Bulletin

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Coming around again: inflation returns

Inflation jumped sharply in April 2025. What's going on?

The rollercoaster ride of inflation was set in motion at the start of this decade. In August 2020 the annual inflation rate, as measured by the Consumer Prices Index (CPI), had dropped to a mere 0.2%. Just over two years later, inflation peaked at 11.1% and then generally declined until the April figure was published.

April's published 3.5% CPI rate would have been 3.4% (the same as May's), were it not for a calculation error. It meant the Governor of the Bank of England was required to write a letter to the Chancellor explaining why inflation was over 1% above target and what actions were planned to rein it back to 2%. In reality, as far back as early February the Bank was expecting inflation "to rise quite sharply in the near term, to 3.7%".

Inflation is due to peak in September, then steadily decline to around 2% early in 2027. Since January 2020 the buying power of £1 has shrivelled to 78.3p.

The Bank's forecast highlights one of the oddities about annual inflation. While longer-term projections are notoriously difficult to get right (as played out over 2022/23), short-term estimates are often much easier to make. In the case of April 2025, the Bank could see two major changes arriving:

- A new Ofgem quarterly utility price cap that would replace the 12.3% fall of a year ago with a rise of 6.4%.
- An Ofwat-determined increase in annual water and sewerage charges for England and Wales that averaged 26%.

Inflation is due to peak in September, then steadily decline to around 2% early in 2027. However, any inflation erodes purchasing power; since January 2020 the buying power of £1 has shrivelled to 78.3p. That decline of over a fifth affects every aspect of your financial planning – retirement, savings goals, health and life protection – which has not been inflation-adjusted in the last five and a half years. We can help review your financial goals in case the shifting CPI has knocked you off target.

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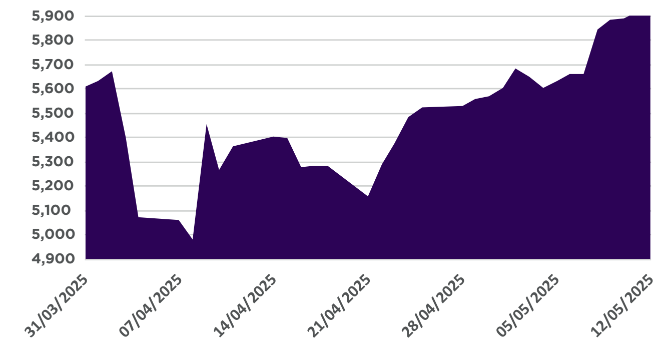
The lessons of ‘Liberation Day’

Investment markets had a wild ride after Trump’s tariff announcements. Amidst the turmoil there were lessons to be learned.

“Past performance is not a guide to the future” is a familiar warning from investment advertisements but is unlikely to have prepared you for what followed Donald Trump’s ‘Liberation Day’ tariff announcement on 2 April.

The S&P 500 from the start of April



Source Investing.com

The graph shows US investors’ immediate reaction, as measured by the professionals’ preferred market index, the S&P 500. Most major stock markets reacted similarly with the FTSE 100 losing 10.5% between the end of March and 9 April, the date Trump announced the suspension of most tariffs for 90 days (to 8 July).

Markets rebounded on the news because it was interpreted as the end to high tariffs. This optimism was reinforced when, in mid-May, the US and China agreed a mutual 90-day reduction of 115% in the blockade level of tariffs they were applying to each other.

Look again at that graph and it's easy to see that the right timing could have produced large profits. However, such wisdom is purely hypothetical as nobody knew how the tariffs would play out. A more likely scenario is the panicked investor who sold out after the Rose Garden announcement and got stuck holding cash as the market rebounded.

That is a major – and long-standing – lesson of the Trump tariff saga: timing the investment markets, whether buying or selling, is next to impossible without hindsight. Another familiar lesson is, to use a well-worn phrase, don’t panic. Markets have a habit of over-reacting in both directions. A third lesson is to remember investment is about the long term – not just one month – however dramatic.

✣ *The value of your investment and any income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.*

Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

Wedding bells and wedding bills

Summer is peak season for weddings and civil partnerships, but the cost of saying ‘I do’ has soared in recent years. Many couples meet these costs themselves, but around 70% still receive some help from parents or wider family.

The average wedding now costs over £23,000 in the UK. If you plan to make a meaningful contribution, starting to set aside funds early can make all the difference. Spreading savings over a decade or more can ease the financial burden and allows you to invest in higher-growth assets, such as equities, which have historically delivered better returns. Stocks and shares ISAs offer a £20,000 annual allowance and tax-free growth for long-term savings. As the big day approaches, consider moving funds into lower-risk assets to protect against market swings.

If you have less time, a cash ISA is a safer bet – just be sure to shop around for the best rate. Don’t forget parents, grandparents and others can make gifts towards weddings or civil partnerships and receive inheritance tax relief.

It helps to set a realistic target for your funding and clearly communicate your plans with family to avoid the temptation to overspend. Steady planning means you can help your children achieve the celebration they want. And if they decide against married bliss, you have created a savings pot that can be used for other purposes such as helping towards a first home, further study or boosting your own retirement funds.

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Investments do not offer the same level of capital security as deposit accounts.

The value of your investment and the income from it can fall as well as rise and you may not get back the full amount you invested.

The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.

PENSIONS

The long retirement countdown

However far you are from retirement, ensuring your pension plans will sustain you when the time comes requires focus, now more than ever.

Recent research indicates that 1.6 million more people are at risk of hardship in retirement compared to a year ago, due to rising living costs. This is despite increased savings levels.

Around half the population are aware they are not building sufficient retirement savings across all ages and income brackets. Many face a significant reduction in living standards after stopping work or will end up working longer than they'd like because they can't afford to retire.

The long road

It's never too early to start paying into a pension – or too late. If you're ten years or more from retirement you should focus on maximising savings and making the most of pension tax relief, especially if you're a higher-rate taxpayer. Where possible, ensure funds are in growth assets, such as equities, which have historically delivered higher returns over longer time periods.

It's easy to lose track of multiple pension plans and savings over a working life. But you can't build a robust retirement plan without knowing what funds you have and what they will be worth by your planned retirement date. This includes State pension provision, often a sizeable chunk of retirement income. You can get a forecast from gov.uk/check-state-pension. This will also confirm when it will be paid, a key date in your plan.

Countdown

Many find it easier to consolidate pensions as they near retirement. However, before making changes, it's worth checking that you aren't giving up valuable guarantees and looking carefully at the charges and performance of any new scheme.


Credit: Goodluz/Shutterstock.com

Knowing what your savings are worth is only half the picture. You also need to think about what level of income you'll require once you stop working. The Pension and Lifetime Savings Association estimates a single person today needs £31,700 a year for a moderate standard of living (or £43,900 for a couple). Understanding what you're aiming for can help you identify shortfalls and take action, such as saving more or delaying retirement.

The finish line

Once you're within five years of retirement, think about how you'll turn your investments into income. This will mean exploring the pros and cons of drawdown, annuities or a combination of the two. How you'll use your pension may influence your investment strategy in the final years. If you plan to keep funds invested, you may want to remain in growth assets. But if you want to cash in or buy an annuity, switching to less volatile assets to protect your funds from sudden downturns before you retire may be advisable.

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Seek advice or guidance on your options, whether you're a decade away or retirement is imminent. These are complex decisions, so regular reviews of your position could make all the difference.

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TAX

Credit: Sutthiphong Chandaeng/Shutterstock.com

Are you ready for Making Tax Digital?

The tax reporting system is changing for the self-employed and property investors.

Making Tax Digital (MTD) has been one of those major government IT projects subject to significant delays. Announced in December 2015, it promised that "…by 2020, HMRC will have moved to a fully digital tax system." While MTD is now fully operative for VAT, it will not start to come into force for some elements of income tax until April 2026…and that could affect you.

MTD will apply to you from April 2026 if you are registered for self assessment and:

- You received income from self-employment and/or property investment before 6 April 2025; and
- You had a gross turnover (strictly 'qualifying income') from self-employment and/or property exceeding £50,000 in 2024/25.

A year later, the MTD threshold will be lowered to over £30,000 of qualifying income in 2025/26.

To encourage compliance with the new MTD regime, which demands quarterly reporting, new rates of late payment penalties for MTD for income tax (and VAT) took effect from April 2025. These are (in addition to late payment interest):

- 3% of the tax outstanding where tax is overdue by 15 days; plus
- 3% where tax is overdue by 30 days; plus
- 10% per annum where tax is overdue by 31 days or more.

If MTD is news to you, make sure you are prepared before your 'joining' date arrives.

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LATER LIFE

Funding for long-term care

A solution for funding social care in England remains many years away.

"Time and again, governments have stepped back from reform when faced with the cost. Too much emphasis is put on the cost of change and not enough consideration is given to the human and financial cost of no or incremental change."

Those words are from the report, *Adult Social Care Reform: the cost of inaction* issued by the House of Commons Health and Social Care Committee in early May. The timing was somewhat ironic as three days before – on the Friday before the early May bank holiday – the government had published the terms of reference for an independent commission into adult social care in England, to be chaired by Baroness Louise Casey.

A distant prospect

The commission had been announced in early January, six months after the Chancellor abandoned a plan for a long-term-care funding cap in England which had been due to start in October 2025. The terms of reference were surprisingly brief, but buried in them was the suggestion that any new scheme would not be fully operational until 2036 – over a decade and at least two general elections away.

Until the Casey commission's plan begins, England will be left with a long-term-care funding system which many earlier investigations (including a royal commission at the turn of the century) have said needs reform. The current rules broadly mean that anyone in England with capital of over £23,250 (unchanged since 2010/11) must meet their own long-term care costs in full.

There is currently no insurance policy available to protect against such future costs. If potential care home fees concern you, the best approach today is to ensure your retirement planning makes some allowance for their possibility. The same principle applies for all constituents of the UK, each of which have their own, similar funding rules.

Credit: Hananeko_Studio/Shutterstock.com

RETIREMENT

Understanding retirement income needs

One of the most complex financial decisions people will make is around income in retirement. But there is no simple, total solution.

Today's retirees typically have a mix of workplace and private pensions plus savings. These might be defined benefit schemes that pay a guaranteed income linked to earnings or defined contribution plans acting effectively as investment funds, where retirees can choose to draw down a regular income or buy an annuity for a guaranteed lifetime income.

Choosing the right approach is far from straightforward. The most suitable option will depend on factors such as the value of your pension pots, types of schemes held, other financial assets, relationship status as well as your health and attitude to risk.

Recent research from the University of Bath based on spending patterns going back decades found there is no 'one-size-fits-all' solution. Some retirees, particularly homeowners, spend more in the early years of retirement, but this falls away as they age. They would benefit from flexible options such as drawdown. Others have steadier, often lower spending needs, and may benefit from a guaranteed income solution with some inflation protection.

Understanding the implications of these differences underlines the importance of taking advice, especially as some decisions, such as buying an annuity, are irreversible.

Retirement can last for 25 years or more and needs will change. Regular advice MOTs may also prove useful, particularly as many retirees now keep funds invested for longer. If markets shift, living costs rise, or personal circumstances change, your strategy may need to adapt.

Reviews are an opportunity to discuss investment strategy and consider future annuity purchases, as well as look at wider planning issues like estate planning, lasting powers of attorney or eligibility for state benefits.

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NEWS IN BRIEF

News round up

Spending Review

The Chancellor presented her Spending Review on 11 June covering day-to-day spending over the next three tax years and investment through to 2029/30. Having now defined her spending and investment goals, with the NHS and defence top of the list, these will be hard to shift. Place those expenditure aspirations against her "non-negotiable" fiscal rules and speculation is rife on the likelihood of tax rises when the Chancellor presents her next set piece - the autumn Budget.

✣ *The Financial Conduct Authority does not regulate tax advice.*

Interest and tax

If you're used to HMRC automatically sorting out any tax due on your bank/building society interest via your PAYE code, be warned. For the 2023/24 tax year, HMRC received around 130 million automatic reports of interest, but could only match 80% of them to taxpayers, a job that was not finished until March 2025. The taxpayer is responsible for paying the correct tax and HMRC is now reminding those who have not received a coding adjustment, they need to report any taxable 2023/24 interest ASAP.

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Half a century ago...

In April, a 50th anniversary passed, largely unnoticed. April 1975 was the last time that the basic rate of tax was increased (from 33% to 35%). Ever since the only direction for the basic rate has been down. That is not quite as good news as you might think as it has prompted successive Chancellors to raise revenue in different, less obvious, ways. The most recent example is the freezing of tax bands and allowances to create an ever-growing band of higher-rate taxpayers.

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