



CAMPBELL & McCONNACHIE

chartered financial planners

Financial planning in retirement

A guide to creating an effective financial game plan in retirement.



Retirement is a time to be enjoyed. After years of work a person's retirement is meant for appreciating the important things in life.

Unfortunately, many pensioners find themselves worrying about their finances.

Age UK estimates that 14% (1.6 million) of pensioners are in poverty (defined as 60% of median income after housing costs) with a further 1.2 million on the brink.

While most people foresee a drop in income when they retire and expect this will be balanced out by increased benefits and lower outgoings, they also want to retain a degree of financial independence.

Financial planning is the answer, but the considerations are different for a pensioner than for other age groups.

The foundations

While the specifics of an individual's situation will affect the options that are open to them, the fundamentals of financial planning will always apply.

Your financial position will depend on your income and assets minus your expenditure and debts.

A person in their 20s or 30s can commit to radically shifting the balance of this equation by increasing their income or enacting a strategy to acquire a greater asset base. However, for pensioners there is usually less flexibility.

Let's examine this in a little more detail.

Income

This is likely to be the main area of difference. Generally speaking, pensioners will have a lower level of regular income than younger generations.

The vast majority will receive the state pension, and some will also receive workplace and private pensions but this income will generally remain fixed, although there are exceptions (some annuities bought from defined contribution schemes may be set up as escalating or indexed for example).

The Department for Work and Pensions has released an analysis of pensioner income from 1994 to 2015. The report found that:

- in 2014/15 average pensioner net income was 7% lower than that of the working age population
- 40% of pensioners received more than half their income from private sources in 2014/15
- the average weekly income of pensioners depends on their age with those under 75 receiving £348 and those 75 and over receiving £257.



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Assets

Assets are all of the valuable things that a person can own, from property to valuables and other kinds of holdings. A person's estate can be thought of simply as their assets minus their debts.

Pensioners are more likely to be homeowners and have assets such as vehicles. A 2015 study by Key Retirement showed that home owning pensioners were sitting on a combined total of £926 billion in property wealth.

Debts

Debt can be a significant factor for pensioners when it comes to financial planning. A report by Old Mutual revealed that 19% of pensioners had outstanding debt of over £50,000.

2010 data from Age UK showed that 'problem debt' was an issue for 28% of pensioners with unsecured debts. The data showed younger pensioners are more likely to be in problem debt, which shows that clearing debt is a financial concern of many recently retired people.

Outgoings and expenses

A fall in income is expected by many when they reach retirement, which means that there will also need to be a drop in regular outgoings if certain standards of living are to be maintained. While a drop in income can be counteracted by the pensioner benefits, it is important to keep accurate cost breakdowns.

The Minimum Income Standard for the UK (a joint venture by the Joseph Rowntree Foundation and Loughborough and York universities) claims a single pensioner will need at least £8,707 a year (£264.88 a week) to maintain a basic standard of living.

We can help you understand your financial position.

Pensioner benefits

Upon becoming a retired pensioner, a person is entitled to a number of benefits and may find others useful, including:

Bereavement allowance

Paid weekly for a year after the death of your partner if they paid national insurance contributions (NICs) or you were between 45 and state pension age when they died.

Pension credit

An income related benefit made up of 2 parts: a guarantee credit which tops up weekly income that is below £155.60 (single people) or £237.55 (for couples), and a savings credit that provides an extra payment for people who saved towards retirement.

Winter fuel payment

An annual payment to help with heating costs. In 2016/17 it is between £100 and £300 depending on age and circumstances.

Contact us about your benefit entitlement.

Staying in work

Many people are choosing to stay in employment past their retirement age. The removal of the default retirement age means that a person can in most situations keep working as long as they want to, and people are willing to hire them.

In fact, a person can only be forced to retire from a position if it requires certain physical abilities or has an age limit set by law (like the fire service).

You don't have to make NICs if you work past state pension age, but the size of your income may mean it is still taxed. You can also still claim your state pension and any workplace pension pots you have.

The law is designed to protect people against discrimination based on their age. You can make a claim to the employment tribunal if you think you have been unlawfully treated.

Selling assets

Another strategy is to sell the assets that are not essential to your lifestyle anymore. This could mean selling the family home for something smaller or selling your possessions that may have appreciated in value.

If you sell an asset for more than you bought it for (making a profit or 'gain') you may be liable to pay capital gains tax (CGT).

Every individual is entitled to make £11,100 a year in gains without having to pay CGT. If your gains exceed this amount the following rates apply for 2016/17:

- 10% for basic rate taxpayers
- 20% for higher rate taxpayers.

The rates that apply to the sale of second homes are 18% for basic rate taxpayers and 28% for higher rate taxpayers.

Retirement is an important part of a person's financial life and it is defined by the choices that are made leading up to and during it.

Making sure that you have a solid financial plan will mean that you can better monitor your financial health and ensure that your twilight years are as stress-free as possible.

Our team can help you make the most of your retirement financially.

Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. Benefits entitlement depends upon individual circumstances.

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