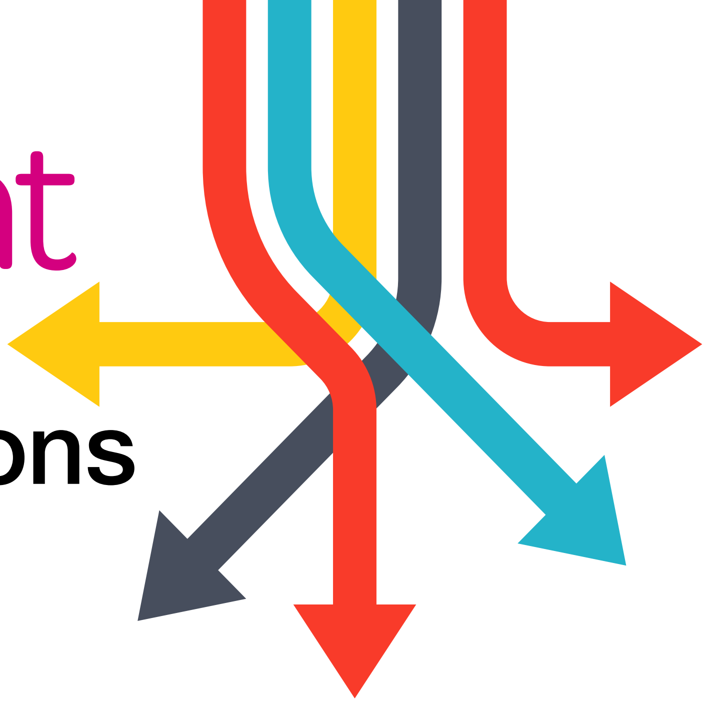
eQ Insight



Know your options at retirement

> *There has rarely been a more challenging time to retire.*

An ageing population is placing additional demands on health and social care services, at the same time as the government is tightening its belt. The golden days of final salary pensions are all but over: if you're lucky enough to have one – you're in the minority.

The changes made to UK pensions in 2015 mean that we all have more choices available on how to fund our lifestyle in retirement. It has never been more important to understand your options and put a plan in place.

We spend our working lives building towards retirement. The choices we make today can have a big impact on the quality of our lives later on.

The purpose of this guide is to help you think through some of the options you need to consider as you plan for this transition and find the best way to fund the retirement you want.

Your retirement checklist

Are you on track for retirement? This guide covers each of the points below that make up our handy pre-retirement checklist:

- ☑ Make a list of things you want to do in retirement and how much they cost.
- ☑ Work out how your regular spending might change, including new categories of spending.
- ☑ Get a State Pension forecast.
- ☑ Legal paperwork: review your pension beneficiaries, update your will, and put a Lasting Power of Attorney in place.
- ☑ Take advice from a financial planner: put together a plan for using your wealth to fund your lifestyle.
- ☑ Plan to review your progress regularly; small changes early on are easier than larger ones later.

Plan for the rest of your life

Retirement does not necessarily mean stopping work completely, being a certain age, or even drawing on pensions. For most people it does mean spending less (or no) time working, but how will you fill those extra 30+ hours a week?

The first step is to work out what you want from retirement. Take some time out to consider what your priorities are and how you would like to spend your time. What you want to do may well change over time, but there may be some things that are best done early on. If you're in a relationship talk to your partner and agree what you want the purpose of your retirement to be.

What on earth will I be doing?

Putting the 'what' and 'when' together gives you a plan for the next chapter of your life. You aren't committed to anything, but having clear goals means that you are more likely to have the retirement you want.

Some people like the idea of a 'last day' before they retire because it provides a focal point and a clear point of change. Others prefer a gradual reduction in their work commitments by extending their weekends or taking longer breaks.

Have you considered...?

Retirement offers the chance to explore genuinely new possibilties. It can help to consider different areas of your life and think outside the box. Ultimately, only you will know what will make your retirement years truly satisfying...

- Spending more time with your children and grandchildren?
- More holidays?
- Renovating your home?
- Moving abroad?
- Volunteering or charity work?
- Gardening?
- Sports?
- Fulfilling a lifelong dream?
- Mentoring a young person?
- Using your life skills in your community?

Managing your retirement savings

Traditionally we have thought about pensions as the primary way of funding this chapter of our lives and they remain the cornerstone of good retirement planning. However, with limits on both the size of pension funds and the contributions you can make, as you plan for your retirement you should consider your income as coming from a range of sources.

These include the State Pension, personal or workplace pension schemes, your savings or investments, perhaps a rental property providing a yield. Drawing on a number of sources can help reduce the amount of tax you pay. Longer retirements also mean your savings will have to stretch further.

Get a State Pension forecast

Ahead of retirement, you can use the State Pension forecast tool to confirm the amount you will receive:

www.gov.uk/check-state-pension

Not only will this help with retirement planning, but more importantly it will identify if you have any shortfall in your 'qualifying years' for the State Pension, based on your National Insurance history. If there is a shortfall, under certain circumstances it may be possible to purchase extra years.

How much money will I need?

A good first step is to think about your day-to-day spending and then consider other expenses such as extended holidays, or obligations such as paying for the care of a relative.

A financial planner will put together a picture of what your financial future might look like and how your range of assets could be used to pay for these things.

You may want to leave money to the next generation when you die; this will have an impact on the strategy you adopt. Again, a financial planner will then make specific recommendations about how to achieve this.

What kind of pension do you have?

Besides the State Pension, there are two main types of pension:

Final salary / 'defined benefit'

These pensions are based on your salary and how long you've worked for your employer, and provide a guaranteed income for life. The income is taxable, but you may be able to exchange some for a tax-free lump sum at the start. When you can take your pension pot depends on your pension scheme's rules – it's usually 60 at the earliest.

Personal / 'defined contribution'

These are based on how much money has been paid into your pension pot. Most people will have a defined contribution pension through work or one they have set up themselves. They have many names such as workplace pensions, and Self Invested Personal Pensions (SIPPs) – but they all provide benefits based around the fund value that has been accumulated. You can start to draw on a personal pension from age 55.

How can I get my money out?

Tax free cash

If you have a personal pension you can take up to 25% of its total value as a tax-free lump sum once you reach age 55.

If you have a final salary pension, you may be able to give up some of the income in return for a one-off, tax-free lump sum. It's best to speak to a financial planner to understand the implications of this.

The rest

If you have a final salary pension you will receive an income set by the scheme. Your only other option is to transfer out of the scheme (i.e. into a personal pension). This is a complex decision, outside the scope of this guide, and you should seek financial advice before considering it.

If you have a personal pension then you now have the freedom to access your pot on your own terms. With great freedom comes great responsibility. You could in principle cash it all in – although this is a rarely a smart idea...

Why not take it all?

Since the 'pension freedom' rules introduced in 2015, there are no limits on how much money you can withdraw from a personal pension. But you have to pay income tax on withdrawals above the 25% tax-free part, and you are then limited in terms of making further contributions.

If you are considering drawing money from your pension it's vital that you speak to a financial planner. An adviser will be able to help you avoid an unexpected tax bill while ensuring you have enough money left to live on throughout your retirement.

Two choices for your personal pension

Personal pensions offer two choices: buying an annuity (a guaranteed regular payment) or taking income drawdown (making withdrawals from an invested pot of money).

It doesn't have to be only one choice – if your pot is large enough then you could buy an annuity to cover your essential expenditure while leaving the rest invested – giving you the best of both worlds.

1. Buy an annuity (secure, but not flexible)

An annuity is a product that converts a sum of money into a guaranteed monthly income for the rest of your life. It's vital that you shop around for the best rate – your current pension provider is unlikely to offer the best terms.

Annuities may not provide flexibility, and they certainly don't provide as much income as they used to, but they can't be beaten for guaranteeing that your income will last... for as long as you do!

Advantages	Disadvantages
Guaranteed income The money you get from an annuity should not run out: the provider guarantees to pay you a certain amount every month, however long you live.	**Annuities are irreversible** Once you have entered into an annuity contract, you cannot change your mind and cash it in.
No falls in value This income will remain at the same level and it will not fall if there is a stock market crash, say.	**Rates are low** As a result of the financial crisis and rising life expectancy, annuity rates today are about as low as they have ever been.
Protection against inflation Some annuities – known as index-linked annuities or rising annuities – pay a higher monthly amount every year in order to counter the effects of inflation. But this feature comes at a cost, and income in the early years will be lower than with a level annuity.	**Inflation can eat away at your income** If you opt for a level annuity, your income can lose much of its spending power over time.
Income for your spouse A joint-life annuity can continue paying an income to your husband or wife after you die.	**No death benefits** Once you and your spouse die, your annuity cannot be passed on.
Higher income for people with health problems If you suffer from a medical condition, such as heart disease or diabetes, you could be entitled to a higher annuity income due to your lower life expectancy.	**No chance of growth** If you left your money invested in the stock market, you could make considerable gains if share values rise – this could help provide a more comfortable retirement.

2. Income drawdown (flexible, but not guaranteed)

Instead of locking in to a structure that can't be changed, you could potentially draw directly on your fund.

This provides you with flexibility to adjust the income you take to meet your needs. So you could potentially take more income for a while before your State Pension kicks in, or draw occasional lump sums to cover expenses like special holidays.

You can still use the money in the future to purchase an annuity if that becomes the right thing for you.

Advantages	Disadvantages
Flexibility You can vary the amount of income you take and potentially control your income tax liability.	**Investment risk** The value of your fund is not guaranteed and may go down as well as up. The value may not grow sufficiently to provide an income that matches that which you would have secured by purchasing an annuity.
Investment control You can continue to make investment decisions with regard to your attitude to risk and investment needs.	**Income** High income withdrawals are likely to be unsustainable and this may reduce the financial security of you and your dependents in the long term.
Opportunity for growth As your pension stays invested after retirement, it has the chance to continue growing.	**Regular reviews** Your fund and investment selections will need to be monitored and reviewed periodically to ensure investment performance remains on track.
Timing You can to choose to purchase an annuity at a later date and may be able to benefit from improved rates.	**Pension lifetime allowance** Even if your pension is below the lifetime allowance when you retired, excellent investment performance could push you above your cap by the time you're assessed for the lifetime allowance at age 75.
Favourable inheritance rules You can leave whatever is left of your fund to your loved ones, usually free of inheritance tax.	**Fees & charges** Depending on your provider, there may be more fees and charges for pension drawdown than for an annuity.

Making your money last

The traditional mainstays of retirement income in the UK: the State Pension, final salary pension schemes, and annuities all remove the risk of outliving your savings. With income drawdown it is up to you to make sure that your money lasts long enough.

How long am I going to live?

If you have decided to fund your lifestyle directly from your portfolio it will need to last for the rest of your life. With many people enjoying a 20-30+ year retirement the challenge is to make the most of it without running out of money.

The Office of National Statistics has a handy tool that helps you explore how long your money might need to last. We've embedded it here:

eqinvestors.co.uk/library/life-expectancy/

eQ investors 020 7488 7110 LOGIN MENU

Home | Library | How long will my pension need to last?

How long will my pension need to last?

People are living longer. On average, people aged 55 today will live to their mid-to-late 80s. Around 1 in 10 men and 1 in 5 women this age will live to 100. It's important to take life expectancy into account when planning for your retirement.

You can calculate your life expectancy in an instant using this handy widget from the UK's Office for National Statistics:

Generating retirement income

To help your money last this long you will almost certainly need to invest it. A combination of investment income and capital growth can help counter the impact of inflation. Cash interest rates are unlikely to be sufficient for most people.

Traditionally people approaching retirement look to reduce the level of investment risk (and potential return) that they take. However, with retirements spanning multiple decades this money needs to last a very long time. This suggests that retirees need to take more investment risk to avoid running out of money. A financial planner will help you balance your appetite for risk with how much risk you need to (and can afford to) take.

Consider the effects of inflation

Over the last 30 years inflation (as measured by the Retail Prices Index) has been as high as 10.9% (September 1990) and as low as –1.6% (June 2009). Looking further back, inflation in the 1970s saw prices increase by more than 25% in some years. While we are working our earned income should tend to increase to compensate for this, but when we are retired inflation means that our money bears the burden.

How a financial planner can help

1 TAX

With a personal pension, whether you take a lump sum or not, your next choice is around what you do with the rest of your pot. Any further withdrawals will be subject to income tax once you have used up your annual personal allowance (which is £11,850 for the 2018/19 tax year).

To help mitigate the impact of tax, you can use a combination of sources for your retirement income, including ISAs and regular realisations of capital gains. Different sources might have different tax implications and the optimal mix will depend on your personal situation.

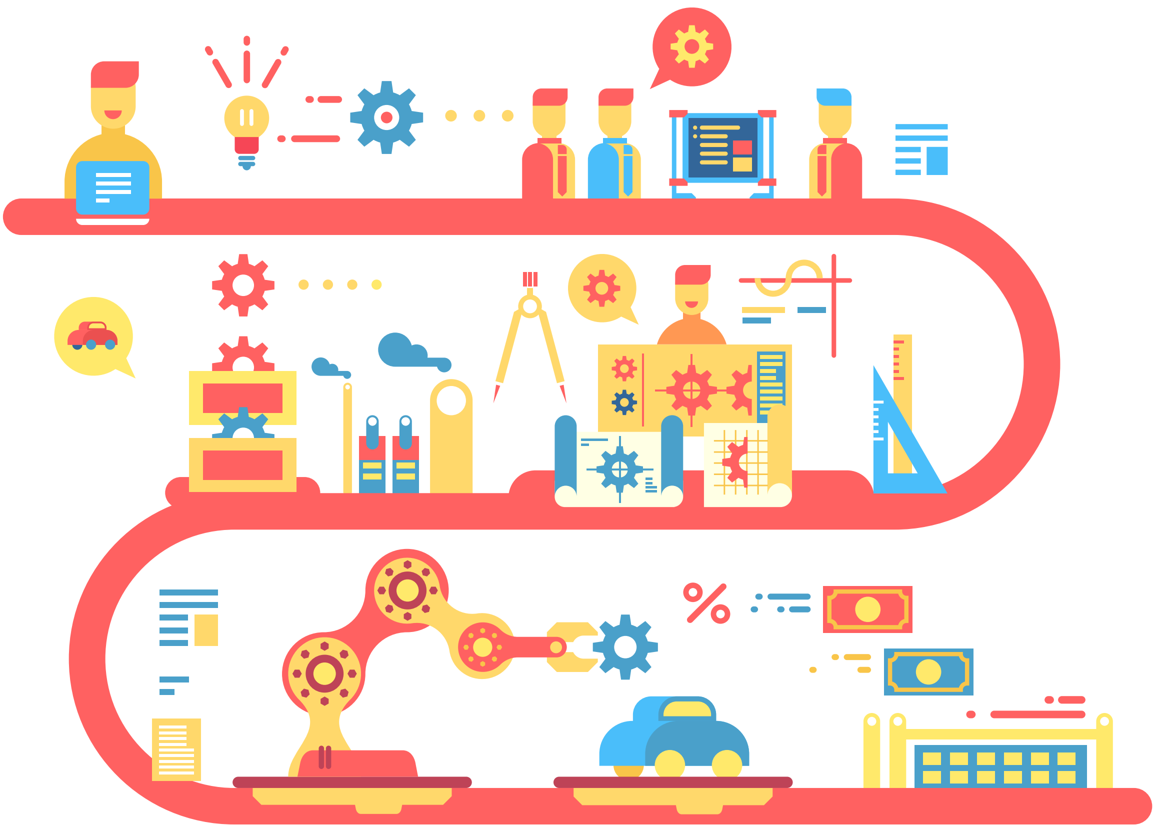
If you have substantial pension benefits then you also need to be aware of the lifetime allowance, which can have significant tax implications. If your pension fund is worth close to £1 million then you should seek advice on how best to manage this.

2 INCOME

There are a few ‘rules of thumb’ but everyone’s situation is different so it’s important to take advice. The challenge of volatile markets can be particular severe for those in early retirement when pots are at their largest.

Taking an income from shrinking investments early on can do disproportionate and irrecoverable damage to your portfolio (known as pound cost ravaging), because it is much harder to rebuild it to a position of strength. When markets fall, more units will need to be sold to provide your payments. But when markets recover, you have fewer units to benefit from the uplift.

As with all things, it is important to keep this in perspective. You have saved this money to fund your lifestyle; the purpose of this money is to be spent. The key is to ensure that it lasts for the rest of your life. It's essential to review the situation at least once a year.



3 INHERITANCE

People have always wanted to leave a legacy of some sort. It's quite important to think about what you want to do as it can become quite emotive. Some people have very strong views about whether they do or do not want to pass on money to family.

Leaving clear instructions is important. The best way to do this is by having a Will. You might already have one, but it should be reviewed regularly to ensure that it matches your wishes. If you haven't already done so, you should consider setting up a Lasting Power of Attorney to ensure that your wishes continue to be followed if you are unable to give instructions during your life.

Personal pensions are generally free from inheritance tax. Your Will gives instructions about how you want your estate to be distributed, but who benefits from any remaining pension fund is determined by your pension provider, using your 'Expression of Wish' form. So it's important to keep both of these up to date.

If you are concerned about the tax liability on your estate then you should seek professional advice. Putting an inheritance tax plan in place early on can significantly reduce the tax bill faced by your inheritors. However, you will need to balance this with your needs during your lifetime. People are living longer and this means that people are inheriting money later in life. By this time, they might already have their own wealth and the gift may have less impact than intended.

Other factors to bear in mind

Retirement today is different to that experienced by previous generations. Life is likely to be longer, but not necessarily healthy throughout. Our financial responsibilities might be affected by more than just our own decisions. Some parents may still find themselves having to support their children.

We may still be able to have a global lifestyle or settle in another country if we want to. However, as we get older we might need more practical assistance and to pay for long term care. It is hard to know if or when this might affect us, let alone how much it might cost to make the choices we want. Indeed, as people live longer it is possible that we will need to support our parents during our retirement too.

No two families situations are the same. A financial planner will be able to help you map out your own, and then consider a range of 'scenarios' – or possible futures. This is what good financial planning is all about: we may not be able to predict the future, but we can certainly help you to face the future, knowing that you are well prepared for what might actually happen.

Case studies

Retirement planning is never one size fits all – it all depends on your goals and your individual circumstances. These case studies are based on real client stories to give you a sense of how different people have made retirement planning work for them.

James is 58 and would love to retire, but he isn't sure whether he can afford to. His partner works part time and their children are both at university. James still feels he needs the security of his income to support his lifestyle and be there for his family. Over their working lives both James and his partner have built up retirement pots. He has a final salary pension and a personal pension pot; his partner has two personal pensions. Between them they also have some cash savings and ISA investments.

They sit down with their EQ adviser who helps them project their income in retirement. They decide to use some of their ISAs and cash savings to bridge the gap between now and when James' final salary pension kicks in. James realises that he is in a much better position than he thought and decides to retire early and enjoy more time with his family.

Grace is 60 and due to retire this year. She is looking forward to the possibility of a new rhythm of life, but isn't quite sure what she'll end up doing. She's excited about taking the plunge, but also a bit nervous because she enjoys working and hates getting bored. Grace has built up pension savings throughout her career alongside some ISA investments. She wants to make sure that she will be financially OK when she retires, while leaving as much flexibility as possible as she settles into her new life with a lot more free time.

To achieve this her EQ adviser helps her take a phased approach. She decides not to buy an annuity, as this would tie her in to something she can't change straight away. Instead she makes tax-efficient use of her ISA and pension investments to support her lifestyle for the first phase of her retirement. Once she's established more of an idea of what her retirement will look like, she plans to review her spending needs with her adviser, leaving the option open to buy an annuity with her remaining pension pot if this looks like the right option.

Carl and Kelly have saved hard and are looking forward to retiring in the next three months. They have a dual goal for their retirement: to have fun pursuing their own interests while leaving as generous a legacy as possible to help their grandchildren. They make a plan for their retirement spending which starts by drawing money from their general investment portfolios and their ISAs. This more than covers their expected outgoings for the first part of their retirement. They aim to leave their pensions alone for as long as possible, having nominated their grandchildren as beneficiaries.

In addition, their EQ adviser encourages them to explore some other options, such as making use of their gifting allowances during their lifetime. They set up Junior ISAs for each of their grandchildren and start contributing financially to their upbringing by organising family holidays. That way they can see their grandchildren benefiting from their legacy while they are alive, with the added benefit of reducing the likely inheritance tax liability on their estate after they die.

How can we help?

EQ is a Chartered financial planning firm, which means we are committed to the highest levels of knowledge, ethical practice and professionalism in the industry.

Financial Planner
Chartered

We provide a holistic financial planning service based around **your needs and goals**. Here are some of the areas where we can help:

Tax planning for investments

Inheritance tax planning

Pension contributions and retirement planning

Protection for you and your family

Working with your accountant and solicitor

Information

To make an enquiry, or to book a free, no obligation initial consultation, please get in touch:

020 7488 7171

enquiries@eqinvestors.co.uk

Beware of scammers

There have been several pension transfer scams where investors have lost all their pension money. It's never been more important to protect yourself from scammers, so please bear the following tips in mind:

- Only seek professional advice from a pension transfer specialist that is authorised and regulated by the Financial Conduct Authority (FCA)
- Always check the organisation you're dealing with is legitimate. Use the FCA register:

  register.fca.org.uk

- Be wary of cold calls and unsolicited emails
- Avoid overseas investment 'deals'
- Avoid offers to access pension cash before age 55 (the minimum pension age)
- Check the FCA's list of known scams:

  scamsmart.fca.org.uk

- If you are unsure, contact Pension Wise or The Pensions Advisory Service for guidance:

Pension wise
Your money. Your choice.
Backed by HM Government

www.pensionwise.gov.uk

0800 138 3944

The PENSIONS Advisory Service

www.pensionsadvisoryservice.org.uk

0300 123 1047

EQ investors

Planning led, investment driven

EQ is a Chartered financial planning and employee benefits firm. We offer a full range of life planning and advisory services for individuals, families, trustees, attorneys, directors and business owners. Advising clients on how and where to invest is at the heart of what we do. We are proud to be a Certified B Corporation.

At EQ financial planning is all about:

- Understanding your goals, objectives and priorities.
- Working out whether your financial provisions will help you get there.
- Putting a plan in place and reviewing it regularly.

To find out more visit: **eqinvestors.co.uk**

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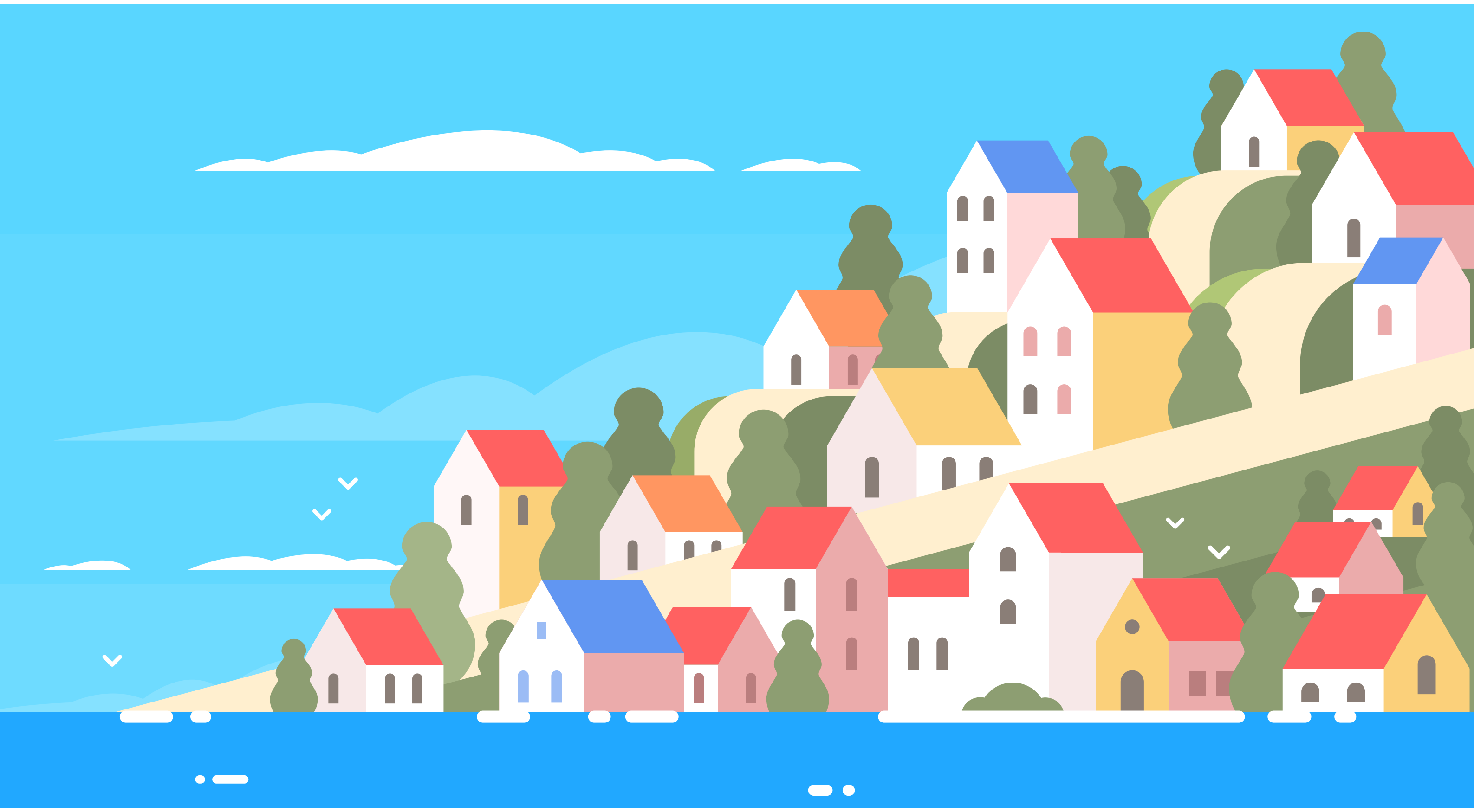

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This guide provides general information about retirement planning and is not a personal recommendation. Specifically, the value of investments and the income derived from them can go down as well as up, so you could get back less than you originally invested.

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