10 questions to ask yourself in the five years before you retire

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Whether you view your retirement as a chance to travel the world, spend more time with loved ones or learn new skills, it's crucial to get your finances in order.

Retiring today is much more complex than it was in the past. Your parents probably worked for one employer, left work at age 60, and then received a pre-agreed, guaranteed income for life from their Final Salary pension scheme.

Nowadays, Final Salary pension schemes are few and far between. Most people have Defined Contribution pensions, which require you to make important decisions about how much money you should invest and how to withdraw it in retirement.

The concept of a 'job for life' is also a thing of the past. You've probably had several jobs throughout your career, so you could have multiple pensions with a range of providers.

The good news is that retiring today offers a lot more choice. It's not as black and white as it used to be, as many people now choose to take a 'phased' retirement instead of stopping work completely. Yet with this extra choice comes greater responsibility. It's up to you to ensure your money lasts for the rest of your life while affording you the retirement you deserve.

If you intend to stop working in the next five years, there's no time to waste. You need to think carefully about what you want from your retirement and how you're going to achieve it.

To help you get started, here are ten questions you should ask yourself. If you want to speak to an expert, email info@santorini-fp.cp.uk or call 01509 278620.

1. When do I want to retire?

The first question to ask yourself is: when do I want to retire?

Unlike in the past, when employers set a default retirement age for their employees, it's up to you to decide when you retire.

From October 2020, the State Pension Age is 66 years, however, you can choose to keep working past this age if you wish. You can either claim your State Pension while you're working or defer it until a later date.

Personal and workplace pension schemes usually let you withdraw money from age 55 but, again, you can choose to delay withdrawals. Some workplace pension schemes have a 'normal' or 'selected' retirement age and if you withdraw money before this date you might have to pay an early exit fee.

Deciding when you want to retire is completely personal to you. Perhaps you love your job and can't imagine not working, or perhaps you're suffering from burn out? Whatever you decide, make sure it's financially viable. Remember, your money needs to last for your entire retirement.

2. What do I plan to do in retirement?

Once you've decided when you're going to retire, the next step is to think about what you're going to do when you retire.

What you do in retirement will directly impact how much money you'll need. For example, travelling the world will cost significantly more than pottering around your garden.

Your ideal retirement could involve:

- Spending more time with your grandchildren
- Getting a pet
- Gardening
- Going on a world cruise
- Taking up a new hobby
- Learning a musical instrument
- Moving abroad.

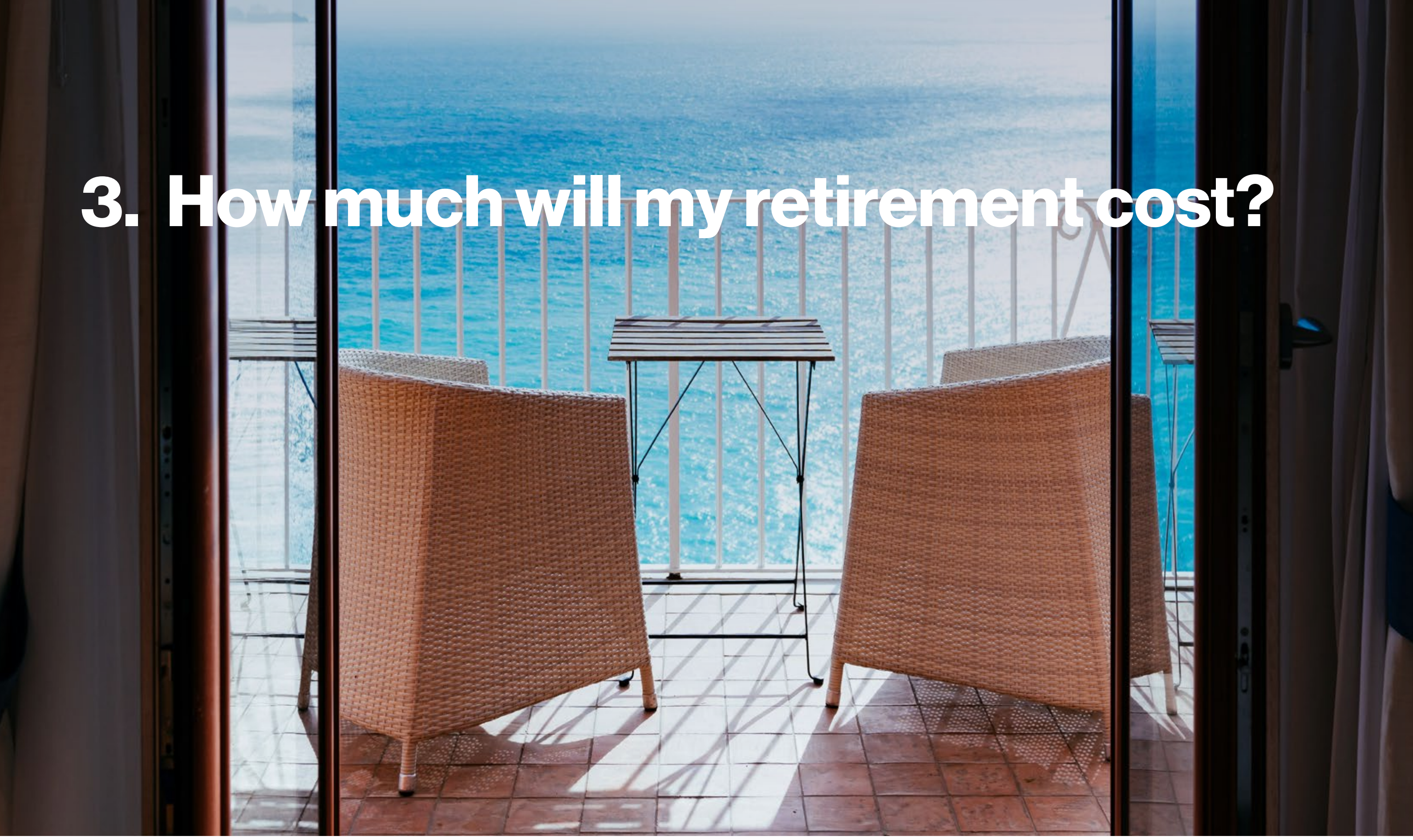
If you're not ready to stop work completely, you could gradually transition into retirement by working part-time or on a consultancy basis. This might appeal if you haven't saved up enough money to meet your retirement aspirations or don't want to lose the routine and social life associated with working.

Did you know?

The number of people in the UK who work beyond the State Pension Age is around 1.5 million. Two-thirds of these people work on a part-time basis.

Source: Which?

Again, it's important to think about whether your finances are sufficient to support your retirement dreams, whatever they may be.



3. How much will my retirement cost?

Gaining a rough idea of how much your retirement will cost will help you to determine how much money you'll need when you eventually stop working.

The actual amount will depend on the age you finish work and what you plan to do in retirement, however, research from Which? shows the average retired household spends around £25,000 a year.

This figure covers the essentials as well as a few luxuries like European holidays, hobbies, and eating out. If you include long-haul trips and a new car every five years, your retirement is more likely to cost around £40,000 a year.

Your expenditure won't necessarily stay the same throughout your retirement. Like many retirees, you might spend more at the beginning of your retirement when you tick off items on your 'bucket list'. As you get older, your spending is likely to reduce, although it may ramp up again if you need to pay for care in your later years.

The general rule of thumb is that you'll need between half and two-thirds of the income you had when you were working to have a comfortable retirement. This is just a rough guide though. The actual figure will be linked to your retirement plans.

If you're not sure where to start, we can help. We'll use forecasting and planning tools to help you understand exactly how much money you're likely to need in retirement.

4. How long does my money need to last?

One of the biggest mistakes to make when you're planning your retirement is underestimating how long your money needs to last.

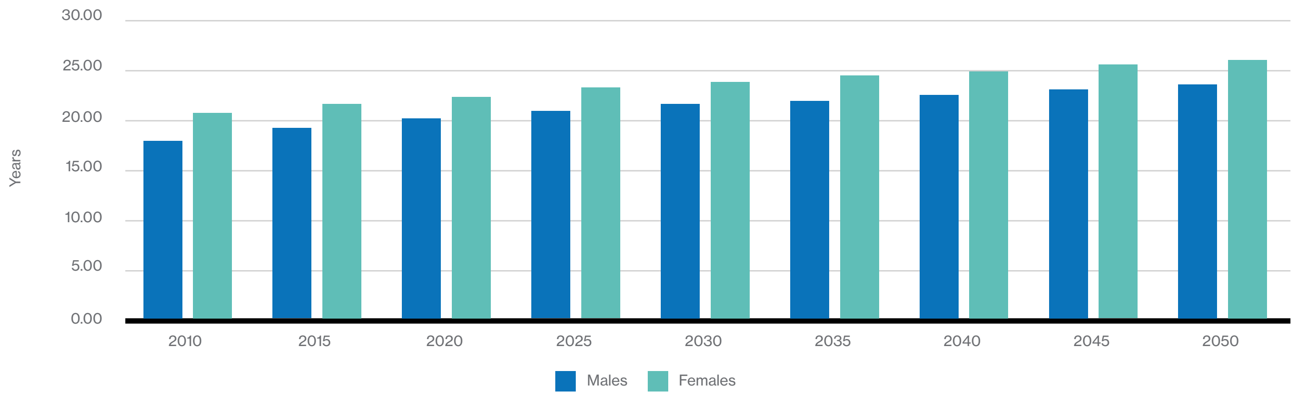
Life expectancy has increased enormously over the past few decades. Figures from the Office for National Statistics show the average life expectancy for a 60-year-old man is 85, however, there's a one in 10 chance you could live to 97. A 60-year-old woman can expect to live to 87 but has a one in 10 chance of living to 98.

There's a real possibility you'll spend 20 or 30 years in retirement, which means your money will need to last for a significant chunk of time.

Underestimating your life expectancy could result in you not building up enough money in your pension or, once you retire, withdrawing money too quickly.

A 2019 survey by Scottish Widows found the average adult expects to live until they are 82 and retire at 65. The research calculated that for a woman with an average life expectancy of 87, those extra five years could require an additional £80,000 in pension savings.

How long will your retirement last?
(number of years based on retirement at age 65)



No one really knows how long they'll live, but it's important to think long term when planning your retirement. Again, we can help to estimate how long your pension needs to last.

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5. What provisions have I already made?

If you haven't built up a huge pension pot, don't panic. Retirement income doesn't have to come from a pension – it can come from other savings and investments too.

In general, there are four main sources of retirement income:

1. The State Pension
2. Personal and workplace pensions
3. Other savings and investments, such as ISAs
4. Earnings

The State Pension

In the 2020/21 tax year, the State Pension is set at £175.20 per week, although what you'll receive is based on your National Insurance record.

You can claim State Pension payments when you reach the State Pension Age. This is 66 years as of October 2020 and is due to rise to 67 between 2026 and 2028.

Personal and workplace pensions

If you've worked for several employers throughout your career, you've probably got multiple pension pots, some of which you might have forgotten about. Tracking down your pensions will give you a clear overview of exactly how much income you can expect to receive once you retire.

You can contact your employer or pension provider directly or use the free Pension Tracing Service, which has a database of more than 200,000 personal and workplace pension schemes.

Should I consolidate my pensions?

If you've got lots of pensions and you're struggling to keep track of them all, you might want to think about consolidating them. This has several pros and cons:

Pros

- It's easier to manage one pension plan
- You could consolidate into a plan with lower fees
- Your new plan might have more investment choice and a better performance record.

Cons

- You could lose additional benefits such as a guaranteed Annuity rate
- You might have to pay transfer charges
- A larger pension could be less tax-efficient than several smaller pensions.

Consolidating your pensions isn't a decision to be taken lightly. We can take a thorough look at your pension pots and advise you on the best course of action.

Other savings and investments

Savings and investments outside of your pension can also be used to fund your retirement – and in some cases, this could be more tax-efficient.

You can save up to £20,000 a year into ISAs and withdraw the money whenever you like without paying tax. With pensions, you can take the first 25% tax-free and subsequent withdrawals are taxed according to your marginal Income Tax band. For higher-rate taxpayers, withdrawing money from an ISA instead of a pension can be particularly cost-effective.

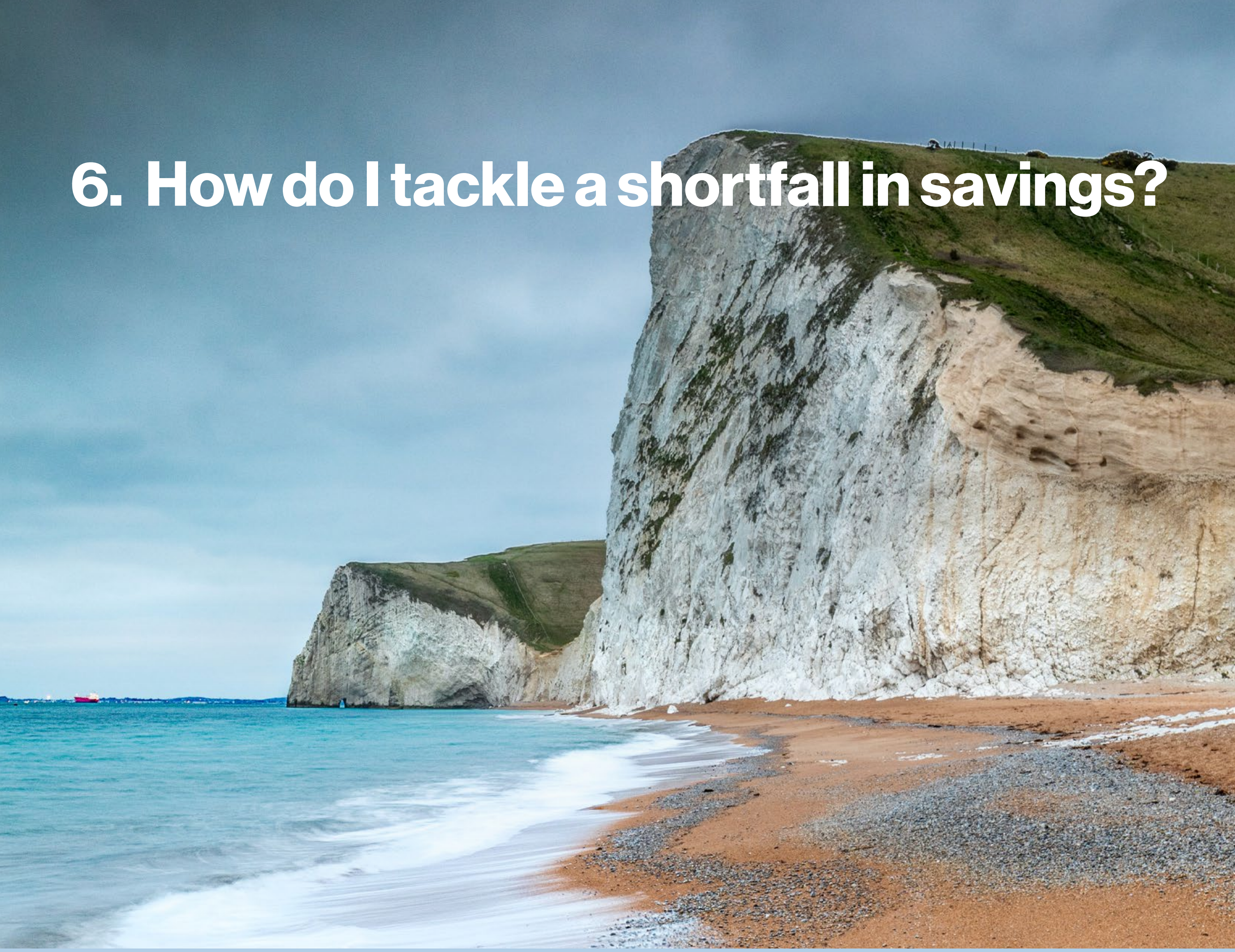
Another advantage of withdrawing money from your ISA before your pension is that ISAs form part of your estate when calculating Inheritance Tax (IHT), meaning your loved ones could face a hefty tax bill when you die. Pensions usually sit outside your estate and so aren't subject to IHT.

Earnings

If you choose to work in retirement, you should also factor in earnings as part of your retirement income. It's worth thinking about how long you intend to work for and in what capacity. If you decide to freelance or launch your own business, your earnings could fluctuate.

Taking a thorough look at all the money you've built up across your pensions, savings and investments is an invaluable step in understanding how much income you'll have in retirement. We can help you with this task.

6. How do I tackle a shortfall in savings?



If the money you've saved in your pensions and investments isn't quite sufficient to meet your retirement goals, you still have a few options:

- Make sure you increase your regular pension contributions in line with any pay rises you receive
- Work for longer – this will give your money more time to grow and your pension pot won't need to last as long
- Make a lump sum payment into your pension – for example, if you've received an inheritance or bonus. You can pay money into your pension whenever you like, although the sooner you do this the longer your money will have to grow.

Remember, retirement doesn't have to be a cliff-edge. If you're able to work part-time, this could enable you to enjoy some of the freedom of retirement while still having a steady income stream.

7. Have I maximised all my allowances?

The beauty of saving for retirement is there are lots of allowances and tax reliefs to take advantage of. Every time you pay into your pension, whether via a lump sum or a regular contribution, the government adds 20% in the form of tax relief.

If you're a higher-rate taxpayer, you can claim a further 20% tax relief via your tax return and if you're an additional-rate taxpayer you can claim an extra 25%.

You can contribute 100% of your earnings into a pension, up to a maximum of £40,000 per year. This is known as your Annual Allowance. It might be possible to pay in more than this by carrying forward any unused Annual Allowances from the previous three tax years.

Other allowances to take advantage of include:

- ISA allowance – you can save up to £20,000 a year (2020/21 tax year) into ISAs and your money will grow free from Income Tax and Capital Gains Tax
- Dividend Allowance – the first £2,000 of dividend income you receive is tax-free
- Capital Gains Tax Allowance – you can make profits of up to £12,300 a year (2020/21 tax year) before tax is payable
- Personal Savings Allowance – you can receive tax-free interest of up to £1,000 if you're a basic-rate taxpayer or £500 if you're a higher-rate taxpayer.

A £1,000 pension contribution only costs you £800 because the government adds the extra £200 through tax relief.

If you have a spouse, these allowances effectively double, so it's important to plan your retirement together. We can help you to structure your finances in the most tax-efficient way possible.

8. How will I take my pension?

As you start approaching retirement, it's important to start thinking about how you'll access your pension when the time comes.

In the past, people used their pension to buy an Annuity, however, nowadays there are several options to consider:

Take a tax-free lump sum

Once you reach age 55, you can withdraw 25% of your pension tax-free. Beyond this, you'll be taxed according to your marginal Income Tax rate.

Taking a tax-free lump sum can be useful for big purchases like a dream holiday or house renovation, but it's a good idea to think about whether you actually need the money. If you don't and it ends up sitting in a bank account, you might have to pay tax on the interest and it will form part of your estate when calculating Inheritance Tax (IHT).

Stay invested

You don't have to withdraw money from your pension just because you've retired.

By staying invested, you can give your pension money a greater opportunity to benefit from stock market growth. What's more, pensions aren't considered part of your estate for IHT purposes, so you could use it as a way of passing on wealth to your loved ones when you pass away. If you die before age 75 there is no tax due, and if you die after age 75 your beneficiaries will pay Income Tax at their own marginal rate.

Enter Income Drawdown

Income Drawdown could be a good option if you want flexibility over your pension withdrawals. You 'draw down' money when you need it – this could be via regular monthly payments or ad-hoc lump sum payments. Remember, the first 25% can be withdrawn tax-free.

The rest of your pension will remain invested, so you need to be comfortable with the fact its value could fluctuate depending on stock market movements. You also need to carefully monitor how much money you withdraw so you don't deplete your pension pot too early.

Buy an Annuity

An Annuity is a type of insurance product which pays a guaranteed income for life. How much income you receive depends on things like the size of your pension, your age, and your health.

An Annuity is less flexible than income drawdown, but it offers the peace of mind that you won't run out of money in retirement.

Take a combined approach

It's possible to use a mixture of these options in retirement. You could take your 25% tax-free lump sum, buy an Annuity to cover essential living costs and place the remainder in Income Drawdown to cover other ad-hoc expenses.

What you decide to do with your pension is an incredibly important decision and it must be suitable for your individual circumstances. A financial planner can guide you on the best way forward.

9. Have I prepared for the unexpected?

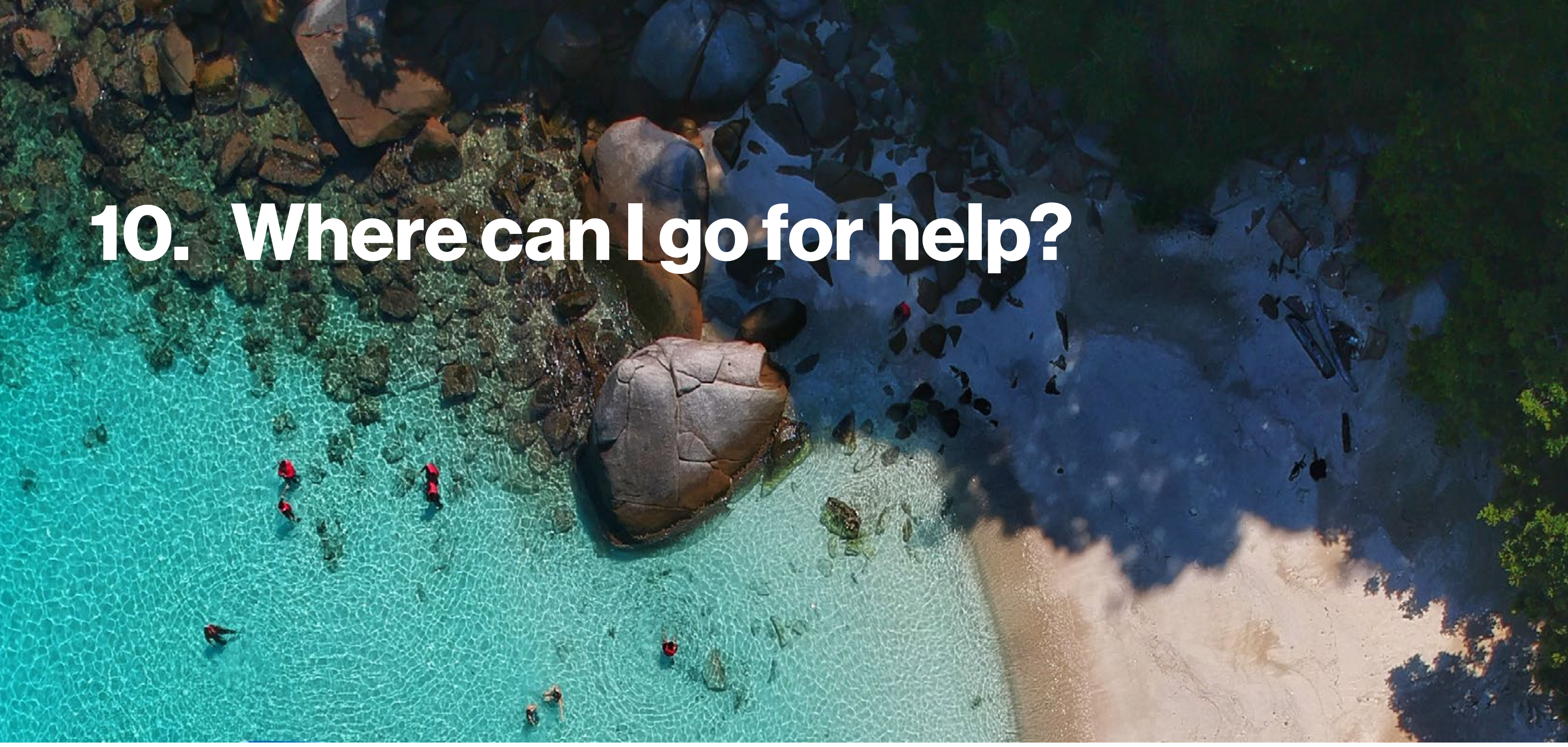
We all hope for a long and prosperous retirement, but sometimes unexpected events can happen that throw these plans into disarray.

Preparing in advance will ensure your family doesn't suffer financially if you pass away sooner than anticipated. Some of the things to think about include:

- Making a will – this will ensure your money and other assets end up in the right hands when you die
- Setting up a Lasting Power of Attorney – this lets you choose who will make important financial decisions and manage your affairs if you become incapacitated
- Inheritance Tax planning – there are lots of ways to reduce your IHT bill, thereby ensuring more money goes to your loved ones when you pass away.

We can advise you on wills, Power of Attorney, and IHT planning, giving you peace of mind that your family's future has been taken care of.

10. Where can I go for help?



Retirement planning can be incredibly complex – and that's where a financial planner can help.

We will take the stress out of planning for your retirement and ensure your money is working as hard as it should be.

A 2019 report from Royal London and the International Longevity Centre showed that, on average, people who received financial advice were £47,000 better off a decade later than those who did not. This figure included an extra £31,000 of pension wealth and £16,000 of non-pension financial wealth.

We can help you define and achieve your retirement goals while ensuring you and your family's wider needs are looked after.

At Santorini Financial Planning, we understand the importance of planning for a future based on the lifestyle you've always dreamed of.

By using our Santorini Retirement Lifestyle Planning methodology, we can connect the dots between your financial realities and the life you've always longed to live. We'll create a truly holistic plan that makes your retirement dreams a reality.

But don't just take our word for it. This is what one of our clients had to say:

"Matthew helped give me the confidence to walk out of my Managing Director's role – without concern or fear – at the age of 65. Now living our dreams is non-negotiable. Instead of being consumed by business, we can focus on our relationships. All of this has come about as a result of my work with Matthew. And it's clear to me that 'Santorini' is more than just a business – it's a way of seeing life differently." - Kevin Lock, Managing Director of Reprotec Connect For Ltd, Nottingham.

Get in touch today by emailing info@santorini-fp.cp.uk or call us on 01509 278620.