Belper IFS
Independent Financial Solutions

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GUIDE TO

PLANNING AND PREPARING FOR RETIREMENT

Why reaching our 50s and 60s often brings retirement into sharper focus

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Welcome to our *Guide to Planning and Preparing for Retirement*. As we navigate life, reaching our 50s and 60s often brings retirement into sharper focus. This phase heralds a well-earned respite from years of dedication and hard work. For many, retirement is envisioned as the most extended holiday of their lives, offering opportunities to travel, engage more deeply with hobbies or spend cherished moments with family and friends. However, realising this idyllic vision requires thoughtful financial planning.

Ensuring your financial affairs are in order as you approach retirement is crucial. With longer life expectancies and an ever-evolving economic landscape, having a sound financial plan ensures you can maintain your desired lifestyle without financial stress. This planning involves understanding your income sources, managing your savings and anticipating future expenses.

Determine your retirement timeline

Deciding when to retire is a pivotal step in your financial planning journey. Unlike a one-size-fits-all approach, the choice of retirement age is profoundly personal and depends on various factors, including your financial readiness, health and lifestyle aspirations. Understanding these elements can help you make an informed decision that aligns with your long-term goals.

Role of financial readiness

One of the most significant determinants of retirement age is financial readiness. Many individuals cannot retire until they can draw from their pension schemes or are eligible for the State Pension. Assessing your finances, including savings, investments and expected pension income, is crucial in determining when you can comfortably retire without compromising your standard of living.

Understanding pension options

Different pension types come with varying retirement age rules. Workplace pensions, mainly defined contribution schemes, and older defined benefit plans often set a retirement age, typically around 65. However, these can differ based on the specific terms of your pension plan. Knowing the details of your pension arrangements allows you to plan effectively for retirement.

Accessing personal pensions early

For those with personal pensions, there's often more flexibility. Currently, personal pensions can be accessed from age 55, although this threshold is set to increase to 57 by 2028. This earlier access can provide opportunities for phased retirement, allowing you to transition gradually from full-time work to retirement while supplementing your income with pension withdrawals.

Considerations for early retirement

Choosing to retire early can have significant financial implications. Early access to pensions means smaller annual payouts, as your pension pot needs to sustain you for a longer retirement. Additionally, retiring before reaching State Pension age means you will need to bridge the income gap until those benefits become available.

Balancing lifestyle and financial security

Deciding when to retire should balance your desired lifestyle with financial security. Some may continue working part-time to maintain an active lifestyle and financial health, while others prioritise leisure and personal pursuits. Evaluating your priorities and consulting with us will help clarify the best path forward.

Understanding your retirement income sources

Planning for retirement is crucial to ensuring a comfortable and secure future. One of the most important aspects of retirement planning is understanding your potential sources and values of retirement income. This involves gathering comprehensive details about your pensions, savings and investments. Once you have these details, obtaining estimates from each source will help you gauge the total income you might expect upon retirement.

Estimating income from savings and investments

Begin by compiling information on all your savings and investment accounts. This includes personal savings accounts, stocks, bonds and any other investment vehicles you own. Understanding this will help you strategise effectively for your future financial needs.

Checking your State Pension

The State Pension is a foundational element of retirement income for many. Regularly requesting a State Pension forecast will enable you to track what you've accumulated over the years. You can request this information online, by phone or via post, provided you're aged 16 or over and at least 30 days from reaching the State Pension age.

Assessing Defined Benefit Pensions

Defined benefit pensions, often called 'final salary' or 'career average' schemes, provide a retirement income based on your salary and tenure within the scheme. These schemes are typically found in the public sector or older workplace pension arrangements. Your provider should send you an annual benefit statement. If not, don't hesitate to request one. This statement will outline your potential pension and may include assumptions about any tax-free cash you might take.

Evaluating Defined Contribution Pensions

Defined contribution pensions work differently, accumulating a pot of money you can use for retirement income. The value of this pot depends on contributions from you and your employer, investment returns and tax relief. Insurance companies or master trust providers might manage these pensions, or you might be part of an individual scheme through your employer. Your annual statement will estimate your pot's value at retirement and potential income options, such as an annuity.

Exploring additional income streams

Beyond pensions, consider other assets that might provide income during retirement. These could include cash deposits, share-based investments or rental income from property. Obtaining statements or projections for these assets is beneficial, as they can significantly enhance your retirement income portfolio.

Where are your pension savings invested?

Understanding the investment of your pension savings is crucial. Individuals can influence how their money is invested when it comes to personal pensions, stakeholder pensions or self-invested pension plans (SIPPs). Pension providers typically offer a range of investment funds designed to manage your investments over the years leading up to retirement. Often, there's a default option that invests across various funds to cater to a broad audience.

Understanding fund options

Fund options can vary significantly. You might encounter funds that specialise in specific assets, such as those focusing exclusively on shares in European companies or funds that invest in a diversified mix of assets, including global shares and government bonds. Diversifying your investments is a prudent strategy for managing risk, as it spreads your potential exposure across different asset classes.

Flexibility of SIPPs

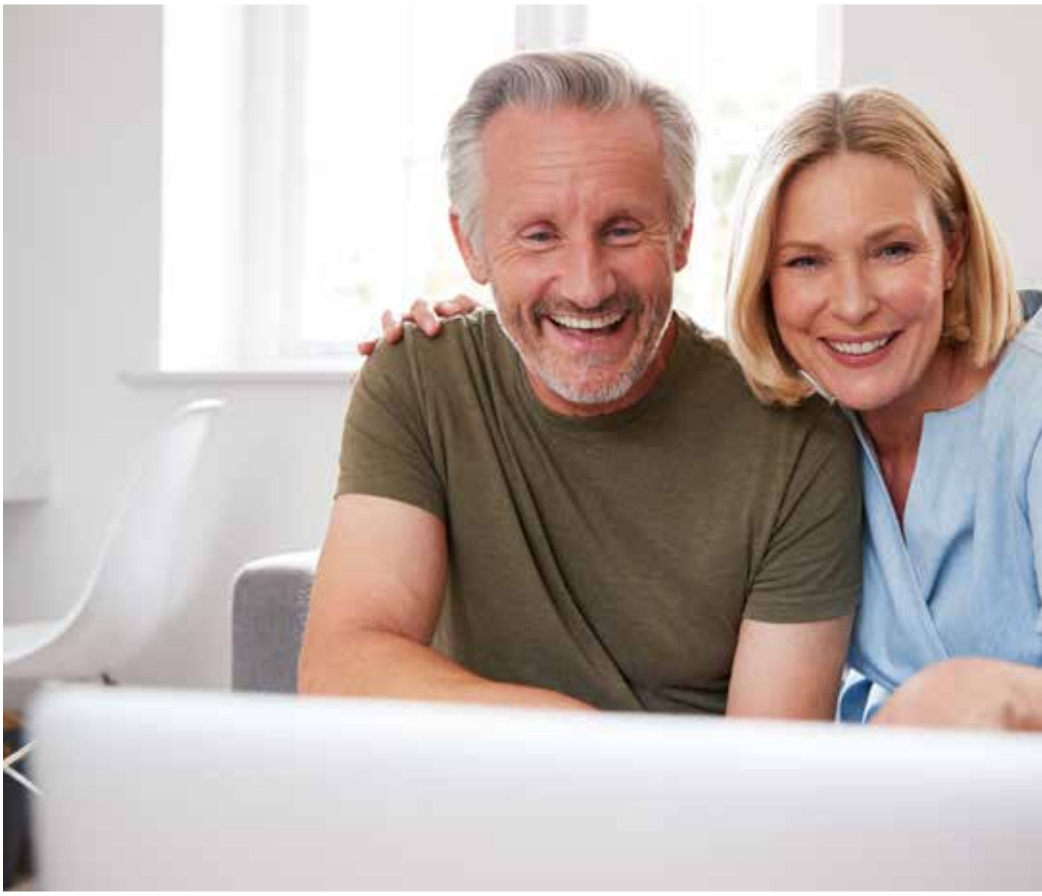
SIPPs are particularly versatile, offering access to various assets and granting investors greater control over their investment decisions. However, this flexibility is best suited for those with substantial financial knowledge and the confidence to make their own investment choices.

Determining the right pension fund

Choosing the right pension fund requires careful consideration. It's generally advisable to allocate your investments across different assets, sectors or regions rather than concentrating all your resources in one area. Basic managed funds can achieve this diversification for you. However, if you prefer a hands-on approach, evaluate how your investments spread risk across various options.

Assessing investment style

Your investment style is crucial in determining your fund choices. If you are cautious, you'll likely lean towards lower-risk assets. Conversely, those with a high risk tolerance might opt for higher-risk assets, expecting potentially greater returns. A balanced approach includes a mix of both high- and low-risk assets.



Exploring investment fund types

In the UK, investors can access thousands of investment funds with diverse options and risk levels. These include:

Asset type funds: Investing in equities, fixed interest, property or cash.

Geographical funds: Targeting specific countries or regions.

Risk-adjusted funds: Tailored to match particular risk profiles or investment styles.

Combination funds: Mixing different sectors, such as managed funds.

Lifestyle funds: Adjust risk profiles as you approach a target retirement date.

Active vs Passive Funds

A significant debate in investment circles is the choice between active and passive funds. Active funds rely on fund managers to select shares believed to outperform the market, while passive funds, or trackers, follow a market index. Passive funds often have lower costs due to minimal management, which some investors find appealing as charges can erode returns over time.

Deciding on pension fund changes

As you plan for retirement, your fund choice should align with your stage in life. Young professionals or those with a higher risk appetite might select different portfolios than those nearing retirement, who may prefer stability and the certainty of an annuity. If retirement is less than 15 years away, consider reallocating some investments from shares to bonds and cash to reduce risk.

Many pension plans offer lifestyle funds that automatically adjust investments towards safer options as retirement approaches. If your pension isn't in such a fund, you can manually switch to lower-risk options, though checking for any associated fees is important.

Investing in multiple funds

Most defined contribution pension schemes permit investment in a variety of funds. Your provider should offer comprehensive information about available options in a fund fact sheet. A Key Investor Information Document (KIID) should also be provided to detail the fund's objectives, charges and other vital information.

Planning your retirement income

Evaluate whether the combined income from your pensions and State Pension will suffice for your desired retirement lifestyle. Generally, you may need around two-thirds of your pre-retirement salary after tax to maintain your lifestyle, though individual needs vary.

Boosting your pension contributions

Planning for retirement involves more than just setting aside a portion of your income; it requires strategic thinking about maximising your pension contributions. If there's a likelihood of a shortfall in your future pension income, it's prudent to consider increasing your pension savings now. Even minor adjustments to your contributions can have a notable impact on your pension pot, thanks to the power of compounding interest.

Understanding the impact of contributions

Many individuals adhere to the minimum contribution levels set by auto-enrolment schemes. While these minimums provide a good foundation, contributing more than the baseline can significantly enhance your financial security in retirement. The carry-forward rules further support this strategy, allowing you to utilise unused allowance from the previous three years to maximise your contributions where you have sufficient

relevant UK earnings to support the contribution and obtain tax relief.

Maximising tax benefits on contributions

Another crucial aspect of boosting your pension is understanding the tax relief available on pension contributions. For higher rate taxpayers, this can be particularly advantageous. By using self-assessment, you can reclaim higher rate tax relief, which effectively increases the amount of your contributions that benefit from tax incentives.

Taking full advantage of tax relief

Tax relief on pension contributions acts as an incentive from the government to encourage retirement savings. Basic rate taxpayers have their contributions automatically increased by 20%, while higher rate taxpayers can claim an additional 20% and additional rate taxpayers an extra 25% depending on the amount of the contribution. This relief makes contributing to your pension a savings act and a financially astute decision.

Strategising for optimal contributions

To maximise these benefits, reviewing your current contributions and assessing whether you are optimising the available tax relief is essential. Consulting with a financial advisor can provide insights into how best to structure your contributions to align with your retirement goals. They can also help ensure you fully use the carry-forward rules and other available strategies.

Planning for your dependents' future

When strategising for a secure retirement, it's crucial to consider your dependents' financial wellbeing. Considering them in your retirement plan can help to ensure they are cared for even after you're gone. One effective method of passing on wealth is through pensions, which can offer significant benefits in terms of inheritance.

Pensions as a wealth transfer tool

Pensions are particularly advantageous in estate planning because they usually fall outside your taxable estate. This means that they can be passed on to beneficiaries without attracting Inheritance Tax, which can otherwise substantially reduce the amount your dependents receive. Structuring your pension wisely can ensure that a considerable portion of your wealth remains intact for your loved ones.

Understanding tax implications

However, it's essential to know the potential tax implications of passing on a pension. While pensions generally avoid Inheritance Tax, beneficiaries may face Income Tax liabilities depending on when the pension is inherited. If you pass away before age 75, beneficiaries can usually withdraw from the pension tax-free. However, if you die after reaching 75, they may need to pay Income Tax on withdrawals, mirroring the tax rates applicable to their income.

Strategies for minimising tax liabilities

Consider discussing your options with us to manage these potential tax liabilities. We can guide you in structuring your pension to maximise benefits and minimise tax burdens for your beneficiaries. Options such as setting up a trust or designating specific beneficiaries can be explored to optimise the transfer of wealth.

Ensuring a smooth transition

Additionally, it's prudent to regularly review your pension arrangements and ensure that your beneficiary nominations are up to date. This ensures that your dependents can access the funds with minimal legal hurdles. Clear documentation and communication about your intentions can prevent potential disputes and ensure a smooth transition.

READY TO TAKE PROACTIVE STEPS IN YOUR RETIREMENT PLANNING?

Secure your financial future by taking proactive steps in your retirement planning today. If you need expert guidance or want to explore your pension options further, we are here to assist you. Contact us to confidently navigate this crucial journey, ensuring that your retirement plans meet your long-term goals. Let us support you in making informed decisions for a secure and comfortable retirement.

ARE YOU READY TO DISCUSS OR REVIEW YOUR RETIREMENT PLANNING AND OPTIONS?

As you head towards retirement, accessing your hard-earned savings wisely is crucial. Let us help put your worries to rest and guide you in making informed decisions for a rewarding and secure future.

To find out more, please contact us – we look forward to hearing from you.

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