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GUIDE TO RETIREMENT PLANNING

Chartered Financial Planners

UNDERSTANDING WHAT YOU'LL NEED...

"How much will I need to retire?"

You've probably already thought about it, and if you haven't, it's a big question that almost everyone will have to think about at some stage of their life.

Put bluntly, it's a difficult one to answer and one that differs from person to person.

This guide will help you reduce the difficulties in answering that question, as well as provide you with a little peace of mind identifying if you're on the right path to retiring and living the life you want.

What will we cover in this guide?

- How to save for retirement...
- Identifying your retirement goals...
- Understanding your expenditure in retirement...
- Identifying your financial needs in retirement...

By the end of reading through this guide, you should feel more at ease about planning your retirement and understand how to make sure you stay on the right path to get you there, safely, and in a tax efficient manner.

Let's be clear, this is only a guide and doesn't constitute financial advice.
To ensure you really are on the right path when planning for your retirement, please speak to a qualified financial adviser. If you have any questions after reading this, be sure to continue seeking the right path for your retirement planning by speaking to an expert.

IDENTIFYING YOUR DREAM RETIREMENT, ACCEPTING WHAT'S POSSIBLE

Retirement goals, and what they look like, truly is personal. To some it may mean having more time to spend with family, for others, it may mean travelling the world. Let's not forget those that want an expensive sports car or spend more time enjoying other hobbies like golf, watching live football/rugby more.

Whatever your retirement looks like, remember, it's your retirement and no one else's. After a life of working, building a career, who doesn't deserve to enjoy their retirement? You certainly do!

Whilst we can all have a thought and dream about what retirement looks like for ourselves, knowing how to plan and save to ensure it becomes possible can be difficult.

Most people say they'll "get round to it at some point", however, history tells us that "some point" can easily become "never". Then, before you know it, it's too late to do anything about it. A goal to retire at 55 becomes 60, then 67 and before you know it, 70+.

Creating a desirable life to live after a working life ends begins way before you approach retirement. It starts by making prudent decisions today. When retirement is the goal, saving for it cannot come soon enough. Starting too late may mean that expensive sports car never happens or those trips abroad are scaled back.

HOW MUCH WILL YOU NEED TO RETIRE?

The truth is, the amount you need during retirement will be higher than you initially think.

Of course, you can plan lots, but there really isn't any magic calculator that can tell you exactly what you'll need to save. That said, there are many ways to provide a good understanding. To begin with, calculate how much you think you'll spend each year in retirement to ensure you live the retirement life you want.

WHAT INCOME WILL YOU NEED?

To understand how big your retirement pot needs to be (how much you'll have to save from now), first identify your potential expenditure. Are you planning to help family members get on the property ladder? Are you looking to contribute to your children's / grandchildren's wedding or education? Will you still have a mortgage to pay? Do you or your loved ones need any long-term care? Or are you already imagining the keys to that expensive sports car being in your hand?

Only once you have thought about any big events in both yours and your families' lives can you begin identifying what your retirement pot needs to look like.

To help you understand more, take a look at the below examples;

Wedding costs-

The average wedding in the U.K. costs around £27,000. As a parent you can use your gift allowances to make a £5,000 tax exempt gift. However, as a grandparent this tax-exempt gift is lowered to £2,500.

Education costs

Providing opportunities to loved ones for a better education can be costly. England's University fees are now the highest in the world. The UK average cost for University is £9,250 per annum. Private education doesn't come cheap either, the average costs range from £15,000 to £32,000 and increases the older the child gets.

Healthcare

Whilst it's not a nice conversation to have, it's inevitable, our health and fitness will decline the older we get. This may mean getting residential care and depending on where you reside in the UK, it can be more expensive to receive. In London, the cost for residential care is £760 per week whilst in Essex its £832 per week. In addition, nursing care in the same regions come at a rate of £878 in London and £1,012 in Essex. If you have the means you'll be expected to contribute the bulk of the costs, this could even mean parting ways with your family home to meet these. Whilst it may not be a nice conversation to have, planning for and saving for healthcare costs could in fact save you and your loved ones a lot of potential heartache.

Expenditure

Your expenditure habits will change over the course of your retirement. At the beginning, say the first 10 years, you're likely to do all the things you originally planned for, the holidays, the nice restaurants etc. Why wouldn't you? You've worked your entire life to enjoy your retirement. If you're looking to have a luxury life, you'll need to be able to fund it. Lest we forget, you'll need more if you still have a mortgage to pay too.

MAKING SENSE OF IT ALL

So how much income are you likely to need in order to support your lifestyle in retirement?

The above sections in this guide have looked at the drivers of your expenditure in retirement. The general rule of thumb suggests your income needs are at least half of your current income, and this is just to maintain your existing lifestyle.

Current salary	Amount you'll need in retirement
£50,000	£25,000
£60,000	£30,000
£100,000	£50,000
£120,000	£60,000

HOW BIG SHOULD YOUR PENSION POT BE BEFORE YOU RETIRE?

As soon as you have a rough idea of your expenditure needs in retirement, you can then begin to identify just how large your pension pot will need to be. There's such a thing as the 'safe withdrawal rate' set by the Institute and Faculty of Actuaries that says you can take up to 4% of your retirement pot every year for 30 years before you'll run out of funds. Of course, this will largely depend upon investment returns so choose your investments carefully or take advice in making sure they are right for you.

This rate is usually used as a benchmark to advise on:

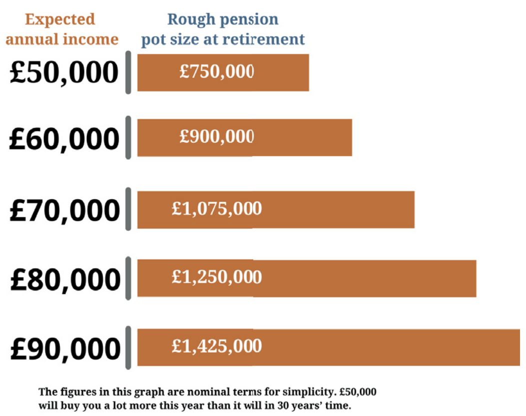
- The amount you should have in your retirement portfolio before you can retire
- The amount you can safely take as income each year – based on the assumption your retirement will last for 30 years

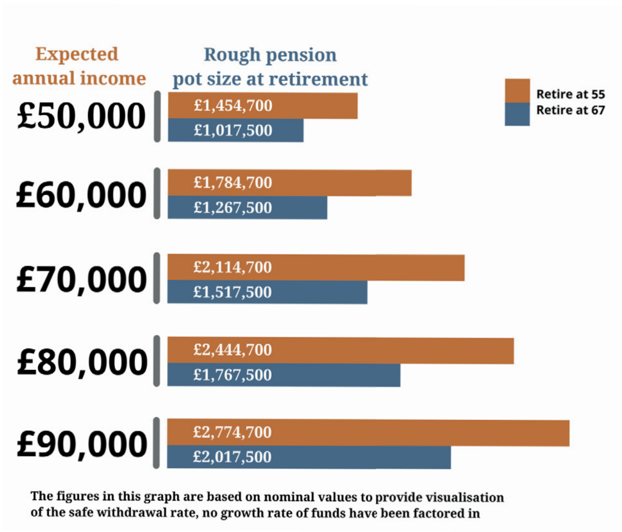
Whilst a 4% withdrawal rate might be safe for one retiree, it can cause another to run out of money prematurely, depending on factors such as asset allocation and investment returns during retirement, not to mention the time spent as a retiree.

In addition, you may not want to be overly conservative in choosing a safe withdrawal rate because it may result in living on less than is necessary during your retirement when it would have been possible to enjoy a higher standard of living. Ideally, though this is rarely possible because of all the unpredictable factors involved, a safe withdrawal rate means having exactly £0 when you die, or if you want to leave an inheritance, having exactly the sum you want to bequeath.

By taking a look at the examples on the next page, you can see if you expect to spend £50,000 each year over the course of a 30-year retirement, you'll need an overall portfolio with a value of £750,000 when you come to retire. This calculation assumes a 5% annual growth rate and you claiming the full state pension of £9,339 each year throughout your 30-year retirement.

This, as mentioned at the beginning of the guide, is just that… a guide and not an exact science. There are many factors that may impact your investments, causing your portfolio to fluctuate over the duration of your retirement.





These fluctuations can result in your investment portfolio going down as well as up. Your personal circumstances and expenditure habits will also differ from year to year, meaning the possible demands for income might change, and no doubt will, from one individual to another.

Of course, the area to consider is the length of your retirement. Unfortunately, the inevitable can occur at any time, whilst the rule of thumb (4% safe withdrawal rate) assumes it'll last 30 years, you should understand how the rate of life expectancy is increasing in the U.K.

Currently at a shade over 81 years old, it is likely to increase more by the time you eventually retire. What happens if your retirement lasts 40 years? Planning to retire for 30 years could mean you'll run out of money for the last decade of your life, it's not something you'd like to leave to chance, is it?

If you plan on retiring early, say at 55, it's likely your retirement could indeed last 40 years or more, meaning your safe withdrawal rate will get proportionately smaller to factor in the longer time spent taking income from your retirement portfolio.

You can see from the chart above, we've compared two individuals retiring 12 years apart. For the 67-year-old we've assumed a 30-year retirement with a 4% safe withdrawal rate per year, and the full state pension £9,339 for 30 years. For the 55-year-old, who's taken an early retirement, we've assumed a 40-year retirement with a 3% safe withdrawal rate per year, and the full state pension £9,339 for 30 years, kicking in when (and only when) they're 67.

SO, HOW DO YOU SAVE FOR RETIREMENT?

It will come as no surprise to you that one of the best ways you can save for your retirement is through your pension. Pension savings have attractive tax reliefs. If you're a basic rate taxpayer, your tax relief will be 20%, for higher-rate taxpayers it's 40% and for additional rate taxpayers, it's 45%.

Put simply, paying a monthly pension contribution of £1,000 would cost an additional rate taxpayer only £550 in real money.

There are obvious tax benefits for pensions which act as an incentive to utilise them for saving. The government are providing an incentive to people, so they do not have to rely solely on the state pension (which is unlikely to be enough at a mere £9,339 per year in 2021/22. With this in mind, your pension will always be in your first thoughts when planning for retirement. However, if you reach your annual or lifetime allowance, there are other options available:

ISAs

You can save up to £20,000 in tax-free cash each year in an ISA account. There are a number of ISA options available, some offer greater flexibility than others over how easily and when you can access your money (if needed).

Downsizing your property

Your home can often become a burden to some once the children have moved out and into their own property. In addition, you may find a bigger property to be lonely. It could be an option to downsize your property ahead of retirement to give your savings funds a boost, as well as reduce your difficulties of maintaining a larger property as you get older.

Venture Capital Trusts (VCTs)

Whilst these may not be for everyone, VCTs have become increasingly popular in recent times where retirement planning is concerned. VCTs are listed funds, where early-stage companies raise money from investors to support their growth. They're an opportunity to invest in exciting young companies, but they come with a high-risk warning. Because of the risk tolerance involved, VCTs carry a 30% up-front tax relief, should they be held for longer than 5 years. Due to complexities, this type of investment is only suitable for sophisticated investors and following the recommendation of a financial adviser.

General Investment Account (GIA)

These are different from any Self-Invested Personal Pension (SIPP) you may have and are treated differently where tax is concerned. Unlike a SIPP, you will pay capital gains tax on any realised gains made in your GIA and income tax will apply on any income you receive from the account. Any dividends received from your GIA investments that exceed your annual, tax-free dividend allowance or available personal allowance will be subject to income tax. Basic rate taxpayers currently pay income tax at 7.5% on dividend income. Higher rate taxpayers pay 32.5% and additional rate taxpayers pay 38.1%. Be sure to remember, your GIA will form part of your estate meaning it is subject to Inheritance Tax.

Equity Release

Many people refer to their home as their 'retirement fund'. Equity release is a way to unlock the value of your property and turn it into a cash lump sum. You can do this via several policies which let you access – or 'release' – the equity (cash) that is tied up in your home. This becomes applicable if you are 55+. You do not need to have fully paid off your mortgage to do this. As a rule, you can take the money you release in one lump sum, in several smaller amounts on which you will pay interest, or as a combination of both. Yet make sure you do it the right way as if you get it wrong, it can prove expensive.

DO YOU NEED FINANCIAL ADVICE?

Retirement should be something to look forward to, not something you dread. Of course, it can be an exciting time for anyone if it's planned for effectively. Whilst you may think you can undertake all the research and try to manage your retirement plans yourself – tracking your progress, keeping up to speed with regulatory changes and monitoring the performance of your investments is indeed a full-time job in itself.

Why not let someone take the burden for you and ensure all the above is being undertaken with your best interests in mind? Qualified financial advisers are skilled to help you plan for the life you want to live in retirement. They'll design and deliver a bespoke retirement plan that's fit for your goals and needs, review your circumstances periodically with you to help keep you on the right path to living the life you want to in retirement.

All that whilst you carry on, just as you are today, only you'll have peace of mind knowing what waits for you in retirement.

The proof is always in the pudding. Research undertaken by Vanguard, best known for their index-tracking funds, found that financial advisers can boost investors returns by up to 3% each year.

In addition, a report by International Longevity Centre (a think tank) in conjunction with Royal London found that consumers who received financial advice between 2001 and 2007 were £40,000 better off than their unadvised counterparts by 2012-2014. Of the report's many findings, perhaps the most of interest is the revelation that the lower income group benefited from financial advice even more than the affluent people did.

Following financial advice, the average saver in the lower income group had their pension pot boosted over a decade by 24% (£35,054), compared to savers in the same wealth class who didn't receive any advice. In the 'affluent' group this difference was more modest, though still dramatic – affluent people who took advice had £24,266 more after 10 years than their unadvised counterparts, an 11% boost.

So, to answer the question, do you need financial advice, the answer is simple… everyone should explore it.

WHO ARE FIDUCIA WEALTH MANAGEMENT?

We're a team of experienced, multi award-winning Chartered Financial Advisers ready to help you get the most in your retirement life. A core part of our ethos is to ensure we deliver what our clients want to achieve and what they need...peace of mind and enough money for retirement.

We are one of the top independent financial advisers in the country, highly rated on popular search sites for financial advice (Unbiased and Vouched For). Whilst our clients are located across the whole of the U.K, our head office is in Colchester, Essex. We also have offices in Chelmsford, Essex.

In addition to a holistic financial planning service, we provide financial advice to businesses, individuals and couples in one or more of the following areas:

- **Financial Planning**
- **Investment Management**
- **Pensions and Retirement Planning**
- **IHT & Estate Planning**
- **Later Life Planning**
- **Protecting Your Family**

Retirement is a major life event, we're there to help you every step of the way to ensure you have enough money to live the life you want throughout retirement. Our team are ready to help you navigate the complexities your pension and savings options add to life, preparing you financially for a retirement you can enjoy.

If you want to have peace of mind and ensure you have enough money for later life, contact us today and let's see how our experts can help you plan for the future.

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