ROBERTS MACKIE WINSTANLEY
INDEPENDENT FINANCIAL ADVISERS

How can I protect my money from inflation?

Five questions to ask before inflation really takes off

'How can I protect my money from inflation?' is a question that many people may be asking themselves right now. In the current economic climate, rising inflation is becoming a concern for people with savings and investments.

The effect means you're potentially earning less money due to your hard-earned cash becoming worth less as time goes by. The negative impact of inflation upon the real value of an investor's portfolio will be a concern, particularly for the older generation with not enough investments, who may live mostly or entirely off their savings and pensions. It can be even worse if they have a decrease in income at the same time as a loss of value on their assets.

If you're middle-aged or young, it's also important to consider how much inflation will affect you and your investments. Many savers may currently be receiving very low returns on their cash deposits, but with many households sitting on more cash than ever following COVID-19, protecting cash from inflation is becoming vital.

FIVE QUESTIONS TO ASK TO PROTECT YOUR CASH FROM INFLATION

1) Is the amount you have in cash appropriate for your circumstances?

The first thing we would say here is that the amount of cash you have should be appropriate for your personal circumstances. What we mean by this is that the amount of cash someone else has may not be appropriate for you, because we all have different needs and wants.

The amount of cash savings that a person has should always match their circumstances and income level. Since we don't know what life will bring next, we need to be able to take care of ourselves and our families – even the unexpected – without having to resort to or depend on credit cards or loans from others. It's important to build an emergency fund.

This should contain at least three months' worth of expenses – those are the bare minimum. It could be more, but not less than three months' worth. But since this will be at the mercy of inflation, some savers may opt to hold the bare minimum amount in cash to avoid incurring losses on the value of their money.

2) Should you consider investing some of your cash?

As a general rule, the answer to this question will depend on your cash flow needs and investment preferences. But you should consider investing some of your money, even though this may seem counterintuitive.

Ultimately building a diversified investment portfolio rather than putting all your eggs into one basket, so having some cash savings and some investments for growth, is likely to suit most people's risk profiles.

While past performance is no guarantee of future performance, investing some of your cash savings may be worth considering. If you're saving for a long-term goal, like retirement, then it's really important to factor in inflation. If you don't it could erode the value of your money and jeopardise your plans for the future.

3) Have you maximised your pension savings in recent years?

How much money you get in retirement depends on how much you put in, and when. When you retire, the money you have saved up in your pension will provide an income. The bigger that pot is, the more you'll get each year to help pay for your living expenses. On average, people retiring today may need to replace about half of their pre-retirement income with savings and investments (income from pensions or other savings).

Obtaining professional financial advice is important to make sure you're putting enough away so your retirement savings last longer. To give yourself the best chance of a comfortable retirement, you need to make sure as much as possible goes into your

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workplace or personal pensions as early as possible.

It is important to maximise pension contributions to receive tax relief as this helps you save more money for your retirement goals. Pensions are still a very tax-efficient investment for the majority of people, with tax relief on contributions, as well as tax-free growth within the fund.

4) Have you made use of your ISA allowance this year, and those of your family (assuming you're feeling generous)?

Do you have an ISA allowance? Have you made use of this year's allowance and do you plan to make any changes in the future to your ISA savings strategy? Have you made use of your family's ISA allowance this year?

Everyone aged 18 and over can invest £20,000 per annum into a Stocks & Shares ISA; those under 18 can invest £9,000 each year. Those aged 16 or over can invest £20,000 per annum into a Cash ISA. ISAs grow tax-efficiently, whether invested in cash or other asset classes like stocks and shares, and the long-term effects of this tax-efficient growth can be significant.

5) Are you making the most of your income allowances?

You work hard to make a living, and you should take advantage of how much money you have been able to earn. Personal income allowances give you the ability to control how much or how little tax you pay on money that has been earned over the year.

Often, we find people squander the opportunity to use a spouse's or partner's lower Income Tax rate, or even their Personal Savings Allowance (currently £1,000 for 2021/22), by holding investments or cash balances in the higher earner's name. This could mean, for example, paying tax on interest at 45% when the spouse would pay just 20%, or even no tax at all. There is no limit on the amount of money that can be transferred (the transfer must be of genuine beneficial ownership to apply) between spouses, so you might want to consider whether transferring holdings to or from your partner would benefit your family.

Few savers will be untouched by inflation in the near future. But by asking yourself the questions above, you can mitigate the effect of inflation by making sure your money is working as hard as possible to earn inflationbeating returns. ■

TIME TO DISCUSS HOW TO PROTECT THE VALUE OF YOUR WEALTH?

If you want to get more out of your personal savings and investments, we can help you manage, organise and preserve the wealth of your portfolio. To discuss how to mitigate the impact of inflation on your financial plans, please contact us – we look forward to hearing from you.

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