The Road to Retirement:

Eight steps you should take as you approach this milestone

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Reaching retirement should be a time of celebration. Giving up the daily routine of 9-5 work can give you the freedom to pursue your dreams. But there are some big decisions you need to make which are not all necessarily financial. What does retirement mean to you? Perhaps it should be redefined as 'financial independence' i.e. the point at which work becomes optional but not essential for you to live the lifestyle that satisfies you.

As you head towards retirement, it is natural that the financial side of things takes centre stage. Throughout your life you have been encouraged to save diligently into a Workplace or Personal Pension, invest with the long term in mind and pay off your mortgage before leaving the world of work. However, the truth is that a fulfilling retirement needs to blend your pension and finances with other aspects of life, not least your physical and emotional well-being. This guide aims to provide an overview of considerations you should make when approaching retirement and guide you to areas where you might like to seek further guidance. This guide will look at the financial side of retirement with a focus on pensions.

So, as your attention becomes increasingly drawn to your retirement, what considerations do you need to make?

How we can help

We understand that your retirement isn't just about your pension. Our goal is to help you transition from a career into the retirement lifestyle you aspire to. Our tailored approach to financial planning helps align your finances with your dreams.

Retirement is changing: Flexibility rules!

Retirement planning shouldn't focus solely on your pension provision as, typically, you may have significant savings, possibly some investments (ISAs) and a mortgage-free property. Whilst the art of the financial planner is to help you understand how all of these resources can be harnessed to sustain your lifestyle, pensions will typically play a pivotal role.

In the past, retirement followed a fairly established path for most people. You gave up working life at your State Pension Age, started collecting your State Pension and used your Workplace or Personal Pensions to secure a guaranteed income for life (e.g. through your employer's pension or by purchasing an Annuity). However, in the last few years, the concept of retirement and the options for drawing pension benefits have been transformed.

Retirement lifestyles have also changed considerably over the years. When you look at the retirement that your grandparents (or even parents) enjoyed it is likely you will want something different. Far from just pottering around the home (or 'just getting by'), you are likely to want to travel the world, pursue a passion, work part time or look after loved ones. You may wish to do all of these things and much more!

When the Government announced a shake-up in the way we can access our pension benefits in 2015, the so-called 'Pension Freedoms' have made it possible to create an income that is more closely aligned to the reality of changing retirement lifestyles (e.g. phased retirement or higher spending in the early retirement years). The flexibility provides more opportunities for those approaching retirement but also poses some fundamental questions; not least what options will suit me best and how will I make my savings last?

From the age of 55, you can potentially access benefits from your pension fund as you wish providing you with more options enabling you to retire early or stagger your exit from work. Once you have decided when you want to retire and checked that you can afford to, you will need to decide on the best way to take an income. Improved flexibility means that you have several options and with more choice comes more complexity – and, of course, the increased chance of getting it wrong.

Top tip

Not all pension schemes allow you to access the funds in a flexible manner, so you will need to check with your existing provider to see the level of flexibility your scheme provides. It might be necessary to transfer the pension to a new provider to access all the options, but you should seek advice first.

Take lump sums: After your 55th birthday, you can choose to take lump sums from your pension fund. You can do so on a ‘one-off’ basis or make several withdrawals over time. You can even choose to withdraw the entire pension fund. Usually, the first 25% is tax-free and, as a result, withdrawing your pension in one hit is unlikely to be the most tax-efficient way to fund retirement as the remainder of the fund will suffer Income Tax. Withdrawing your entire pension may also leave you financially vulnerable in later years.

Buy an Annuity: Using the money in your pension fund to purchase an Annuity is the traditional way to create a guaranteed income for life. The income an Annuity provides can also be linked to inflation to maintain your spending power over time. Providers offer very different rates, so it is important to shop around and to select the Annuity that is going to be right for your lifestyle. The Annuity rate offered may also depend on your personal circumstances, such as your health and lifestyle. While an Annuity will offer very little in the way of flexibility, it will give you a secured income. As a ‘once in a lifetime’ purchase it is very important that you choose the right option to suit you.

Use Flexi-Access Drawdown: This is when you are able to adjust the amount you take as an income, reflecting your lifestyle, while the remaining pension fund can stay invested. If being able to vary your income is important to you, using Flexi-Access Drawdown could be the right option. Flexi-Access Drawdown may be particularly suited to individuals who see themselves making the most of early retirement but winding down later. As your pension remains invested you would need to manage investment risk and setting up an appropriate investment and withdrawal strategy will be crucial.

Leave your pension untouched: You are not obliged to withdraw your pension at any point in retirement. If you want to work past the traditional pension age, for example, you may have no need for the extra income. For estate planning purposes, leaving your pension untouched if you can rely on other assets can be advantageous, as pension funds are typically exempt from Inheritance Tax.

When it comes to taking an income from your pension, the approach you will take will be highly individualised and specific to you. It also needs to be regularly reviewed. For example, you may choose to take a tax-free lump sum to fund your initial retirement plans (winding down your working hours perhaps) and then purchase an Annuity or move into Flexi-Access Drawdown when you stop working entirely.

How we can help

Considering the various options can be a daunting process. You will need to carefully weigh up your options and take responsibility for ensuring your pension (and other assets) supports you for the rest of your life.

This is an area we can help you with. We will help you understand which option is right for you whilst considering your wider retirement plans and aspirations and in particular if you are likely run out of money.

The 8 'must take' steps as you approach retirement

While everybody is different, there are a number of steps that we should all take as we move closer to the retirement milestone.

1. What's the plan?

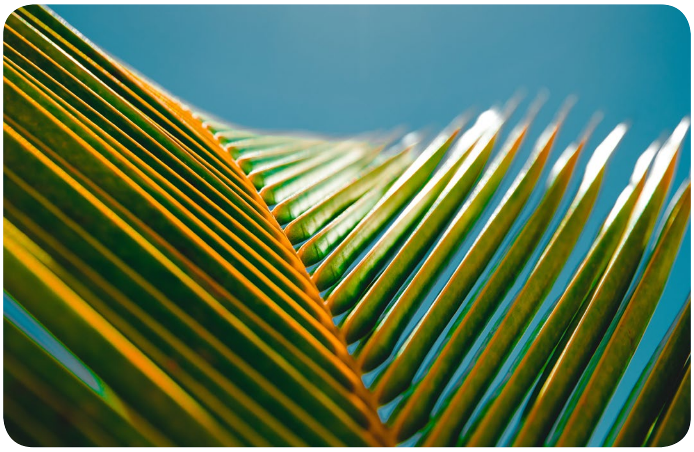
The starting point when preparing for life after work has to be to have a plan. For some, this will be easy, you have been planning it for years. But for many, this can feel like a really daunting prospect.

We would recommend that you leave the financial aspects of your plan until last. Stage one is to consider the biggest questions such as, what you might do, where you might live, and what you want to achieve. Take some serious time out, chat with your partner. Work through the areas that you agree on as these will be the first items on your plan.

If you are struggling to understand what it all means, there are courses available. We came across one recently which makes the point in its client literature that the key to living a successful life after work was to be physically fit, mentally fit and financially fit. If you were creating a plan from scratch, it may even be worthwhile starting with those three headings and adding your own detail underneath each one.

How we can help

The process of financial planning starts with us getting a great understanding of how you want to live your life. If you would like to have a conversation around this and to find out how we can help you to match your finances to your aspirations, please contact us.



2. Calculate your income needs

Having created your high level plan, it is now time to add the detail.

Understanding expenditure requirements, both regular and lump sums, is a crucial part of the work we undertake with our clients. We would recommend that you consider breaking your expenditure into two. First, consider your spending for the essentials, such as utility bills and grocery shopping, to create a base figure. From here, you are in a position to start adding expenses that will make your retirement more enjoyable and fulfilling. This could include a budget for annual holidays or monthly spending on hobbies or family.

It is important to remember to include one-off costs when doing this exercise. In addition to that once (or twice!) in a lifetime holiday, maybe also consider whether your home will need some work to make it 'retirement ready'. Do you really fancy getting up that ladder in your 70's to paint your soffits?

To request a copy of our retirement planning expenditure analysis checklist, contact us by phone or email.

How we can help

By understanding your expenditure plans we are able to create a lifetime forecast of your finances. This is a great way of understanding where any issues could arise and working out the best solution.

It will help to answer most of the biggest questions. Such as 'will my money run out?' or 'will my partner be okay if I were to die before them?'

Top tip

Spend some quality time on this step. Make a cup of tea, sit down with the bank statements and utility bills and try to be as precise as possible. After all, this information will be critical to ascertaining whether you have reached financial independence. Doing diligent work here could really change your life – forever.

3. Consider your health and longevity

Your state of health is an important consideration, as is your longevity. If we knew how long we were going to live the maths would be so much easier.

There are likely to be bumps along the way of course. So, when you are reviewing your assets and your expenditure requirements, it is always important to set aside provisions for the unknown. The cost of care for example.

Many people underestimate how long they will live and if you have planned your finances on living, for example, 10 years, only to live for 20 years, then it could leave you financially vulnerable in your later years.

According to the Office of National Statistics (ONS), a man aged 65 today will, on average, live to 83. For a woman, it is 85. But, using these statistics to base your plans on can be dangerous, the ONS are merely stating the average age which means that 50% of UK citizens will live beyond the average age. The statistics are also for the UK as a whole, variations will occur based upon where you live, as well as your lifestyle.

4. Factor in the impact of inflation

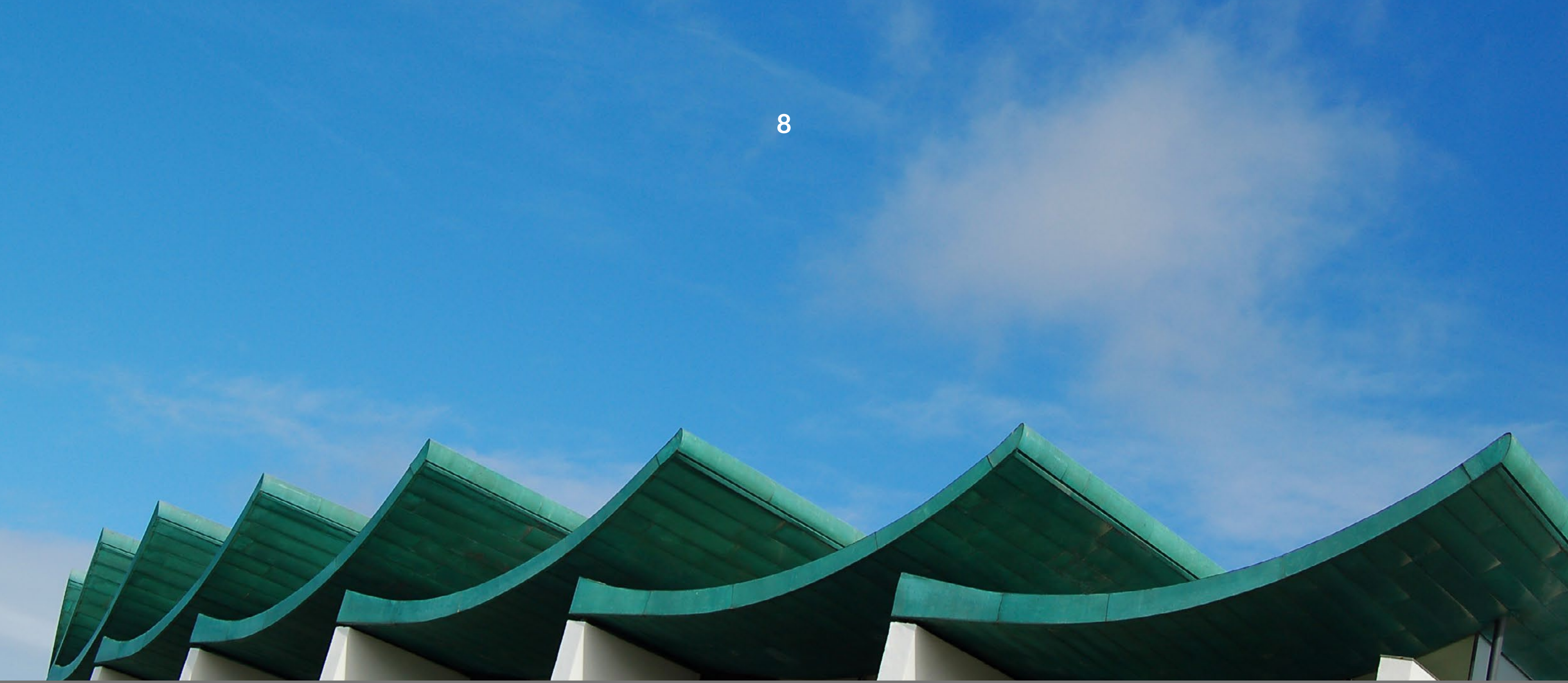
One certainty in life is that the cost of living increases over time (i.e. inflation) and this will have an impact on the type of lifestyle you can afford in retirement.

In recent years, annual inflation rates have been around 2.5% a year. But history shows that there can be periods where it is much higher. You may think that it won't have a big impact on your finances but, over the long term, it most certainly will. When you consider inflation eating into your spending power over a retirement that could last 30 or 40 years, it is critical to factor this in. As an example, if you had retired in 1997 with an annual income of £21,000, you would need to have an income of more than £36,000 to have the equivalent spending power today.

Some pensions make an allowance for inflation by increasing each year. For example, the State Pension is very well protected from inflation. Also, if you are lucky enough to have been a member of a Final Salary pension scheme this is also likely to have a good level of protection.

As you will have read earlier, if you have a Personal Pension fund, amongst the options available to you is the ability to convert your fund to an Annuity. It is possible to purchase an Annuity that increases in line with inflation, so this may also be a consideration for you.

Should Annuity purchase not be for you, then accessing your pension via Flexi-Access Drawdown could be the answer. The flexibility will mean that you could simply increase the amount you draw from your fund each year, so as to combat inflation. But, a word of caution; If you draw from your pot too readily then you run the risk of your pot being depleted too early.

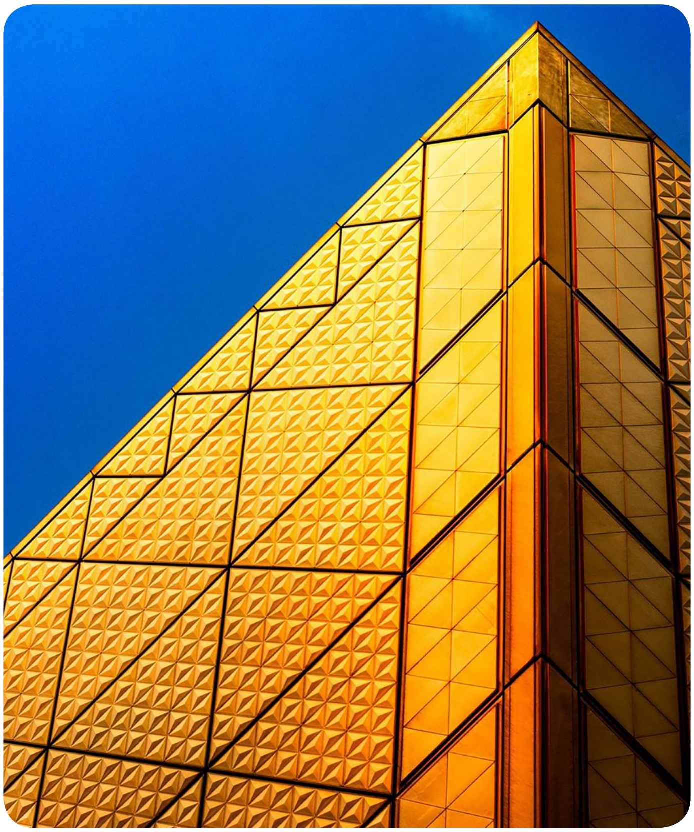


5. Check your State Pension income

When calculating your income in retirement, your State Pension often provides a foundation to build on. The amount you will receive will depend on the National Insurance Contributions you have made over your working life.

The State Pension has become much more straightforward to understand in recent years, in that if you have made National Insurance Contributions for 35 years then you will be entitled to the full State Pension, currently £164.35 per week.

However, it is most likely that, if you are reading this, then you will remember the days of 'contracting out' and State Earnings Related Pension Schemes (SERPS) and this will mean your State Pension is unlikely to be as straightforward and simple as described above.



Top tip

The good news is you can obtain your own specific State Pension forecast relatively easily. Google it or **click here** to get straight through to the Government website. It is free to obtain, so there are no excuses!

6. Determine the value of your pensions

The average UK worker holds 11 jobs over the course of their career. As a result, you may have several Personal Pensions that you have been contributing to over the years. You may even have a mix of different types of pensions.

As you approach retirement, it is important to have a good understanding of the value of your individual pensions. You should receive an annual statement from your provider which will include the current value and the projected value at retirement. If you haven't received one in some time or have lost touch with old schemes, contacting the provider is the best place to start.

With this information, you will be in a better position to start considering how to take your pension and the level of income it will provide. Remember though, pensions are usually invested, and, as a result, the value will fluctuate.

In some cases, it may be beneficial to consolidate your pensions, making them more manageable. However, you will need to consider the potential cost of doing so and any additional benefits you may lose as a result of transferring away from a particular scheme.

How we can help

Bringing together multiple pension pots can be challenging, but we're here to offer you expert support.

Taking a bespoke approach, we will help you identify the best way to structure and access your pensions.

Top tip

Take a moment to consider your career, as if you were writing your CV.

Can you account for a pension scheme for each of your past employers?

It may be the case that you know an employer definitely didn't offer a scheme, or you simply elected not to join. But, if you are in doubt, it is well worth researching. Could you contact the company or catch up with an old work colleague to see if they remember?

We frequently unearth forgotten schemes when we work with new clients, sometimes the pension pots can be very modest, others substantial.

7. Determine the value of your other assets

While pensions may make up the bulk of your retirement savings, it is highly likely that you will have other assets as well. Taking some time to calculate the assets you have that could support your retirement alongside pensions is important in the planning process. Assets to factor in may include savings accounts, investments or property (you may be considering 'downsizing' or even own more than one property).

How we can help

When you have multiple assets, it can be difficult to understand how to access them to create an income. One important factor is tax. Even in retirement you will pay Income Tax and, depending on how you access your other assets, you may also experience other taxes, such as Stamp Duty or Capital Gains Tax, for example. Understanding the tax treatment of different asset types can help you create a tax-efficient income throughout retirement.

8. Consider your exposure to risk

As we go through life, our attitude to investment risk changes, and retirement is a perfect time to reassess if you are still comfortable with the level of risk you are currently exposed to.

How important this is will depend on how you will be withdrawing an income from your pension. If you purchase an Annuity, you will have a guaranteed income from this and may be inclined to take more risk with other assets. In contrast, when you use Flexi-Access Drawdown, your unused pension savings usually remain invested, so you will need to take a more active role in managing investment returns and risk.

How we can help

Understanding how tolerant you are towards taking investment risk is important, as is whether you, in fact, have the capacity to take a risk at all.

Tolerance for risk is very much based around your beliefs. It is more of an emotional mindset.

Capacity for risk is a more scientific measurement. It applies to your specific assets and what impact taking a risk and losing money may have on your lifestyle.

A good financial planner will help tailor your investments to suit you.

Time to retire?

Even with the eight steps considered, there is still a fundamental question that needs to be answered; when is the right time to retire?

This brings us back to the point about what retirement means to you. The Cambridge English Dictionary definition reads: Retirement - the act of leaving your job and stopping working, usually because you are old.

In today's world of flexible retirement, is that a fair definition? We don't think so.

For retirees today, retirement is far more flexible and the possibilities are many. With your broad aspirations in mind, you need to work out the finer details of what retirement will be for you.

- When do you want to retire?
- Will you continue to work in some form?
- What income will you need?
- Do you need to vary your income?

Whether you decide you have had enough of working or want to take on a part-time, flexible role, such as consultancy, it is important to decide what you would like to do. It is a decision that will not only influence your finances but your overall lifestyle and level of fulfilment as you move into the next stage of your life.

Creating a retirement that suits you

Perhaps you have worked your way through all the steps; you are in a great place and know exactly where you are heading and cannot wait to get started on your retirement.

Or, perhaps, you don't even understand the spreadsheet you have just created and you are feeling like it might just be easier to continue working and come back to this task another time.

If you are feeling overwhelmed by the sheer number of decisions you are expected to make or are struggling to get to grips with the figures, we are here to offer support and advice. Each person's retirement is different, and we will take a tailored approach to helping you map out the path that suits you; whether you want to give up work as soon as possible or create a phased retirement plan.

We are here to help you achieve your financial objectives. If you would like to speak with one of our Chartered Financial Planners, please get in touch:

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