Hartsfield Planning

Financial planning in retirement

What do you need to be thinking about?

Introduction

This guide is for people in retirement. You may be already retired completely, or partially there. If you're semi-retired then you'll probably have a clear timeframe of when you want to take that final step and stop working.

Retirement should be a time of relaxation and enjoyment after forty years or more of working. It's a chance to do more of what you want, whether that be travelling and ticking some items off the bucket list, taking up a new hobby, or spending more time with your grandchildren.

But it goes without saying that your financial position will be a key decider in whether you're able to fulfil your retirement dreams.

Many issues will impact your finances during retirement. The aim of this guide is to set out some of the areas you should be focusing on, help you feel more prepared for the future and give you some practical guidance on where you can find answers to your questions. By taking control of your finances, you can gain the peace of mind and sense of security that are essential if you want to enjoy your retirement.

We hope you find this guide useful, but if you still have questions after reading it then please do get in touch; we'd be only too happy to talk through your options.

1. Your income

First, let's consider the various sources of income you might be in receipt of and what you need to think about with each.

- **Income from your pension fund**

If you're one of the majority of retired people currently drawing down income from your pension fund, you need to think about whether you are taking the right amount.

If you have a regular shortfall of income each month, you might need to take more from your fund. If you find you have a regular surplus, it's worth considering reducing the amount you're drawing down, leaving it invested with the possibility of increasing in value.

We'll look at Cashflow Planning and how to manage your income later in this guide.

- **Your state pension**

If you're not yet receiving your state pension, it's a good idea to check to see when you will start receiving it. Changes to pension legislation mean that the traditional ages of 65 for a man and 60 for a woman no longer apply.

You can check to see when your pension will start and how much you'll be entitled to, here: https://www.gov.uk/state-pension-age

- **Other state benefits**

It's also worth checking to see if you're entitled to any other state benefits. You can check to see what you may be entitled to here: https://www.moneyadviceservice.org.uk/en/articles/benefits-in-retirement

- **Other pension funds**

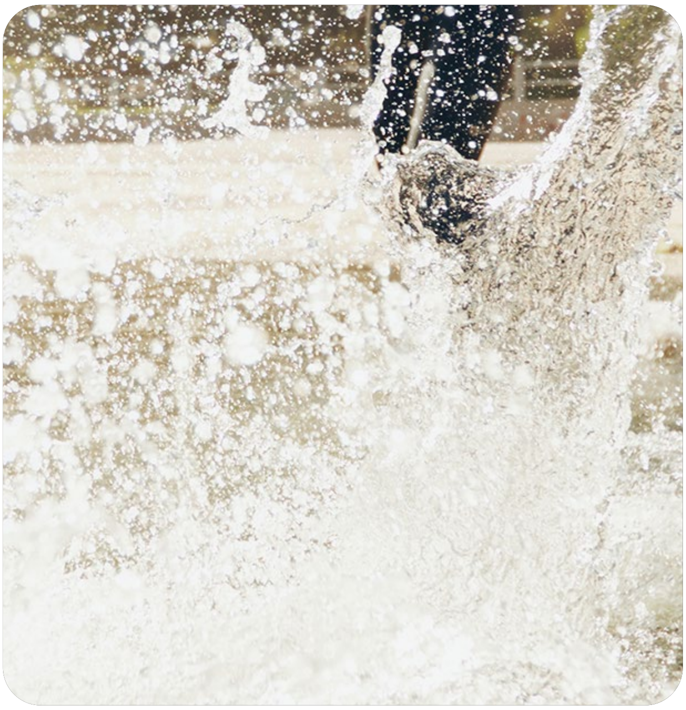
Find out if you have any other pension funds you weren't aware of. It's possible that you might have paid into a company or personal pension for a period and have overlooked that plan in the past. It happens more frequently than you might think!

Remember that many pension providers have changed their name or been subject to takeover, so you might not immediately recognise the name on any statements you've received.

The government have set up a website to help people find pension funds they've lost track of. You can find it here: https://www.gov.uk/find-pension-contact-details

- **Wages from employment / self-employment**

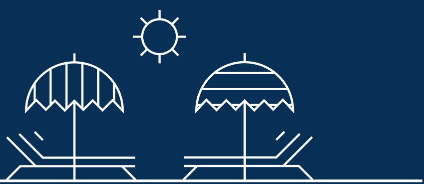
Another possible income source will be your wages if you're still working. We'll look at that next.



For what matters most

We recently asked our clients what mattered most to them about their retirement:

"That it starts as early as possible and lasts as long as possible"



*All quotes and statistics from Hartsfield 2020 Client Survey

2. Employment / Self-employment

The lines between working and retirement are far more blurred than they used to be. The days of leaving the office on a Friday evening and starting your retirement on the following Monday are in the past. Retirement is far more flexible, with people choosing to reduce their working hours before stopping altogether, working on a consultancy basis, or not retiring at all. Some people see retirement as an opportunity to start up a business venture or learn a new skill.

If you're in this position, and are still working in some capacity or other, do you have a clear idea when you want to stop working? Of course, you're under no obligation to stop work if you're happy doing what you do. Working can create structure and routine, as well as providing a regular income stream to enhance any existing pensions you're receiving.

Along the same lines, if you've stopped work, have you considered maybe starting again on a part time basis for the same reasons? A lot of companies are looking for older people to join them – they are often more reliable, experienced and are able to mentor younger workers.

If you are still working, it could be worth having an outline plan of when you'd like to stop work, so your cashflow planning process can take that into account and reflect a reduction in regular income

> Recent Office of National Statistics figures show that 21% of people aged 65-69 are still working. In May 2019, the number of people over 70 still working had doubled in ten years.

3. Cashflow planning

Once you're retired, and your income becomes more fixed with little opportunity to increase it, cashflow planning becomes all the more important to your financial wellbeing.

It's worth regularly reviewing how much you're spending and how this is impacting on your short, medium and longer term financial plans.

- **Short term**

Make a list of your essential outgoings and compare this to your monthly bank statement. By doing so, you can check that you're paying out the right amounts and you're not paying for anything you don't need or want.

Doing this also means you can identify any regular overspend that you're having to dip into your savings to cover.

Take some time to also regularly check for other possible cost savings, such as changing energy suppliers, and identifying services that provide discounts for those who are retired.

- **Medium term –**

Think about any big spending plans you may have in the near future. These could include things such as house maintenance, a new car or a big holiday. If you would like to help out your children or grandchildren financially with things such as a house deposit, or school and university fees, then factor those in too.

Do you have specific plans in place to pay for these, or will the costs be covered from your existing savings? If you haven't already started saving for them, you will need to earmark some of your regular income and set it aside for your medium term plans. Do some research into savings plans; many banks offer higher interest rates for fixed term savings that won't be touched for a certain period – say 3 or 5 years.

- **Longer term**

We consider property in more detail elsewhere in this guide, but when thinking about your longer term plans, think about how long you'll want to stay in your current house and whether you factor in plans for an eventual move.

Likewise, your future health will be an important consideration when thinking about your longer term financial plans; the cost of care fees, or possible adaptions to your property if you decide to stay living where you currently reside, indefinitely.

We'll look at the wider issue of inheritance and tax planning later.

4. Review your pension investment

Your pension fund is crucial. Together with your state pension, it's providing the income you'll be living on for the rest of your life. You should therefore be looking to review it regularly – annually is probably best, and your financial adviser should be involved in that review.

When you retired, your adviser will have recommended an investment strategy for your pension fund. This will have been based on many factors, including the size of your fund, how long you could reasonably expect to live, your retirement plans and your attitude to risk. Those factors will continue to impact on how your fund is managed

- **The size of your fund**

The amount you have in your pension fund will obviously have a key bearing on how much you can take as income. By taking income, you're reducing the size of your fund. This can be offset by investment growth on the remaining fund. It's therefore important to consider how much you take each year, and the anticipated investment growth that could offset this.

- **Longevity**

Office of National Statistics (ONS) figures show that in 2020, an average male aged 65 should live to 84. For women, the figure is 86. Your fund will very likely need to last you for as long as you live, so you'll need to bear in mind just how long that could be when you're reviewing your pension fund.

- **Your plans for retirement**

It's possible that the plans you had when you first retired may have changed, either through external factors, or driven by changes you yourself have made. For example, you might have already ticked off some of the items that were on your wish list, such as overseas travel or a new car. Also, your family commitments may have changed – you might have new grandchildren, or your children may need financial assistance with a house purchase.

Any changes should be taken into account when you're reviewing your pension fund, as they may impact on how much you want to take, and how the fund is managed and invested.

- **Your attitude to risk**

Attitude to risk is commonly expressed as a number between one and ten; one being very risk averse and ten being very speculative.

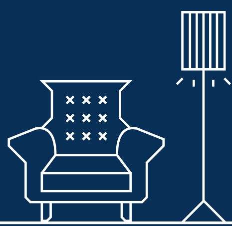
Now you're in retirement, it's entirely possible that your attitude to risk will have changed, and you should therefore reconsider how and where your pension fund, and other savings, are invested.

You should also consider how a sudden market downturn could impact on your income planning. Most pension plans are unit linked, so you will need to sell more units to provide income when markets fall. Lower risk funds will generally lose less value when markets fall than higher risk funds, so you might want to consider earmarking a proportion of your fund to be invested on a low risk basis to provide for a few years income if you think upcoming years maybe be financially turbulent.

For what matters most

We recently asked our clients what mattered most to them about their retirement:

"Comfort. The prospect of being able to 'live' rather than just 'exist'"



*All quotes and statistics from Hartsfield 2020 Client Survey

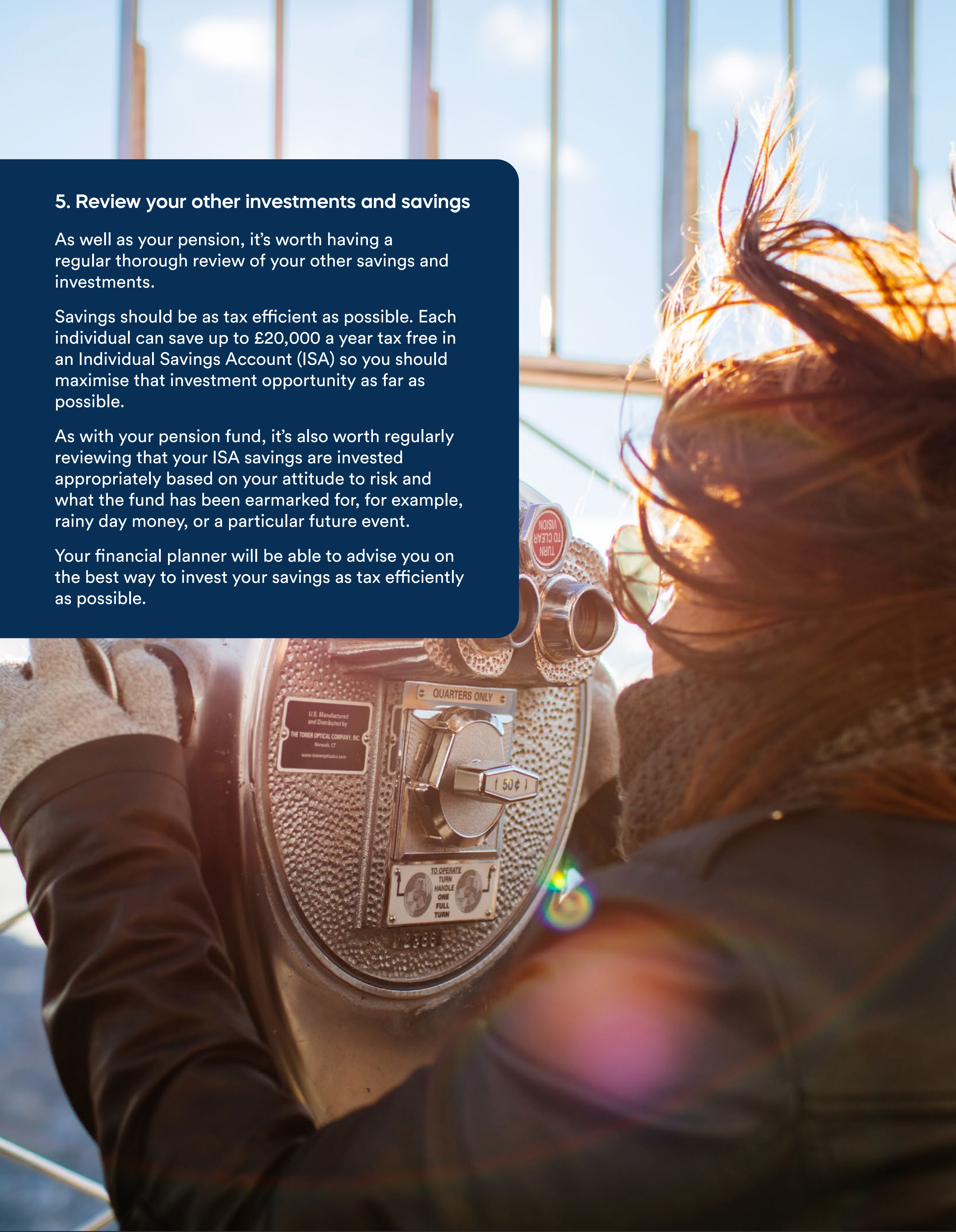
5. Review your other investments and savings

As well as your pension, it's worth having a regular thorough review of your other savings and investments.

Savings should be as tax efficient as possible. Each individual can save up to £20,000 a year tax free in an Individual Savings Account (ISA) so you should maximise that investment opportunity as far as possible.

As with your pension fund, it's also worth regularly reviewing that your ISA savings are invested appropriately based on your attitude to risk and what the fund has been earmarked for, for example, rainy day money, or a particular future event.

Your financial planner will be able to advise you on the best way to invest your savings as tax efficiently as possible.



6. Your property

Your property is probably your biggest asset, but it can also be a big liability as you get older, so it's worth considering if you're happy living where you are – in terms of both size of the property you're in, and location.

Have you considered downsizing? Moving to a smaller property more appropriate to your needs in terms of size is likely to be less expensive to run and result in cheaper utility and maintenance costs. However, this is obviously a very personal decision and one that involves the heart as well as the head.

If you don't want to move, you could consider making adaptions to your existing property to make it easier to live in. You will need to consider how you will fund these.

Think about your location; are you close enough to amenities such as transport links and shops? Another advantage of downsizing could be giving yourself the opportunity to move closer to your family, as well as key services.

If you have an income or cash shortfall, with no potential recourse to other financial sources, you might want to consider raising money on your property through an equity release plan. There are pros and cons of doing this, so it's essential to take regulated financial and legal advice before embarking on an equity release scheme. It's a good idea to also talk to members of your family about your plans they can be affected too.

For more information on equity release, visit the **Money Advice Service**.

7. Annuity purchase

As part of your income planning process, you may be considering using some, or even all of your remaining pension fund for Annuity purchase. Since Pension Freedoms were introduced in 2014, giving people far more flexibility over their pension funds, Annuities have become less popular than they once were, but they can still serve a useful purpose.

An Annuity will provide you with a guaranteed regular income for the rest of your life. It's also possible to provide for regular increases each year – usually in line with inflation - and to guarantee a continued income for your spouse or other dependents after you die.

Bear in mind, however, that Annuity rates are currently at an all-time low, and it's entirely possible that you'll be able to provide the same level of income that an Annuity could give you through regular withdrawals (drawdown) from you pension fund.

There are two other types of Annuity you might want to consider -

- **Enhanced / Impaired Life Annuity**

Some Annuity providers will pay an 'enhanced Annuity' if you have health issues that can potentially impact on how long you live. This will usually mean getting a higher income than you'd get from a standard annuity.

- **Fixed Term Annuity**

Another possible option to consider is a Fixed Term Annuity. This will provide you with a guaranteed income over a fixed period – three years or more – which might be something to consider if you want some certainty over part of your regular income for a limited period. For example, the period from when you retire up to when your State Pension becomes payable.

There are pros and cons around all forms of Annuity purchase, which means that it's very important you take financial advice before proceeding with any of these options.

'Pension Freedom' rules were introduced by the government in 2015. These new rules meant that people could take as much of their personal pension pot as they liked in one go (subject to restrictions on some types of pension). Within three years, the number of people buying an Annuity with their pension fund had gone down from 90% to just 12%.

8. Your health

As we become older, health tends to become more of a factor in every decision we make. It may, therefore, be a good time to start considering what would happen if you (and your partner or spouse if you have one) were no longer able to live independently. You will need to consider which of the available options - moving into a care home, supported living, moving in with family, or continuing to live independently but with a care package in your own home – would suit you best.

If you think the latter of those will be your preferred option, you'll want to start researching the kind of support that's available both privately and through your local authority.

There will obviously be a cost associated with whichever option you choose (with the possible exception of moving in with family), so you'll want to ensure this is taken into account as part of your income and cashflow planning process.

You may already be paying into a care fees plan, so now could be a good time to review that and reacquaint yourself with what's covered and how much you are paying in.

If you have an ongoing private healthcare plan, it's worth reviewing it regularly. Private health care is a very competitive market, so you might be able to find the same level of cover for a lower price. Bear in mind, however, that if you have any pre-existing health conditions, these may not be covered on any new plan.

If you travel a lot you should also check your travel insurance, particularly if you have this provided through your bank. Any pre-existing or new medical conditions may well not be covered. Always declare health conditions before travelling to avoid unexpected expense if a subsequent claim is declined. Also bear in mind that a lot of travel insurance policies automatically expire at a certain age so make sure you check this before stepping foot out of the country.

For what matters most

We recently asked our clients what mattered most to them about their retirement

"That I can maintain a healthy and comfortable lifestyle"

*All quotes and statistics from Hartsfield 2020 Client Survey

9. Inheritance

At a very simple level, have you made a will? If you haven't, make this a priority. If you have already made one, check you're still happy with it and that nothing needs updating.

The next priority is to consider setting up power of attorney over your affairs. This means officially nominating an individual or individuals to manage your affairs if you're no longer able to do so for yourself.

Your solicitor will be able to advise you on all matters to do with your will and power of attorney.

You should also consider the level of Inheritance Tax (IHT) that could be payable on the value of your estate when you die. The current IHT threshold is £325,000. Tax at 40% is payable on the value of your estate over this figure. Remember, however, that the value of your threshold can be added to that of your spouse or civil partner, and that if you give away your property to your children, your threshold can rise to £500,000.

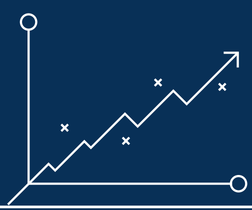
You can find out more about Inheritance Tax here: https://www.gov.uk/inheritance-tax

Your financial adviser will be able to give you more information about how to best plan your financial affairs to reduce the amount of tax you pay.

For what matters most

We recently asked our clients what mattered most to them about their retirement.

83% said their biggest concern was not having enough money to live their preferred lifestyle in retirement



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10. Death

It's obviously not an easy conversation, but it's important that at some stage, you speak to your family about what you would like to happen when you die. Nothing can make the departure of a loved one any easier. But you can feel peace of mind knowing that all your financial issues are in order and it's one less thing for your loved ones to worry about at an already difficult time.

As already mentioned, making a will is essential. Dying intestate (without a will) creates financial headaches that can take a long time to sort out and can result in a hefty solicitors bill too.

A will makes it clear how you want the value of your estate to be allocated. But there may be other specific wishes you have about your finances that aren't covered in your will. In which case, it's important to talk to your loved ones about these so they're clear on your intentions.

Make sure you're aware of the death benefits that will be payable in the event of you or your spouse/ partner dying, and make sure they are aware too. This will include pension arrangements, savings and any life insurance plans you have in place.

Get in touch

Taking independent, regulated financial advice is essential when both planning for retirement, and planning in retirement. There are so many options available, including some very complex ones, so it's important to have a specialist on your side to help you navigate the possibilities and find the right path for you.

We are Hartsfield Financial Planning. We are a team of independent financial planners with offices across the South West. Our purpose is to improve your financial wellbeing, something we've been doing with our clients for over ten years. Our aim, in everything we do, is to help you make good choices and put you in control of your finances, giving you the freedom to pursue what matters to you.

If you have questions or concerns about your retirement plans, then get in touch and one of our dedicated retirement planners would be happy to talk through your options. We're independent financial planners which means we're not limited when it comes to the solutions we can recommend to you. It also means that the advice we give you is always based solely on what we believe is right for you.

Bristol Office

One Temple Quay
Temple Back East
Bristol, BS1 6DZ

01173 634 700

bristol@hartsfield.co.uk

Wiltshire Office

Hartham Park
Corsham
Wiltshire, SN13 0RP

01249 591 530

wiltshire@hartsfield.co.uk

Cheltenham Office

Harley House
29 Cambray Place
Cheltenham, GL50 1JN

01242 388 000

cheltenham@hartsfield.co.uk

Hartsfield Planning