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Financial Advice

10 simple things you should do to ensure you can afford your perfect retirement

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One of the biggest lifestyle changes in the past forty years has been in the way that people view their retirement.

For our parents and grandparents, retirement was a time to sit back, take it easy, and enjoy a slower pace of life. These days, it's very much the second stage of life for many people – a time to start enjoying the things that you couldn't while you were busy working.

However, the changing nature of retirement in the 21st century raises different issues that you need to address. The declining popularity of pension schemes that provide guaranteed income in retirement, such as defined benefit pensions and annuities, mean that you now have to take far more responsibility for your retirement income planning.

However close you are to retirement, it's important to plan for the future and make regular reviews of your finances. This doesn't have to be a preoccupation, but there are some simple steps you can take to ensure that you're in a position to enjoy the retirement you want.

Here are ten things you can do to ensure you have enough to support the lifestyle you want in retirement.

A word about final salary and defined benefit pension schemes

Defined benefit pension schemes are extremely valuable as they provide guaranteed income in retirement with a level of inflation protection. For most people this is the most appropriate form of pension as it takes away the most risk. In retirement you receive a monthly income which increases on an annual basis.

There are several circumstances where it may be appropriate to consider the feasibility of transferring these guaranteed benefits into flexible personal pension arrangements. If you find yourself in a situation where your life expectancy is considerably shortened or you have substantial other pensions, investments and income sources, you may want to consider reviewing your options.

If your transfer value is greater than £30,000 you should seek financial advice from a suitably qualified advisor.

1. Make sure you have a retirement plan in place

One of the first steps you should take when planning for retirement is to ask yourself what your ultimate goal is.

You'll probably already have a rough idea of what you want from your retirement. That's why, if you haven't done so already, now is the time to put them into a proper plan.

Here are three questions you should ask yourself:

When do I want to retire?

You probably have a retirement date in mind, based on when you want to retire or when you've calculated that you'll be able to afford it. As you approach this date, you should assess whether it's still viable and whether you will be moving into retirement gradually through reduced working hours, part-time working or consultancy.

Have your circumstances changed since you last reviewed your plan, such as receiving a windfall or having to cover an unexpected expense?

Do the changes mean you need to defer the date of your retirement? Or do they mean that you are able to stop working sooner than you'd previously thought?

What do I plan to do in retirement?

A study by **Aviva** has shown that travel is the most popular activity planned by people approaching retirement. This is followed by taking up a new hobby, or spending more time on an existing one, and supporting children and grandchildren.

Having an idea of what you want to do will give you a decent sense of how much income you'll need in retirement. If you want to travel extensively, this will mean you'll need a much larger pension fund than if you'd rather spend your retirement playing golf and working on your allotment.

If you do need a larger fund, you may need to push your retirement date back or increase your pension contributions or work part-time.

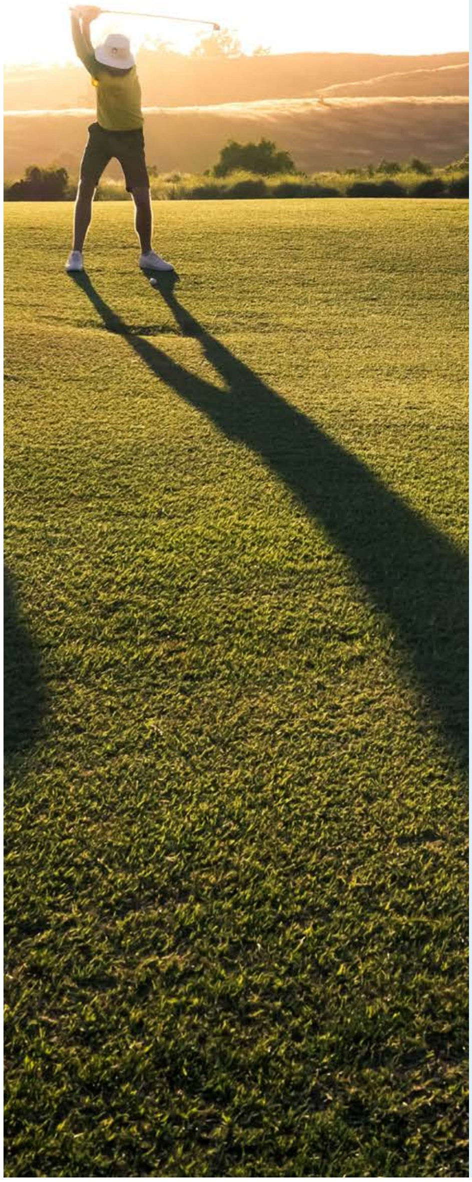
How long will my money need to last?

Current figures from the Office for National Statistics show that the average man lives to an age of 84 and the average woman to 86. So, if your current plan is to retire at 65, your retirement is likely to last around 20 years, which means your pension fund will need to support you throughout that time.

You may want to consider putting together a current cashflow plan which lists all your regular monthly outgoings, as well as noting any anticipated big future expenses. Then, do the same exercise based on what you want to do in retirement.

Depending on what you want from your retirement, it's likely that you'll spend less than you do now. Putting together a detailed plan can help you to determine whether your current pension fund will be enough to support your desired lifestyle in a sustainable way.

Key step to take – Draft an outline of a retirement plan which includes when you're hoping to retire and what your goals are once you've done so. You should then review this with a financial adviser.



2. Review your current pension arrangements

Given that the days of working one job for life are now long gone, you could have several different workplace pensions, as well as any personal pensions you have started yourself. It's worth making sure that you have details of all your plans so you have an accurate idea of how much they can provide for you.

You can use the **Pension Tracing Service** to help you find any pension details you may have lost track of over the years.

Having an accurate picture of all your pension arrangements can help you to make sure they're growing as effectively as possible.

Key step to take – Put together a comprehensive list of all your pension arrangements. If you're not sure about some of the details, you can use the **Pension Tracing Service** to help you find any that you may have lost track of.

3. Think about consolidating your different pensions

If you have several different pensions, consolidating them all into one single plan means that you won't need to keep an eye on a whole series of statements – just one plan with a single view. This can make it much easier to review and manage them.

Consolidating your pensions also means you could reduce the charges that you're currently paying, as well as potentially giving you access to a wider choice of investment funds.

However, it's important to speak to a financial adviser before you consider doing so. This is to ensure you don't give up any valuable benefits, such as guaranteed income in retirement, by transferring out of an existing scheme.

Seeking financial advice is particularly important if you're considering transferring out of a defined benefit scheme (sometimes also known as a "final salary scheme").

Key step to take – Speak to your financial adviser about pension consolidation to see if it's a sensible option for you.

4. Pay off your debts

If you can, you may want to ensure that you are as debt-free as possible when you retire.

If you've still got high-interest, unsecured debts such as credit cards or bank overdrafts, now is the time to put a serious debt repayment plan in place and to stick to it.

The interest you'll be paying on credit cards is likely to be far in excess of the average growth you can expect on any pension or ISA investment. This is why your priority before concentrating on saving for retirement should be to clear any outstanding unsecured debts. Ideally, the only regular debt repayment you should be making is for your mortgage.

You should focus on paying off the debts with the highest interest first, such as credit cards. Once you have done so, you can then channel the money you were paying on debt repayments into pension contributions or other savings.

Key step to take – Work out how much unsecured debt you have and make a plan to start paying it off, focusing on the debts with the highest interest first.

5. Think about other retirement provisions

As well as pension arrangements, you should also consider whether any other assets you may have could form part of your retirement income planning.

Individual Savings Accounts (ISAs) enable you to save £20,000 each year, free from both Income and Capital Gains Tax. You should maximise this tax-efficient savings vehicle as far as possible in the run-up to retirement. Bear in mind that your spouse or partner also has a £20,000 entitlement.

Other possible sources of retirement wealth could include:

- The value of your property, as you may want to consider downsizing to a smaller home once you've retired, such as somewhere quieter or closer to your family
- Other savings and investments, such as shares or Premium Bonds
- Any possible inheritance you might anticipate.

6. Check your State Pension entitlement

In the 2020/21 tax year the full new State Pension is £175.20 per week, which works out to £9,110 per year. The amount of State Pension typically rises each year.

The amount of State Pension you receive will depend on the number of qualifying years of National Insurance Contributions (NICs) you have. To get the full amount you'll need 35 qualifying years of NICs.

You should be aware that, if you have gaps in your NICs, you may not receive the full amount. You can **request a forecast** to find out exactly how much your State Pension will be when you retire. You can also ask your financial adviser if you're unsure.

If you don't have a full record of NICs, you may be able to pay additional voluntary contributions to help fill some of the shortfall. Your financial adviser will also be able to guide you on this.

Key step to take – Request a State Pension forecast to establish what you'll be entitled to at retirement and speak to your financial adviser if you aren't on track to receive the full State Pension.

7. Check your investment profile

The way in which you invest your pension fund can be crucial to its long-term success. You need to understand both your attitude to risk and your capacity for loss.

Different investments carry different levels of risk. Higher-risk investments have the potential for higher investment returns but equally have a higher chance of short-term losses.

Investing can be complicated, which is why if you aren't sure about different investment strategies, you can benefit from seeking professional advice.

Key step to take – Review your current pensions and investments to see if your attitude to risk has changed. If it has, you should speak to a financial adviser regarding your investment strategy.

8. Take your spouse or partner's arrangements into account

If your spouse or partner has their own pension plans, you should consider them alongside your own arrangements when looking at retirement income planning. If one of you is in a higher tax bracket than the other, it may be more advantageous to make additional contributions into the pension of the higher earner, thereby maximising tax relief at a higher rate.

Likewise, if one of you has reached your Annual Allowance, the maximum amount you're able to contribute to a pension each tax year, it's still possible to make further contributions for the other person.

Remember that both of you may also receive the State Pension, whose maximum amount in 2020/21 is £9,110.

Key step to take – Check the pension arrangements held by your spouse or partner. You can use the **Pension Tracing Service** to find any pensions they might have.

9. Decide if you want to continue working

The type of retirement you'll enjoy is very likely to be different to that of your parents or grandparents. One key change is that the old stereotype of stopping work on a Friday and starting retirement on the Monday is very much in the past, as retiring has become far more flexible.

Rather than it being a fixed event, many people now enjoy a "phased approach" to retirement. With this, they might work part time and reduce their working hours, or even leave their main job and start working on a consultancy basis.

This can be a particularly useful approach if you enjoy your work and want to continue to see your co-workers regularly.

It's possible to start taking income from your pension fund even though you're still working, although you may need to consider the tax implications if you do. Remember that pension income is taxable in the same way that normal earnings are.

If you do make withdrawals while still working, you should also bear in mind that your Annual Allowance, the amount you can continue to contribute to your pension, will be reduced from £40,000 to £4,000.

Key step to take – Think about whether you'll want to fully retire or continue working in some capacity. Take this into account as part of your retirement planning.

10. Understand the risks of a flexible pension

The introduction of pension freedoms has provided much greater flexibility for people in retirement on how and when they draw their pension. With this flexibility comes much greater risk and complexity. People tend to fall into one of three categories:

Higher Income Risk

These people have limited pensions and savings in relation to their long-term income needs and have little or no income flexibility.

Medium Income Risk

People in this category have sufficient pension and savings to provide an element of flexibility in achieving their income plans.

Low Income Risk

These people have large amounts of pensions and savings that are more than their income requirements.

Capacity for Loss

The greater the pressure on someone's income requirements the less capacity for loss someone has. For people who have little or no capacity for loss the only realistic pension solution is the purchase of an annuity which will guarantee their income. Income drawdown would not be suitable for such clients as it requires a level of investment risk which is outside their capacity for loss.

For those people who have a higher capacity for loss there are more options.

Higher Income Risk

These people will have to be sensible with their financial arrangements to manage their capacity for loss. This may well include extending their working life through full- or part-time earnings, downsizing their property or adjusting their expenditure. This is particularly relevant where clients need to bridge the gap between drawing pensions and receiving their state pension.

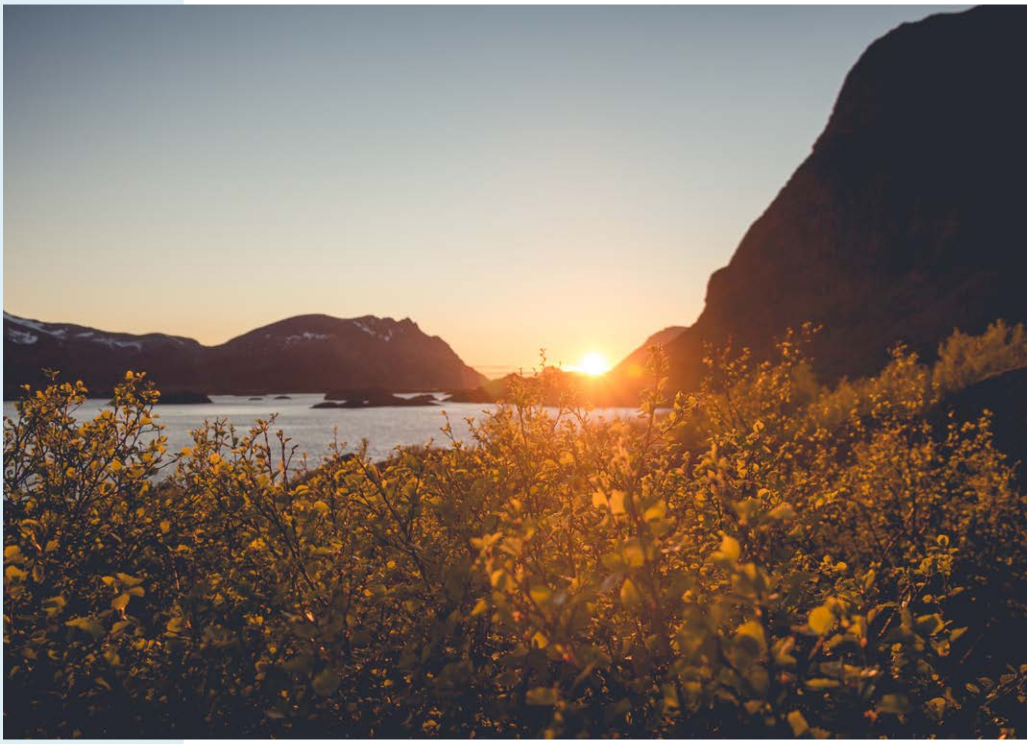
Medium Income Risk

People in this category will have a higher capacity for loss as they have greater flexibility in meeting their income needs. It may well be that they have a level of guaranteed pension from a defined benefits pension, property rental, business income, inheritance and savings. These people can afford to take more investment risks as they have a stronger capacity for loss.

Low Income Risk

These people have a high capacity for loss as their pensions will, to a greater or lesser extent, be surplus to their income requirements. Many of these people will switch their pensions from an income product to an Inheritance Tax planning vehicle. These people will probably never draw on their pension assets, leaving the pension to their beneficiaries.

Key step to take – Work out, by yourself or with the help of a financial adviser, which category you are in and then make plans based on that knowledge.



Financial advice can be crucial when planning for a comfortable and sustainable retirement.

As you may have realised from reading this guide, retirement planning can be a complicated process. This is why seeking professional advice is essential if you want to ensure that you're getting the best value out of your pension arrangements.

Research carried out by the **International Longevity Centre** has suggested that the value of financial advice could equate to £47,000 in additional wealth over the course of a decade.

The key reason for this increase is that clients who receive advice are more likely to take risks when investing, which can lead to potentially greater returns.

If you want help with any of the aspects of retirement planning that we've covered in this guide, we can help.

We can work with you to draw up a sustainable plan for your retirement, advise you on the right investment strategy for your risk level, and help you to reach your financial goals. We can also guide you through the various tax implications associated with pensions and savings so that you benefit from the tax advantages and avoid any unnecessary charges.

If you feel you would benefit from professional, in-depth, and expert financial planning advice, please get in touch.

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Please note

The value of your investment 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 performances.

Your pension income could also be affected by the interest rates at the time you take your benefits. Levels, bases of and reliefs from taxation may be subject to change and their value depends on the individual circumstances of the investor.