CHARTERED FINANCIAL PLANNERS

11 things you should consider in the approach to retirement

01242 514563

enquiries@hda-ifa.co.uk

Introduction

Your retirement is fast approaching and that means the culmination of years of hard work and preparation. Whether your plans involve around the world travel or relaxing in the garden, there are still important decisions to make before you sit back and relax.

This guide will help to put you in the best retirement position possible, prompting you to think about:

- Revisiting your retirement plan
- The pension provisions you have already made
- How you will take your pension
- Any gaps in your National Insurance contributions
- Topping up your pension
- Making the most of your tax-free savings
- Putting a Lasting Power of Attorney (LPA) in place
- Writing a will
- Clearing your debts
- Reviewing your mortgage
- Seeking professional financial advice

Knowing that you've got a robust plan in place – maintaining your standard of living whilst thinking about what you might leave your loved ones – means you can retire with the confidence and peace of mind that you and your family are well looked after, whatever retirement throws at you.

Here are eleven things you need to consider as you approach retirement.

1. Revisit your retirement plan

It's never too early to put your retirement plan in place, nor too late to revisit it. You'll want to ask yourself some key questions as you approach retirement:

- **When do I want to retire?**

You'll have a retirement date in mind, based on when you want to retire or when you've calculated that you can afford it.

As you approach this date, consider whether it's still viable.

Have your circumstances changed since you last checked-in with your plan – an unexpected inheritance for example or the cost of a divorce? Can the date be brought forward, or does it need pushing back?

- **What do I plan to do in retirement?**

Knowing when you can afford to retire means having an idea of what you plan to do in retirement.

World travel will (probably) require a larger pension pot than spending more time with your grandchildren.

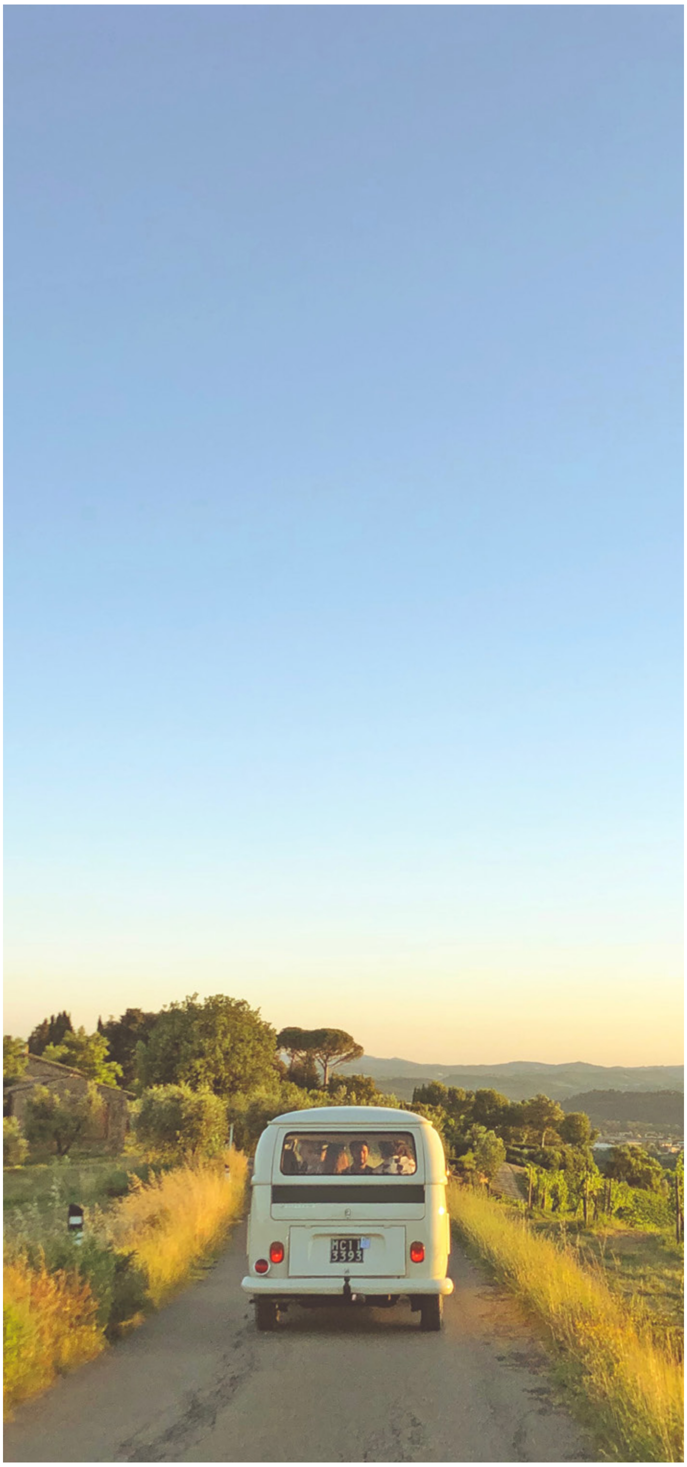
Have your plans changed, and how does that impact the amount of money you might need?

If you need a larger fund, will you have to push your retirement date back?

- **How long will my money need to last?**

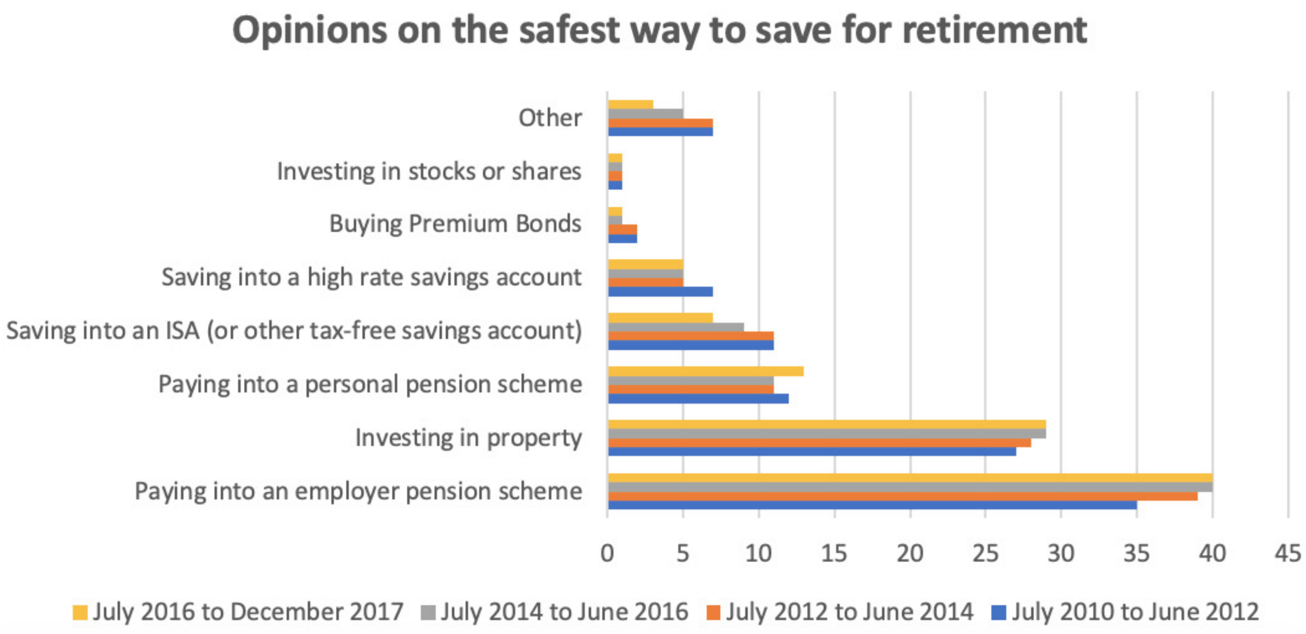
Life expectancies are increasing. If you're retiring at 65, your retirement fund might have to last for another 25 years.

Calculate your current cash flow and compare it to the money you'll need in retirement. Is your current pension provision sufficient to cover your desired lifestyle for 25 years?



2. What provisions have you already made?

Your retirement income will likely come from a variety of sources. As this graph shows, opinion on the safest way to save for retirement varies.



Source: **ONS**

No matter how you intend to fund your retirement, part of your income will likely come from the pensions you have contributed to.

Personal and occupational pensions

You may have several work-based pensions on top of the private ones you hold.

Get on top of these in the run-up to retirement by requesting values from your providers. You might want to consider consolidating the pensions you hold – bringing them all into one place. This can make it easier to keep track of them but could also attract higher tax charges.

Your income from earnings

Some of your retirement income might come from earnings.

Moving from full-time work to full retirement can be difficult. That's one of the reasons why half of UK adults plan to work in their retirement.

According to **People Management**, 52% of adults will continue to work in some capacity after they retire, opting for a phased retirement over the more traditional 'cliff-edge'.

Please note: 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. Your pension income could also be affected by the 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.

3. How will you take your pension?

Pension Freedoms introduced new ways to access your retirement income. Here are your main options:

- **An annuity**

An annuity is a regular income, paid to you for the rest of your life. You can usually take up to 25% of your fund as tax-free cash. The remaining 75% is used to purchase a regular pension.

You can also opt not to take tax-free cash, using 100% of your fund to provide a bigger income.

You'll need to specify your preferred pension basis at the outset, including the payment frequency and any 'extras' such as a spouse's pension or income that increases each year to combat the effects of inflation.

A known, regular income should make budgeting during your retirement easier.

- **A one-off lump sum**

Known as an Uncrystallised Fund Pension Lump Sum (UFPLS), this lump sum will normally be split between 25% tax-free cash, with the rest taxed as income at your marginal rate.

Some providers will allow you to take multiple UFPLS payments, each taxed the same way.

An UFPLS frees up a large amount of cash in one go. You might consider a lump sum if you're planning to travel or to help a child onto the property ladder. Be aware though, that a large one-off payment could push you into a higher tax bracket.

Also, future budgeting responsibility falls on you. You need to be sure you have enough to live on for the remainder of your retirement, and that you can maintain your desired standard of living too.

- ### Flexi-access Drawdown

Drawdown involves taking tax-free cash, up to your maximum entitlement of 25%, and investing the rest of your pension pot so that you can 'drawdown' an income from it.

The difference between Flexi-access Drawdown and a regular annuity is that the income you receive is 'flexible' – you can alter the amount and the frequency, taking income only when you need it.

This option is the most flexible but that makes budgeting harder. Each time you take money from your fund you'll need to check how much you have left and plan accordingly.

Taking any taxable income under drawdown also triggers the Money Purchase Annual Allowance MPAA. This reduces the amount you can contribute to your pension and benefit from tax relief to £10,000.

- ### A combination that suits you

You might consider using a combination of the available options.

If you're unsure about the combinations available, speak to us and we can help you decide on the best choice for you.

- ### Stay invested

If you can afford not to take your pension you might consider leaving it invested.

Not only might it potentially make gains, but you could also be able to pass your unused pot onto your children in a tax-efficient way.

Your pension fund normally sits outside of your estate for Inheritance Tax calculation purposes. If you die before the age of 75 you can pass 100% of the fund on to any beneficiary you choose, free of tax. If you die after age 75, 100% of the fund can be passed on to any beneficiary you choose, subject to income tax at their marginal rate.

Choosing a beneficiary is done through your provider rather than via your will.

Please note: 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. Your pension income could also be affected by the 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.

4. Check for gaps in your National Insurance contributions

How much State Pension you receive will depend on the number of qualifying years you have, and any gaps in your National Insurance contributions (NICs).

The full State Pension is £203.85 per week in 2023/24. To get the full amount you'll need 35 qualifying years of NICs.

The State Pension changed in 2016 and you might find that you've built up more than £203.85 per week. Conversely, 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. Ask your HDA adviser if you're unsure.

5. Top up your pension

Pensions are tax-efficient, so if you can afford to top up your pension, do it in the run-up to retirement.

You'll need to be aware of several allowances:

- **Lifetime Allowance (LTA)**

Since April 6th 2023, this only affects the maximum tax-free lump sum available from your pension fund(s). The LTA is £1,073,100, which means a maximum tax-free lump sum of £268,275 (25%).

- **Annual Allowance**

You can contribute up to £60,000 (or 100% of your income) each tax year and benefit from tax relief. This amount is known as the Annual Allowance and applies across all schemes you hold, including contributions made by your employer or third parties.

You will likely be able to carry over any unused allowance from the last three years too.

- **Money Purchase Annual Allowance (MPAA)**

The MPAA came into force alongside Pension Freedoms and is triggered if you 'flexibly' access any taxable DC pension funds you hold.

Utilising one of the new pension options available from 2015 will trigger the MPAA and reduce your allowance to £10,000.

If you're thinking of taking a DC pension whilst continuing to make pension contributions, you'll need to be aware of this reduced allowance.

Note: Accessing tax-free cash only – to help pay off a mortgage, for example – or accessing final salary benefits, does not trigger the MPAA.

- **Tapered Annual Allowance**

If you earn over £200,000 you may trigger the Tapered Annual Allowance.

This reduces the standard Annual Allowance by £1 for every £2 of income you receive if your 'threshold income' is over £200,000 for the 2023/24 tax year.

The reduction is applied to 'adjusted income' over £260,000 and could reduce your Annual Allowance to £10,000.

If you're not sure which Annual Allowance applies to you check with your adviser.

6. Make the most of tax-free savings

If you have an ISA, be sure to make full use of the ISA allowance if you can afford to. The current ISA allowance is £20,000.

Interest from a Cash ISA is tax-free and any gains you make on investments in a Stocks and Shares ISA are free of both Income Tax and Capital Gains Tax (CGT).

The ISA Allowance can't be carried over into a new tax year.

If you have ISA holdings, be sure to maximise your tax-efficient savings by using up your full allowance each year in the run-up to retirement, if you can.

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.

7. Put a Lasting Power of Attorney (LPA) in place

It's also important to know that your money will be safe – and used in your best interest – if you are no longer able to make financial decisions yourself.

Having an LPA in place can give you peace of mind, allowing you to choose a trusted individual to manage your affairs should you become incapacitated through accident or illness.

There are two main types of LPA:

Health and Welfare LPA

A Health and Welfare LPA covers your daily routine and medical care.

Property and Financial Affairs LPA

A Property and Financial Affairs LPA allows your chosen attorney to manage your finances, pay bills and collect benefits on your behalf.

If you're a business owner, you might also consider:

A business LPA

A business LPA covers specific roles within your business, the assignment of key tasks or the employing of new staff, ensuring your business continues to run smoothly if you're incapacitated

An LPA can be put in place by anyone over the age of 18 and can be temporary or last for the rest of your life.

Putting an LPA in place puts you in control of your finances and welfare, allowing you to enjoy the lifestyle you want now, whilst protecting yourself against the future. You'll have the peace of mind that you and your loved ones will be looked after should the unexpected happen.

8. Write a will

Over half of UK adults don't have a will in place and yet it's the easiest way to legally state what you want to happen to your money when you're no longer around.

Writing – or revisiting – your will should be a priority in the run-up to your retirement.

Dying without a will (or 'intestate'), means that you and your loved ones have no say over what happens to your estate. Your assets are distributed according to the rules of intestacy, which do not take your wishes into account.

Speak to us if you are unsure about any aspect of putting a will in place.

9. Clear your debts

If you are approaching retirement with credit cards and loans fully paid, that's great. It means your retirement income can go solely on realising your retirement goals.

On the other hand, if you've still got high-interest debt like credit cards or overdrafts, now's the time to lower the debt if you can.

Not having a mortgage, if possible, is especially important and will prevent your hard-earned pension income going on repaying debts rather than allowing you to live the dream retirement you'd planned.

Talk to us now and see how we can help you manage your debt in the run-up to retirement. The less debt you have, the more stress-free retirement will be, and the more money you'll have to spend on achieving your desired lifestyle.

10. Review your mortgage

Reviewing your mortgage now could have a real impact on the amount of debt you take into retirement.

If your mortgage is already paid off, that's great, but if not, review it now and make sure you carry the best possible deal into retirement. Ask yourself these questions:

- How many years are left on my mortgage?
- Am I getting the best deal?
- Could I be clearing my mortgage more quickly?

Financial Reporter recently reported that two-thirds of current mortgage holders expect to be paying their mortgage into their fifties, with one in ten expecting to carry the debt into their seventies.

Consider shopping around for a better deal but be sure to factor in early repayment charges too.

You might think about switching providers when your current fixed-term deal comes to an end. It is at this point that your mortgage will revert to your lender's Standard Variable Rate (SVR) and this is likely to be higher than your previous, fixed rate.

Also think about making overpayments, checking first that these are penalty-free and that they go to reducing the overall debt, not just decreasing your monthly payments.

Please note: Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured on it.

11. Seek professional advice

Speaking to a financial adviser should be something you do regularly but especially in the run-up to, or following big life events.

Seeking professional financial advice in the run-up to retirement could make a big difference.

The **International Longevity Centre (ILC)** – an independent charity and think-tank – recently conducted a report into the benefit of receiving financial advice.

They found that those who seek advice are better off than those who don't. They went on to quantify the value of that advice and found the following:

- People who received financial advice between 2001 and 2006 were on average over £47,000 better off by 2014/16 than those who didn't take advice
- Seeing an adviser more than once is even more beneficial, with pension pots on average 50% higher for those regularly seeing an adviser than for those who took one-off advice at the start

Seeking advice has a genuine, and calculatable, impact on your assets and the amount of money you can take into retirement. But the value of advice doesn't stop there.

Moneyfacts recently reported that 'older generations were least likely to have spoken with a professional financial adviser, with over half (51%) of over-65s never taking any financial advice.'

The ILC report is clear: financial advice matters and can make a difference.

Contact your HDA adviser now and we can help answer any questions you have about any element of your retirement, so get in touch.

01242 514563

enquiries@hda-ifa.co.uk

www.hda-ifa.co.uk