Lifeplan
Chartered Financial Planners

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Six concerns as retirement approaches and how to reduce them

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Introduction

Retirement should be an exciting milestone that you look forward to; the start of the next phase of your life where you have more free time on your hands. But that doesn't mean concerns aren't present as you plan for and live a retired life.

As your thoughts turn to retirement you may be hoping to spend more time on hobbies, travel, or helping out with childcare for your grandchildren. Persistent concerns can mean a retirement that held much hope falls short because you're too concerned about worries. From the fear that your pension savings will run out too soon to apprehension around how you'll pass assets to loved ones, concerns may mean retirement misses the mark.

If you're apprehensive as retirement approaches, the first thing to note is that it's normal. Retirement represents a big change in your life, even if it's overall one that you're looking forward to. However, there are steps you can take to minimise these doubts and give you the confidence to live the retirement you've been eagerly planning.

Your retirement concerns

While this guide will take a look at six common retirement concerns, your worries may be very different. If you'd like to discuss worries you have as you start to think about retirement, please contact us.

We're here to help you review your finances and aspirations in context to create solutions that are right for you.

In this guide, we take a look at six of the most common concerns as you start to plan for retirement and demonstrate how a bit of planning can help you better understand your position.

1. How to withdraw money from a pension

One of the first dilemmas you may be faced with is how you should access the money saved into a pension. If you've saved into a Defined Contribution pension at some point in your career, you have several options for how to withdraw the money. However, while this gives you more freedom to create an income that suits lifestyle goals, it also means more responsibility.

The decisions you make can have an impact on income for the rest of your life and some may be irreversible; it can make it a daunting prospect.

Annuity:

An Annuity is a policy that you purchase, which will then pay out a guaranteed income for life. If you have a Defined Contribution pension this is a way to create a secure, stable income that can be linked to inflation to maintain your spending power.

Flexi-Access Drawdown:

Since 2015, Flexi-Access Drawdown has also been an option. Typically, your money will remain invested and provide an income, which can be adjusted to suit your needs, even if they change throughout retirement. As your savings are invested, there is an opportunity for them to grow, however, investments can also fall in value. You will need to take responsibility for ensuring your savings can provide for you throughout retirement.

Lump sums:

From the age of 55, you have the option to withdraw lump sums from your pension. There are two things to be aware of here. The first is that usually, only the first 25% is tax-free, the rest will be taxed as part of your income. The second is that withdrawing a lump sum may affect your long-term financial security.

The three above options don't have to be chosen exclusively either. You can blend one or more of the choices to build a retirement income that suits you.
You're also free to leave your pension where it is, which may have benefits when passing wealth on to loved ones. Alternatively, you can also withdraw your whole pot in one go; this isn't usually the most tax-efficient option and you should ensure you have a robust plan for creating an income if necessary.

What can you do?

There's no one-size-fits-all answer for what the best way to take your income is. It will depend on your priorities and retirement aspirations. Do you place a greater importance on stability or flexibility? Will your income needs change throughout retirement? Answering questions like these can help you understand which option best suits you. This is an area where financial planning can prove invaluable. We're here to go through the pros and cons of each of the options with your personal situation and goals in mind.

2. The fear of running out of money

This fear links directly to the first dilemma. Should you choose not to purchase an Annuity, you'll be responsible for when you make pension withdrawals and how much to take. There's a very real risk that you could take too much too soon, leaving you financially vulnerable in your later years. On the flip side, you don't want to live frugally and miss out on opportunities that you could have afforded. It can seem like a delicate balancing act.

What is a sustainable level to withdraw? The answer to this depends on two key factors:

1. Life expectancy:

When calculating how much you can afford to withdraw, how long you'll be making withdrawals for is crucial. As a result, considering life expectancy is important. It's worth noting here that many people underestimate how long they'll live for and there's a chance that you'll outlive the national average. What would happen if you lived for a further five years than expected?

2. Investment returns:

In many cases, your pension savings will remain invested throughout retirement, with the hope of delivering returns that maintain or grow your spending power. Investment performance will influence the figure that's considered a sustainable income. If investments were to perform poorly, for instance, it may be necessary to reduce the income you take.

With these two factors being largely out of retirees' control, it's no surprise that running out of money is one of the biggest fears as we plan for retirement.

Having this concern hanging over your head as you move into retired life can mean you don't seize experiences and opportunities even if you can afford to.

What can you do?

Understanding how your wealth and retirement provisions will change over time can be complex. Cashflow modelling can give you a visual representation here.

We'll help map out how your finances will change over retirement and demonstrate how various decisions and outside influences will have an impact. From showing how your finances would cope if you lived to 100 to the long-term impact of withdrawing a larger amount for a defined period to fund travel aspirations, cashflow modelling can give you the confidence to make financial decisions throughout retirement.

3. Reality meeting expectations

Retirement may have been something you've been idly dreaming about for years. You may have a very clear idea of what you want retirement to look like. However, sometimes reality fails to live up to expectations and can leave you feeling disappointed.

When working out whether your expectations are realistic there are two questions that need answering:

1. What is your ideal retirement?
2. And how will your assets help fund this?

The first question can be harder to answer than you think. Often when we begin to plan for retirement, it's the big things that we focus on. However, the day-to-day is just as important and will have a significant impact on your enjoyment and fulfilment. Spending some time thinking about what you want from life once you give up working is essential. Set out what your priorities are and the desired lifestyle

Now, it's time to ground those ideals in your retirement provisions. Calculating how your assets can deliver an income and the value of them puts your plans into perspective. In some cases, you may need to make compromises. But, in our experience, many of those approaching retirement are in a better position financially than they believe.

What can you do?

Take your time reviewing your goals and then your assets. Linking the two questions set out can help you live the best life possible with the assets available. With realistic expectations set out for those once in a lifetime experiences and the day-to-day as you approach retirement, you're in a far better position to turn this into a reality.

4. The unknown

While most retirees look forward to a more settled lifestyle once they've given up work, the unexpected can still happen. As you're no longer earning an income and may be decumulating other assets, those linked to finances can be particularly concerning. But you shouldn't let the fear of the unknown put you living the life you want and have planned for.

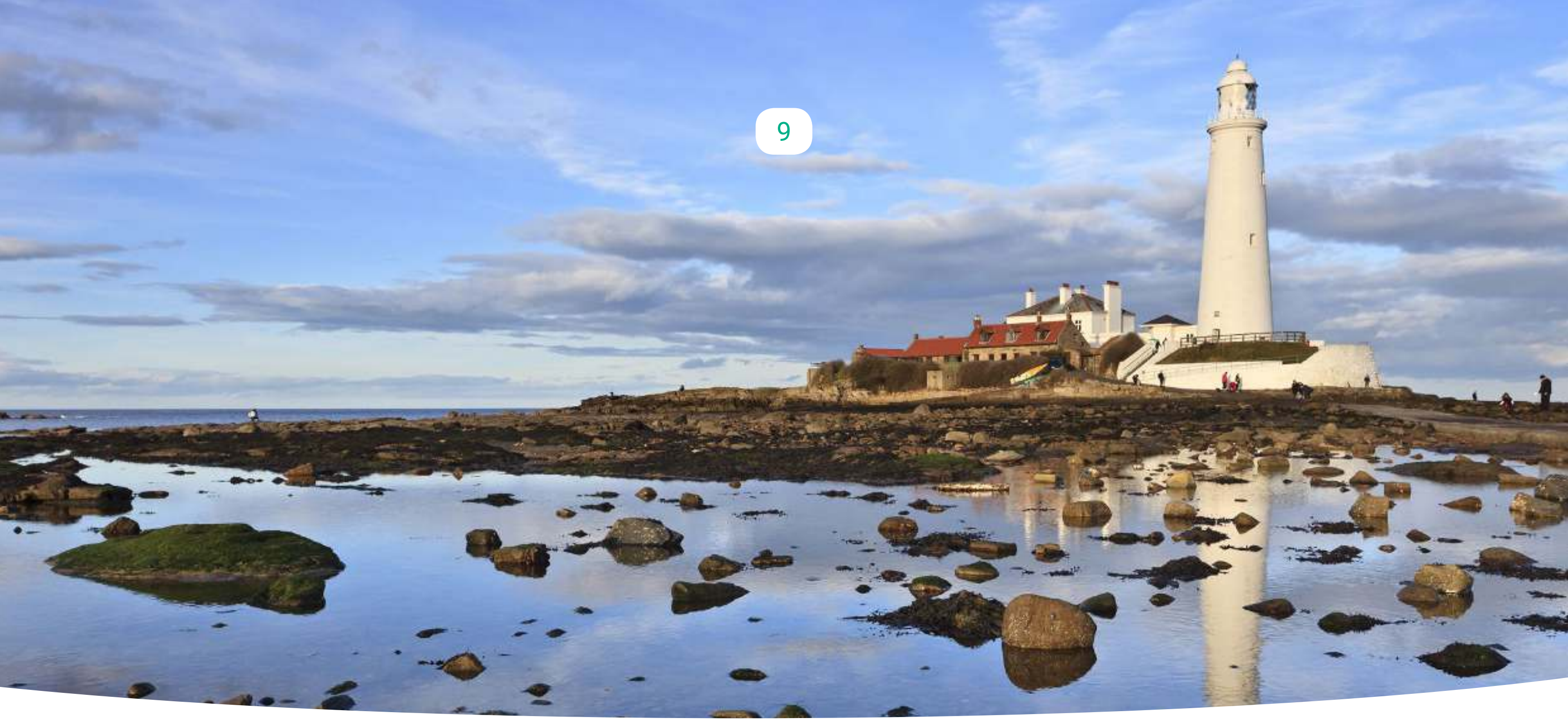
Among the concerns you may have are:

- What would happen if my investments performed poorly?
- Would I have enough to live on if my partner passed away first?
- Could I afford to cover a large, unexpected bill?
- What if an inheritance I'm expecting doesn't come?
- How will inflation affect my ability to live the retirement lifestyle set out?

Many of our fears around the unknown stem from the fact we have little control over them. However, that doesn't mean you can't plan for them.

What can you do?

Once again, cashflow modelling can help here. By providing you with a visual representation of your wealth over time and the ability to input scenarios, it can help alleviate some of the concerns you may have. Having seen the impact, you're in a position to take safeguarding steps where necessary. We use cashflow modelling as a tool to build our clients' confidence to make both financial and lifestyle decisions.



5. The cost of care

The good news is that most of us are living longer, healthier lives. But, on the other hand, as more of us live into our 90s and beyond, the number of people requiring some level of care is rising. Whilst the state does subsidise some costs, the fact is that most of us will need to pay at least a portion of care costs should services be required. As a result, it's unsurprising that care bills have been rising up the list of retirement concerns.

Research indicates the cost of residential care ranges from £27,000 and £39,000 depending on a range of factors. It's a sum that can be daunting to consider, especially if it would have an impact on your overall retirement plans.

Without a plan for the cost of care, you may find you have to settle for care that isn't in line with your wishes, you have to sell assets, or the inheritance you intend to leave loved ones is depleted.

The cost of care varies significantly depending on need and geographical location. That alone can make planning for potential bills challenging. When you add in that you don't even know if you'll need care, it's difficult to understand what steps you should be taking.

What can you do?

The key to minimising worries about the cost of care is to plan. Building potential costs into your retirement finances from the very beginning can help ease concerns you may have about future care costs. It means you can proceed with your retirement plans knowing you have a nest egg for care should it be needed.
Of course, no one knows what the future holds. There's always a chance you won't need to use the money set aside for care. So, a plan for what you'd like to do with the fund if it's not used should also be considered too.

6. Passing assets on to loved ones

Many retirees find they're in a secure position financially and want to support younger generations in some way. There are two key ways of doing this, but both may lead to concerns.

First, you could gift sums now. This has the benefit of you being able to see the impact of your generosity, as well as helping loved ones when they may be struggling. Providing a lump sum to grandchildren trying to step on the property ladder, for instance, could have a far greater influence on their finances than receiving an inheritance in 20 years' time. However, with this option, you need to consider whether taking a lump sum out of your savings now will affect your own financial security in the short, medium or long term.

The second option is to leave assets behind for loved ones to inherit. If the total value of your estate is above the threshold for Inheritance Tax (IHT), this is an essential consideration. There are often steps you can take to reduce the bill your loved ones will pay. You may also worry that your retirement lifestyle will reduce the inheritance you'd like to leave behind.

What can you do?

Estate planning can help you understand how your assets can be effectively distributed according to your wishes. If you plan to leave assets behind, writing a will is a crucial step to take.

If you're considering taking money out of your estate now to pass to loved ones sooner, cashflow planning can help you see the long-term impact of this decision. Knowing that you can support younger generations without cutting back your own retirement goals means you can proceed with confidence.

Financial planning: Giving you confidence in retirement

Underpinning the solution for reducing the six common retirement concerns set out in the guide is effective financial planning. Understanding how your provisions will support retirement goals means you're free to live retirement without being restricted by concerns.

We are here to help

The clients we have helped are proof that financial confidence leads to a more fulfilling retirement.

The reassurance that working with a financial planner brings, and knowing that your financial future is in safe hands, is immeasurable as you plan for the next chapter of your life.

If you're starting to plan your retirement and are worried about finances or simply feel that now is the time to review decisions, we're here to help:

Call us on: 0120 7297 100

Email: info@lifeplanfm.co.uk

Or use our online form **here**