



## Are your savings losing value?

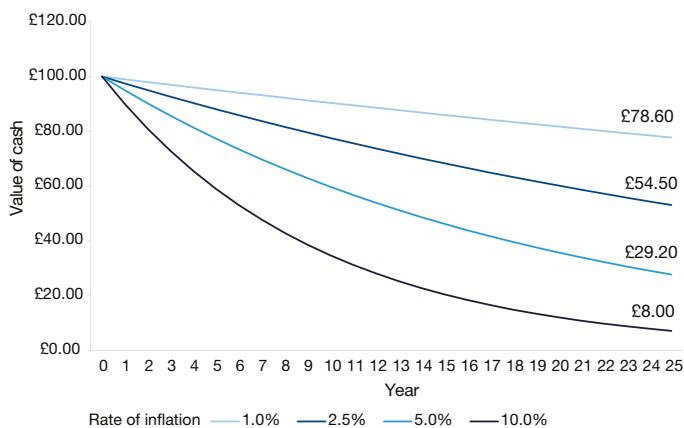
If you've been saving money for your long-term goals, you might think you're on track for a secure financial future. Yet your financial security depends not only on how much money you set aside, but also on where you put it.

Inflation is a risk that many people fail to consider, but it could wipe hundreds of pounds off the real value of your savings. Without a solid financial plan in place, you could find that what seems like a large sum of money today is actually worth significantly less in ten years' time.

## Inflation – the silent thief

Inflation is often described as the ‘silent thief’ because of the way it can erode the real value of savings. Most of us notice when the price of everyday items increases. For example, back in 1980, a pint of milk cost just 17p, whereas by 2020 its price had grown to 43p, according to the Office for National Statistics. If your savings aren’t keeping up with rising prices, their real value will decline.

The chart below shows the extent to which inflation can erode the value of £100 over 25 years. If we assume for simplicity’s sake that your money was earning no interest at all, then an inflation rate of 2.5% would reduce its real value to £54.50, while an inflation rate of 5% would reduce it to just £29.20.



Source: Brewin Dolphin. For illustrative purposes only.

## Cash isn’t as risk-free as you think

Cash savings accounts are often deemed risk-free because they don’t expose money to investment risk. However, when it comes to long-term savings, they might not be as risk-free as you think. The interest rates offered by cash savings accounts tend to be below the rate of inflation, which means the value of your money could be shrinking. The highest interest rate on an easy-access savings account is around 0.7%, while the highest rate on a five-year fixed-rate savings account is around 2%<sup>1</sup>. These rates are significantly below the average annual inflation rate of 3.8% over the past 40 years<sup>2</sup>.

So, while cash savings accounts are useful for funding short-term goals and unexpected emergencies, you may wish to find another home for your longer-term savings. Otherwise, there’s a risk you’ll fall short of your savings goals, potentially jeopardising your plans for the future.

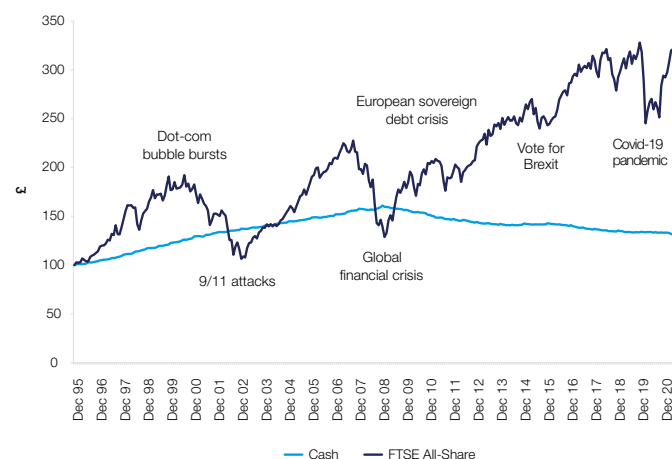
<sup>1</sup> [www.moneysavingexpert.com/savings/savings-accounts-best-interest/](http://www.moneysavingexpert.com/savings/savings-accounts-best-interest/)  
Data retrieved 10 November 2021

<sup>2</sup> Bank of England inflation calculator

## How to maximise your savings

To give your savings the opportunity to keep up with inflation, you could consider investing at least some of your money in the stock market. Although the stock market goes down as well as up, history shows that over ten or more years it tends to perform more strongly than cash and above the rate of inflation.

The chart below shows that if you invested £100 in the FTSE All-Share at the end of 1995, it would have increased in value to £322 by September 2021 on a ‘total real return’ basis (combining share price changes and dividend income, and adjusting for inflation). Conversely, if you had put £100 in a cash savings account, it would have grown to just £131<sup>3</sup> after adjusting for inflation.



Source: Brewin Dolphin / Refinitiv Datastream.

This period saw major economic downturns, including the bursting of the dot-com bubble, the global financial crisis, and the Covid-19 pandemic. Despite experiencing plenty of adversity over the past few decades, the stock market has continued to climb, given time.

## Next steps

If you have time on your side, and enough cash set aside for emergencies, investing will give your money the greatest chance of growing and beating inflation over long periods. A financial adviser will help you create a portfolio that suits your needs, so you can rest assured your money is working as hard as it should be and you’re on track for a secure financial future.

<sup>3</sup> Based on Bank of England base rates

The value of investments, and any income from them, can fall and you may get back less than you invested. Neither simulated nor actual past performance are reliable indicators of future performance. Performance is quoted before charges which will reduce illustrated performance. Information is provided only as an example and is not a recommendation to pursue a particular strategy. Information contained in this document is believed to be reliable and accurate, but without further investigation cannot be warranted as to accuracy or completeness.