RATHBONES

# GET READY TO RETIRE

TALKING POINTS | RETIREMENT PLANNING

## HELP TURN YOUR RETIREMENT DREAMS INTO REALITY WITH THE RIGHT FINANCIAL PLANS

The traditional idea of retirement has evolved with people choosing different paths as they approach retirement. Some may make a gradual transition by taking a step back at first and continuing to work a few days a week. Or you may be looking for a clean break from employment so you can do all the things you've wanted to enjoy but never had the time.

Whatever you decide, managing your retirement savings in a way that can help you to deliver the income you need should be at the centre of planning for your golden years. At this stage in your life, it's important to make the right decisions so you can maintain your living standards.

When it comes to organising and structuring your wealth to help you to maintain your lifestyle all the way through retirement, there are many factors to consider. Here are some of the issues to discuss with your financial planner as your retirement approaches:

**Lifestyle.** A useful starting point is to work out how much income you will need to meet your expenses during the first few years of your retirement and beyond. Consider all your income sources and don't forget to check your State Pension entitlement. You might be able to pay voluntary contributions to fill in any gaps in your National Insurance record.

Write down all of your expenses and how they're likely to change through retirement, and set aside a pot of money for any unexpected costs. Make sure you consider the impact of inflation on your purchasing power throughout retirement otherwise you may run out of money earlier than expected.

**Pensions.** If you intend to stop working completely after you've retired then now may be the time to maximise your pension contributions, which will benefit from tax relief at either 20%, 40% or 45% depending on your rate of income tax. You may even have unused allowances from previous tax years that could enable you to pay in a sum greater than the standard annual allowance of £60,000 (subject to change).

If you're going to continue working then you may also want to contribute into a pension. If you're employed, you should explore your workplace pension as your employer may match any contributions you make. If you're self-employed, you may want to consider opening a private pension.

Pension rules are complicated and it's important to seek professional advice before making any significant financial decisions.

**Income.** If you've been planning your retirement for some time then you'll probably have a range of retirement pots in place. A tax-efficient withdrawal strategy in retirement means looking at all of your assets and establishing the correct withdrawal order. For instance, it might make sense to start taking money from any Individual Savings Accounts (ISAs) or General Investment Account (GIA) savings first, which will otherwise fall within your estate for inheritance tax (IHT) purposes. This strategy would help preserve the value of the pension funds, which are normally exempt from IHT. However, it's important to consult with a financial planner to establish the best income strategy for your circumstances.

**Case study: Gliding into retirement**

Carol is 58 and has worked for an insurance company for 25 years. She has accumulated a pension pot worth £750,000 to help fund the next stage of her life.
Carol enjoys crafts and travelling and isn't ready for retirement for at least five years, but would like to cut down her hours to a part-time basis. She's hoping to turn her love of producing organic hand-crafted soap into a business. She needs some money to get started but also wants to ensure her pension sustains her lifestyle well into her retirement.
Carol spoke to our financial planners who used cash flow modelling to assess her finances. This exercise helped to create a plan that utilised Carol's savings and assets to their best potential. A lump sum allowed her to get started with her new business and she then has the flexibility to adjust her pension income as she moves from part-time employment to working for herself.
Taking advice has helped give Carol a firm financial footing for her retirement years – when she's ready for them to arrive.

**Drawdown vs. annuities.** When you want to start using your pension to fund your retirement then it's likely that you will have two main options. The first is called income drawdown, which means the money accumulated in your pension pot is invested into a fund or portfolio. You'll then have the option of taking lump sums and income from the drawdown pot. Although this route can provide flexibility and control, there is also the possibility that disappointing returns or unfavourable markets could reduce the value of your pot. Also if you withdraw too much or live longer than expected then you could run out of money - so regular reviews are important.

**Investments.** Make sure you assess the strategy behind all your investments, whether in a pension, ISA or other investment account, as you head into retirement and then regularly over the coming years so that it's always appropriate for your situation. Many people follow a glide path where they reduce investment risk as they get older. However, it's also important to make sure your investments are taking a level of risk that you are comfortable with to have the potential to grow for many years to come. Regular reviews with your financial planner will help to keep your investments on the right path.

### Next steps

Our financial planners and investment managers are here to help you design and implement a plan that makes the most of your retirement savings. If you'd like to know more, please speak to your Rathbones contact or **get in touch with us.**

### Key takeaways

As you head into retirement, here are some of the issues to think about and discuss with your financial planner:

— Understand your expenses – work out your spending needs now and after you've retired.

— Diversify your income – blend sources including personal pensions, State Pension and other investments.

— Consider tax – pension income either from drawdown or an annuity is subject to income tax in a similar way to earnings from employment. It's important to consider which sources of income are subject to which taxes to make the right decisions on where to withdraw money from.

— Access your pension wisely – decide whether taking a lump sum, putting your pension into income drawdown, buying an annuity or a combination will be right for you.

— Balance your investments – maintain a diversified portfolio that balances returns with risk, and review the strategy regularly.

— Plan for inheritance tax – consider gifting, trusts and insurance to reduce the tax liabilities on your total estate.

— Review your plans regularly – check in with your financial planner at least once a year to make sure your plans still match your circumstances.

The value of investments and the income from them may go down as well as up and you may not get back what you originally invested.

Tax treatments depend on the individual circumstances of each client and may be subject to change in the future.