

# Protect your nest egg from high inflation

In recent years the combination of high inflation and low interest rates has been a growing concern for savers, who may have seen the buying power of their money decrease.

The consumer price index rate of inflation, the government's preferred measure, is currently at 3.5% and while it has fallen from its peak of 5.2% last year it is still some way above the government target of 2%.

For savers, any time that inflation outstrips the interest they are receiving, they are effectively losing money. To see how inflation could impact on your savings, try out the calculator at [www.wesleyan.co.uk/investments](http://www.wesleyan.co.uk/investments).

High inflation can be caused by a number of economic issues, such as rising food and fuel prices, while the increase in VAT from 17.5% to 20% at the start of last year also had a big impact. Traditionally, interest rates would rise in order to try to bring inflation down and help cash deposits, but with the global economy still struggling, there seems to be little appetite by the Bank of England to increase the base rate from its record low of 0.5%, where it has been for nearly 3 years.

With these conditions, it is important not to rely on inflation-related savings when looking after your money.

## Plan ahead for your retirement

Hospital doctors working in the NHS are fortunate to enjoy an element of inflation protection with their pensions, which are generally linked to the final salary at retirement age and increase each year in line with consumer price index inflation.

However, as you will know, the government is reviewing public sector pensions in an attempt to make them more cost efficient and it has been recommended that the final salary scheme is changed to career average, where you would build up a 'slice' of pension each year of your service, based on your salary in that year. That

slice – and future slices – would increase in value every year in line with the cost of living. While no final decisions have been made yet, NHS Pension Scheme members are being asked to pay more and are likely to be asked to work longer and earn less in retirement.

If you do not think the NHS pension alone will be enough to provide the standard of living you want when you retire, you should consider topping up your NHS pension or supplementing it. You could do this by either taking out a personal pension or investing in individual savings accounts.

## Using pension plans

The NHS pension scheme offers the opportunity to purchase extra retirement income through additional pension. Other pension options include the NHS additional voluntary contributions scheme and setting up your own personal or stakeholder pension plan.

The government has made a number of changes to the pensions tax regime in recent years that may already have affected you. For example, the amount of money that can be saved into a pension each year with tax relief has been reduced from £255 000 to just £50 000. In addition, from 6 April this year the standard lifetime allowance, which is the total that can be built up tax efficiently over your life, reduced from £1.8 million to £1.5 million.

While these changes may have altered some doctors' approach to pension savings, there are still good reasons to use pensions for retirement planning.

Personal pensions are essentially 'money purchase arrangements', meaning you make regular contributions and the money you save is invested for you. When you retire, you use the accumulated fund to provide pension benefits.

There are limits, but generally you are entitled to tax relief at your highest marginal rate whenever you make contributions to a personal pension plan. This means that for each pound you contribute to your policy, your pension provider claims tax back from the government at the basic rate of 20% and invests this in

your plan. Higher and additional rate taxpayers can claim any further tax relief due through their self-assessment tax return.

For anyone who is currently a higher rate taxpayer but is likely to become a basic rate taxpayer in retirement, the advantage of 40% tax relief on pension contributions now, with only basic rate tax deducted from the eventual income, can be very attractive.

Another feature of personal pensions is the option to take a tax-free lump sum of up to 25% from the pension fund when you retire. If you do not really need the lump sum, you could consider using it to provide a regular income through a 'purchased life annuity' product, which can be a tax-efficient way of providing an income.

## Investing in individual savings accounts

Like pension funds individual savings accounts offer a tax-efficient home for your retirement funds. If you are still some way off retirement than you might want to consider a stocks and shares individual savings account to supplement your pension savings. During the 2012/13 tax year £11 280 can be invested into stocks and shares individual savings account, or half that amount in a cash individual savings account and the rest in shares.

If you want to save more than these individual savings account limits, you could consider other investments such as unit trusts. Over the long term, share-based investments have tended to outperform cash investments, although past performance should not be relied on as a guide to future performance.

## Conclusions

With the unpredictability of inflation – it went back up in April after falling for five successive months to March – and the ongoing uncertainty over NHS pensions, it is important to seek advice from a specialist financial adviser to ensure you are getting the best, and most tax-efficient, long-term returns on your money. **BJHM**

Wesleyan Medical Sickness provides specialist financial advice for doctors  
Telephone: 0808 100 1884  
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The above information does not constitute financial advice. For further information please speak to your financial adviser.