

JUNE 2024

IS INFLATION EATING YOUR SAVINGS?

With UK inflation surging to unprecedented levels, dive into the impact on the economy and your personal savings.



Ways to Save Money When Travelling Abroad

Enjoy a summer getaway while keeping your budget in check.

Premium Bonds vs Savings Accounts

Could you potentially be better off investing your money into a cash ISA?

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CONTENTS



03

PREMIUM BONDS VS SAVINGS ACCOUNTS

Could you potentially be better off investing your money into a cash ISA?



05

WAYS TO SAVE MONEY WHEN TRAVELLING ABROAD

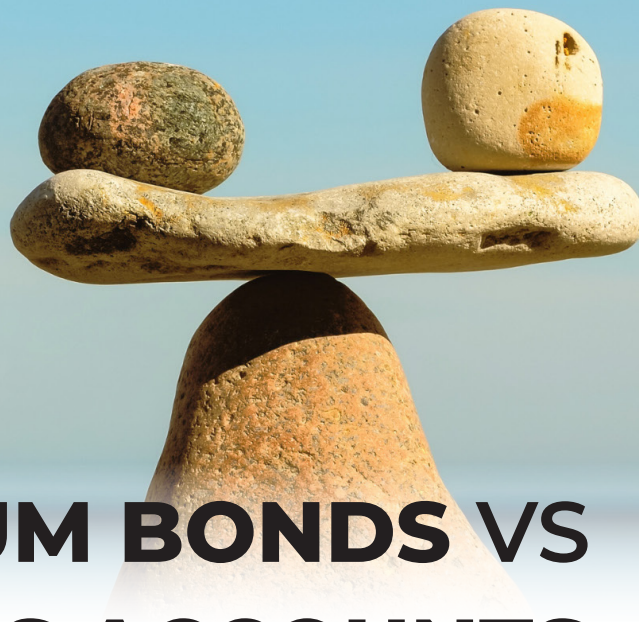
Enjoy a summer getaway while keeping your budget in check.



07

IS INFLATION EATING YOUR SAVINGS?

UK inflation has surged to unprecedented levels, impacting the economy and personal savings.



PREMIUM BONDS VS SAVINGS ACCOUNTS

Choosing the best place to save your money can be a tricky decision. With so many options available, each with unique benefits and potential drawbacks, the right choice depends on individual financial goals and risk tolerance.

Premium Bonds, issued by National Savings and Investments (NS&I), are a popular savings option in the UK. Unlike traditional savings accounts, Premium Bonds offer the chance to win tax-free prizes instead of earning regular interest. Since the first draw in June 1957, over 684 million Premium Bond prizes with a total value of more than £30.5 billion have been awarded [1].

However, with prize rates dropping from 4.65% to 4.4% in March, could you potentially be better off investing your money into a cash ISA instead?

THE APPEAL OF PREMIUM BONDS

The main attraction of Premium Bonds is the opportunity to win significant, tax-free prizes. Each £1 bond enters a monthly draw, with prizes ranging from £25 to £1 million. As of March 2024, the prize fund rate is equivalent to an interest rate of 4.4%, with the odds of each bond winning a prize being 1 in 21,000. This setup can be enticing for those who enjoy the prospect of a windfall, similar to a lottery, but with the reassurance that their initial investment remains intact.

Despite the allure of these tax-free prizes, the reality is that many bondholders may not see significant

returns. A significant percentage of bondholders earn less than the average prize rate over a year, and some may not win any prizes at all. This variability makes Premium Bonds a riskier choice compared to traditional savings accounts.

THE RELIABILITY OF SAVINGS ACCOUNTS

Savings accounts offer a more predictable and steady return through interest payments. These accounts can be a better choice for those who prefer security and guaranteed growth over the possibility of larger, sporadic returns.

There are various types of savings accounts available, each with different rates and features:

Fixed-rate savings accounts: These accounts offer a guaranteed interest rate for a set period. As of 2024, some fixed-rate accounts offer interest rates up to 5%, providing a stable return regardless of market fluctuations.

Easy-access savings accounts: These accounts typically offer lower interest rates (around 3.5% to 4%) but provide the flexibility to withdraw funds without penalty. Which can appeal to those who want to maintain liquidity.

THE BENEFITS OF CASH ISAS

Another attractive option for savers is the Cash ISA (Individual Savings Account). Cash ISAs offer several key benefits that make them a competitive alternative to both Premium Bonds and traditional savings accounts:

Tax-Free Interest: Unlike standard savings accounts, the interest earned on a Cash ISA is tax-free, which can be particularly advantageous for higher-rate taxpayers. This tax-free status can result in better net returns compared to taxable savings accounts.

Competitive Interest Rates: Some Cash ISAs offer competitive interest rates that can rival or exceed those of traditional savings accounts. For instance, as of 2024, certain Cash ISAs offer interest rates comparable to, or even higher than, fixed-rate savings accounts, making them an attractive option for savers looking for both tax efficiency and good returns.

Annual Allowance: Each tax year, individuals can save up to £20,000 in ISAs, combining the benefits of tax-free growth with the potential for competitive interest rates. This allowance makes Cash ISAs a valuable tool for tax-efficient savings.

TAX CONSIDERATIONS

Tax treatment is an important factor to consider. Interest earned from savings accounts is subject to income tax, but the Personal Savings Allowance allows basic-rate taxpayers to earn up to £1,000 in interest tax-free annually (£500 for higher-rate taxpayers). In contrast, all winnings from Premium Bonds are always tax-free, which can be a significant selling point for higher-rate taxpayers.

RISK AND RETURN

When comparing average returns, the prize rate for Premium Bonds is currently 4.4%, but the uneven distribution of prizes means that many bondholders may see little to no return. In contrast, savings accounts and Cash ISAs offer guaranteed returns, often exceeding the average returns from Premium Bonds. For example, some fixed-rate savings accounts offer interest rates above 5% in 2024.

THE RIGHT CHOICE

Ultimately, the choice between Premium Bonds and savings accounts depends on your financial goals and risk tolerance. Premium Bonds provide an element of excitement and the potential for significant, tax-free prizes, but come with the risk of no returns. Savings accounts and Cash ISAs, on the other hand, offer more predictable and secure ways to grow your money.

Assessing your financial needs, tax situation, and risk tolerance will help you determine the best option for your savings. For more information, consult with a financial adviser.

SOURCE DATA

[1] IFA Magazine - NS&I celebrates 30 years of Premium Bonds - 2023





WAYS TO SAVE MONEY WHEN TRAVELLING ABROAD

Enjoying a summer getaway while keeping your budget in check is not only possible, but can also be an enjoyable challenge. By planning carefully and taking advantage of money-saving strategies, you can take that long deserved rest without breaking the bank. Here are several practical tips to help you save money when travelling abroad.

BOOK IN ADVANCE AND BE FLEXIBLE WITH DATES

One of the easiest ways to save money on travel is by booking your flights and accommodation well in advance. Many airlines and hotels offer early bird discounts, and the sooner you book, the better the deals you are likely to find. Additionally, being flexible with your travel dates can help you find cheaper options. Travelling during off-peak times or mid-weeks can often save you a substantial amount of money.

USE PRICE COMPARISON WEBSITES

Before booking flights, accommodation, or car rentals, use price comparison websites to ensure you are getting the best possible deal. Websites like Skyscanner, Kayak, and Trivago can help you compare prices across different providers and find the best rates. Often, booking a package deal that includes flights, hotels, and car rentals can be more cost-effective than booking each component separately.

CONSIDER ALTERNATIVE ACCOMMODATIONS

Instead of staying in expensive hotels or resorts, look at alternative accommodations, such as vacation rentals, hostels, or homestays. Websites like Airbnb and Booking.com offer a range of affordable options. Additionally, staying outside of

tourist hot spots and somewhere more local can provide a more authentic travel experience.

SAVE ON FOOD AND DRINK

Food and drink can often be the most significant expense when travelling, but there are ways to cut costs. If your accommodation includes a kitchen, prepare some of your meals. Shopping at local markets for fresh ingredients can be both fun and economical. When eating out, look for local eateries and avoid tourist locations, which tend to be more expensive. Many restaurants offer lunch specials, so making lunch your main meal of the day can also save money.

UTILISE PUBLIC TRANSPORTATION

Public transportation is usually cheaper than taxis or car rentals. In many cities, purchasing a travel pass for buses, trains, or metros can be a cost-effective way to get around. Additionally, consider walking or cycling, which not only saves money, but also allows you to experience your destination up close. Another great tip is to purchase a ticket for a sightseeing bus tour if available. This way, you can explore the area while taking in all the sights the country has to offer!

TAKE ADVANTAGE OF FREE ATTRACTIONS AND ACTIVITIES

Most places offer free attractions, such as parks, museums, and walking tours. Check local tourism websites for information on free events or discounted entry days to museums and other attractions. Taking advantage of these free or low-cost activities can help you stretch your travel budget further.

AVOID ROAMING CHARGES

Roaming charges can quickly add up, so it's best to avoid using your UK mobile plan abroad, unless you're absolutely sure you're covered. Instead, you can purchase a local SIM card or rely on free Wi-Fi hotspots to stay connected. Many cafes, restaurants, and public places offer free Wi-Fi, which can help you stay in touch without incurring additional costs.

MANAGE YOUR CURRENCY EXCHANGE

Exchange rates can have a significant impact on your travel budget. To get the best rates, exchange your money before you leave the UK. Avoid exchanging currency at airports, where rates are typically less favourable. Using credit cards that do not charge foreign transaction fees can also help you save money on international purchases.

PURCHASE TRAVEL INSURANCE

While travel insurance might seem like an added expense, it can save you money in the long run by covering unexpected

costs, such as medical emergencies, trip cancellations, or lost luggage. Make sure to choose a policy that fits your needs and covers all planned activities.

USE REWARD PROGRAMS AND LOYALTY POINTS

If you have a credit card that offers travel rewards or loyalty points, make sure to take advantage of these benefits. Accumulated points can often be redeemed for flights, hotel stays, or car rentals, significantly reducing your travel expenses. Additionally, signing up for airline or hotel loyalty programs can provide access to exclusive discounts and offers.

Utilising these tips, you can enjoy a fantastic holiday without overspending. Careful planning and smart spending can help you make the most of your travel budget and ensure a memorable and affordable trip!



IS INFLATION EATING YOUR SAVINGS?

Strategies to Protect Your Wealth

In recent years, UK inflation has surged to unprecedented levels, significantly impacting the economy and personal savings. The inflation rate soared to 11% in 2022, marking the highest increase in over 30 years. Although it has since decreased to 4.2% as of April 2024, it remains well above the Bank of England's 2% target [1].

Inflation affects nearly every aspect of the economy, from the cost of goods and services to the value of savings and investments. High inflation rates lower the value of the pound, meaning that each pound buys less than it did previously. This effect is particularly detrimental to savers who see the real value of their savings diminish over time.

HOW INFLATION AFFECTS SAVINGS

Inflation erodes the purchasing power of your money. This means that the same amount of money will buy fewer goods and services over time. For example, if inflation is at 6%, £1,000 today would be worth only about £940 in a year, reducing your wealth and financial security. With Legal & General highlighting that 52% of savers are unaware of this erosion, not realising that their low-interest accounts are effectively losing money [2].

When inflation rates outpace the interest earned on savings accounts, the real value of savings diminishes. For instance, if your savings account offers a 1% interest rate, but inflation is at 5%, your savings effectively lose 4% of their purchasing power each year. This scenario underscores the importance of

seeking higher returns to counteract the effects of inflation.

STRATEGIES TO MITIGATE INFLATION'S IMPACT ON SAVINGS

High-Yield Savings Accounts

One of the simplest ways to protect your savings from inflation is to seek out high-yield savings accounts. Current market offerings can provide returns over 5%, which, while still possibly below inflation, are significantly better than the minimal interest rates many traditional accounts offer. Shopping around for the best rates can greatly improve your savings' performance.

High-yield savings accounts are an accessible option for many savers. These accounts offer better interest rates compared to standard savings accounts, helping to offset some of the losses caused by inflation. It's important to regularly compare rates and switch to more competitive accounts as necessary.

Inflation-Linked Bonds

Investing in inflation-linked bonds, such as NS&I Index-linked Savings Certificates, can protect your savings by ensuring that

returns are adjusted according to the inflation rate. These bonds increase their principal and interest payments in line with inflation, thus maintaining the purchasing power of your investment. This strategy is particularly beneficial during periods of high inflation, providing a safety net against the eroding effects of rising prices.

Inflation-linked bonds offer a direct hedge against inflation. For example, NS&I Index-linked Savings Certificates adjust both the principal and interest payments according to the Retail Prices Index (RPI), ensuring that your savings retain their value in real terms.

Diversified Investment Portfolios

Diversifying your investments across various asset classes can also help mitigate the impact of inflation. Equities, for example, have historically outperformed inflation over the long term, despite their inherent volatility. Property can also



8 IS INFLATION EATING YOUR SAVINGS?

serve as a hedge against inflation, as property values tend to rise with inflation. Additionally, commodities like gold are often viewed as safe havens during inflationary periods, though they can be volatile due to global market conditions.

A well-diversified portfolio might include a mix of stocks, bonds, property, and commodities. Each asset class responds differently to inflation, providing a balanced approach to preserving and growing wealth. Stocks, for instance, often provide returns that outpace inflation, while real estate typically appreciates in value alongside inflation.

Utilising Tax-Efficient Vehicles

Maximising the use of tax-efficient savings vehicles such as ISAs (Individual Savings Accounts) can also protect your wealth from inflation. ISAs allow you to save up to £20,000 per year tax-free, which can significantly enhance the growth of your investments over time. Pensions also offer substantial tax advantages, with contributions eligible for income tax relief, further bolstering your savings against inflation.

Tax efficiency can greatly impact your savings' growth. By taking full advantage of ISAs and pensions, you can shelter more of your money from taxes, allowing it to grow more effectively and counteract the effects of inflation. These vehicles are essential tools for long-term financial planning.

Exploring Alternative Investments

Peer-to-peer lending platforms provide another avenue

to potentially earn higher returns compared to traditional savings accounts. These platforms connect investors directly with borrowers, offering the opportunity for returns that can outpace inflation. However, it's essential to diversify within this category and be aware of the associated risks.

Peer-to-peer lending can offer attractive returns, but it comes with higher risks. By lending money to individuals or small businesses through these platforms, you can achieve returns that exceed those of standard savings accounts. However, it's crucial to diversify your loans and understand the risks involved, always speak to a professional before making investment decisions.

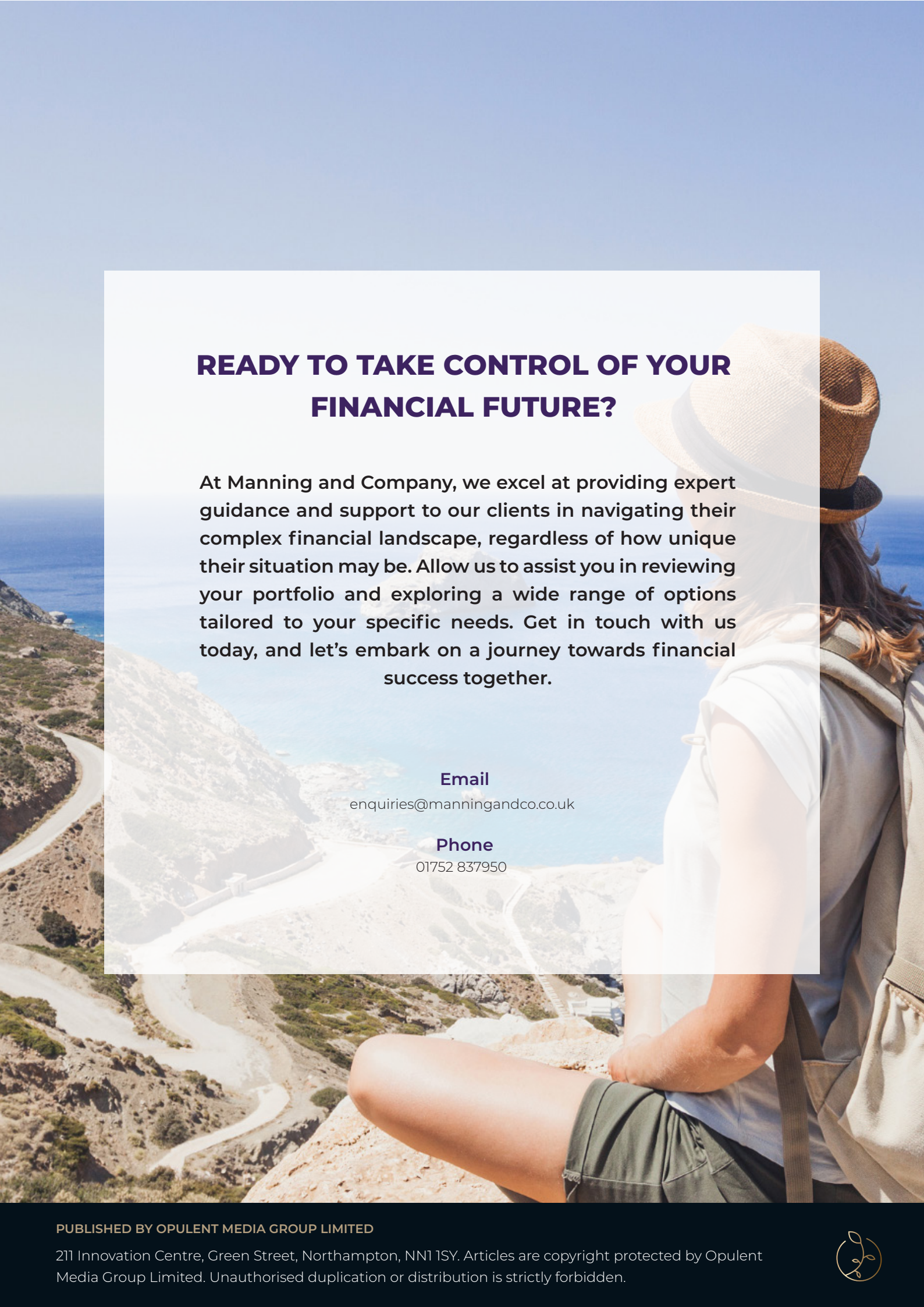
Inflation poses a significant threat to the value of your savings, but with proactive strategies, you can mitigate its impact. It's important to stay informed about economic trends and seek professional advice tailored to your financial situation to navigate these challenges effectively. Proactive financial planning is essential in ensuring that your savings maintain their value and provide security for your future.

SOURCE DATA

[1] Office for National Statistics - Consumer price inflation, UK: April 2024

[2] Legal & General 2024 - How to protect your savings from inflation



A person wearing a light-colored hat and a backpack is sitting on a rocky cliff, looking out over a vast ocean under a clear blue sky. The person's legs and part of their torso are visible in the foreground, while the background shows the coastline and the sea.

READY TO TAKE CONTROL OF YOUR FINANCIAL FUTURE?

At Manning and Company, we excel at providing expert guidance and support to our clients in navigating their complex financial landscape, regardless of how unique their situation may be. Allow us to assist you in reviewing your portfolio and exploring a wide range of options tailored to your specific needs. Get in touch with us today, and let's embark on a journey towards financial success together.

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