KRD FINANCIAL ADVISERS LIMITED

Tailored Financial Planning & Advice

The 5 Minute Money Guide

Planning Your Retirement Income

Retirement Isn't What It Used To Be...

You can read that quite literally, because people retiring today face a completely different retirement picture to previous generations.

First off, the length of time in retirement is likely to be very much longer than in the past. Longevity statistics show quite clearly that men and women are both living longer than ever. The number of Centurions has escalated rapidly, so "outliers" – those who live for decades after they retire, longer than the average – are becoming more prevalent. You must plan to be an outlier, to make sure you don't run out of money.

The number of people in the UK over 100 has increased fourfold in the last 20 years according to the office of National Statistics. And there are now half a million people age 90 or over...

Second, health in retirement is a major factor. As people live longer the healthy years extend and this makes the early years in particular much more likely to be active and this suggests greater expenditure in those early years.

Sadly though the flip-side to this is that some of the years could be ones which require care, which is an even greater expense.

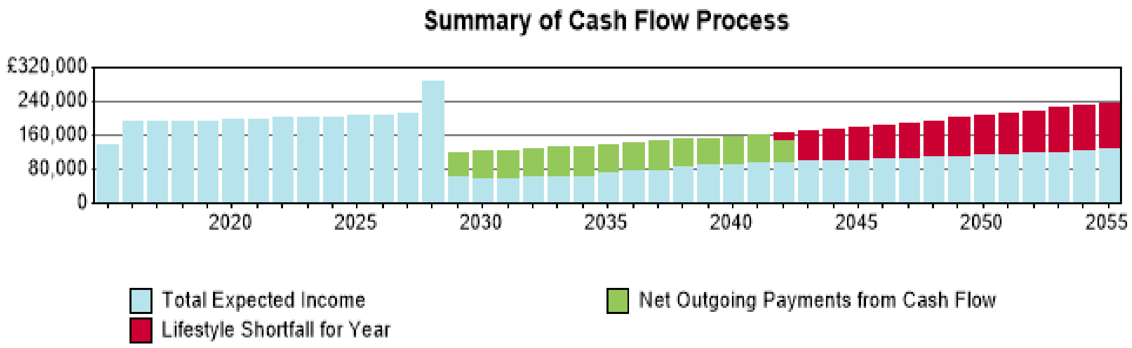
Thirdly, the big brother company pension boom, where previous generations were often given secure final-salary pensions, has all but disappeared in the private sector. More and more people need to self-fund, as the replacement schemes (for example Auto-Enrolment) will not have the same generous level of benefit available from the employer.

There are now only 600,000 people in the UK left in active membership of open private sector defined benefit schemes according to the Office for National Statistics (2015).

There are many other modern retirement factors, but the broad position is this – retirement is now a potentially long period of time for retirees to provide for. In many cases retirement will be for 30+ years. Retirees, by and large, will need to take control of and be responsible for their own retirement income provision.

How To Plan For This:

The key to the position is to map out the future, assessing your income and expenditure position against different scenarios. Wherever you a starting today, we can help you plot your future pattern, making changes based on different assumptions. This will help inform you how much money you need, how you need to invest and other key financial planning action points.



There are many ways of doing this forecasting – we can support you with this, using the best methods for your circumstances.

Once you see your future financial forecast in this way, you will start to see if you need to save more, cut back on some costs, invest for higher growth, de-risk your investments, deferring taking a pension, the tax angles and everything else that will allow you to construct a robust financial plan.

When It Comes To Pensions, You Will Face A Number Of Options:

- Should I buy an annuity or run a drawdown scheme?
- When should I take my pension?
- What about the death benefits position?
- The tax position?
- How do I balance out protecting my family and my beneficiaries for the long-term against my needs in my lifetime?
- How do I make sure I am protected against inflation?
- How can I defend against the threat of care costs?

The answers to each of these questions can directly contradict each other. No-one has a crystal ball, so you must make judgement calls around your financial planning.

That is OK, though, because:

- You can retain flexibility (with a good financial plan) and keep things regularly reviewed and have scope to make changes as you go along the retirement pathway;
- Although there is no crystal ball, you can use cash flow forecasts and scenario planning to map out the future and see how different factors could impact your plans;
- You can use our expert help to work out how these balancing aspects can be managed for best effect.

Three Retirement Facts That May Surprise And Help You

I. *Your **life expectancy** is not the same thing as your most likely date of death. The latter is later! This is to do with 'means' and 'medians' – so don't pay too much attention to your life expectancy because you may well live much longer than that.*

II. *At a 2% per year increase in the cost of living, £20,000 per year of expenditure on day one of retirement becomes £36,227 per year 30 years later. Even a low rate of inflation significantly escalates the cost of living throughout a typical retirement period.*

III. *If you decide to utilise pension income drawdown, **the Safe Withdrawal Rate** of income (the level based on historic returns) is assessed to be no more than 4% per year – and as low as 2.8% per year according to some research – to ensure your pension does not run out of money.*

There Are Some Very Important Steps Anyone Close To Or At Retirement Should Take Without Delay

I. If you have not had an income/expenditure forecast undertaken, you should get one done now. It is an informative and highly enjoyable exercise.

II. Consider where your money is invested; ironically for many people they can often be invested in areas which are higher risk than they need be. They are taking risks of potential and unnecessary losses. Review the risk position of your investments, as the risk profile can change around the retirement point.

III. Check your various pensions, including any old company schemes, to work out what is available, what options there are for drawing benefits and when.

IV. Assess whether you assets are adequately protected. In later years assets can be at risk from care fees, Inheritance Tax and rapid depreciation against inflation.

The key considerations about how to take a pension can then be informed by these factors; the possibility of keeping a pension intact for longer than may have originally been conceived (to make the most of the beneficial position on death offered by a drawdown scheme, for example) may start to make sense. The decision about how to draw on the pension, whether to use an annuity or mix and match with a drawdown plan can all become clearer.

Planning your retirement income is arguably one of the most important financial decisions you will ever face, getting it 'right' or 'wrong' can create major differences in your outcomes. We are here to help you with this decision making and provide you with everything you need to make the best decisions possible.

KRD Financial Advisers Limited is authorised and regulated by the Financial Conduct Authority.

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