Don't worry, be happy

How to build a sustainable retirement income plan

IT IS IMPOSSIBLE TO CONSIDER RETIREMENT, AND OUR EXPERIENCE OF IT, WITHOUT ALSO CONSIDERING HOW WE'LL PAY FOR IT. BUT ALMOST 30% OF PEOPLE OVER THE AGE OF 55 ARE UNSURE IF THEY WILL BE ABLE TO RETIRE ON THEIR CURRENT SAVINGS, ACCORDING TO NEW RESEARCH[1].

Four out of five Britons are unhappy with the amount they are putting into their pension fund every month, while one in four people regret not starting to save for retirement earlier in life.

A Financial Conduct Authority (FCA) retirement income study has pointed to some of the issues faced by individuals with pensions who are approaching retirement.

One in four Britons regret not starting to save for retirement earlier in life

1. Take advice

As people approach retirement, it is crucial they take advice. The FCA has reported that non-advised people almost always remain with their existing pension provider instead of shopping around.

Obtaining professional financial advice will help secure the best value retirement income product to meet a retiree's needs and help them understand a safe rate of withdrawal, balancing their income needs against life expectancy and the need to invest for income, which is very different to investing for growth.

2. Think twice before disinvesting your pension

Half of people are taking their pension savings out but not actually spending them. Instead, they are investing the proceeds into other products. This could be in cash, Individual Savings Accounts or buy-to-let properties. These actions will result in them giving up the advantages that pensions offer, such as future tax-free investment growth.

Cash is unlikely to produce good long-term returns, and illiquid assets like property present their own risks. Obtaining professional financial advice will enable people to identify the right approach to investing for their individual needs that match their financial goals in the longer term.

3. Do you need to touch your pension?

Pensions are not included in an individual's estate on death, which means Inheritance Tax of up to 40% will not apply. They used to be subject to a separate 'pensions death tax' but this has been removed as part of the pension freedom reforms. Now any unused drawdown funds can be passed on and will be tax-free or taxed at the beneficiaries' marginal rate of Income Tax.

People need to consider whether it would be more tax-efficient to leave their pension invested and use other assets first. The FCA found that 94% of people who made a full withdrawal had other sources of retirement income available to them in addition to the State Pension.

4. Can you afford to retire early?

The FCA report says 72% of pension pots are accessed before age 65, and individuals rarely consider 'the future and any of the broader issues around how much they would need to live off'. Many people want to retire early, but it is important to ensure that won't leave an income shortfall later on. A lot of people underestimate how long they will live for.

Income requirements are thought to follow a 'U shape' in retirement, with the first phase being the most exciting and therefore the immediate focus. This is where people start to enjoy retirement, and the risk is that they get carried away with their spending. Spending then tends to fall as people become a little less active and slow down, but costs may then go up in later life due to health issues, and care may be required.

People should have a plan in place to see them all the way through retirement, not just focusing on the now.

5. Don't rule out an annuity purchase

Drawdown has surged in popularity versus annuities. However, before going into drawdown, people should consider which option best suits their needs. For instance, if they cannot afford for their pension to run out, considering an annuity may be more appropriate. Or they may decide to combine drawdown with an annuity to balance flexibility with security.

6. Consider your housing wealth

Many people have a good deal of their wealth tied up in their home. Relying on their home in retirement is difficult, and accessing it isn't always simple. However, it is possible to access that wealth through equity release schemes or downsizing.

Stepping off the corporate treadmill

If you're planning to step off the corporate treadmill in your 50s or early 60s and maintain your standard of living, talk to us so we can assess your existing plans and advise on any necessary changes required to achieve this goal. To discuss your retirement plans, please contact us – we look forward to hearing from you.

Source data:
[1] Pension Geeks

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

YOUR HOME OR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.