Mulberry Wealth Management Ltd
366-370 Cyncoed Road,
Cyncoed, Cardiff CF23 6SA

T: 02920 023 333
E: info@mulberrywealth.co.uk
W: www.mulberrywealth.co.uk

Cost of 'saver inaction'

Millions of savers think inflation will leave them better off

Despite inflation reaching its highest rate for many decades, some people in the UK are not aware of its impact on their finances. More than half of all cash savers (52%) don't know what impact inflation will have on the real value of their cash savings over time.

One in ten (13%) incorrectly believe inflation will leave them better off and 13% think the real value of their savings would stay the same, according to new research[1].

IMPACT INFLATION COULD HAVE ON CASH

More than a quarter (26%) say they don't know what impact inflation could have on their cash. Millions of savers (64%, the equivalent of 10.3 million) have taken no action on their savings, despite cash earning next to nothing in interest and inflation rising steeply.

In fact, half of all savers (54%) currently keep their money in cash over the long term.

OPTIONS TO MAKE MONEY WORK HARDER

The total cost of 'saver inaction' in such an environment could amount to £18 billion if this trend continues over the next five years[2]. Savers currently have £136 billion sitting in Cash Individual Savings Accounts (ISAs) with, on average, interest rates equating to 0.26% per year[3].

Many savers don't realise inflation is eating away at millions of pounds sitting in low-interest paying accounts. Whilst it is essential to keep some cash in the bank for an emergency fund, savers might want to consider other options to make their money work harder.

3 WAYS OF PROTECTING YOUR SAVINGS FROM INFLATION

Tip 1: Work out how much to put aside as an easy-access emergency fund

As a rule of thumb, aim to cover your essential expenses for between three to six months, or what you can afford. For example, bills like energy, your mortgage, rent, travel and food costs, so should the unexpected happen, you'll be prepared. And you'll know exactly how much money you need to keep in cash (which can be impacted by inflation), so you can start saving any extra income in more inflation-proof ways.

Tip 2: Get the best interest rate you can on your savings

Make sure that any cash savings you have are receiving the highest interest rate possible. These days you can switch savings accounts and ISAs relatively easily. But if you do find a higher rate, remember that they can quickly go down. For example, it's common for Cash ISAs to offer high rates for the first year. Those rates can then drop dramatically after the first year. So always set a reminder to keep an eye on any new savings rates you find.

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Tip 3: Think about investing your money or topping up your pension to beat inflation

It's important to be aware of the long-term impact on pension contributions, alongside the compounding effects of investing. Consider topping up your pension, or investing in a Stocks & Shares ISA. It's understandable you may feel unsure about the future at this moment in time, but the key thing to remember is that investing is for the long term.

With time on your side, you can balance out the ups and downs of market volatility and economic uncertainty. And once you have an emergency fund in place, investing your money is one of the best ways to beat inflation. By investing your money, you can grow your wealth while preserving the value of your money. ■

TRULY UNDERSTANDING YOUR VISION

Financial planning is a journey that spans your entire lifetime and it centres around where you are now, where you want to be and your values. Your financial plan is the roadmap that gets you there, and it can only be created once we truly understand your vision. For more information about how we can help you, please contact us.

Source data:

[1] Opinium survey of 2,001 UK adults in the UK conducted between 4–8 February. The 10.3 million savers refers specifically to Cash ISA savers.

[2] This is based on 10,303,247 Cash ISA savers with median savings of £7,231 stalling their investment decision. The total savings amount is projected over five years at a Cash ISA rate of 0.26%, allowing for a 6%, 7% and 8% rate of inflation per annum. This results in an erosion of value of £18 billion, £21 billion and £23 billion over a five-year period.

[3] As at January 2022, average interest rate for instant access Cash ISAs: https://www.which.co.uk/news/2022/01/a-month-on-from-the-base-rate-rise-have-savings-rates-improved/