The negative power of Inflation on your Deposits.

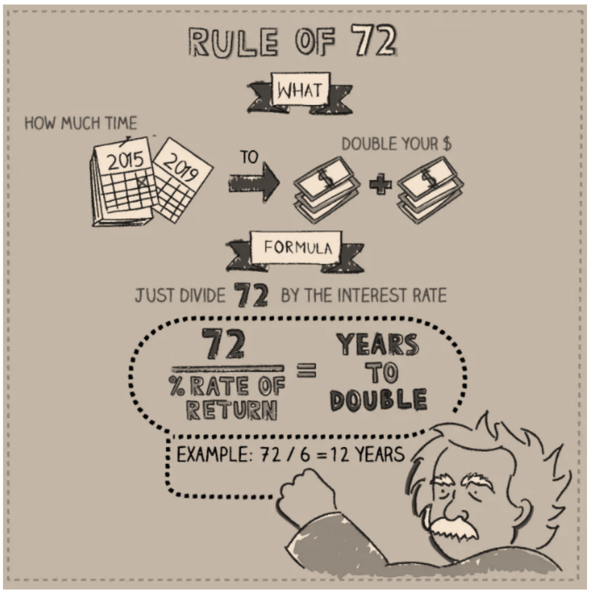
For many Irish households and businesses, money on deposit represent safety, a comfort born of knowing that cash is available, visible, and stable. Yet when it comes to long-term financial wellbeing, deposit accounts carry a not so visible risk. Inflation erodes the real value of money sitting idle and inertia on our part is keeping it there. The Central Statistics Office (CSO) confirms that Irish inflation peaked at a whopping 23.2% in 1981, remaining above 15% from October 1979 to October 1982. Even during "low inflation" periods, the compounding effect is corrosive. At just 2% inflation, €100,000 loses approximately €18,000 in purchasing power over ten years.

How Inflation Works Against You

Inflation is the steady rise in the cost of goods and services. When inflation runs higher than deposit interest rates, purchasing power falls. In real terms, you can buy less in the future with the same amount of money. We all know this, yet something keeps many of us from trying to counter its negative effects.

According to the Central Bank of Ireland, Money & Banking statistics (January 2025) there was €161.3 billion in household deposits with another €81.7 billion in corporate deposits, with most earning negligible interest. While there is an illusion of safety in that cash in the bank feels safe (up to €100,000 is covered by the Deposit Guarantee Scheme) it's liquid and accessible but it is not "safe" against inflation. The danger isn't a market crash or a failed institution, but a quiet decline in the real value of your money over time, occurring daily, without notice.

In financial terms, the Rule of 72 concept calculates how long it would take for your money to halve in real value due to inflation. You simply divide 72 by the rate of inflation so inflation at 3% would mean it would have in 24 years (72 / 3). Inflation at 5% would cut your money in half in 14.4 years. Money left untouched in "safe" accounts effectively cuts its real worth in half within a generation, particularly significant for retirement savings, education funding, or intergenerational wealth transfer.



This doesn't mean eliminating cash altogether. Every household needs liquidity, typically three to six months' expenses, for unforeseen emergencies. Beyond that buffer, the question becomes, what's the opportunity cost of holding excess cash?

The challenge is distinguishing between money you need and money that's simply sitting idle. Cash required within twelve months belongs on deposit. Funds earmarked for goals 5, 10 or even 20 years away face a different calculation entirely.

Once an adequate Emergency Fund is in place, several strategies merit examination:

Diversified investment portfolios spread capital across asset classes, equities, bonds, property, alternatives, reducing concentration risk whilst historically capturing returns above inflation. Whilst markets fluctuate, a 60/40 balanced portfolio (60% equities, 40% bonds) have typically delivered 6.8% annualised returns over 10-year rolling periods since 1997 using data from Standard & Poors, MSCI & Bloomberg, according to research from Vanguard 2025, comfortably exceeding deposit rates.

Tax-efficient vehicles such as pension contributions offer immediate tax relief (up to 40% for higher earners) whilst allowing growth in a tax-sheltered environment. For business owners, moving company funds to personal ownership via company pension schemes provide corporation tax deductions alongside personal retirement planning.

Inflation-linked bonds provides purchasing power protection, making them particularly suitable for conservative investors uncomfortable with equity volatility but unwilling to accept certain real losses on deposits.

Contributing on a regular basis gives you the benefit of **Euro cost averaging** which basically removes the timing risk associated with investing a lump sum. Whether markets rise or fall, you're buying shares at their average price over time, acquiring more units when prices drop, fewer when they climb. This disciplines emotion out of the process and exploits volatility rather than fearing it.

The key insight here is that Emergency funds belong on deposit whereas Long-term capital or money not required for years, deserves to be working differently.

Inflation doesn't just erode purchasing power, it diminishes the chance for money to compound, support retirement, or transfer efficiently to the next generation. The question isn't whether you can afford to invest, it's whether you can afford not to.

Where to Begin

If, over and above your Emergency Fund, you have substantial wealth sitting in cash on your personal or business accounts, three questions deserve consideration:

When will you actually need this money? Any of your funds that may be required in the short-term belong on deposit, whereas the balance of your capital which may not be needed for 5 years+ should be considered for savings/investment.

What's your real return after inflation? If the return you're getting on deposit isn't even keeping pace with inflation, then you're into a guaranteed annual loss in real terms.

What level of volatility can you accept? Diversified portfolios fluctuate but If you've got TIME IN THE MARKETS, they historically outpace inflation as seen above.

Having an honest conversation around inflation is about preserving what you've built. Don't procrastinate any longer, get in touch Email info@lifestylefinancialplanners.ie or call 096-75951 to reserve your complimentary **Discovery Meeting** and let's consider some options around getting your money working harder, for you.
