Balance:
Wealth Planning

Financial Planners
Chartered

A Balance: Wealth Planning Guide
Already retired

0800 77 23456

team@balancewealth.uk

Introduction

If you stopped working some time ago, and are now living the retirement dream, this guide is for you.

When you retired, you will have taken careful financial decisions. However, times change, and so do you. Since you started to experience the reality of retirement, your aspirations and ambitions might have altered. At the same time, stock markets may have been volatile and legislation changed; something that's certainly true if you retired before 'Pension Freedoms' were introduced in 2015.

Just because you have already retired doesn't mean you should stop thinking about your financial future. In fact, it has never been more important.

Financial planning should always start with you in mind. Therefore, it's only natural that we start this guide by looking at your aspirations and ambitions for the next few years of your retirement.

> “Rebecca's clear, straightforward advice showed us how to manage our reduced incomes in the future, how to get the best from our investments, savings and pensions and how much to allow ourselves each year for travel and treats.”
>
> Andrew & Gerry
> London

Understanding your aspirations

Retirement can be as fulfilling and rewarding as you make it.

We're all different and this has an impact on retirement plans. For some, retirement means taking up new hobbies or returning to pastimes you have long since given up. It might mean more community or charity work. For others, it's a chance to visit new destinations or spend the quality time with friends and family that your career made impossible.

When you first retired, you probably had conversations with friends and family along those lines. So now is a good time to ask yourself:

> Have I done all that I intended since I first retired?

> What would I like to do more of?

> What would I like to do less of?

> What am I most worried about?

How you choose to spend the next stage of your life is up to you. Defining your aspirations for the rest of your life is the first step to fulfilling them. However, experience tells us that's often easier said than done.

How can we help?

As financial planners, who specialise in advising people about their retirement, we will always start by helping you to understand what you want from retirement.

Sometimes that's easy. On other occasions we need to strip back layers of worry to understand what you would like to achieve.

Only once we know what you truly want can we start to look at your finances. Understanding what is possible and give you the confidence to live the next stage of your life knowing that your finances are in safe hands.

We also know that many people fail to fulfill their potential in retirement due to worrying about money. We've seen it many times; a lack of financial confidence leading to a retirement which promised so much but delivered less than was possible.

All too often people spend their retirement worried about their finances. Many are concerned about spending money in case they face financial hardship later in life, or they leave too little when they are gone. Conversely, we know that those people who have the most fulfilling retirement are those who have financial security. They have the confidence to enjoy the next stage of their life without having to worry about money. Does any of that strike a chord with you?

So, retirement planning doesn't start with money, it starts with you. And, just because you have already retired and made some decisions doesn't mean you can't reassess your aspirations and retirement goals. In fact, you are in a fantastic position to make informed decisions now you've been retired for a while, compared to when you were coming to the end of your working life.

Painting a financial picture

We know that those people who have confidence in their financial future will experience the most fulfilling retirements. That confidence comes from having a deep understanding of your finances and the expected shape over your lifetime.

How much do you need?

Developing financial confidence starts with assessing what you are likely to spend in the future. That includes regular bills, holidays and big one-off spends such as home improvements, new cars, or even a holiday home. Looking forward 10, 20 or even 30 years can be difficult and certain assumptions will need to be made.

Income: When it comes to a retirement income, there can often be confusion about what that really means and where it comes from. To clarify, a retirement income can be any regular sum of money that you put into your bank account.

That might have come from what you might traditionally think of as income, such as your state pension, rental income, dividends or interest. But it can also include money that's taken regularly out of a savings, investment or pension pot. That can even mean that those pots are going down in value as it pays a monthly sum out to you. And while that might sound frightening, it's important to remember that's what you've actually been saving the money for. The important thing is that the level of retirement income you take out is enough to pay for your lifestyle, and that it's sustainable for your whole life.

The early years of retirement might be those when you are most active and, consequently, need more retirement income. As you get older you may have ticked off some of your bucket list and settle into a less active life. Your requirement for income may therefore decrease. However, you may need care in old age, the cost of which you may have to meet, in full or part, yourself. Your need for income may well rise as a result.

It's important that inflation is factored into these calculations too, because that increases the cost of living every year.

How can we help?

We use sophisticated financial planning software to map out the years ahead. Showing you the money you need, to live your preferred lifestyle.

While a year-on-year rise in prices of say 2% might not sound dangerous, over a 20-year retirement it would significantly reduce the buying power of a fixed income. To illustrate the point, an income of £20,000 in 1998 would have had to have risen to £33,419 to keep pace with inflation.

Understanding your life expectancy is important too. Research has shown that most of us underestimate how long we will live. Those in their 50s and 60s underestimate their chances of reaching 75 by around 20%. The reality is that around 83% of men and 89% of women will reach their mid-70s.

Doing so is dangerous and could lead to us spending too much, too soon causing financial hardship later in life. Conversely, overestimating your life expectancy could mean you are too worried to spend income or capital leading to a less fulfilling retirement when, in reality, you could have spent more and still been financially secure.

Lump sums: The extra time you have in the early years of retirement may mean you need lump sums now and again. The most obvious need might be to pay for extra holidays, or those once in a lifetime trips you have promised yourself. But large one-off sums might also be needed for more mundane reasons; finally getting around to those repairs to your home or changing the car, for example.

You may also want to help your children or grandchildren out financially with a few larger gifts. Many younger people are struggling to get on the housing ladder and you may feel that you want to help. It's a decision many parents and grandparents are making. In 2018, 27% of homebuyers will receive financial help from loved ones amounting to £5.7 billion, research indicates.

At this stage, it's also important to consider how events might change your need for income and lump sums in the future. For example:

> While it's not something anyone wants to think about, the unexpected or early death of you or your partner will undoubtedly change aspirations, goals and income needs

> You might also decide to move to a new house, perhaps downsizing or moving to a different area to be closer to your family

> You may become ill and decide to meet the cost of treatment or care yourself, or bring forward some of your plans

> A family member might need unexpected financial assistance, such as a parent needing

Do you have enough?

The next stage is to review your existing pensions in payment to understand the income they are producing and how well protected they are against inflation.
As you have already retired you are likely to have at least one, and possibly multiple, sources of guaranteed income. These could include:

> A State Pension

> An Annuity which you purchased with an existing pension when you retired

> Income from a Final Salary or Defined Benefit pension

You may also have money held in a personal pension which is making regular payments to you, called Flexi-Access Drawdown, although this will be variable and not guaranteed. With this type of arrangement, your money is still invested and, as the name suggests, you are drawing an income from the fund. You might even still have some of your pension fund that can be drawn out tax-free.

Comparing what you have with what you need

You now know the income and lump sums you need in retirement, and the income being received from your pensions.

The next stage is to compare the two figures to understand where and when shortfalls might occur.

This isn't always easy as it means making assumptions about the future, including everything from inflation to unexpected events.

If you find shortfalls in income, lump sums or both, there are several options:

> Consider ways for improving the tax-efficiency of your pensions, savings or investments

> Lower your aspirations and ambitions to reduce the income and capital you need

> Consider whether it would be possible to sensibly and sustainably take a higher income from any investment or pension plans that you might have

> Downsizing to a smaller property to reduce outgoings or release capital

> Use savings or investments, either by withdrawing lump sums or taking an income, to bridge the shortfall

Reviewing existing arrangements

As you have already retired you will no doubt have previously made certain financial decisions after a lot of careful thought. Some of these may be irreversible. Buying an Annuity or starting an income from a Final Salary or Defined Benefit pension are two examples.

However, other decisions, such as investing your savings, or taking money flexibly from a pension plan that's still invested, require regular reviews. These reviews should focus on:

Tax-efficiency:

> Are your savings and investments held as tax-efficiently as possible?

> Are you making the best use of ISAs (Individual Savings Accounts) each year?

> Are there other tax allowances which you could take advantage of?

> Could the income or capital you withdraw from your pensions, savings and investments be taken more tax-efficiently?

> How exposed is your family to inheritance tax when you pass away?

How can we help?

Using our experience and knowledge, we will take a holistic view to ensure your assets are structured as efficiently as possible.

Generating 'real returns':

> Are your savings and investments producing a 'real' (above inflation) return?

> How do the returns you are getting on your investments and pensions compare with key benchmarks, and what you actually need?

> Are your pensions producing sufficient returns to ensure the income you are taking is sustainable for the rest of your life, and that of your spouse or civil partner?

> How could the interest you receive on your savings be improved?

Risk:

> Do you understand the level of risk you are currently taking with your pensions and investments?

> Are you taking an appropriate level of risk for your aspirations?

> How would a significant fall in the value of your investments affect your ability to achieve your retirement dreams?

> Are your savings exposed to the risk of inflation or a financial institution becoming insolvent?

Avoiding financial scams

Unfortunately, retirees are often the target of increasingly sophisticated financial scams.

On average victims lose £91,000, research has shown. While you may think it will never happen to me, the reality is different. Around 12% of those approaching retirement said they would trust an offer of a 'free pension review', often the sign of a scam, from someone claiming to be a pension adviser.

These scams often start with an unsolicited phone call, text or email. 91% of people have been affected by cold calls, with 28% being offered a free pension review in this way in the last three years, a survey found.

There are signs that the person you're speaking to isn't genuine when you're targeted by a pension scammer.

Keeping these red flags in mind can help reduce the risk of losing your pension to criminals:

> The contact is unsolicited

> The person you're communicating with tries to push you into making decisions quickly

> They suggest unusual investments, such as overseas hotels or forestry

> High, often guaranteed, returns are promised

> Risks are downplayed

> You can not find a record of the person or firm on the Financial Services Register

> Or the details on the register don't match how you're being contacted

> They claim to be able to unlock your pension

Remember the golden rule: if it sounds too good to be true, it probably is.

Being cautious when you're approached with unsolicited contact is sensible. If you have a gut feeling that something is amiss, take a step back, give yourself time to think, and seek advice. Sometimes you can't explain why you feel uncomfortable but don't worry about that.

If you have any reservations just politely walk away. You don't need to give any reasons.

A word about your home

It's important to understand how your home fits with your retirement plans and the impact decisions about it will have on your income/capital needs.

You may already be living in the home where you plan to spend the rest of your life. If so, you should consider including the cost of any improvements or repairs you will need to make when building your financial plan. If your retirement lasts 20 or 30 years your home will probably need some element of upgrading or repairs during that time.

Alternatively, you may decide to move in retirement. You might want to be closer to family now you have more time to spend with them, or move somewhere with a different pace of life in the country, the coast, or even abroad. Or perhaps you want to move to the centre of the city where you can really take advantage of the culture, music and food around you. You may simply want to reduce your outgoings or move into more appropriate accommodation which is perhaps smaller and better suited to your needs. Again, the financial effects of such a move must be considered:

> The cost of moving can itself be expensive. Stamp duty in particular can be very costly.

> You may move to an area where property is more expensive. Will this mean buying a smaller home or a similar size yet more expensive property? If so where will the money come from to fund the purchase? You are very unlikely to be able to take out a mortgage.

> The cost of living may be different from your current location, including the cost of care

> The cost of travel if you move further away from family and amenities you still want to take advantage of

> The upkeep and cost of repairs on your new home might be different, and a few improvements and furnishings once you've moved in can stack up in price

Other people plan to downsize to help fund retirement. Some people see their property as their pension, others may have no choice.

However, downsizing isn't an easy option:

> The cost of buying and selling must be considered, including Stamp Duty

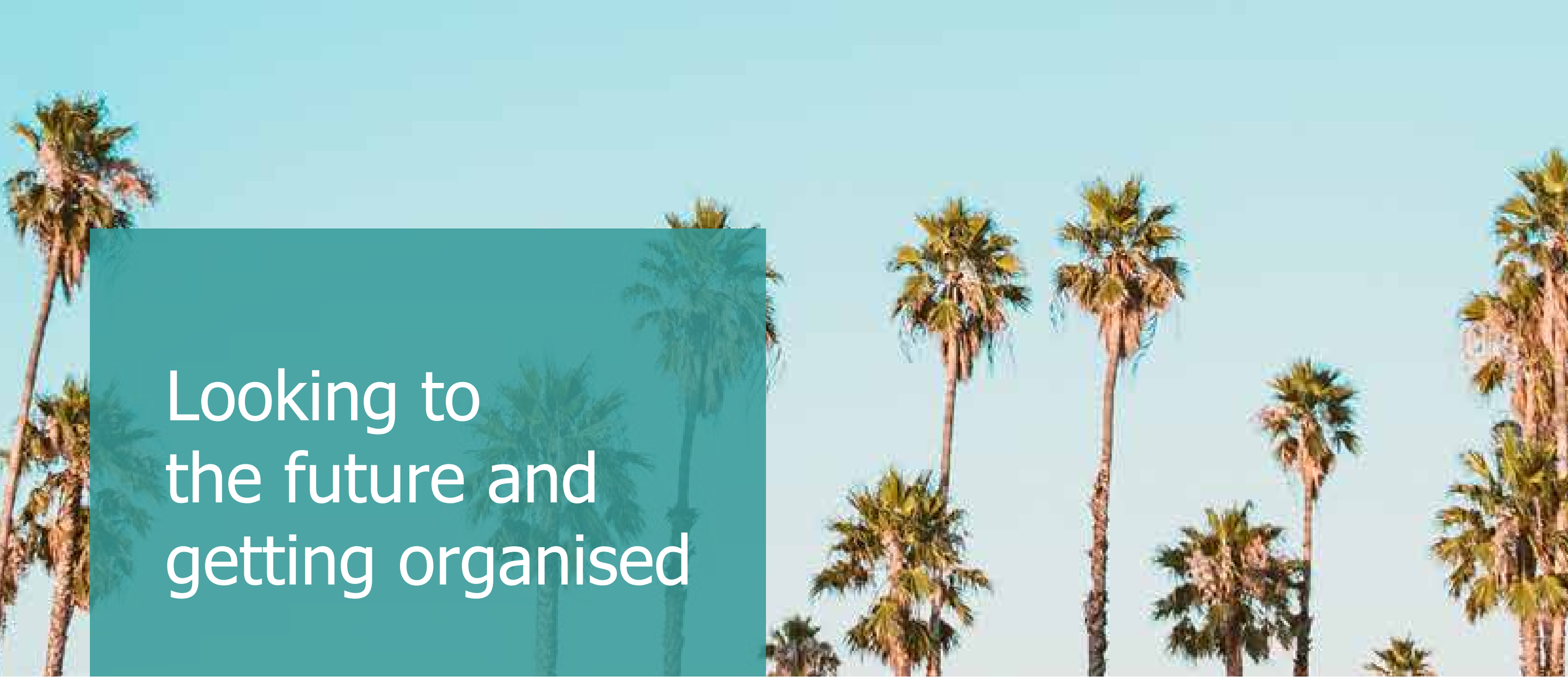
> You will probably have built up an emotional attachment to your current home, the effect of breaking this shouldn't be underestimated

> You'll also likely have to downsize your possessions, again, you may have an emotional attachment to sentimental items that won't fit in your new home

> Downsizing can mean changes to your lifestyle too, perhaps you're used to having enough room to enjoy some privacy, but this may not be possible with space restrictions.

Alternatives to downsizing should also be considered to understand whether it is necessary too. This starts with having a financial plan in place and looking at whether it is possible to create more income or capital from your current pensions, savings or investments.

Equity release could also be considered, or you may have the option of a family member buying your house. Although this is often a last resort and needs extremely careful consideration.



Looking to the future and getting organised

So far in this guide we have focused on the steps you need to take to give you financial security and the confidence to achieve your retirement aspirations.

However, now is the perfect time to consider other aspects of the future.

Making life easier for others

There are steps you can take now that will make life easier in the future for people who will be looking after you. That includes those who will look after your affairs when you pass away, and also if you are no longer capable of doing things yourself.

Writing a will: A will lets you set out what you want to happen to your wealth when you die. It's an important document. So it might be a surprise to know that 59% of UK adults have not written a will and 36% of over 55s haven't documented their wishes, according to research.

The key reason for writing a will is to make sure your wishes are carried out. Should you die without one, your family won't know what you wanted, and everything you own (called your 'estate') will be shared out based on Intestacy Laws. That can often mean that loved ones you would like to benefit will not receive anything. If you want to check what would happen to your wealth if you die without a will, you can use this easy tool.

For most people, it's better to have a will than to rely on Intestacy Laws, to make sure you get a chance to clearly set out your wishes. If your family situation is more complex, with more than one marriage, or children from different relationships to consider, it's especially important.

Once you have a will, it's important that it's regularly reviewed too. Life events can mean your will becomes out of date, for example, if you've remarried.

How can we help?

We can recommend a solicitor who will be pleased to advise you on both making a will and setting up Powers of Attorney. We will also liaise with them to ensure they have all the financial information they need. Reducing the administrative burden on you, allowing you to spend more time enjoying retirement.

Power of Attorney: Nobody wants to think about becoming ill in the future but it's important to take steps should this happen. Appointing a Lasting Power of Attorney (LPA) means granting someone you trust with the ability to make decisions on your behalf should you become physically or mentally unable to do things for yourself. It's important to be aware that even if you're married, your partner does not have the automatic right to make decisions on your behalf.

An LPA can make it easier for both you and your loved ones, should something happen, so it's something sensible to have sorted out. Crucially, you can not name an LPA unless you're considered to be of sound mind, so it's an important step to take now while you feel fit and healthy.

There are two types of LPA. A health and welfare LPA will be able to make decisions about your wellbeing, such as medical treatment and entering long-term care. A property and financial affairs LPA will be able to make decision on your behalf relating to your finances, including accessing your bank account and making choices about your property.

You should think carefully about who you appoint, and whether you name one or more people. If you name more than one, you should also decide whether they can act on their own, or if they must make decisions together. Many people choose to appoint their children as their LPA rather than, or as well as, their partner.

Taking these steps will help your partner, spouse and family immensely. They will be able to take decisions based on your wishes and quickly. Without a will or LPA, your loved ones are likely to have to go through court, which can be a lengthy and costly process.

You can read more about setting up an LPA here. Or speak to a solicitor specialising in this

Leaving more to your loved ones

For many people, leaving a financial legacy to loved ones or good causes is important, and it's essential to take that into account in your plans for the years ahead.

Firstly, you should consider how much you would ideally like to leave as a legacy, and whether you can afford to do that without making any compromises on your own lifestyle in retirement.

We suggest discussing this with your family. Children who receive an inheritance often tell us that they would have preferred their parents to spend more on themselves and have a more comfortable lifestyle, even if that meant the legacy they received was much lower.

Depending on your circumstances, it may not be possible to have the lifestyle you'd like in retirement as well as leaving a legacy to your family. Compromises may need to be made.

Inheritance Tax (IHT) may reduce the amount of financial legacy you can leave after your death, so it's a good idea to understand how it affects you.

IHT is a tax paid on your death on your whole wealth (called your 'estate'), including property, investments, and other assets.

How can we help?

We work with all our clients to ensure that both their retirement aspirations and requirement to leave a legacy are achieved.

That starts by understanding the financial legacy they would like to leave when they die. Then making specific recommendations to reduce the IHT your beneficiaries might pay after your death.

Planning to reduce IHT is an ongoing process. We therefore revisit the topic on a regular basis with our clients to ensure that as much money as possible is passed on to their loved one.

Everyone can leave £325,000 without any IHT being charged. That's often called a 'nil-rate band'. So if your estate is worth less than this, no IHT is due. There is also a Residence nil-rate band that could apply on top. If you're passing your main home to your children or grandchildren, the amount you can leave without IHT applying increases to £500,000 (from 2020).

But if you're married or in a civil partnership, you can leave your whole wealth to each other without any IHT applying, and any unused IHT allowances from the first person will pass to the second. So for many people, IHT only starts to apply when both partners die.

With two people's IHT allowances added together, this means that children and grandchildren can now often inherit up to £1 million without any IHT liability, if all the allowances are available to use. However, it also means that if you aren't married or in a civil partnership, or don't intend to leave your wealth to your partner, IHT is much more likely to apply.

During your lifetime there are certain steps you can take to help reduce the amount of IHT payable when you die.

The most obvious of these is simply to spend more. We aren't suggesting being frivolous, but to give yourself the permission to treat yourself a bit more, and more frequently. Do more of what you enjoy and take steps to make life a little easier. Have someone doing those jobs around the garden you hate, or book another holiday. This is what you've worked hard for.

The second area is to give money away.

Making financial gifts while you're still alive brings far more pleasure all round than a legacy you leave on your death. You'll be able to see the financial security and joy that your generosity brings, whether that's to your family or charities you support. It also means you can provide financial support for challenges your loved ones are facing now. Giving money as a house deposit is a prime example. For many of the younger generation, an inheritance from their own parents will come far too late in life to help them get on the housing ladder. But a gift to grandchildren now can help them take that step, improving their financial security in the long-term. Or perhaps your family have aspirations to start a business, or make a big lifestyle change, but they need a bit of financial backing to help them get there. You could make a huge difference when it really matters.

Of course, you should ensure that any gifts you make will still leave you with enough for yourself.

You can make a gift of any amount you wish, but if you pass away within seven years of making a gift, they will usually be treated as partly still your money and added back to your estate. However, there are some exceptions where the gifts are immediately out of your estate:

> £3,000 worth of gifts, per person, each tax year
> Wedding and civil ceremony gifts of £1,000, rising to £2,500 and £5,000 for grandchildren and children respectively
> Gifts that come out of excess income, however, you must be able to maintain your standard of living after making a gift
> Payments to help with another person's cost of living, such as an elderly relative or child under 18
> Gifts to charities

A fulfilling and active retirement

An active retirement, where you're fulfilling your life's ambitions and taking up those things you didn't have time to do when you were working can be immensely satisfying.

Doing so with the confidence that you don't have to worry about your money makes these years even more enjoyable.

We are here to help

The clients we have helped are proof that financial confidence leads to a more fulfilling retirement.

The reassurance that working with a financial planner brings, and knowing that your financial future is in safe hands, is immeasurable.

If you are already retired, but feel you could be achieving more, are worried about money or simply feel that now is the time to review decisions you have made in the past, we are here to help.

Call us on
0800 77 23456

Email
team@balancewealth.uk

or to book a meeting online click here