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Keeping your retirement on track despite Covid-19

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Introduction

Retirement has changed drastically in the space of a few generations. Lifestyle choices and how you take your retirement have evolved. More and more workers are considering a 'phased' retirement. And there are now more choices than ever when it comes to taking your pension income.

As well as these factors, you're also having to deal with the effects of the coronavirus and how it may have impacted your retirement plans.

Thinking about how you want to retire is important when considering the effect the pandemic may have. According to research conducted by Aegon, 'traditional retirement' has changed to 'transitional retirement' with 50% of over-50s now looking to ease themselves into life after work. This transition could have a positive influence on how you keep your retirement on track, despite the impact of Covid-19.

If you're approaching a point where you want to cut back your work commitments, the shift towards a transitional retirement means you have far more freedom. This freedom is something that can benefit you greatly when planning the next stages of your life.

However, you will have challenges to overcome, and options to consider.

How will coronavirus impact your retirement plans?

- When do you want to retire?
- What do you want from your retirement?
- Do you have enough savings to support your goals?
- How will you take an income from your pension?
- Will your income last for the rest of your life?

Looking ahead to retirement:

Retirement is an exciting time and something you've been looking forward to. However, it's normal to have concerns, especially with the impact of Covid-19.

But planning and understanding the lifestyle you want and how your income will let you achieve this can put your mind at rest.

Understanding your options, from achieving your aspirations to accessing your pension, is crucial to your wellbeing and fulfilment. Preparation is key; it can help you get the most out of your life and retirement provision once you decide to give up traditional working life.

Putting wellbeing and fulfilment at the centre of your plans

One of the things you might be asking yourself is 'will the coronavirus pandemic impact my retirement plans?'. It could be a major worry for you, and one that is having an impact on your overall wellbeing.

Indeed, a recent study by Legal & General found that as many as 1.5 million workers aged over 50 could delay their retirement as a direct result of the Covid-19 pandemic.

According to research, when asked what they were most looking forward to in retirement, those approaching the milestone responded:

- Travel (47%)
- Taking up a new hobby or continuing with old ones (29%)
- Supporting children and grandchildren financially (21%)
- Buying a holiday home (15%)
- Moving abroad (15%)
- Starting a business (10%)

This list gives a snapshot of what your hopes for retirement might be. The key thing to note as you plan your retirement is that it can be what you make it.

To keep your retirement on track, your aspirations need to be placed at the heart of your plans. This will give you a complete view of what you want to achieve. From there, it's a case of working out how you can afford to achieve them. When planning for life after work, we tend to focus on the financial side of things. It's hardly surprising - throughout your working life you've probably been reminded of the importance of saving into a pension and monitored your investments to track the income they're projected to deliver. This is certainly an important step now, as market volatility caused by the coronavirus pandemic could affect your investments, and therefore pension.

Research from Aegon found that 63% of pension savers are anxious about their retirement savings. Older generations that will have saved more into a pension and may be nearer to retirement are the most concerned.

While the financial aspects of your retirement are important, you still must consider the emotional and wellbeing factors.

As Legal & General Retail Retirement CEO, Chris Knight, says: "While it would be naive to say that these financial issues will not have an impact on people's ability to retire, it's important for people to have a strong understanding of the options available to them before concluding that their retirement needs to be delayed or forgotten indefinitely."

Merging the financial and psychological aspects of retirement planning can be challenging, especially when taking into consideration the impact of the coronavirus pandemic. You may find that adjustments need to be made, but more often than not, we find that those approaching retirement are actually in a better position than anticipated.

Keeping your retirement on track

With the ongoing coronavirus pandemic, you might be worried about your pension and how it may affect your retirement plan. The pandemic has created uncertainty in economies around the globe. As a result, stock markets have experienced shocks and, over the first few months of 2020, markets have seen significant drops.

What impact has coronavirus had on pensions?

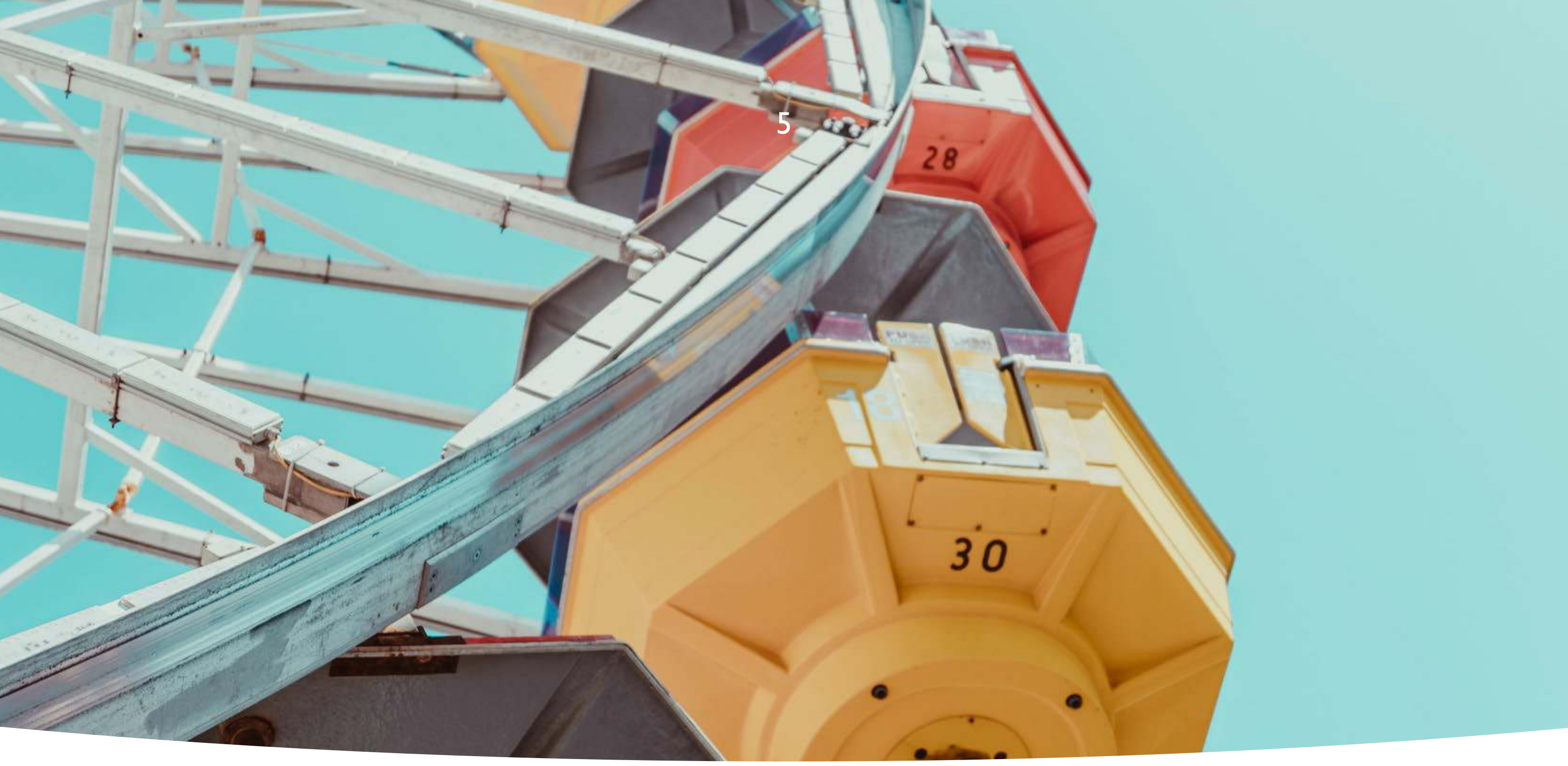
For most people, pensions will be invested. This gives your pension an opportunity to grow over several decades. However, it does mean your retirement savings are exposed to market volatility.

The full impact of market volatility will depend on where your pension is invested. It's important to keep in mind that a pension doesn't just hold stocks and shares, but other assets are used to create balanced portfolios. So, while you may see in the news that the stock market has fallen 20%, it's unlikely your pension will have suffered a fall on the same scale.

If you're worried about your pension, you should check its value. However, it's important to keep in mind that short-term volatility is always to be expected, even more so in tumultuous times such as the Covid-19 outbreak.

You should try and keep the bigger picture in mind. The impact coronavirus will have on retirement plans will depend on what stage you're at. For example, those early in their career and saving would probably not be as concerned as those retiring soon.

But what can you do to keep your retirement on track? Here are four ways.



1. Maintain your contributions

As a result of the pandemic, Aegon reported that 20% of over-55s who hadn't yet accessed their pension before Covid-19 have since withdrawn money, and 12% are considering doing so. The research highlighted that the pandemic is forcing a wider rethink of retirement plans as almost one in five people reported they were planning to change their retirement age.

Given the current economic uncertainty and uncertainty among savers, those still paying into their pension may consider reducing or pausing their pension contributions. However, even a relatively short break from making pension contributions can have a long-term impact.

You should keep in mind your own contributions will benefit from tax relief and, if you're still employed, you'll benefit from contributions from your employer too. As a result, by stopping or pausing your own contributions, you're effectively giving up this 'free money'.

If you find you can't continue to make contributions, be sure that you understand the long-term impact and what it could mean for your retirement plans.

2. Don't rush into financial decisions

With bold headlines and falling values, you may be tempted to adjust your investments or make larger withdrawals from your pension to keep it 'safe'.

However, you should remember that a pension is a long-term investment. Because it's long term, a pension will have considered the impact of short-term market volatility. You should keep this in mind if you're thinking about making a knee-jerk reaction to the current market movements.

Making rash decisions is something the Association of British Insurers (ABI) has warned about. Yvonne Braun, Director of Policy, Long-Term Savings and Protection at ABI, said: "Rushed financial decisions are rarely the right ones, even at this worrying and uncertain time. Lockdown will not last forever but the decisions you make today about your pension could impact on your standard of living for years to come.

"Now, more than ever, it is important to think longer term, consider your options and seek advice and guidance before making any decisions."

3. Review your portfolio

While the media focuses on the fall that shares have experienced, it's unlikely your portfolio is made up of equities alone. Your portfolio is likely to contain a mix of assets, which can help cushion the fall seen on global markets. You may have seen that the FTSE fell 30% due to coronavirus, but it's unlikely the value of your pension has experienced a similar fall.

In addition, markets have started to tentatively recover. They haven't reached the levels they were at earlier in the year, but the fall isn't as significant as it was.

If you're worried about reading headline figures, looking at your own portfolio is likely to show the impact of volatility isn't as bad as you first imagined.

4. Assess withdrawals if you're accessing your pension

A dip in the value of pension investments isn't usually something to worry about if retirement is some way off. If, however, you're already phasing into your retirement and your pension is in drawdown making withdrawals, it's worth assessing the impact these will have.

As you'll need to sell off more assets to receive the same income as you'd have done at the beginning of the year, this can deplete your retirement savings quicker. Where possible, temporarily stopping or reducing withdrawals can help your pension go further.

Phasing your retirement: Is it right for you?

Planning your retirement is obviously an important step. Maintaining your planning and keeping it on track whilst considering the effects of the coronavirus is essential to realising your next steps.

However, before you decide to retire and tap into your pension fund, there are some questions to answer:

- When will I retire?
- Will Covid-19 impact my retirement date?
- And will I continue to work?

In the past, these questions weren't much of an issue for most approaching retirement. You simply gave up work on a set date and started your retirement the following day. In addition, there wasn't a 'once in a generation' pandemic to factor in.

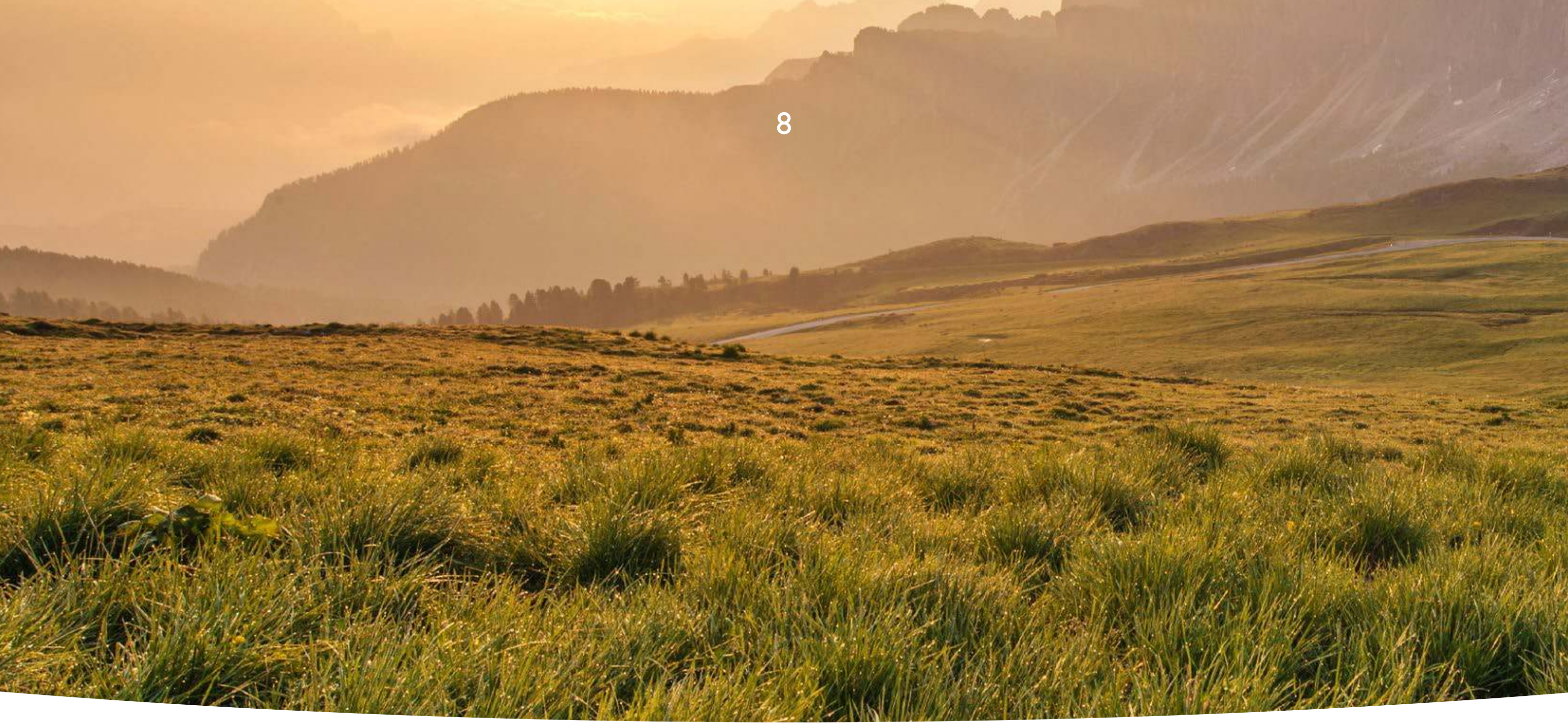
It's now more common and desirable to take a phased approach to retirement, continuing to work in some way. In fact, according to official figures, workers over the age of 50 now make up just over a third of the UK workforce.

Continuing to work may also be an option due to the impact of Covid-19. This could reduce any fears you have over your retirement plans as a result of the pandemic.

This approach may suit a transitional path to retirement, phasing out your working life rather than stopping it on the spot. Workforces today are far more flexible and digital technology gives both employees and workers options to facilitate a transitional approach. According to research, among the most favoured approaches to a phased retirement are:

- Working fewer days (70%)
- Reducing hours worked per day (44%)
- Flexible working arrangements (33%)
- Increased holiday entitlements (20%)

The above options provide you with ways to work flexibly while still maintaining your current job or a traditional position. The combination of technology and businesses wanting increased flexibility means you're in a far better position to keep your retirement plans on track.



Why would you continue to work in retirement?

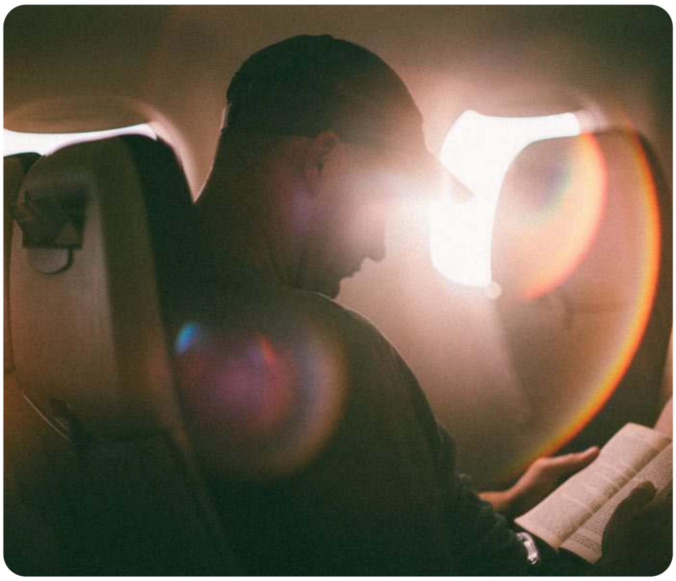
The thought of working might be the last thing you want to do, especially in your retirement. But it's an option that appeals to many and there could be a variety of motivations as to why you'd want to take that route.

For some, money will play a clear role in this. If you don't have enough retirement provision to meet your aspirations, working for longer in some form provides you with a way to increase income in the short and long term.

It also allows you to top up your pension if you've been impacted by the coronavirus. Given the economic uncertainty the pandemic is causing, maintaining contributions can have a long-term positive impact on your final pension amount.

As well as this, our career makes up a big part of our identity. After years of building up your skills and experience, you may not feel ready to let go of your position entirely just yet. Work provides us with a focus, structure, and social aspects, that may still be important to you. So, you might not be ready to let all that go just yet.

Finally, when you factor in improving life expectancy, it's not surprising that more people are choosing to work during retirement either. With modern retirement lasting 20, 30 or even 40 years, it may be possible to mix continued career development and goals with the increased leisure time you want.



Financial implications of continuing to work

Continuing to work may mean for you that your retirement plan is kept on track, even with the impact of Covid-19.

Finances may play a role in your decision. By continuing to work, will you:

- Need to supplement the income you earn?
- Need to access your pension savings?
- Take a tax-free lump sum from your pension?
- Defer or claim your State Pension when it's available?

If transitioning your retirement is for you, Pension Freedoms do give you more flexibility to blend an income from work with your retirement provision. However, you'll need to carefully consider the tax implications of how you access any savings, as well as the sustainability of the withdrawals you're making.

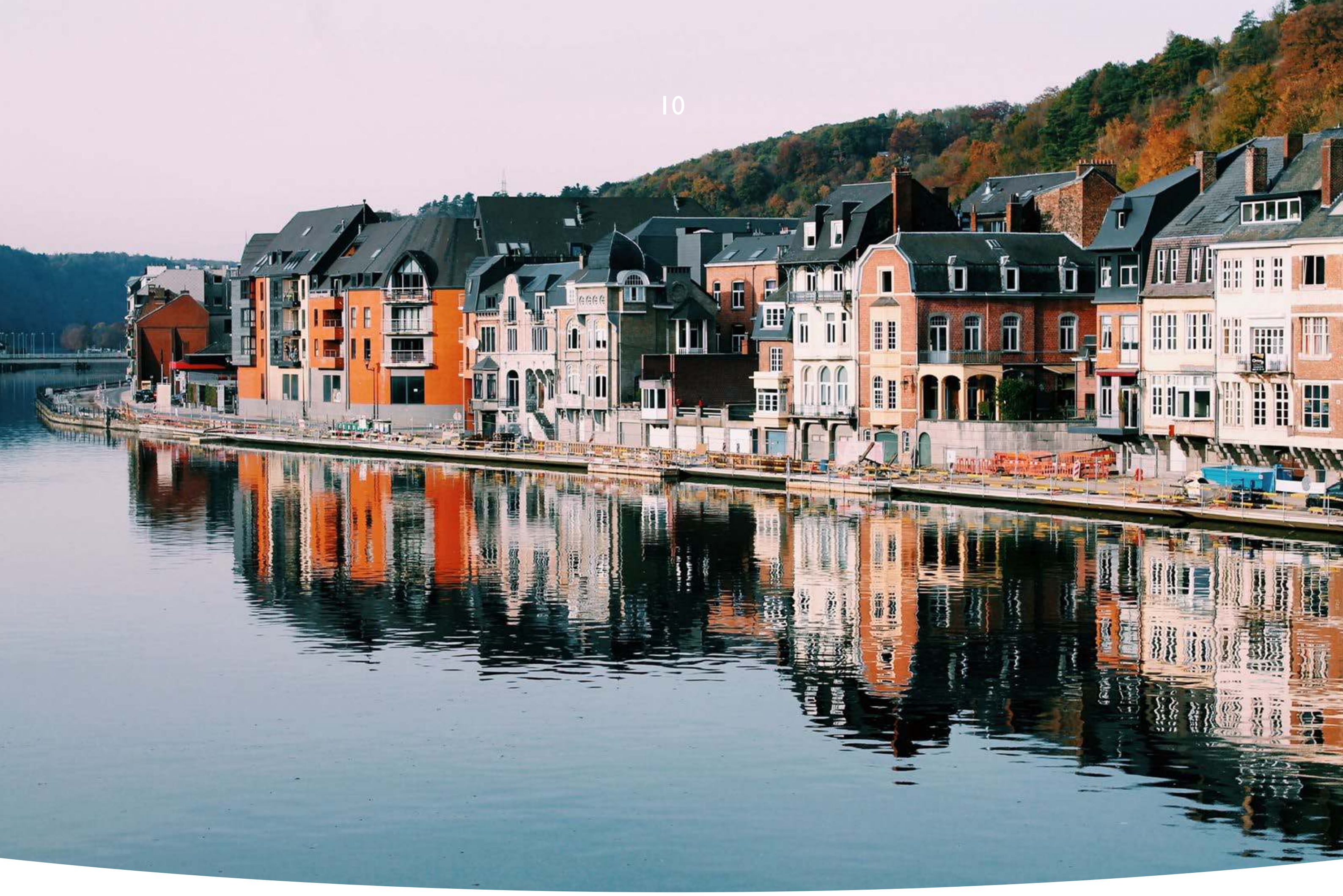
Calculating the financial impact:

Should you decide to work, getting your head around how tax legislation will affect you can be complicated. But it's crucial to understand it before you proceed with plans. If it's an area you're struggling with, we're here to help.

The Personal Allowance for the tax year is £12,500 in 2020/2021. If you receive income above this amount, including money taken from your pension, you will pay Income Tax. And, if you're earning an income from work and accessing pensions, it can be easier to slip into higher tax brackets than you realise.

Another implication is your pension Annual Allowance. If you choose to carry on working, you may still be paying into a pension. This is fine, however, if you choose to start withdrawing benefits from a pension, your Annual Allowance will decrease to £4,000 annually. It means you may have limited opportunity to replace the funds withdrawn.

Understanding the potential tax implications of continuing to work can help get the most out of your money and keep your retirement on track.



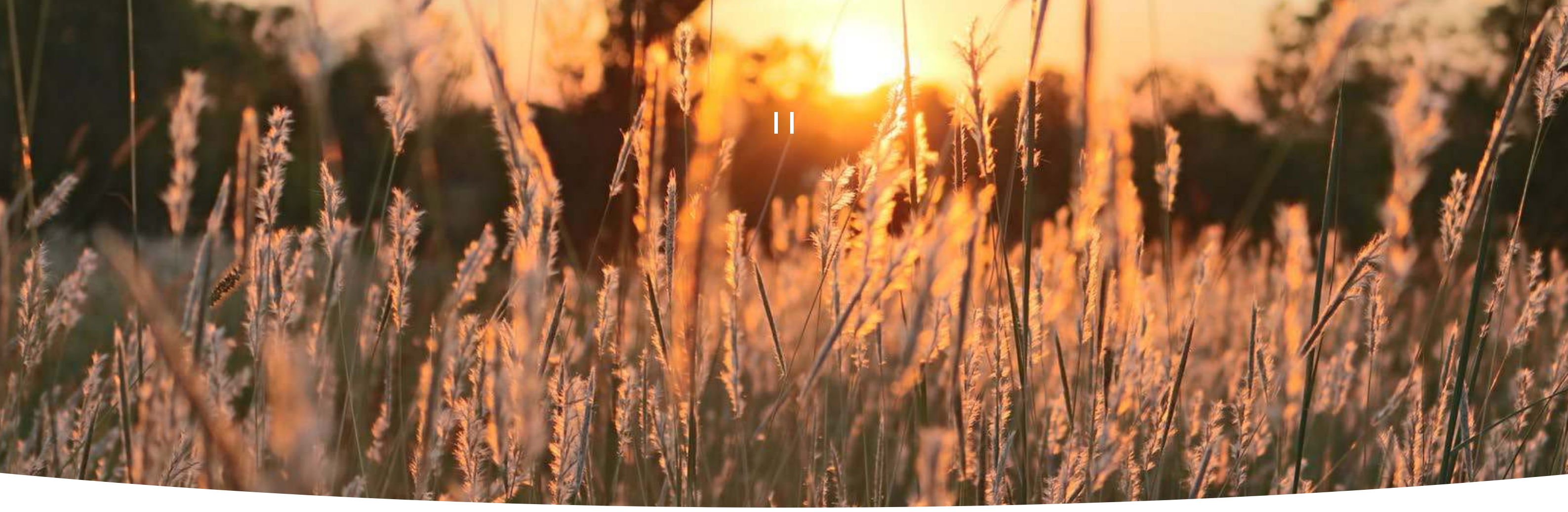
Understanding your retirement provisions

Once you've planned out how you want your working life to look as you approach retirement, you need to look at the provision you've built. This is a vital step for all retirement plans, whether you want to carry on working in some capacity or not.

While money shouldn't be your only thought in your retirement, it's obviously an important factor. After all, it'd be difficult to fund your retirement aspirations without it. Most people in retirement find they have multiple sources of income.

While useful in many ways, the different income streams can make it difficult to understand how your retirement provision will support you. However, by breaking them down into key areas, it can help you see what you can expect to receive. Below are five key areas to consider when calculating your retirement provisions, and how they may have been affected by Covid-19.

- Working income
- State Pension
- Defined Benefit pensions
- Defined Contribution pensions
- Other assets



1. Working income

First, if you're following the trend for working during retirement, the income you earn should be factored in. Depending on how you phase from your working life, into your retirement will influence how much your working income will support you.

If you decide a phased approach is right for you, it can improve financial security in the short and long term. It gives you added security, should you feel it necessary to top up your pensions. However, you should be mindful of how reliable your income from work will be. For instance, if you choose to try your hand at freelance or launching a business, your income may fluctuate during the year.

Understanding how your work decisions may affect the money coming in allows you to put a contingency plan in place where necessary.

Another key thing to define is how long you intend to work for. If you are worried about the effect Covid-19 has had, and you decide to carry on working to increase your retirement pot, it doesn't have to be set in stone. You can change your mind at a later point. However, having a long-term plan can help you decide how best to access other retirement provisions and calculate how long they will support you for.

2. State Pension

For many, a State Pension will provide a foundation for their retirement income.

To qualify for the full State Pension, you must have 35 years of National Insurance contributions on your record. For 2020/2021, the weekly State Pension is £175.20; £9,110.40 annually.

It's a sum that's unlikely to cover your plans for retirement. However, it does provide you with something to build on and a stable income that you can rely on.

If you choose to work or have other forms of income, you may decide you don't want to access your State Pension straight away. It can be a worthwhile decision in the long term; for every nine weeks you delay claiming, your State Pension will increase by 1%.

Make sure you check both your State Pension age, which is rising, and your NI record before you start making retirement plans. Click here to find out more.

3. Defined Benefit pensions

A Defined Benefit (DB) pension scheme, sometimes referred to as a Final Salary pension, is often considered to be the 'gold standard'. This is due to the often-generous income it delivers on retirement, auxiliary benefits, and the fact the responsibility to meet income commitments falls to the trustees.

When you join a DB scheme, the calculation that will set the income you receive in retirement will be pre-defined. It will usually be based on three key factors:

1. The number of years you paid into the scheme
2. Your salary, either a career average or your final salary
3. The accrual rate: this is the fraction of your salary that's multiplied by the number of years you've been a member to calculate retirement income.

With Defined Benefit pensions, any investment risk is carried by your employer. The pension you receive will be based on the three factors above.

However, if your employer ceases trading – perhaps as a result of the coronavirus pandemic – your pension could be affected. While the Pension Protection Fund is designed to offer protection if your employer becomes insolvent, there is a cap and so you could receive less than you expected. Making decisions about your pension based on short-term events and circumstances can have long-term consequences for your financial wellbeing and retirement. Before making any major decisions about your pension, it is important to get independent guidance or advice.

4. Defined Contribution pensions

Defined Contribution (DC) pensions are the most popular way to save for retirement. Since the introduction of auto-enrolment in 2012, ten million people have begun saving into a DC pension.

A DC pension is a pot of money that's typically invested with the plan to grow over your working career. In most cases, contributions come from three sources:

1. Employer contributions
2. Employee contributions
3. Tax relief

A question you might be asking yourself is: what is the impact of Covid-19 on my Defined Contribution pension pot? And does it mean my retirement is still on track? If you're currently paying into a workplace Defined Contribution pension scheme and have several years before you are planning to draw on your pension, then you are less likely to be affected. In time, it is likely that markets will recover and so will the value of your pension pot.

If you are close to or considering retirement, your pension scheme may well operate a policy of 'lifestyling'. This means your pension investments will be, or have been, moved into predominantly less risky funds such as cash, gilts, or bonds as you are approaching (or have already reached) retirement age.

This doesn't mean your pension won't be affected, but the impact should be considerably less than if you had remained invested mainly in shares. However, not all pension schemes automatically implement 'lifestyling' so you may want to check what type of funds your pension is invested in.

If your pension is still invested mostly in shares, it is important not to panic. Over time, it is likely markets will recover. Depending on when you are planning to retire, you may have to consider taking a lower income or retiring later.

5. Other assets

While pension savings typically make up the core part of a retirement income, you probably have other assets you'll use at some point too. When you're weighing up your retirement provisions, including these can help to build a more complete picture.

Even if you don't intend to use these assets, understanding the value and how accessible they are can provide you with more confidence as you step into retirement.

Among the assets you may have to fund retirement are:

- Cash savings
- Investment portfolio
- Property
- Inheritance

Bringing different streams together:

Retirement income rarely comes from one source. It's more likely to be a patchwork of different saving pots, investments, and other assets. You may even have multiple pensions. When planning, you need to bring these different income streams together to fully understand how much you'll have throughout retirement. You may also be concerned about how Covid-19 will affect your retirement plans.

Depending on your situation, this may be complex but it's an area we can provide support in.

Balancing aspirations with pensions

Once you've considered the lifestyle you want, assessed the impact the coronavirus will have on your plans and the retirement provisions you've made, it's time to bring them together. This is an area we can help you with.

Balancing your retirement goals with savings, while also assessing the impact of the coronavirus, can be difficult. But it's important to get advice and build a plan that works for you. We're here to help you make sense of both sides of the retirement plan, giving you the confidence in your finances to meet your aspirations.

If you're making plans to retire now, whether you'll continue to work in some form or not, please get in touch.

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