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Investor / Saver / Employee / Business Owner

Workers urged to stay in retirement schemes despite cost-of-living crisis

Workers are debating skipping their regular pension payments to help pay for rising energy bills in 2022 - but this could mean they lose £77,000 by the time they reach retirement. Research by Penfold, a digital pensions platform, has suggested that nearly 13million pension savers save less than £100 into their pension each month, and may need to reduce their contributions in order to cope with the rising cost of living. Of these, it said more than 6million only saved between £1 and £50 into their pension each month. As this is eclipsed by the typical rise in energy bills, Penfold has said they may decide to no longer pay anything into their pension at all. But experts have urged savers not to skip their pension contributions to pay for their bills, as the long-term losses could see their retirement fund down by up to £77,000 in the worst-case scenario. Young workers would be the most at risk if they stopped their pension payments now, according to Penfold. A saver currently aged 30, for example, would miss out on nearly £1,750 on the value of their final pension pot at age 67 if they reduced their pension contributions by £57.75 each month for one year to meet rising energy costs. If energy bills stayed at the same level for five years and these savers continued to reduce their contributions, the potential losses could total £9,000. According to Penfold, an individual's pension contributions should be 12 per cent of the average salary (currently £31,285) for a 'modest' retirement. This would mean monthly contributions close to £313 per month. For the 40% of adults currently putting in less than £100 a month, cutting their contributions further could be seriously damaging to their quality of life in retirement.

All

Markets cautious about Truss' plans to turbo-boost the economy

Britain has a new Prime Minister who has vowed to be pro-business and help consumers, but will that filter through to the stock market? Liz Truss is taking on both Britain's top job and an economic challenge that would make most baulk. Inflation has reached double-digits, at 10.1%, and is forecast to rage higher still. Meanwhile, the pound has slumped against the dollar, UK borrowing costs are rising, business and consumer confidence is sinking and the Bank of England is warning about recession. Liz Truss' desire to loosen fiscal policy in a – some commentators have observed - fairly untargeted manner (for example through a blanket cut to VAT), increasing debt significantly, is inflationary, all other things equal. Given the backdrop, it will almost certainly be met with tighter monetary policy. This is likely one of the many factors leading to the huge surge in UK interest rate expectations over the last month. Freezing the energy cap is the most obvious policy path to take and the much touted tax cuts might bring some relief to consumers, but is likely still to fall short of re-powering the economy into overnight growth, most commentators believe. The current cost of living crisis is historic – the worst fall in living standards in over a century. Equally, the public debt position is at levels once deemed unaffordable – so a spending splurge won't be viewed favourably by the markets. Commentators also expressed a view that, unfortunately, Truss isn't the strongest communicator. As such there is a sense that investors, both foreign and domestic, may shake their collective heads after her grace period is up. Either way, the clock is ticking, and sterling will likely come under pressure if Truss fails to deliver a competent and believable vision for the UK economy.

Investor / Saver

Investors flee equities

British investors have been pulling money from the stock market at record rates, even as shares rose sharply over the summer months to, at one point, recover half their losses for the year. Data from the Investment Association (IA), the trade body for the funds industry, showed that in July, £1.6 billion was taken out of stock market funds by DIY investors. This came even as global shares, as measured by the MSCI World Index, rose about 6% in sterling terms. On top of heavy outflows in July, Calastone, the fund processing network, calculates that August was even worse for stock market funds. Its figures show that nearly £2 billion was removed from the investment sector in August, a new record, by UK savers. The August outflow data beat even the £1.5 billion of outflows in both June and July 2016 after the Brexit vote. Global stock markets initially rose in August as investors anticipated looser monetary policy from central banks, before finishing the month flat, in sterling terms. Equity funds have shed £4.3 billion this year, according to Calastone. It said: "August's net outflow was driven by a significant increase in selling activity rather than a drop-off in buy orders, indicating a decisive choice to exit holdings." The selling amid relatively strong stock markets suggests that investors do not believe in the stock market rally and think it is a "bear market rally": a short period of relief for shares among a longer-term downwards trend.

All

Pound slumps to 37 year low

The mammoth economic challenges facing Liz Truss as she takes over as Prime Minister were laid bare earlier this week. Truss's election as Tory leader coincided with a top Bank of England official signalling the need for 'fast and forceful' interest rate rises in the face of rampant inflation. Catherine Mann, a member of the rate-setting committee, said more aggressive rate rises were needed. Soaring energy bills and food prices, spurred by the war in Ukraine, have pushed inflation into double digits and one forecast suggests it could even top 20% in the new year. The Bank of England has responded by hiking interest rates and on Monday, Mann backed the idea that forceful monetary tightening is superior to the current gradualist approach. She said: 'We need to act more forcefully now to ensure that the drift does not become the norm.' Truss's victory also came as sterling dipped to as low as $1.1444 against the dollar, just a fraction above the level seen on March 20, 2020 when markets were gripped with fear over Covid-19 lockdowns. Before that, the pound had not been weaker against the dollar since 1985. At the start of the week, a monthly purchasing managers' index survey suggested that business activity shrank in August for the first time since lockdowns in February 2021 but there was a glimmer of positivity from separate industry figures showing that retail figures ticked 1% higher last month while new car sales edged up by 1.2%. Piling further pressure on Truss as she looks for potentially costly solutions to the cost-of-living crisis is a growing headache over the Government's £2.4 trillion debt pile. Higher inflation and investors losing confidence have combined to make the cost of servicing that debt higher. Deutsche Bank said the risk of a balance of payments crisis 'should not be underestimated'. Shreyas Gopal, a Deutsche strategist, said that with surging inflation, weakening growth, and the possibility of an unfunded spending splurge and changes to the Bank of England's inflation-targeting mandate, investor confidence could not be taken for granted.

Investor / Saver

Boost for eco-friendly savers

Eco-friendly savers will get a much-needed boost after NS&I more than doubled the interest rate paid by its flagship green bond. National Savings and Investments (NS&I) launched a new issue of its three-year Green Savings Bonds at a competitive 3%. However, the move risks enraging thousands of savers who locked into the account in February when it offered a paltry 1.3%, fixed for three years. And those who signed up for its first issue last October were tied into an even less favourable 0.65%. The Treasury-backed bank's latest offering falls shy of the best three-year rates on the market, which are just below 3.5%. And experts point out that it is also below the best one-year deal available from Atom Bank which is offering 3.2% interest. Around 11,000 customers have invested in NS&I's Green Savings Bonds, as of March 31, 2022. To sign up to the latest offering, savers must invest a minimum of £100. The maximum deposit size is £100,000.

Past performance is not a guarantee to future performance. You may get back less than invested.

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts and reliefs from taxation are subject to change. The FCA does not regulate tax advice.

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