Hartsfield Planning

Readying your finances for retirement

8 steps to building a retirement plan

Introduction

For what matters most

If you're approaching retirement, congratulations! You are about to embark on a major life change; a change you're hopefully relishing.

Your retirement should be a chance to reap the rewards of a lifetime of hard work: a chance to enjoy your leisure time, tick some accomplishments off that bucket list and spend more time with those you love. However you choose to spend it, retirement is there to be enjoyed.

But as you approach retirement, you may find yourself worrying about certain questions. Questions such as:

- How much money will I need for a comfortable standard of living in my retirement?
- Do I have enough?
- Can I afford to retire when I would like to?
- Will I need to keep earning or will my pensions provide me with enough of an income?
- What should I be doing to prepare financially?

And:

- How can I find out the answers to all those questions?

The purpose of this guide is to lead you through some of the simple steps you can take to start building a plan for your retirement. And to help provide you with some answers to those, and other questions.

No-one's retirement should be characterised by money troubles, which is why we're here to offer advice and support. Should you need to gain more advice than is available within the pages of this guide, you can find our contact details on the final page of this booklet. If we can be of any assistance, please do get in touch.

For what matters most

We recently asked our clients what mattered most to them about their retirement:

"Enjoying every minute"

*All quotes and statistics from Hartsfield 2020 Client Survey

1. Establish your retirement lifestyle goals

Before you do anything else, spend some time thinking about what you want from your retirement. We always advise our clients to do this before crunching any numbers. How do you see yourself spending your days? What would you like to achieve in the years ahead? What really matters to you?

At Hartsfield, we talk a lot about 'what matters most' because money is only worth having if it is helping you to achieve the things that are important to you. So, consider what is going to be important to you in the years ahead. And what your priorities are as you enter this new phase of your life.

These are big questions which, for some people, can be answered easily. You may have had a picture in your head for some time of what you'd like to do in your retirement. You may have dreamed about it for years!

For others, answering these questions is hard, and trying to picture the years ahead draws a blank. That might be, in part, because the idea of what a retirement should be, has changed considerably in the past couple of decades.

For your grandparents, and even parents, retirement probably followed a well-established path. Work ended when you reached the State Pension Age at which point you stopped earning and started living off your pensions and savings.

The new 'Pension Freedoms', announced by the government in 2015, paved the way for more flexibility, including the opportunity to anyone over the age of 55 to take 25% of their pension as a tax-free lump sum or a series of tax-free lump sums. For some people, this has meant the possibility of retiring early or staggering their exit from work. But with increased choice, can come greater anxiety and an even greater sense of responsibility to get the decision right.

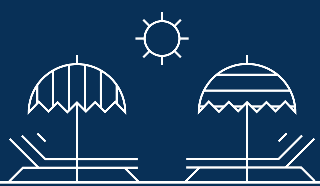
Retirement lifestyles have also evolved in recent years. For many now, retirement is a chance to slow down, but not necessarily stop work altogether. For you, it may mean a change of direction or a chance to pursue interests or hobbies that have been placed on the back burner until now. For some, it's a chance to start up a new venture and see if you can join the growing band of 'pensionpreneurs'. What is for certain, however, is that 'retirement' doesn't mean one thing anymore; it means many different things to many different people.

Taking the time to think about how you want to spend your days, where you might live and what your priorities are for your retirement, before you make the transition, will not only help when it comes to your finances but will also help you emotionally adjust to the coming changes in your life which is why we always advise our clients to start here.

For what matters most

We recently asked our clients what mattered most to them about their retirement:

"That it starts as early as possible and lasts as long as possible"



*All quotes and statistics from Hartsfield 2020 Client Survey

2. Calculate the basic level of income you're going to need

The things you want to do in retirement will dictate your level of expenditure and, consequently, the amount of income you will need to live the lifestyle you want in retirement.

Make a list of both your essential and discretionary expenditure. Essential expenditure will include your day-to-day living expenses; your utility and grocery bills, rent or mortgage payments (if you are still paying these), and any debt or other regular outgoings you may have. Your discretionary expenditure includes spending on leisure and social activities and any 'big' plans or projects you have for your retirement.

To ensure your figures are accurate, take a look at your current outgoings and then consider how they might change once you reach retirement. Will your utility bills go up if you're at home rather than in the office during the day? Will you need to continue to run two cars? Will your travel expenses go down if you're not commuting? Don't forget to factor in things like home maintenance. As you advance through your retirement, you may not feel quite as confident doing all the DIY jobs you've previously been able to manage yourself, so leave yourself a budget for those.

Of course, these figures are provisional, but they will give you a base level from which you can start to work out how much money you have for the things you'd like to do with your retirement, such as holidays, home renovations or taking up new hobbies.

For more guidance on creating a retirement budget, visit the Money Advice Service. Their free online budgeting tool can be found at: **www.moneyadviceservice.org.uk/en/pensions-and-retirement/budgeting**

The stages of retirement

When creating your plan, it’s important to remember that your retirement will be characterised by different stages. At each stage, will come different financial and lifestyle requirements. During early ‘active’ retirement, you are likely to incur relatively high expenditure as you enjoy your free time and pursue those once-in-a-lifetime opportunities that retirement finally affords you. You may still be earning in some capacity during this phase however, offsetting some of that expenditure.

The middle phase of retirement is characterised by a slowing down in both activity and expenditure. During this phase, you are likely to spend more time at home and therefore incur lower outgoings. However, you are also less likely to be earning any income at this point.

During the final stage of retirement, you may find that your spending on health and personal care increase just at the time when your spending in other areas of your life decreases so, it’s important to bare that in mind.

These three stages do not directly correlate with age. They are marked more by how well you are able to maintain your financial and physical independence.

3. Consider how long your retirement might last

Working out how long you are likely to live is a crucial part of retirement planning. But if you were asked how long you thought you were going to live, would you be able to give anything other than a wild guess?

None of us want to contemplate the likely age of our demise, however, it is crucial when retirement planning that you are able to produce a number with a greater degree of accuracy than just a wild guess. That's for the simple reason that knowing how long your retirement will last determines how long your money needs to last.

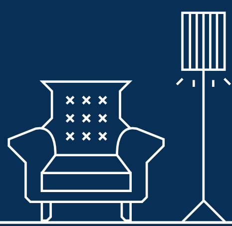
Not having a guide for this number puts you in danger of either running out of money while you are still very much alive, or of dying with 'too much' money, not having lived as fully as you would have liked.

Many people underestimate how long they will live when they come to this part of their planning. But how can you go about getting an accurate estimate? The Office for National Statistics (ONS) provides an online life expectancy calculator you can use, here, although it's important to note that their calculations are based solely on age, gender and national averages. Looking at statistics for your region and factoring in your health status, as well as your lifestyle, may help you to get a more accurate estimate.

For what matters most

We recently asked our clients what mattered most to them about their retirement:

"Comfort. The prospect of being able to 'live' rather than just 'exist'"



*All quotes and statistics from Hartsfield 2020 Client Survey

4. Consider the impact of inflation

This is one area people often forget to factor in when making their retirement calculations, but it's crucial that you don't.

Inflation is the gradual rise in the prices of goods and services over time. It's important to understand its impact as it affects how much your hard-saved pension pot will be worth in retirement. As the cost of living increases over time, your savings and income will need to go further to cover the same items because every rise in prices is money from your pocket (or your portfolio).

You might remember paying 10p for a loaf of bread in 1971 and can't fail to have noticed that the bread in your shopping basket is now considerably more; an average of £1 per loaf. Whilst you may think these small price rises won't have a big impact on your finances, when you factor in that it's also rent, household bills, household appliances, cars and all the other items you spend your money on that will also be rising in cost, you realise that it most certainly will.

When you also consider inflation eating into your spending power over a retirement that could last 30 or 40 years, it becomes even more important to factor these rises in.

Some types of pension compensate for this by rising in line with inflation; for example, the State Pension is currently linked to the consumer prices index (CPI) measure of inflation. Final Salary pension schemes also protect against the impact of inflation. But if you do not have a pension that allows for inflation, then you will need to plan carefully to ensure that your income is able to keep pace with rising prices.

If your savings are in cash, it will be hard to find a bank account that outpaces the rate of inflation, particularly at the moment with interest rates at record lows. Therefore, investments have historically been a far better option than cash savings when it comes to seeing the value of your money grow. That means that if you're saving for your retirement, investing can put you in a stronger financial position and help keep you in the level of comfort you desire.

Always take investment advice from a regulated financial planner or adviser and bear in mind that the value of all investments can go down as well as up and that past performance is not a guarantee of future performance.

For what matters most

We recently asked our clients what mattered most to them about their retirement. These are some of the things they told us:

"That I can maintain a healthy and comfortable lifestyle"

*All quotes and statistics from Hartsfield 2020 Client Survey

5. Think about where your retirement income will come from

A 2018 survey by Maru/EDR of Telegraph readers aged 40-60 found that almost 50% weren't sure how they were going to fund their retirement. But given the importance of this aspect of your planning, it is worth taking some time to get your ideas organised and your figures straight. Doing so will provide you with much-needed peace of mind going into your retirement as well as some answers to those questions you have about the kind of lifestyle you'll be able to afford.

There are a multitude of options these days when it comes to retirement income; something which may explain why it's often seen as a complicated area to navigate. So let's have a quick look at some of the options available to you. For a more comprehensive appraisal of the options available to you and exploration of which may be most suitable to your personal circumstances, it is always best to speak to a regulated financial planner.

Pensions

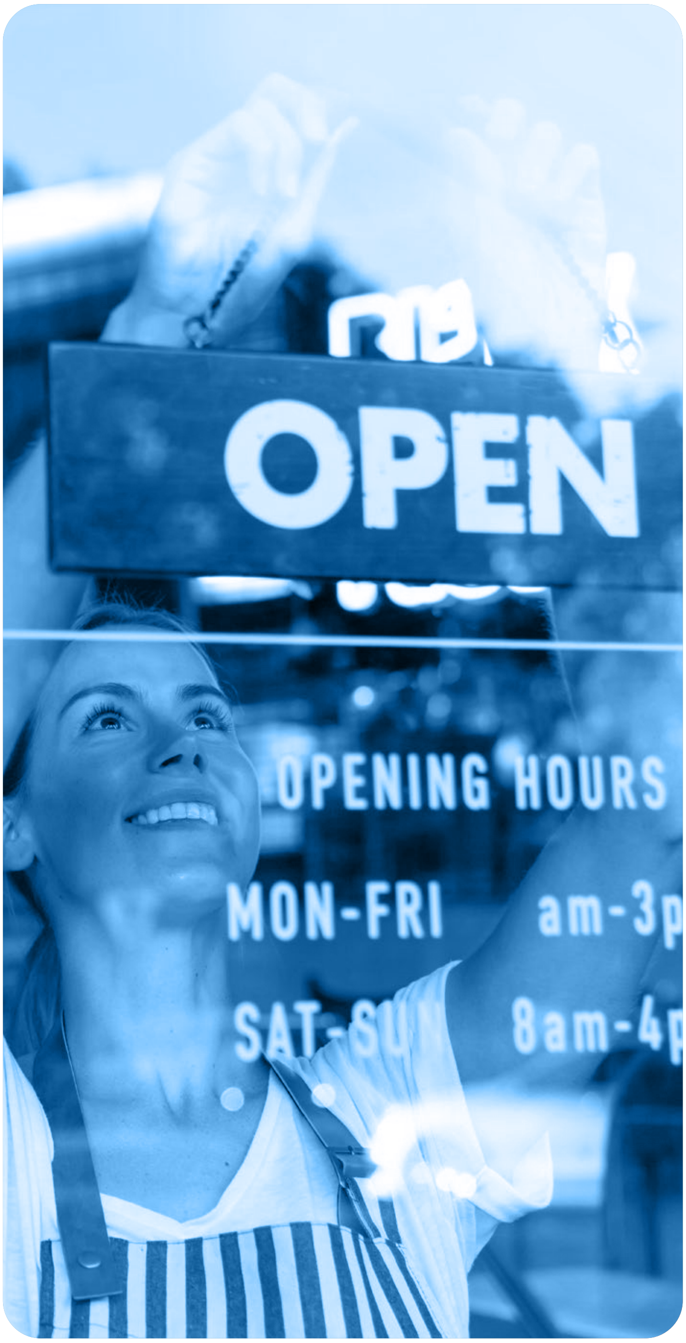
Pensions are still the best way to save for retirement in most cases. With up to 45% tax relief on contributions and many employers matching the money you put into your workplace pension, they offer the most tax-efficient way to build a retirement pot.

You may choose to retire at State Pension Age (currently 65 for men, and 64 for women born between 1950 and 1953), but you'll probably want to view your State Pension as just one of your income sources alongside private or workplace pensions, or other savings and investments.

Thanks to the Pension Freedom rules that came into force in April 2015, there is also far more flexibility and choice about how and when you take your pension. Before April 2015, most people bought an Annuity. An Annuity is basically a guaranteed income for life which you can buy with part or all of the pot you've built up through your working life. But the financial flexibility offered through Pension Freedoms means that Income Drawdown is proving a more popular choice now. In Drawdown, you can leave your pension invested and take income from it as and when you want to.

Anyone aged 55 and over can now choose to take their pension savings as a lump sum, paying no tax on the first 25%. However, this is one area where it is very important to take advice as taking lump sums from your pension pot could result in a large tax bill and a depleted pot that leaves you short of money later on in your retirement.

Understanding your pension and the options open to you for drawing down your income, is an important part of retirement planning.



Investments

Taking income from an investment portfolio can be a smart way of supplementing your pension income.

After an increase in the ISA allowance, many people have found them a useful way to help fund their retirement.

You can currently save up to £20,000 into an ISA each year and you'll be able to take income from this tax-free. ISAs also give you the freedom and flexibility to take money out when you want. That means that if you're planning to drop down to part-time hours or 'semi-retire' before age 55 and need funds to support this, you could use some or all of your ISA as a way of supplementing your income.

You could also invest in funds, including equity, real estate, multi-asset and bonds, which have all, historically, been reliable ways to generate income over the long term. It's important to speak to an investment adviser before committing to anything however, as you will need to explore the level of risk you are comfortable with and you will want to put your funds in the hands of an experienced and trusted investment portfolio manager. You also need to remember that if you choose to invest, the value of your investment will rise and fall, so you could get back less than you put it.

Continue working

Phased retirement, where you gradually reduce your hours, has become a much more popular way of transitioning into retirement than it was several years ago. For an increasing number of people, retirement is now a chance to pursue a brand-new business venture which can provide a supplementary self-employed income.

According to official figures from the Department for Work and Pensions, more people than ever are working past the age of 65. And more than one in 10 men and 8% of women are now working past the age of 70. You might plan for this now, however, particularly as the State Pension Age continues to rise, but you need to remain mindful of the fact that this idea may not carry as much appeal when you reach the age of 65 or 70. In fact, it might not be possible if your health were to become an issue or your life circumstances changed, so it's best not to centre your plans around relying on this income.

As life expectancy increases, the way we view our retirement is changing – we're now expecting a fuller life for longer. But that costs money, so while it's vital to plan ahead and choose the best way to save for your retirement, it's also important to consider how to take the money when you get there.

6. Find out the value of your personal pension pots

Unless you have had one pension from just one employer for your whole working life, you will probably have several Personal Pensions that you have been contributing to over the years. You may even have a mix of different types of pensions.

As you close in on your retirement, it becomes increasingly important that you understand what you have, where, and that you take good advice if you are considering consolidating those different pension pots into one.

You should receive an annual statement from your pension provider which will tell you the current value of your fund and the projected value you will have available at retirement. If you haven't received a statement in a while, or you've lost touch with old schemes, contact your provider and chase this up. You can also contact the Pension Tracing Service if you're stuck. This page of the Money Advice Service website should help with that:

www.moneyadviceservice.org.uk/en/articles/trace-lost-pensions-and-request-pension-forecasts

If you are considering consolidating your pensions, make sure you take good advice. This can be a complex area to navigate and there are dangers in some cases, which a professional will be able to make you aware of. Please get in touch if you'd like guidance on this.

7. Request your State Pension forecast

When thinking about the income you can expect to receive in retirement, don't forget to include your State Pension. In order to receive the basic State Pension, you must have paid or been credited with National Insurance contributions during your working years. However, how much you can expect to receive will vary according to your National Insurance record.

The State Pension changed in 2016 for those reaching the State Pension Age from then onwards. The old rules were complicated, meaning that people often didn't know how much they'd get until they were close to the State Pension Age. With the new State Pension, it's much easier to gain an understanding of what income you can expect to receive from the government, which helps when it comes to planning.

You can check your State Pension forecast by visiting
www.gov.uk/check-state-pension

8. Seek support and guidance

A successful retirement plan doesn't happen overnight; it may be a process that takes you years to complete; which is why ideally, it should start as early as possible.

If you are feeling overwhelmed by the sheer number of decisions you are expected to make or are struggling to get to grips with the figures, make sure you take advice from a trusted, regulated financial planner.

Your retirement should be as individual as you, which means you should seek someone who will take a tailored approach to help you map out the path ahead.

How we can help

We are Hartsfield Planning. We are a team of independent financial planners with offices across the South West. Our purpose is to improve your financial wellbeing, something we've been doing for our clients for over ten years.

Our aim in everything that we do is to help you make good choices and put you in control of your finances, giving you the freedom to pursue whatever matters most to you. We work people approaching retirement and those already in retirement, and we could help you to define your goals, and deliver your planned lifestyle.

For what matters most

We recently asked our clients what mattered most to them about their retirement. These are some of the things they told us:

"That I have enough to live on without worrying"

*All quotes and statistics from Hartsfield 2020 Client Survey

0800 612 6633

enquiries@hartsfield.co.uk

Bristol Office

One Temple Quay
Temple Back East
Bristol, BS1 6DZ

01173 634 700

bristol@hartsfield.co.uk

Wiltshire Office

Hartham Park
Corsham
Wiltshire, SN13 0RP

01249 591 530

wiltshire@hartsfield.co.uk

Cheltenham Office

Harley House
29 Cambray Place
Cheltenham, GL50 1JN

01242 388 000

cheltenham@hartsfield.co.uk

Hartsfield
Planning