depledge
STRATEGIC WEALTH MANAGEMENT

Financial Planners
Chartered

# 12 steps to the retirement you deserve

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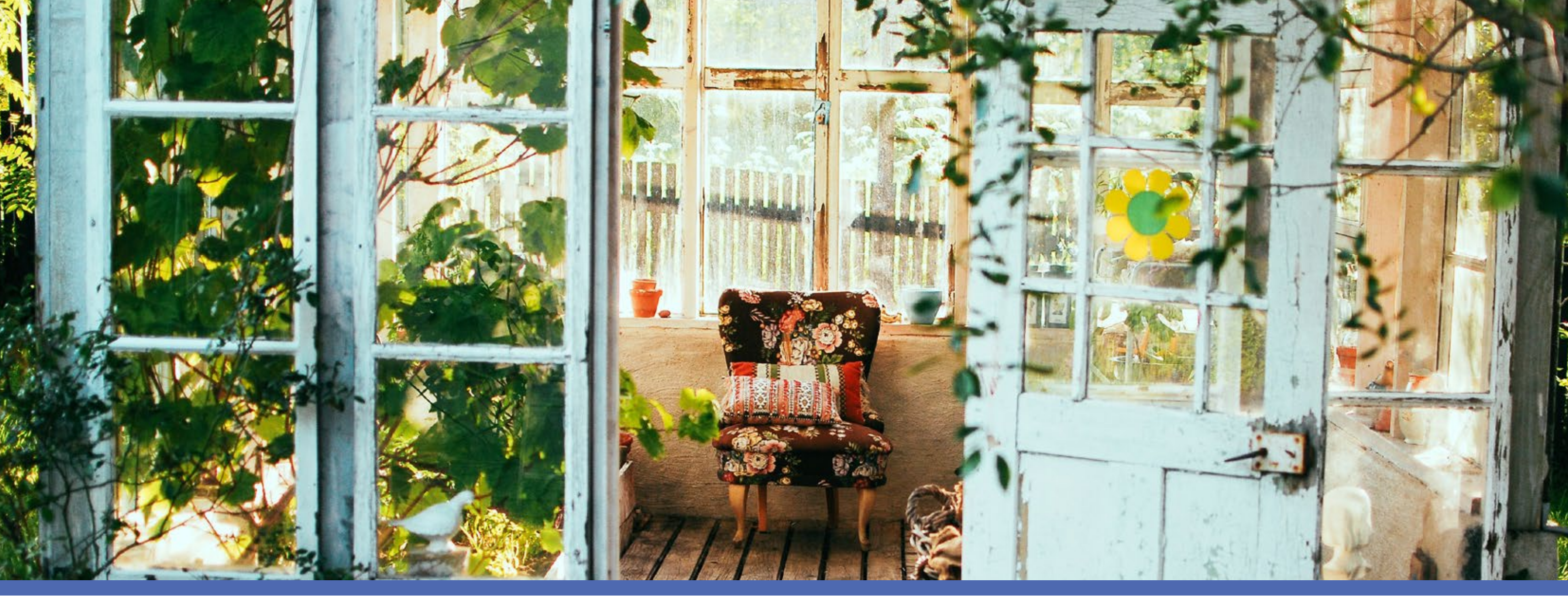

Your 40s and 50s are the time when you are likely to be consolidating your career. You've worked hard to get to where you are now – maybe through a series of different jobs, or possibly building your own company from scratch. Either way, you'll be enjoying the rewards of your work – a nice house, comfortable family life, and decent holidays abroad – Covid-19 permitting.

You may have also started thinking about retirement – perhaps just very hypothetically, with high-level outline plans around what you'd like to do.

It's likely that up to now most of your financial arrangements have been more transactional rather than part of any wider holistic plan. You'll probably have a mortgage with some associated life cover and maybe you'll have paid some regular contributions into pension arrangements – either through an employer-sponsored scheme or your own personal plan.

Now is the time to start pulling the different threads together to make sure you have a coherent plan that will take you through the remainder of your working life into a well-deserved and rewarding retirement.

Even if you're in your 40s and still consider yourself to be at least 20 years away from retirement, a few simple actions you can take now could make a massive difference in the years leading up to retirement, and the quality of life afterwards.

In this guide, you'll discover 12 steps to the retirement you deserve. These retirement tips will make a positive impact on your life - but only if you put them into practice. For help in creating your perfect retirement, speak to us - email **info@depledgeswm.co.uk** or call **0161 808 0200**.

## 1. Draw up a retirement plan

It's never too early to put your retirement plan in place, nor too late to revisit it. When you're thinking about your plan, you'll want to ask yourself some key questions:

- When do I want to retire?

You'll have a retirement date in mind, based on when you think you'll want to retire or when you've calculated that you can afford it. As you approach this date, you should consider whether it's still viable.

Have your circumstances changed since you last checked-in with your plan? Maybe you've had an unexpected inheritance or now have to cover the cost of a divorce? Can you bring the date forward, or does it need pushing back?

- What do I plan to do in retirement?

Having an idea of what you plan to do once you've retired will inform how much you'll need to save now. Plans for extensive overseas travel will obviously require a larger pension fund than spending more time with your grandchildren or on your allotment.

If your plans have changed, how does this impact the amount of money you might need? If you need a larger fund, will you have to push your retirement date back?

- How long will my money need to last?

Life expectancy is increasing. Office for National Statistics (ONS) data for the period from 2016 to 2018 show the average male lives to age 84 and the average female to age 86. So, if you're looking to retire at 66, bear in mind that your pension fund could need to last for at least 20 years.

You should take time to set out your current cash flow, considering all your regular outgoings. Then do the same exercise based on what you want to do in retirement. Is your current pension provision sufficient to cover your desired lifestyle for 25 years?

Next step – Put together a retirement plan to help you focus your financial planning goals. Don't forget to regularly review it as your circumstances change – we can help you with this.

## 2. Review your existing pension arrangements

The bulk of your income in retirement will likely come from the pensions you have contributed to during your working life. The old stereotype of a job for life - stopping work on the Friday to start your retirement on the following Monday - are long gone. Moat people now have several different jobs during their working life.

So, it's likely you could have a series of different work-based pensions as well as any personal arrangements you may have started yourself. It's worth spending time making sure you have details of all your existing pensions and getting up-to-date values for each.

There is a Pension Tracing Service to help you find any pension details you may have lost track of.

As well as values and projections for your planned retirement date, you should also check the full details of the type of arrangements you have:

- Do they offer flexible access?
- What funds are available?
- What charges are you currently incurring?
- Are there any potential guaranteed benefits?

Once you have a clear idea of all your pension arrangements, you might want to consider consolidating them into a single arrangement.

Rolling all your small pension pots into one means you don't have a whole series of statements to keep an eye on. Instead, you'll just have one plan with a single view which can be much easier to review and manage.

Consolidating also means you can potentially reduce the pension and investment charges you're currently paying. It could also give you access to a wider choice of investment funds.

However, professional financial advice is important if you're thinking of consolidating. You need to ensure you don't give up any valuable benefits, such as guaranteed income, by transferring out of your current plans. You may also incur fees for consolidating various pensions into one.

In particular, financial advice is normally compulsory if you're considering transferring out of a Defined Benefit scheme (sometimes known as a Final Salary scheme) – more about this later.

Next step – Put together a schedule of all your pension arrangements. If you're not sure of any of the details, you can use the government **Pension Tracing Service** to help you track down old plans.

## 3. Maximise your pension contributions

It's never too soon to start saving for your retirement, and the tax advantages mean it's an incredibly effective and efficient way to save money.

If you're a basic-rate taxpayer, the government will top up any contributions you make by 20%. So, for every £100 contribution you make to your pension, you'll only pay £80. That's an immediate 20% growth on your pension investments, without you actually having to do anything.

Additionally, if you're a higher or additional-rate taxpayer you'll get basic-rate relief at source when you make any contributions, but you can also claim additional relief at your marginal tax rate through your tax return.

And, the sooner you start contributing to a pension, the better. This table shows the value of a £500 per month investment over different terms to age 65, assuming 4% investment growth each year.

| Starting age | Value at age 65 |
| --- | --- |
| 35 | £343,756 |
| 40 | £255,256 |
| 45 | £182,516 |

Source – Calculatorsite.com

Please note – these figures are not guaranteed and are for illustrative purposes only. The returns you get could be higher or lower than this. The figures used are gross, and do not take into account the impact of charges, nor do they include pension tax relief.

As you can see, a delay of just five years can have a massive impact on the final fund. In this example, five years' worth of contributions totals £30,000, yet the impact of that money not being invested means a drop of more than £88,000 in fund value at age 65.

If you're already contributing to a pension plan, consider increasing your contributions, and review the amount you put in each year as your salary goes up.

Next steps – Review your finances and see how much you could realistically contribute to your pension. If you are already paying into a pension, consider increasing your contributions on a regular basis.

## 4. Review your Defined Benefit (Final Salary) pension

Benefits from a Defined Benefit pension scheme are very valuable. They provide a guaranteed income for life which is based on your salary and length of time in the scheme.

If you've been a member of such a scheme, you should contact the scheme administrators and ask them to provide you with a current benefit statement. This will show what your pension is currently worth, and what you could expect it to be at retirement. It will also confirm the pension that will be payable to your spouse or partner when you die.

Many schemes also provide a tax-free lump sum at retirement, and your benefit statement will also confirm this.

Together with your State Pension, the income you'll get from a Defined Benefit scheme will provide a guaranteed income stream throughout your retirement that can form an important part of your retirement planning process.

Next step – If you've been a member of a Defined Benefit scheme, obtain full details of the benefits available from the trustees of the scheme. This will give you a good idea of the guaranteed income you can expect from the scheme when you retire.

## 5. Check your State Pension entitlement

In 2020/21, the full State Pension is currently £175.20 per week – which works out to just over £9,000 per year. This isn't a massive amount – certainly not enough to enjoy a comfortable retirement – but it's a guaranteed monthly amount that will increase every year, and it should cover the basic essentials such as your utility bills and food shopping.

The amount of State Pension you receive will depend on the number of 'qualifying years' you have, and any gaps in your National Insurance contributions (NICs). To get the full amount you'll need 35 qualifying years of NICs.

You should be aware that if you have gaps in your NICs, you may not receive the full amount. You can request a forecast to find out exactly how much your State Pension will be when you retire. Ask your financial adviser if you're unsure.

Next step – Request a State Pension forecast to establish what you'll be entitled to, and at what age.

## 6. Regularly review your holdings

You should review your pensions at least annually. It's important to check things are on track and that your investment profile still matches your plans and aspirations.

However, you should remember investments are for the long term, so try to avoid being tempted to switch investments because a particular fund has had a bad year.

For example, the FTSE 100 index has had a healthy average annual return of 6.8% since 1984, but during that period it fell by 31% in 2008, as well as being adversely impacted by other cataclysmic events such as the 'dotcom bubble' in 2000/2001 and the recent Covid-19 virus.

Next steps – Review your pension arrangements now – we can help with this – and then annually or more frequently as you get closer to retirement.

> Depledge do a wonderful job at managing and advising on my investments and financial health. I trust the team totally to achieve my financial goals, both short term and long term, and as I move towards retirement.
>
> I am confident that my financial future sits in good hands.
>
> Kim
> Client since 2010

## 7. Consider your investment strategy

How you invest your pension fund can be crucial to the success of the fund.

Different investments carry varying levels of risk. Higher risk investments have the potential for higher investment returns, but equally have a greater chance of sudden short-term losses.

Generally, if you're still some years from retirement, you can look to invest for more growth potential, knowing that over the longer-term higher risk investments should deliver higher returns although there are no guarantees.

As you get closer to retirement, however, a sudden drop in fund value could impact on your plans to retire, as it may take time for your fund value to recover.

Investing can be complicated, and we'd strongly recommend you get financial advice.

Next step – Review your current pensions to see where they are invested. Call us if you'd appreciate help in making sure your portfolio is aligned with your goals and tolerance for risk.

# **Case study** Pension and ISA success story

Good financial advice involves more than investment selection. Smart decision making, creative solutions, and maximising opportunities are equally important.

### Background

In 2007, a new client contacted Depledge seeking advice about her pension arrangements. Her total fund value at the time was £56,000, and she'd had little growth over the preceding six years.

### Advice and recommendations

We started helping the client build her pension fund. We looked to maximise pension contributions because of the tax advantages available, and to contribute as much as possible as her earnings increased. We put together an effective investment strategy designed to help the client grow her fund based on her attitude to investment risk, time to retirement, and capacity for loss.

### Outcome

Thanks to maximising contributions and an effective investment strategy, by January 2014 the client's fund was worth £370,073.

The table on the following page shows the increasing value since then, together with the continued contributions made.

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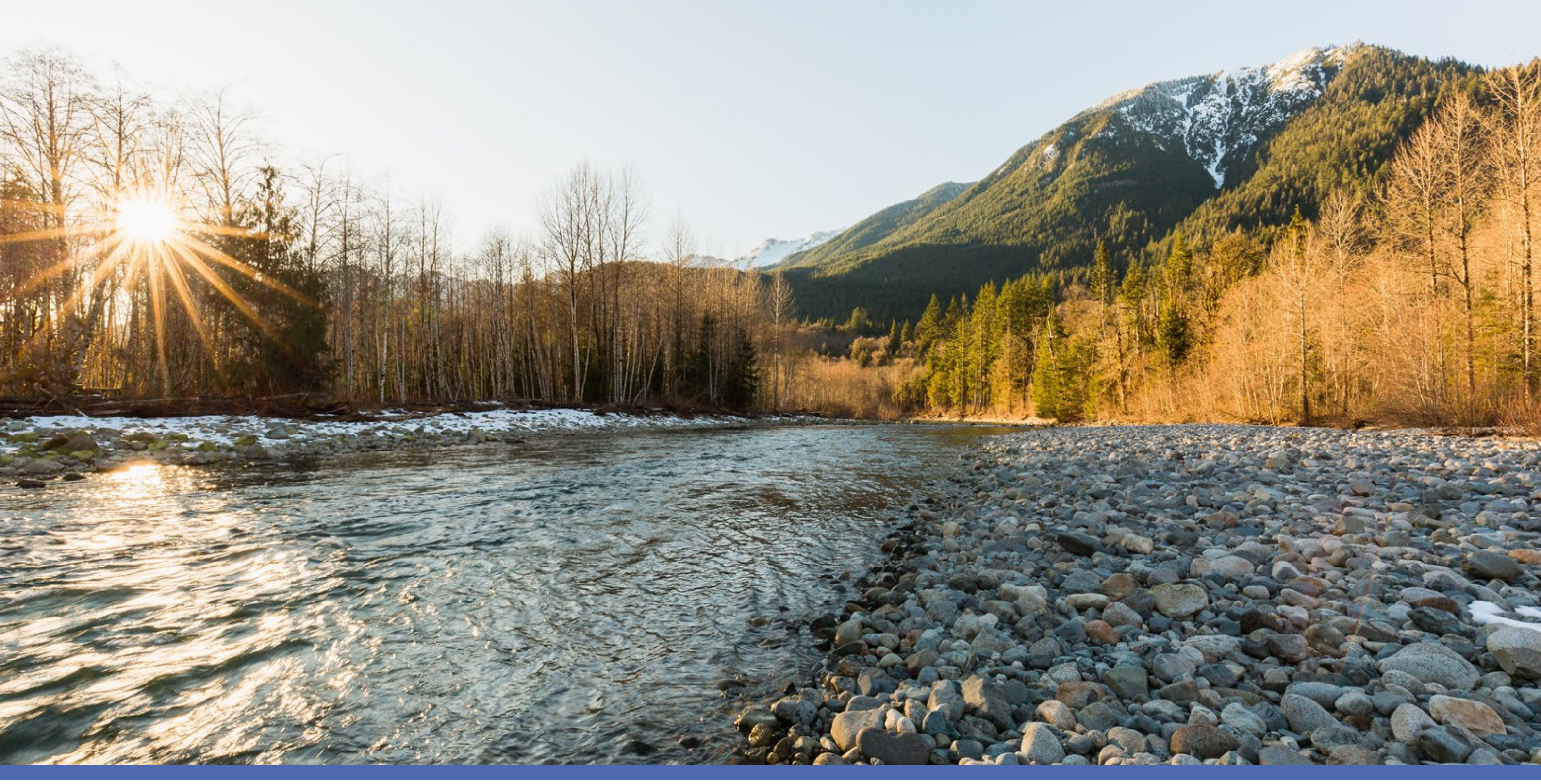


| Date | Pension Value | Growth since January 2014 | Contributions since January 2014 |
|---|---|---|---|
| January 2014 | £370,073 | - | - |
| January 2015 | £459,210 | £89,137 | £52,201 |
| January 2016 | £498,304 | £128,231 | £91,201 |
| January 2017 | £607,589 | £237,516 | £134,201 |
| January 2018 | £694,810 | £324,737 | £173,201 |
| January 2019 | £678,993 | £308,920 | £179,774 |
| January 2020 | £775,130 | £405,057 | £197,750 |

### Current position

As illustrated in the table, contributions since 2018 have been restricted due to limitations on amounts that can be paid into a pension through the Tapered Annual Allowance

Instead, the client has maximised contributions into her Individual Savings Account (ISA) to the extent that in July 2020 the ISA was valued at £348,469. This gives the client a separate fund to draw tax efficient income from in retirement.

### Looking ahead

We will continue to advise the client as she moves towards retirement. We'll suggest the most effective and tax-efficient way to take income from her accumulated funds – now totalling over £1.1 million. We'll also continue to review her investment portfolio ensuring that the fund selection remains appropriate to meet her changing needs in retirement. Finally, we'll ensure that any remaining wealth is passed tax efficiently to her family when she dies.

## 8. Check your spouse/partner's pension holdings

As well as looking at your own pension arrangements, you should also consider the arrangements held by your spouse or partner and incorporate these into your planning considerations.

Remember you can contribute £2,880 a year into a pension for someone even if they aren't earning. Contributions on their behalf also attract tax relief at 20%, which makes them an ideal savings vehicle.

You should look at your respective pension contributions to ensure you're getting maximum tax efficiency on the contributions you jointly make. For example, if your spouse is a higher-rate taxpayer it could be beneficial to contribute more to their pension and less to yours to receive higher rate tax relief on more of your combined contributions.

Next steps - Check the pension arrangements held by your spouse or partner. You can use the **Pension Tracing Service** to find any pensions they might have.

## 9. Think about your other retirement provision

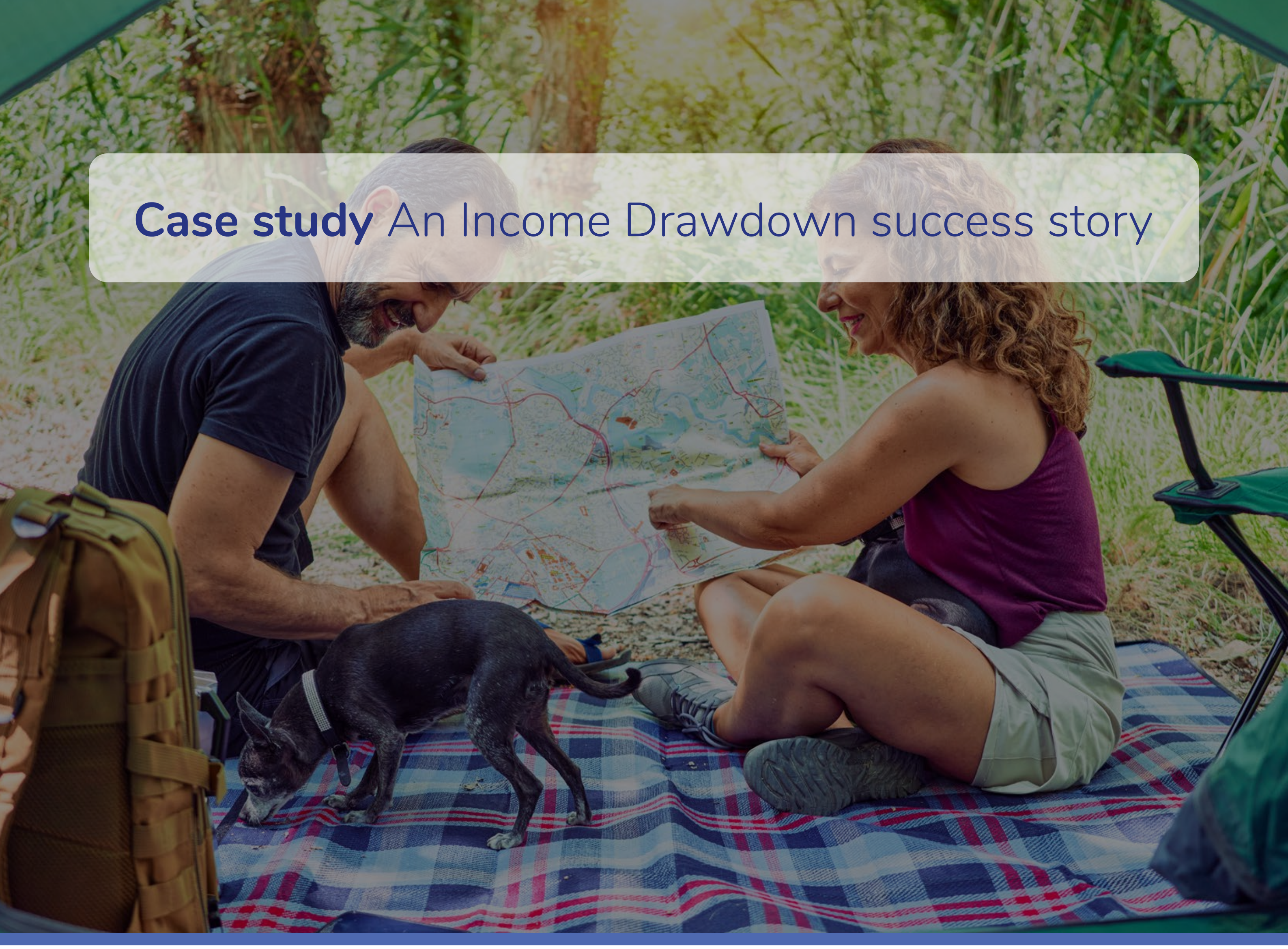
As well as pension arrangements, you should also consider the other assets you, and your spouse or partner may have that could form part of your retirement income planning.

Other possible sources of retirement wealth could include:

- Individual Savings Accounts (ISAs). The current subscription limit is £20,000 a year and it can pay to maximise this valuable, tax efficient savings option as far as possible.
- The equity in your property. You may want to consider downsizing to a smaller property once you've retired – maybe somewhere quieter or closer to your family.
- Other savings and investments such as shares or Premium Bonds
- Any possible inheritance you might anticipate.

Next step – Include the value of all your financial assets in your retirement income planning.

# **Case study** An Income Drawdown success story



Effective retirement planning doesn't stop when you retire. It's essential to put a robust retirement income planning process into place to ensure that your investment strategy can continue to work in retirement, allowing you to draw the income you require to meet your needs.

## Background

A company director became a Depledge client in 2000, prior to his retirement at age 65 in 2002. When he retired his fund was worth £878,247.

## Advice and recommendations

The client took the maximum tax-free lump sum from his fund and moved the remaining sum of £717,455 to Income Drawdown.

We put together an investment strategy for the client, based on the knowledge that initially he'd be continuing to work and therefore needed to draw down less income from his fund, but would ultimately stop work and look to increase income in retirement.

## Outcome

Over the years, the income the client has withdrawn from his fund has fluctuated markedly, driven by his changing personal circumstances and unforeseen events.

Since 2002, a total of £715,512 has been paid in income from the fund – almost the exact value of the fund originally moved to Income Drawdown.

However, the investment strategy we put in place, and have regularly reviewed, has been effective enough to mean that £613,095 remains in the fund.

This will be enough to meet the client's remaining income needs, and the investment strategy remains in place. Eventually, the remaining fund will be passed to his wife, if he predeceases her, or his children.

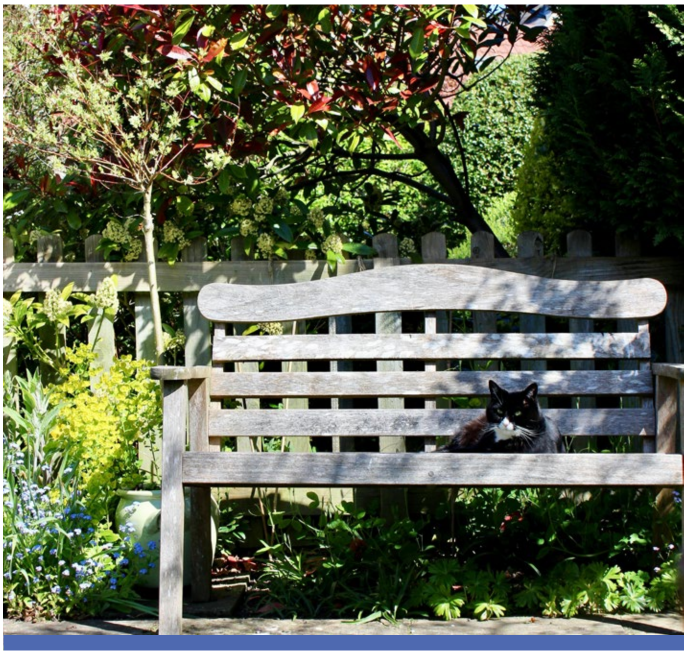
## 10. Clear your debts

If you still have high-interest unsecured debt such as credit cards or overdrafts, now's the time to put a serious debt repayment plan in place, and to stick to it.

The interest you'll be paying on credit cards will typically be in excess of the average growth you can expect on any pension or ISA investment, so your first priority before concentrating on saving for retirement should be to clear any outstanding debts.

Focus on paying off the highest interest cards first. Once you have paid these off, consider diverting the money you were paying on debt into pension contributions or other savings.

Next step - Talk to us to see how we can help you manage your debt in the run-up to retirement.



## 11. Make sure you have a plan for if the worst happens

As well as planning for what you want to do in retirement, it's also crucial to make plans for what happens to your loved ones if you die before you reach retirement, or if you're unable to look after your financial affairs.

There are three steps you should consider -

- Ensure you have adequate life cover that will pay out a lump sum to your family on your death
- Set up a Lasting Power of Attorney. This will ensure that, if you're unable to look after yourself, your financial affairs will be looked after and managed by someone you trust.
- Make a will and ensure your spouse or partner does so too. This will ensure you don't die intestate and will reduce stress for your family at an emotional time.

Next steps – Make sure you have suitable life cover, a will, and a Lasting Power of Attorney in place. We can help you with the arrangements for all three.

## 12. Speak to an independent financial planner

Throughout this guide, you'll have seen continual references to the importance of financial advice when it comes to ensuring you have the correct plans in place for your retirement.

Getting advice can also be beneficial and actually increase your wealth. Research from the International Longevity Centre has suggested that the value of financial advice could equate to £47,000 over the course of a decade.

An adviser will also be able to help you with all the aspects of investing we've covered in this guide, from how much to invest, working out your attitude to risk, and the best ways of helping you achieve your financial aims.

They will also be able to help you with the various taxation implications associated with pensions.

> I have relied on Andrew for investment and pension advice over a period of 13 years. Now, approaching retirement, I feel reassured that, as a result of that advice, I am financially secure.
>
> John
> Client since 2011

## How Depledge Strategic Wealth Management can help you

As Financial Planners, we take a holistic approach to your lifestyle and finances; we never simply sell you a product and walk away.

The things we discuss in our in-depth initial conversations will form the basis of our process and ensure your money is best placed to provide the lifestyle you want – both now and in your retirement.

If you're looking for a trusted, experienced, and highly reputable financial planner, we can help. As a Chartered and Pension Transfer Gold Standard firm, we're committed to high standard of ethics, exceptional service, and client support.

New Model Adviser have also named us one of the top 100 financial planning firms in the UK in each of the last six years. We have also been certified to the British Standards BS8577 and ISO22222 which very few firms can demonstrate.

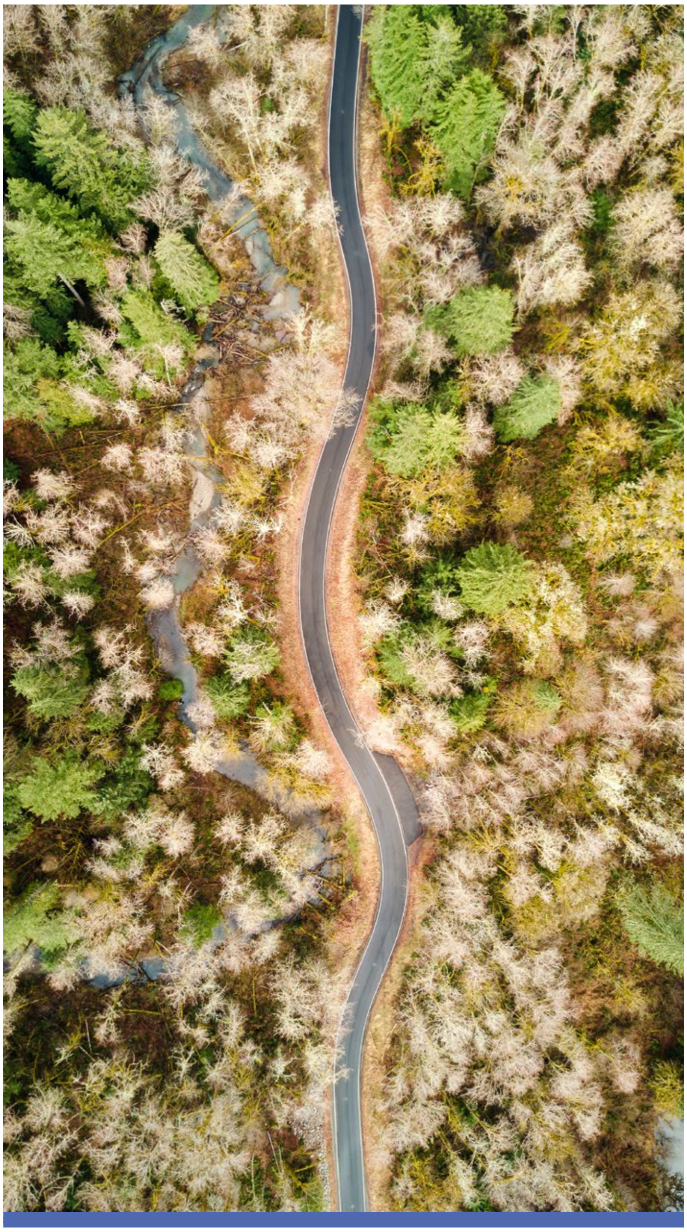
Overall, we aim to provide the highest quality advice at very competitive fee levels with an emphasis on communicating in plain English.

If you'd like to find out more about how we can help and support you with your retirement planning, then email

info@depledgeswm.com

or give us a call on

0161 8080200



Please note

A pension is a long-term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Your pension income could also be affected by the interest rates at the time you take your benefits.

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change, and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up, and you may get back less than you invested. Past performance is not a reliable indicator of future results.