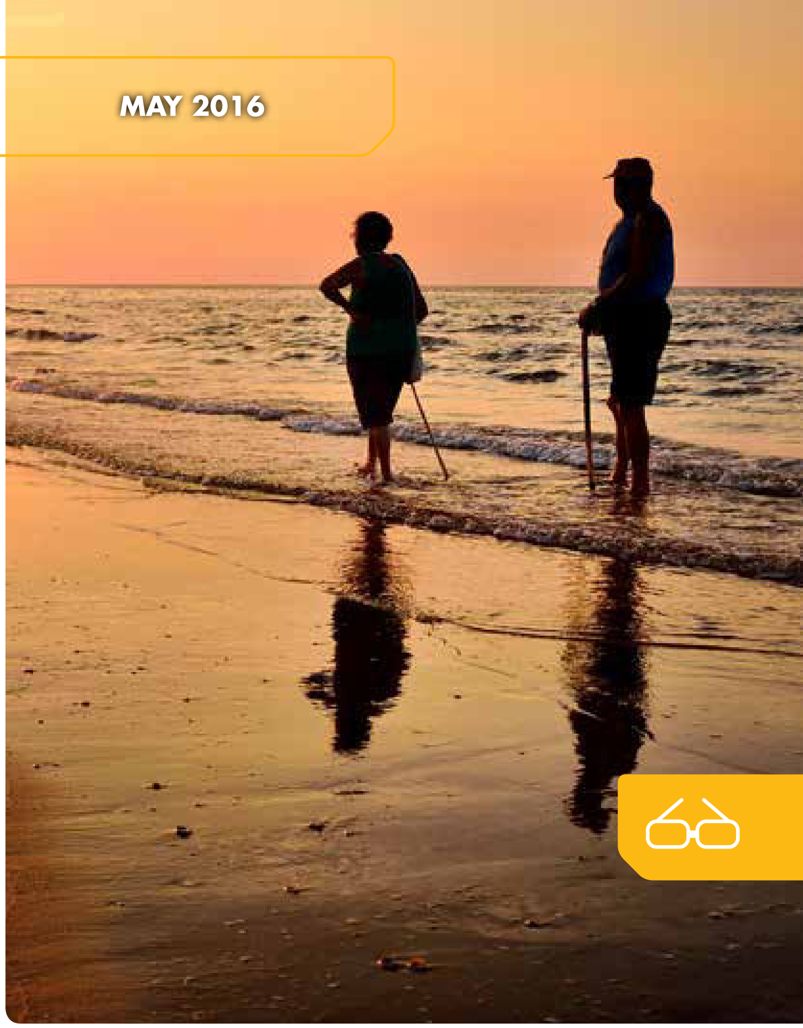

Teachers
Financial Planning

Nearing retirement

A guide to planning for individuals who are approaching retirement.

Despite our best intentions, it can be hard to commit to a savings plan and squirrel away as much as we would like for our retirement. It can often seem like life is made up of one large expense after another, with getting on the property ladder and starting a family in particular often impacting an individual's ability to save.

This can lead many people who are nearing retirement age to look at their savings and realise that they may need to do more to ensure the kind of retirement that they want.

If you are nearing your post-employment life and want to make sure you can retire with as much as possible, here are the key things to think about.

Calculating your position

It is vital that you get an accurate picture of your current situation, otherwise any plans you make may not be based on the sturdiest of foundations.

There are a number of different pieces that need to be put together to give you an accurate picture of your position. To start with, you will need:

- your state pension age – the age at which you will be eligible to begin receiving the state pension (by 2018, it will be 65 for both men and women)
- state pension income – the maximum state pension for people retiring after April 2016 is £155.65 a week
- the age you are planning to retire.

If you want to retire before you reach state pension age you will need to have enough income to support yourself without the state pension.

Next, you need to look at:

- any workplace pensions
- any private pensions.

If you have multiple pensions from different employers, you will need to make sure that you track them all down as many are forgotten about. In 2015, the then pensions minister Steve Webb said that unless action was taken there could be "50 million dormant pension pots drifting away from savers by the middle of this century".

So, your state, private and workplace pensions will from a large part of your retirement income, but there may be other factors to consider:

- any other savings you have
- any other sources of income such as rental properties
- equity tied up in property
- any investments
- any inheritance that you are likely to get.

Tax

The next step is working out what your tax obligations are going to be. For 2016/17 the annual tax-free personal allowance is £11,000 after which the following rates of tax apply to income:

- basic (income of £11,001 - £43,000): 20%
- higher (£43,001 - £150,000): 40%
- additional (£150,000 +): 45%.

Other factors

A clear picture should be beginning to form in front of you now, but there may be a few more things to add to the equation.

You might be entitled to certain benefits such as assistance with council tax and heating bills.

You should also be mindful of the wider economic environment. In particular, inflation could have powerful effects on the size and clout of your retirement income. Inflation is currently low but is always capable of rising.

We can assist you in getting an accurate picture of your retirement income.

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Nearing retirement

What are your retirement goals?

Once you have worked out what your current position is likely to be, you need to assess whether or not this will realistically provide you with enough income to allow you to live the life you want in retirement.

An important part of this is to consider any debts and obligations you may have, particularly mortgages and family commitments.

For example, a 2016 study by SunLife found that the grandparents surveyed spent an average of £62 a month on their family.

These kinds of costs are often ad hoc and unpredictable so it is important to have some flexibility built into the amount of money you will have at your disposal.

So, what options are available to those who don't think they are in the position they would like to be as they near retirement?

Pensions

When it comes to your workplace, state and private pensions, you essentially have 2 options to help you try and maximise your retirement income:

- pay more in to get more out later
- push back the date you begin receiving the income.

Paying in more

A major strategy for increasing your retirement income is simply putting more money into the pot.

For 2016/17 an individual can receive tax relief on pension contributions equalling 100% of their earnings or a £40,000 annual allowance (whichever is lower), provided that you haven't crystallised a pension (when your annual allowance would drop to £10,000 the year after), or if your 'adjusted income' is over £150,000 (when your allowance will reduce by £1 for every £2 over this amount, down to a minimum £10,000 allowance).

For example, if you earn £15,000 a year and contribute £25,000 to your pension, only £15,000 will get tax relief.

If, on the other hand, you earn £70,000 and want to contribute your entire yearly earnings, you will only receive tax relief on £40,000. Any contributions that are not entitled to tax relief will be subject to income tax.

Deferring payment

This might at first seem a little counter-intuitive, but there can be benefits to delaying when you start receiving certain parts of your income.

With regards to a work or personal pension, delaying may mean:

- you have more time to pay into the pension at your current rate – although the way the money is invested may still expose you to significant levels of risk
- annuity rates tend to increase as your age increase, so a delay could lead to a higher rate of income.

If you reach state pension age after April 2016 and defer your state pension for a year you will receive an increase of 5.8%.

It may be a useful strategy to delay certain parts of your retirement income to increase it, but only if you will be able to live comfortably while you are deferring it.

Savings income

You do not have to rely solely on your pensions. You may have equity tied up in property that you could utilise or you may have other savings that could also contribute to your income.

A new personal savings allowance was introduced on 6 April 2016 which allows individuals to earn £1,000 savings income tax-free. Higher rate taxpayers can earn up to £500.

ISAs can also be utilised to save in a tax-efficient manner. In 2016/17 the maximum amount that can be saved into an ISA annually is £15,240.

Investing

It is also possible to invest money in order to try and secure a bigger return. Investing of course carries potential risks that your investment could go down as well as up and it is always advisable to seek professional guidance before starting.

Your retirement income is vitally important. Contact us for expert and experienced advice.