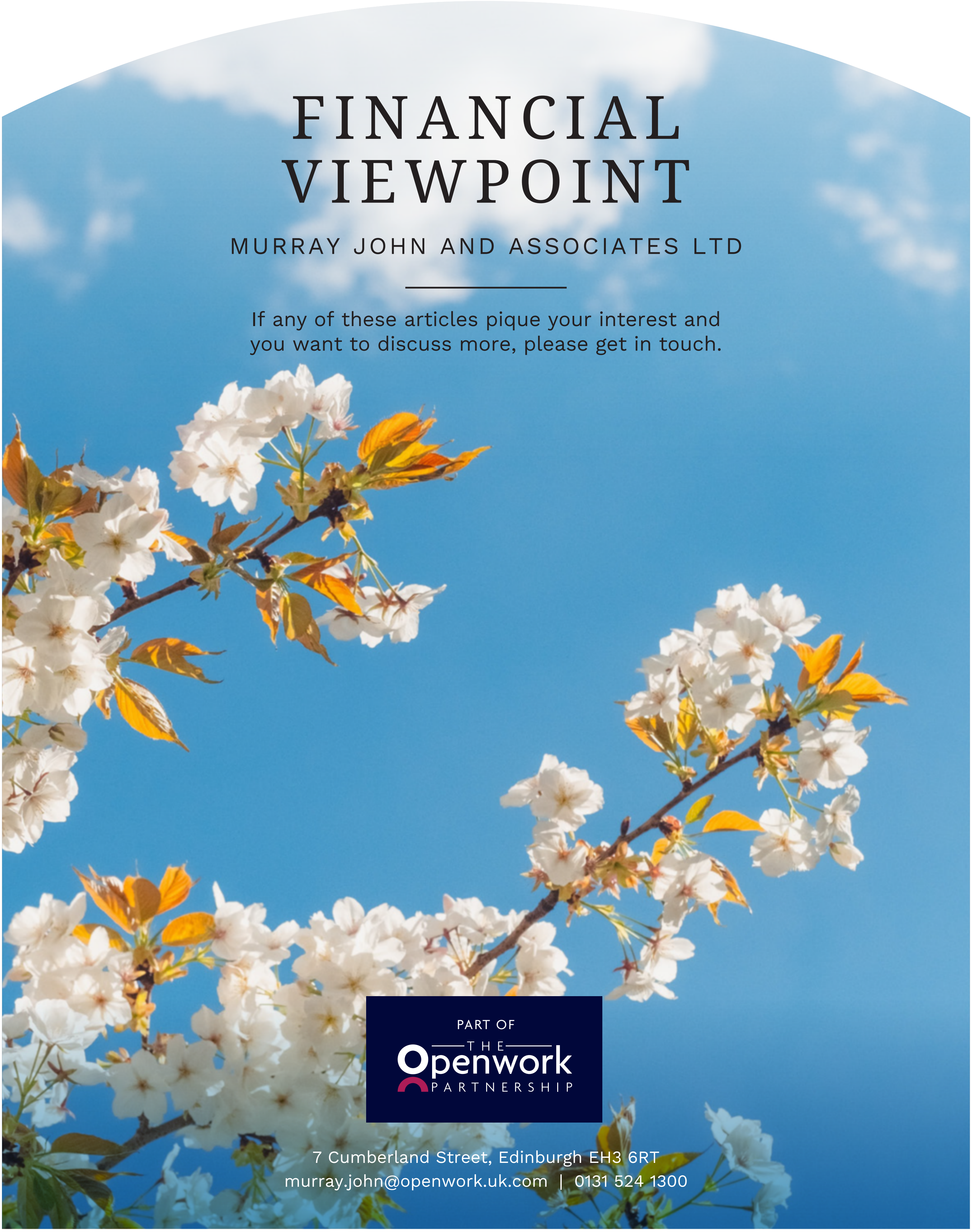

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THE Openwork PARTNERSHIP

7 Cumberland Street, Edinburgh EH3 6RT
murray.john@openwork.uk.com | 0131 524 1300

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.

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.

How financial advice adds more value to your life than you may realise

Traditionally, the value of financial advice has been measured by monetary results of investment performance and returns. Today, the cost of living crisis is causing many to re-evaluate the benefits of financial advice.

These days, financial planning is about more than simply looking after your money and protecting your wealth. As well as helping you see results in pounds and pence growth, we can also help ensure you are prepared to meet the challenges you may face in life.

Used as a trusted and impartial sounding board, we can help by:

- Encouraging you to recognise your goals and establish a clear financial road map to help you attain them
- Providing you with someone to listen to you and to help you to arrive at the right financial outcomes – taking an objective view and a way forward
- Managing your investments to maximise returns, while controlling risk, and reducing potential tax charges
- Preparing you to deal with unpredictable outcomes you may not have considered, such as premature death, being diagnosed with critical illness or other unexpected life events that change income, savings, or retirement dates that could have a detrimental impact on your desired lifestyle
- Offering emotional support and guidance to provide peace of mind

And the value of financial planning doesn't stop there.

Get in touch

If you're worried about the rising cost of living and want to reap the financial and emotional benefits that speaking to a financial planner can bring, we can help.

Financial advice isn't just about your money, it's about your life

A great financial adviser can serve as an objective ear and help you to prioritise your future spending, helping you to deploy the money that you have in a more meaningful way.

Longevity and the ability to live your best life are inherent to great financial advice. So, helping you to understand how a healthier lifestyle can help you to achieve your goals is another important aspect of our role.

With a wealth of knowledge about healthy choices now available, small changes can improve your quality of life and help you live longer and in better health. The ripple effect of living a good life means adjusting your plan to ensure you have enough money to last for a comfortable future.

The unseen value of free support services you can access

If something unexpected were to happen, insurance products and policies can provide valuable peace of mind to you and your family. This could include being too sick to work, suffering a life-threatening illness, or death.

In addition, insurance products often also include a wide range of practical and emotional support services. Many of these additional benefits are available at no extra cost and can be used by your family members too. These extra benefits are usually available as soon as your policy starts and remain open to you and your family until the policy ends. This kind of added value is automatically built into your insurance policies but can often be forgotten about or overlooked.

Although the type of complementary services will depend on both the policy and the insurance provider, they tend to be fairly similar and could include:

Medical related services

- 24/7 access to a doctor through a virtual consultation
- An expert second medical opinion on your diagnosis
- Private prescription services
- Medical care while abroad

Counselling services

- Mental health and other support services – usually remote and without a long wait
- Physical rehabilitation
- Support to help you get back to work

Preventative services

- Nutritional support
- Health checks

Structuring a sustainable income

Trust is one of the primary drivers of a successful client/adviser relationship. We proactively monitor your needs and investment portfolios. This means we're well-positioned and able to recognise when changes are needed. Knowing that life can get in the way of even the best-laid plans, we have annual review meetings to help you stay on track. These regular reviews will help make sure your actions and investments remain aligned with your goals.

At your review, we'll often use cashflow planning tools to explore the financial impact of various scenarios. This helps ensure that you've thought about all aspects of your financial future, including inflation, so that whatever the future holds, you can be better prepared for whatever life might have in store for you.