Sovereign
INDEPENDENT FINANCIAL ADVICE

Chartered Financial Planners

Creating your perfect retirement

Let your future grow

Introduction

Retirement has changed dramatically over the years. No longer are people simply leaving a long, loyal employment at age 65 to put their feet up. As a senior executive, you are likely to have a more varied career path and very different retirement aspirations than previous generations.

Previously, being a pensioner was associated with a slower pace of life. Today, retirees are creating lifestyles to suit themselves; setting up businesses, exploring new hobbies and travelling. Of course, your aspirations will be different from the next person, and they are likely to change over time. But, research from **Aviva** found the top six things people were most looking forward to are:

1. Travelling
2. Taking up a new hobby or continuing with old ones
3. Supporting children and grandchildren financially
4. Buying a holiday home
5. Moving abroad
6. Starting a business

Your retirement may well be 10 or 20 years down the line. It's not unusual to be concerned about striking a balance between living for today and planning for the future. Retirement presents a brand-new chapter in life, and, as with many big events, planning is key.
First, you need to carefully consider your short and long-term aspirations, which should always be at the heart of your financial plan. Then, think about when you want to retire and the likely length of retirement. These factors will directly influence the finances required to fulfil your goals.

More than money

It's all too easy to focus on the financial aspect of your retirement planning. It's hardly surprising; throughout your career, you've focused on your progression and income and have hopefully been making a conscious effort to build up a valuable pension as a result.

Whilst the financial side is of course very important, not having a strategy after leaving the working world can be detrimental to your physical and mental wellbeing. It goes without saying that for most people their job makes up a big part of their identity. Work also provides us with a focus, structure and social life.

The time you spend with your colleagues is likely to be much more than the waking time you spend with your family! When you retire, you could feel like you've lost part of your identity, even if your role wasn't especially demanding. There is a solution.

Phasing your retirement

Increasing popular, and with the potential to provide the best of both worlds, phased retirement means reducing your hours and supplementing your income with your pension. You'll be freeing up very valuable time and won't be alone. According to the **Office for National Statistics**, employees over 50 now make up almost a third of the UK workforce.

Today, employers are far more flexible, and technology gives you increased options for a transitional retirement. Whether you work fewer hours, fewer days or begin freelancing, research from **Aegon** suggests that half of people in their 50s don't plan to follow a traditional retirement.

> **Many thanks indeed to the team at Sovereign. They have consistently given us excellent service and quality advice. They have always been flexible and have tailored their service to our changing needs.**

Sources of income

It's likely you'll have various sources of income earmarked for retirement. Pensions, especially for high earners, are limited by:

- Tapering of the Annual Allowance (the tax-efficient amount you can pay in, which could be as low as £10,000) and;
- The Lifetime Allowance (currently £1.055 million, the total value your pension can be without attracting additional tax)

This doesn't apply to everyone, and get in touch if you'd like to discuss your retirement income structure, but typically there are five sources:

1.Earned

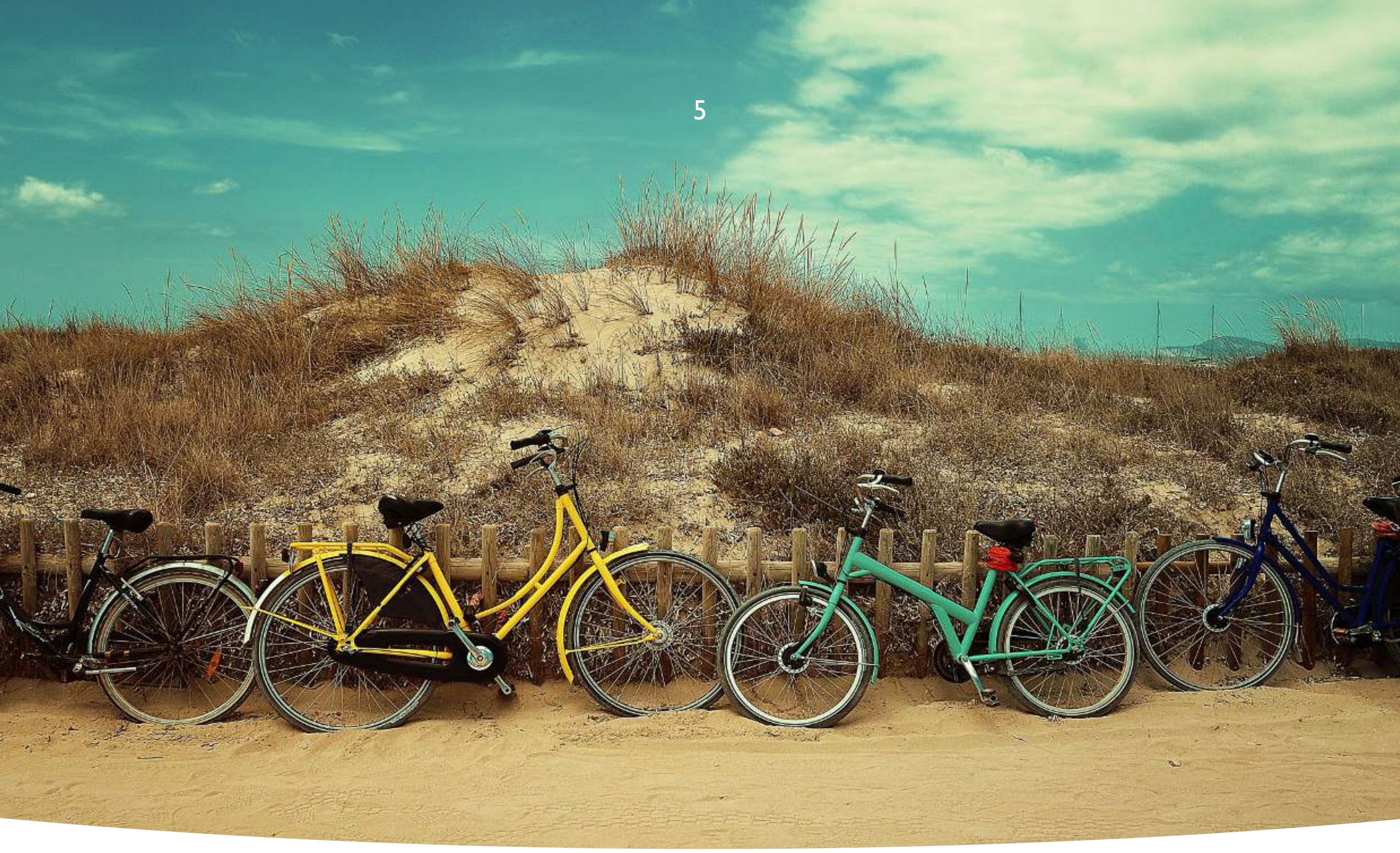
If you've decided a phased retirement is right for you, it can improve your financial security. You need to consider how regular and reliable this income might be, especially if you decide to freelance. What length of your retirement you intend to continue working is also important. At some point, it will be right to stop completely, but the timescale doesn't have to be set in stone; it might be a decision driven by other commitments or your health.

We always recommend having an emergency fund to cover unforeseen costs. Anything between three and six months expenditure in a readily accessible cash account is preferable, should something unplanned happen.

2. The State Pension

Whilst your State Pension is ultimately unlikely to make up most of your income, it does form a good foundation. To qualify for the full State Pension, you need to have paid 35 years of National Insurance contributions. For this tax-year, it would provide £8,767.20 as a stable, reliable income.

It might be worth considering deferring your State Pension until a later date. For every nine weeks you delay claiming it, your State Pension increases by 1%. If you need to check your eligibility and retirement age, there is a Gov website **here**.



3. Private pensions

Broadly speaking, there are two types of private pension:

- **Defined Benefit** (DB) otherwise known as Final Salary pensions offer a guaranteed, usually inflation-linked income for life. The level of which depends on the number of years you paid into the scheme, your salary and the schemes accrual rate (the fraction of your salary that's multiplied by the number of years).

  Not offered by many employers today, thanks to the expense of administering them, but millions of people have transferred out of their scheme in favour of a (often quite sizable) lump sum. However, by doing so, they forfeit the guaranteed income and any secondary benefits. If you have a DB scheme, whether to transfer out depends on many circumstances. Often, it's a good idea to leave it alone, but it's essential to seek financial advice, no matter what lump sum you are offered.

- **Defined Contribution** (DC) pensions such as Personal Pensions, SIPPs and Stakeholder schemes are much more popular today. The value of a DC scheme and the income they ultimately provide depends on the value of contributions you and your employer pay in, tax relief and investment returns over time.

Your DB pension should be invested in line with your attitude towards investment risk, and regularly reviewed to ensure the portfolio remains appropriate. Depending on the level of risk you are comfortable taking, volatility should always be anticipated. But, pensions are a long-term investment, so short-term fluctuations in a properly managed scheme shouldn't cause concern.

You might have multiple DB schemes from previous Workplace or Personal Pensions. Understanding exactly what you have is the first step to structuring your retirement income. In some circumstances, consolidating them can be the best way of ensuring your portfolio is well managed and regularly reviewed.

Structuring your Defined Contributions pensions income is much more flexible since the introduction of Pension Freedoms in 2015. From age 55 you are able to withdraw as much or as little of your pension as you like to spend as you please. Effectively, there are three different ways to take Defined Benefit income:

- **Lump sums:** Usually 25% of your pension is available to be withdrawn tax-free. Above this and you pay Income Tax on the remainder. If you're taking out a large amount above the tax-free allowance, the amount of tax you're liable for can be significant. As a result, it may not be the most efficient way to immediately access income. You'll also need to ensure that your pension will continue to deliver the income required to support you for the rest of your life.
- **Flexible withdrawals:** Pension Freedoms introduced a flexible way to take your income, known as Flexi-Access Drawdown. This allows you to adjust the amount you withdraw to suit you or even halt withdrawals. If you want to change how much income you take from your pension over time, this can be a good option. You may decide you want to take less income initially, as you plan to continue to work, then take a greater level for a few years as you enjoy your freedom.
- **An Annuity:** Purchasing an Annuity used to be the standard step retirees took when they reached the milestone. It's a way of securing a guaranteed income throughout your life; you take the money accumulated in your pension and buy a guaranteed income. The level of income offered will vary between providers, so it's important to shop around. To calculate how much you'll receive, a provider will look at a range of factors, including your pension value, your age and health.

  Purchasing an Annuity means your retirement income is less flexible than other alternatives, but the trade-off for this is security; you don't have to worry about running out of income in later years.

"You have been an absolute star, and explained all so well. Made us both feel comfotable too."

4. Investments

With a little luck and a little more foreplanning, you'll have Individual Savings Accounts (ISAs), General Investment Accounts (GIAs) or other investments to supplement your traditional pension income. In some circumstances, it might be wise to spend these first, as Pensions can usually be passed to family free of Inheritance Tax when you die.

If you've not reviewed your investments recently, now is the time. Your investment portfolio should be diversified and remain in line with your tolerance to risk and capacity for loss. If your investments are not monitored on at least an annual basis, you run the risk of this falling out of important measures.

5. Property

It's often said that Brits are obsessed with property. Figures from the **Office for National Statistics** (ONS) suggest it's true, with almost half of us believing using bricks and mortar is the best way to fund retirement.

For most who are planning to use property to fund retirement, it will be through the home they're living in. Thanks to high property prices, it's very likely that your home is one of the largest assets you own, which could potentially fund your later years. Traditionally, retirees have downsized to access property wealth. But the ONS figures reveal it's a measure few want to take now. Whether it's an emotional attachment or cost of moving, just 23% expect to downsize to generate retirement income.

The alternative is Equity Release.

This is the term used for a range of products that let you sell some of the equity in your home while retaining the right to live in it. The loan is repaid when you move into long-term care or die. You can receive payment as either a lump sum or over several, smaller amounts. If you want to boost your retirement income by using your property without moving, Equity Release might well be the right option for you.

As with all retirement planning, whether you should use property to fund your lifestyle depends on your personal circumstances. If you're using property, it should be part of a wider, risk aligned portfolio that's been put together with your aspirations in mind. Seeking the support of a financial planner can help you assess if property is the right retirement provision for you to invest in.

How Sovereign can help

Everyone's retirement objectives are different. Whether you want to travel, spend more time with family or start a new venture, preparing for retirement requires careful forethought. As we all move towards this next stage of our lives, we begin to assess how we can maximise our money for retirement. But, where to start?

If you're hoping to retire in the next ten years or sooner, you're probably looking for guidance, reassurance and answers:

- How much is enough?
- When can I afford to retire?
- Should I phase retirement?
- How should I structure my income?
- What are my ambitions and will I be able to fulfil them?

We are here to help answer those questions. Call one of the Sovereign team on 01454 416 653 or email **hello@sovereign-ifa.co.uk** to begin your journey.

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