

KEEPING PACE

WITH INFLATION

For many, a happy retirement looks like a long stretch of time in which you have the freedom to strive towards your life beyond work goals. In order to meet those goals, you likely want your money to stretch as far as possible. With this in mind, it's important to consider how inflation will factor into your plans.



What is inflation?

Inflation is a measure of how fast the cost of living is rising and the increase in prices. This includes the costs of goods like food, and services like haircuts, but will also usually include the costs of housing and other items such as council tax.



Does falling inflation mean prices are dropping?

No, it just means they are rising more slowly than they were.

PURCHASING POWER

Despite your income staying the same throughout your retirement it can lose worth over time because of inflation. This is because the purchasing power of your money has gone down.

How much is your money worth?¹

£10 in 2023	

(Average prices of UK items in March)	

Cup of coffee	£2.90
Sandwich	£2.67
Muffin	£2.52

Total:	£8.09
Cash:	10.00
Change:	£1.91

Thank you for shopping!	

£10 in 2024	

(Average prices of UK items in March)	

Cup of coffee	£3.15
Sandwich	£2.79
Muffin	£2.74

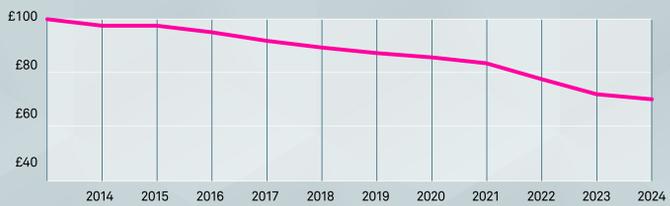
Total:	£8.68
Cash:	10.00
Change:	£1.32

Thank you for shopping!	

In just one year, the average café lunch has increased in price by 7.3%, so your £10 isn't going as far as it did the previous year due to inflation.² If you were living on a fixed income, you'd be able to buy less.

AVERAGE PRICES ARE **1.4x** MORE EXPENSIVE IN 2024 THAN THEY WERE IN 2014.⁴

Buying power of £100 over time, 2014 -2024³



1,2 Office for National Statistics (ONS) Shopping prices comparison tool, average prices in March 2023 and 2024
3,4 ONS Consumer Price Index, April 2024

Some key pension terms defined...

Inflation-linked

Some types of investment are designed to protect investors from the impact of inflation. For example, where the investment value and income received rise and fall alongside the rate of inflation.

Triple-lock

A UK government policy that protects the value of the UK state pension. Basically, state pensions increase annually based on the highest measure of either

- inflation
- average wage increase
- a fixed minimum of 2.5%.

PENSION PLANNING

You might have...

A state pension
(triple-locked to keep pace with inflation)

A guaranteed work pension
(likely to increase every year, but not necessarily inflation-linked)

Other pensions/savings



Richard Parkin

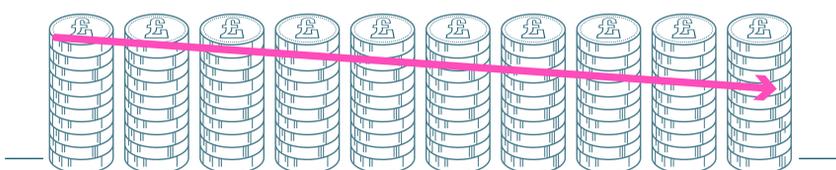
Head of retirement, BNY Mellon Investment Management says:

“You can use pension savings to buy a guaranteed income, also known as an annuity. This can be taken as an increasing income at a fixed rate or in line with inflation. However, this will mean you have a lower starting level of income.”

FOR EXAMPLE...

A – STEADY INCOME

Purchasing power decreases over time



“You may be tempted to take the higher starting income with no increases, but your purchasing power would fall over time and could see a big reduction if inflation spiked again.”

B – INCREASING INCOME

Purchasing power more likely to keep pace



Other investment options include...

BONDS

A loan of money by an investor to a company or government for a stated period of time in exchange for a fixed interest rate payment and the repayment of the initial amount at its conclusion.

“Some of these can be linked to inflation but may not have a lot of scope for additional growth.”

EQUITIES

Shares issued by a company, representing an ownership interest.

“Company shares may provide some protection against inflation but they also come with risks such as the potential for the value of investments to fall.”

Finding the right balance between annuities and investments will be unique to each person.

Working with a financial adviser on which investment approach is right for you can help you keep pace with inflation for the duration of your life beyond work.

Important information

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