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Improving your financial health

Staying on track to achieving specific financial goals

All of your financial decisions and activities have an effect on your financial health. To help improve your financial health during this period of rising inflation and interest rates, we look at three areas that could help keep you on track to achieving your specific financial goals.

BEAT THE NATIONAL INSURANCE RISE

The National Insurance rise from April this year is going ahead for workers and employers despite pressure to reverse the decision to increase this by 1.25%, which is aimed at raising £39 billion for the Treasury. From April 2023, it is set to revert back to its current rate, and a 1.25% health and social care levy will be applied to raise funds for further improvements to care services.

One way to beat the National Insurance increase is by taking advantage of salary sacrifice, which means you and your employer pay less National Insurance contributions. Some employers may decide to maximise the amount of pension contributions by adding the savings they make in lower employer National Insurance contributions (NICs) to the total pension contribution amount they pay.

This is also a way to make your pension savings more tax-efficient. If you choose to take up a salary sacrifice scheme option, you and your employer will agree to reduce your salary, and your employer will then pay the difference into your pension, along with their contributions to the scheme.

As you're effectively earning a lower salary, both you and your employer pay lower NICs, which could mean your take-home pay will be higher. Better still, your employer might pay part or all of their NICs saving into your pension too (although they don't have to do this).

REVIEW YOUR SAVINGS ACCOUNTS AND RATES

Money held in savings accounts hasn't grown much in recent years due to historically low interest rates. But with inflation running higher, your savings are now at risk of losing value in 'real' terms as you'll be able to buy less with your money.

In some respects, inflation can be seen as a positive. It's a sign of strong economic recovery post-COVID, increasing salaries and higher consumer spending. But it's bad news for your cash savings. Relying solely or overly on cash might prevent you from achieving your long-term financial goals, which may only be possible if you accept some level of investment risk.

In an environment where the cost of living is rising faster than the interest rates received on cash, there is a danger that your savings will slowly become worth less and less, leaving you in a worse position later on.

If you have money in savings, it is important to keep an eye on interest rates and where your money is saved. Rates are low and you will lose money in real terms if inflation is higher than the interest rate offered on your savings account or Cash ISA.

SHIFT LONGER-TERM SAVINGS INTO EQUITIES

During times of high inflation, it's important to keep your goals in mind. For example, if your investment goals are short term, you may not need to worry much about how inflation is impacting your money. But if you're investing for the long term, inflation can have a larger impact on your portfolio if it's sustained – although high inflation that only lasts for a short period may end up just being a blip on your investment journey.

If you have large amounts of money sitting in cash accounts one way to beat inflation is to invest some of your money in a long-term asset that will appreciate with time, thus increasing your buying power over time. There are many ways to invest your money, but most strategies revolve around one of two categories: growth investments and income investments.

Historically, equities have offered an effective way to outperform inflation. Cyclical stocks – like financials, energy and resources companies – are especially well-suited to benefit from rising prices. These sectors typically perform better when the economy is doing well, or recovering from a crisis.

Depositing funds into your investment portfolio on a regular basis (such as monthly from salary) can help you invest at different prices, averaging out the overall price at which you get into the market. Known as pound-cost averaging, this can help you smooth out any fluctuations caused by market volatility over the long term. While volatility will always exist, it can be managed and reduced by taking this approach. ■

LET US HELP CHART YOUR PATH THROUGH LIFE

The most effective way to make the most of your money is by receiving professional financial advice. We can help you chart your path through life, ensuring you are financially ready for every stage. To discuss your requirements, please contact us for more information.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS PLAN HAS A PROTECTED PENSION AGE). THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION WHICH ARE SUBJECT TO CHANGE IN THE FUTURE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.