



The transition to Life After Work: Our guide to preparing for modern retirement



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Introduction

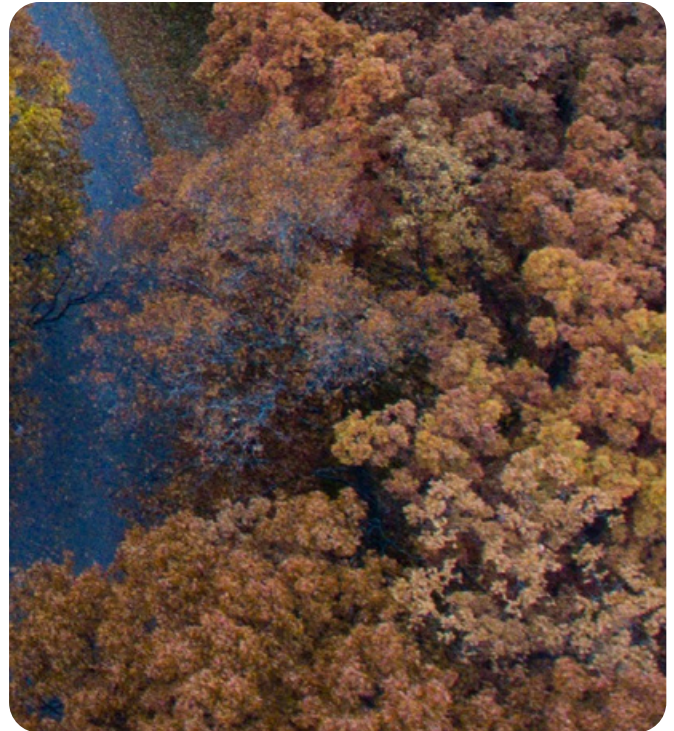
In the space of just a few generations, retirement has changed hugely. If you're planning for your retirement now, you probably want a lifestyle that's very different to that of your grandparents or even parents.

In the past, retirement was often associated with taking it easy and a slower pace of life. But today, retirees are creating lifestyles to suit them once they've given up work. If you're approaching a point where you want to cut back your work commitments, the shift towards a transitional retirement means you have far more freedom.

However, the adaptability of modern retirement presents challenges and options to consider too.

- When do you want to retire?
- What do you want from your retirement?
- How will you achieve this?
- Do you have enough savings to support your goals?
- How will you take an income from your pension?
- Will your income last for the rest of your life?

Understanding your options at the point of and during retirement, from achieving aspirations to accessing your pension, is crucial to your wellbeing and fulfilment. Preparation is key; it can help you get the most out of your life and retirement provisions once you decide to give up traditional working life.



Looking ahead to retirement:

Retirement is often an exciting milestone you've been looking forward to. However, it's normal to have concerns or doubts; there are some big decisions that will need to be made. Understanding the lifestyle you want and how your income will let you achieve this can put your mind at rest.



Putting well-being and fulfilment at the centre of your plans

One of the biggest things to have changed during retirement is quite simply the lifestyle retirees today aspire to. Sure, there are still those that plan to take it easy from the outset, but many have plans, bucket lists or goals that they hope will take centre stage.

Of course, aspirations vary hugely from person to person, and yours might even change at points during retirement. According to research, when asked what they were most looking forward to in retirement, those approaching the milestone responded:

- Travel (47%)
- Taking up a new hobby or continuing with old ones (29%)
- Supporting children and grandchildren financially (21%)
- Buying a holiday home (15%)
- Moving abroad (15%)
- Starting a business (10%)

The above list gives just a snapshot of what your hopes for retirement might be. Perhaps, for you, spending time with grandchildren as they grow up is important or maybe you want to undertake some voluntary work. The key thing to note as you plan your retirement is that it can be what you make it.

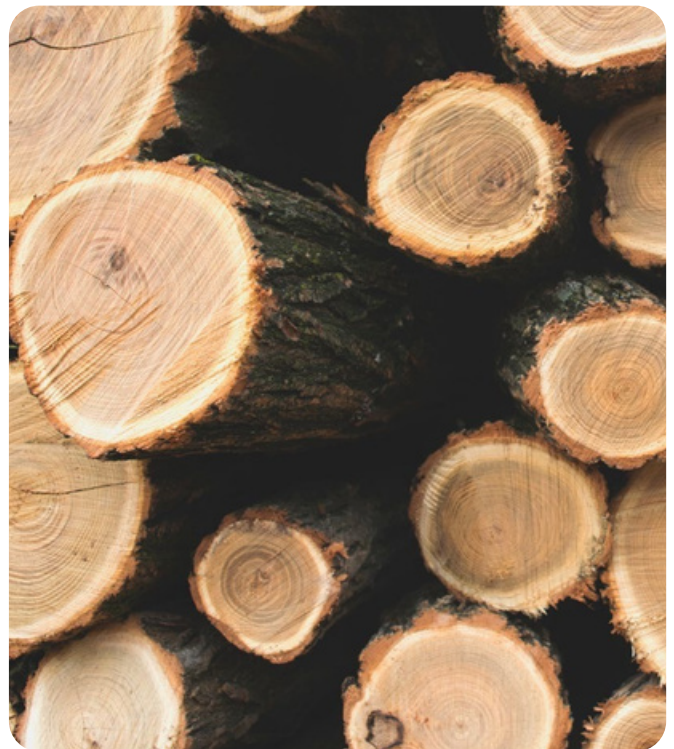
To build the retirement lifestyle you've been dreaming of, your aspirations need to be placed at the heart of your plans.

When planning for life after work, we have a tendency to focus on the money side of things. It's hardly surprising, throughout your working life you've probably been reminded of the importance of saving into a pension,

noted the changes to the State Pension age, and monitored investment to track the income they're projected to deliver. While these are crucial steps, we rarely look at the emotional and wellbeing aspect of retirement.

However, without considering your aspirations, you risk leading a retirement life that isn't as fulfilling as you'd hoped. Therefore, you should start your retirement planning by thinking about your priorities, values and ambitions for the next chapter of your life.

Of course, your goals for retirement do need to be balanced with the provisions you've made. Reconciling these two elements of retirement planning can be challenging. You may find that adjustments need to be made, but more often than not, we find that those approaching retirement are actually in a better position than anticipated; providing them with even more freedom to turn dreams into a reality.



The rise of phased retirement: Is it right for you?

Before you consider tapping into your pension fund, there's a couple of important questions to answer:

- When will you retire?
- And will you continue to work?

The answers to these questions should be closely tied to your aspirations and your plans as you start to scale back from traditional work. In the past, these questions weren't much of an issue for most approaching retirement. You simply gave up work on a set date and started your retirement the following day. But for the majority, that's not what modern retirement will look like. It's now more common and desirable to take a phased approach to retirement, continuing to work in some way. In fact, workers over 50 now make up almost a third of the UK workforce, according to official figures. While the increase in the workforce is partly due to population size, it's also part of a trend that's moving away from the traditional 'cliff edge' retirement. Research suggests that half of those over 50 don't plan to follow the established route to retirement, instead preferring a transitional path that blends work with retirement.

Today, workforces are far more flexible and digital technology allows for increased options to create a transitional approach. Among the most favoured approaches to a phased retirement are:

- Working fewer days (**70%**)
- Reducing hours worked per day (**44%**)
- Flexible working arrangements (**33%**)
- Increased holiday entitlements (**20%**)

The above options provide you with ways to work flexibly while still maintaining your current job or a traditional position. But there are other routes to phased retirement too.

Perhaps you want to work on a freelance basis, taking full control of when you work, or you could turn a hobby into a profitable business.

The combination of technology and businesses wanting increased flexibility means you're in a far better position to create work that suits your retirement than previous generations.



Why would you continue to work in retirement?

If you're looking forward to giving up work entirely and enjoying having plenty of free time on your hands, the thought of continuing to work probably couldn't be further from your mind. But it's an option that appeals to many for a variety of reasons.

For some, money will play a clear role in this. If you don't have enough retirement provisions to meet your aspirations, working for longer in some form provides you with a way to increase income in the short and long term. However, it's not just money that's driving the decision. The research indicates the transitional approach was embraced across all income bands.

Our career makes up a big part of our identity. After years of building up your skills and experience, you may not feel ready to let go of your position entirely just yet. Work also provides us with a focus, structure and social aspects, that you may decide are still important to you, even as you want to scale back your work commitments.

When you factor in improving life expectancy, it's not surprising that more people are choosing to work during retirement either. With modern retirement lasting 20, 30 or even 40 years, it may be possible to mix continued career development and goals with the increased leisure time you want.

The financial implications of continuing to work

When you're deciding the work-life balance that is right for you as you move towards retirement, there's another factor to consider; money. While finances shouldn't be the sole focus of your decision, it's an area that does need to play a role.

If you will continue to work will you:

- Need to supplement the income you earn?
- Will you access your pension savings?
- Take a tax-free lump sum from your pension?
- Will you defer or claim your State Pension when it's available?

If phased retirement is for you, Pension Freedoms do give you more flexibility to blend an income from work with retirement provisions. However, you'll need to carefully consider the tax implications of how you access any savings, as well as the sustainability of the withdrawals you're making.



Calculating the financial impact:

Should you decide to work, getting your head around how tax legislation will affect you can be complicated. But it's crucial to understand it before you proceed with plans. If it's an area you're struggling with, we're here to help.

The Personal Allowance for 2022/23 is £12,570. If you receive income above this amount, including money taken from your pension, you will be taxed. If you're earning an income from work and accessing pensions, it can be easier to slip into higher tax brackets than you realise.

Another implication is your pension Annual Allowance.

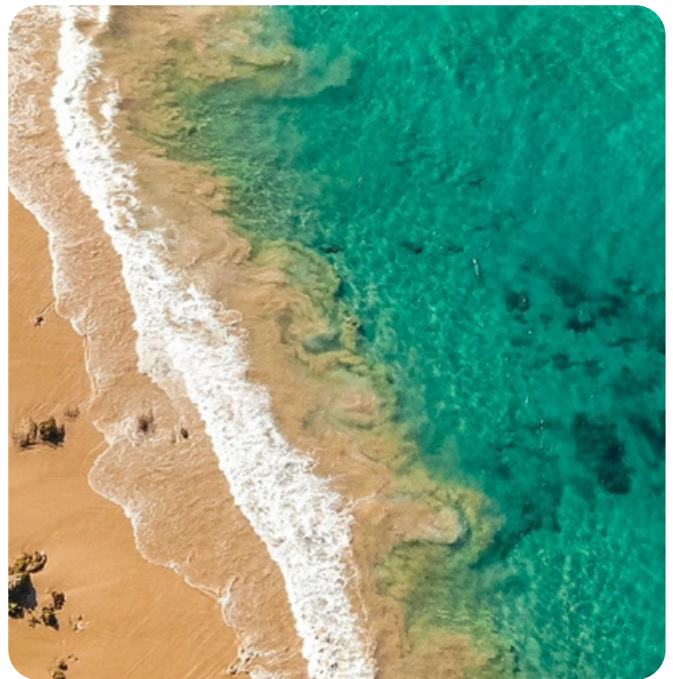
If you choose to carry on working, you may still be paying into a pension. This is fine, however, if you choose to start withdrawing benefits from a pension, your Annual Allowance will decrease to £4,000 annually. It means you may have limited opportunity to replace the funds withdrawn. Understanding the potential tax implications of continuing to work can help get the most out of your money.

Understanding your retirement provisions

Once you've set out how you want your working life to look as you approach retirement, you need to look at the provisions you've built. This is a crucial step for all retirement plans, whether you want to carry on working in some form or not. While money shouldn't take over your retirement, it's undoubtedly important. After all, it'd be difficult to fund your goals without it. Most people in retirement find they have multiple sources of income. While useful in many ways, it can make it difficult to understand how it will support you. However, breaking it down into different key areas can help you see what you can expect to receive. Below are five areas to look at when calculating your retirement provisions, though they may not all be applicable to you.

1. Working income

First, if you're following the trend for working during retirement, the income you earn should be factored in. How much it will support you will depend on the balance you want to strike. If you decide a phased approach is right for you, it can improve financial security in the short and long term.



However, you should be mindful of how reliable your income from work will be. For instance, if you choose to try your hand at freelance or launching a business, your income may fluctuate during the year. Understanding how your work decisions may affect the money coming in allows you to put a contingency plan in place where necessary. Another key thing to define is how long you intend to work for. This doesn't have to be set in stone; you can change your mind at a later point. However, having a long-term plan can help you decide how best to access other retirement provisions and calculate how long they will support you for.





2.State Pension

For many, a State Pension will provide a foundation for their retirement income. To qualify for the full State Pension, you must have 35 years of National Insurance contributions on your record. For 2022/23, the full weekly State Pension is £185.15; £9,627.80 annually. It's a sum that's unlikely to cover your plans for retirement. However, it does provide you with something to build on and a stable income that you can rely on.

If you choose to work or have other forms of income, you may decide you don't want to access your State Pension straightaway. It can be a worthwhile decision in the long term; your State Pension will increase by 1% for every nine weeks you defer. This works out at just under 5.8% for every 52 weeks. It's worth considering how long it would take for you to recoup the missed years of State Pension. It may take 10-15 years before you benefit financially overall. Make sure you check both your State Pension age, which is rising, and your NI record before you start making retirement plans. You can do so [here](#).

3. Defined Benefit Pensions

A Defined Benefit (DB) Pension scheme, sometimes referred to as a Final Salary Pension, is often considered to be the 'gold standard'. This is due to the often generous income it delivers on retirement, auxiliary benefits, and the fact the responsibility to meet income commitments falls to the trustees. When you join a DB scheme, the calculation that will set the income you receive in retirement will be pre-defined. It will usually be based on three key factors:

1. The number of years you paid into the scheme
2. Your salary, either a career average or your final salary
3. The accrual rate, this is the fraction of your salary that's multiplied by the number of years you've been a member to calculate retirement income

To remain a member of the scheme you will need to pay in a portion of your salary each month. This is often higher than that of the minimum for alternative Defined Contribution (DC) schemes. However, you're typically compensated for this in two ways. The first is the guaranteed income offered, which is usually linked to inflation. The second is the auxiliary benefits, which will often include a spouse or dependent's pension to improve your family's financial security.

To understand the projected value of your DB pension and how it's calculated, you can contact the scheme directly.

As the trustees take responsibility for a DB pension, you essentially only have two choices when you come to claim it. You can either remain a member, receiving a defined income for the rest of your life, or opt out. If you opt out, you give up the security a DB pension offers in return for a lump sum of cash, which can be placed into a DC pension, known as a Cash Equivalent Value Transfer (CETV). It's rarely a good idea to leave a DB scheme and it's a decision that needs to be thought about carefully, with professional advice taken, beforehand.





4. Defined Contribution Pensions

Defined Contribution (DC) pensions are the most popular way to save for retirement. Since the introduction of auto-enrolment in 2012, ten million people have begun saving into a DC pension. Most employees will now be offered a DC pension.

A DC pension is a pot of money that's typically invested with the plan to grow over your working career. In most cases, contributions come from three sources:

1. Employer contributions
2. Employee
3. contributions Tax relief

This money deposited can typically be invested in a range of funds; if you haven't chosen a fund it will be placed in the default option. Investment gains are reinvested to generate returns of their own, so you'll benefit from the compounding effect. While there are minimum contributions set under auto-enrolment, you can choose to increase these or deposit lump sums to boost retirement savings subject to the annual allowance limits.

When calculating the total value of your DC pension at retirement, it's important to keep in mind that it's invested. Markets fluctuate, and so will your pension value.

Over your working life, your pension will benefit from market rises and suffer from the lows too. That's why it's important to look at the long term when forecasting your pension value. You should receive an annual statement from your DC provider, if you haven't, contact them directly. This will show you your contributions, current pension value, and projected value at the point of retirement, providing you with the information needed to understand the income it'll deliver.

Since 2015, you've had far more options for accessing your pension at retirement. We look at these in more detail in the next section.



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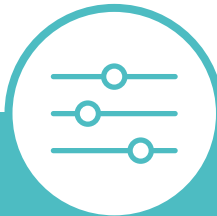
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5. Other assets

While pension savings typically make up the core part of a retirement income, you probably have other assets you'll use at some point too. When you're weighing up your retirement provisions, including these can help to build a more complete picture. Even if you don't intend to use these assets, understanding the value and how accessible they are can provide you with more confidence as you step into retirement.

Among the assets you may have to fund retirement are:

- Cash savings
- Investment portfolio
- Property
- Inheritance



Bringing different streams together:

Retirement income rarely comes from one source. It's more likely to be a patchwork of different saving pots, investments and other assets, you may even have multiple pensions. When planning, you need to bring these different income streams together to fully understand how much you'll have throughout retirement. Depending on your situation, this may be complex but it's an area we can provide support in.



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What do Pension Freedoms mean for your income?

When Pension Freedoms were introduced in 2015, they represented the biggest shake-up to the industry in a generation. They aimed to give more flexibility during retirement, allowing you to build an income that suits you. The change reflects trends in retirement, including taking a phased approach to leaving work and remaining employed for longer. You now have more choice than previous generations did. However, alongside that comes the responsibility to ensure you choose the right option for your lifestyle and that your provisions will last you a lifetime. Choosing how to access your pension can be difficult and there are many pros and cons to weigh up before making a final decision.

Since 2015, DC pensions have been accessible from the age of 55. When you reach this point, there are essentially five options to choose from.

1. Leave your pension where it is

You're not obliged to take your pension at any point in your life; it can remain where it is for as long as you like.

If you choose this option, it will typically remain invested. However, pension funds will usually reduce the level of risk you're exposed to as you approach retirement, potentially decreasing the investment returns. If you don't plan to take your pension at the start of retirement, this may not be the best approach for you. If this is the case, you can change which fund your pension savings are invested in, and therefore the level of risk, by contacting the provider.

There are many reasons you may choose not to access a pension right away; perhaps you don't need it as you continue to work or prefer to use other assets.



Taking responsibility for your pension:

Pension Freedoms means retirees have to take more responsibility for creating an income; it can be a daunting prospect. If you're unsure how to access your pension savings, please contact us.

There's also one clear benefit to doing this; it's an effective way to pass on wealth. For Inheritance Tax (IHT) purposes, pensions are not considered part of your estate. As a result, if you leave your pension to a loved one, it's not liable for IHT. If you pass away before the age of 75, there's no tax due at all on an inherited pension. After the age of 75, your beneficiary will pay Income Tax at their usual rate.



2. Withdraw lump sums

You can take lump sums from your pension as and when you choose to from the age of 55. If you're planning to fund big one-off purchases, it can be an effective way of doing so.

However, you should have a plan for how you'll use the money. Holding it in cash accounts will often mean it loses value due to the impact of inflation. You'll also need to ensure that your pension will continue to deliver the income needed to support you for the rest of your life. A key thing to keep in mind with this option is tax. Usually, only the first 25% can be withdrawn tax-free. Beyond this threshold, it will be liable for Income Tax. If you're taking out a large amount above the tax-free allowance, the amount of tax you're liable for can be significant. As a result, it may not be the most efficient way to access your pension.

Please note: *The tax implications of pension withdrawals will be based on your individual circumstances, tax legislation and regulation which are subject to change in the future.*

3. Purchase an Annuity

Purchasing an Annuity used to be the standard step retirees took when they reached the milestone before Pension Freedoms were introduced. It's a way of securing a guaranteed income throughout your life.

You take the money accumulated in your pension and use it to purchase this guarantee. The level of annual income offered will vary between providers, so it's important to shop around. To calculate how much you'll receive, a provider will look at a range of factors, such as:

- Your age
- The amount you have in your pension
- Health and lifestyle

There are many different options when purchasing an annuity, and this can affect the level of income you're offered too. For example, do you want an income to rise annually alongside inflation? Should you die, would you want the Annuity to continue to provide an income for a partner? Think carefully about the type of Annuity product you want before you decide; you can't change your mind once purchased.

Purchasing an Annuity means your retirement income is less flexible than alternatives, but the trade-off for this is security; you don't have to worry about running out of money in later years.

It is possible to use portion of your pension to purchase an Annuity, providing a guaranteed, regular income, and use the remainder to create an adjustable, flexible income.



4. Take an adjustable income

Pension Freedoms introduced a flexible way to take your income, known as Flexi-Access Drawdown. This allows you to adjust the amount you withdraw to suit you or even halt withdrawals. If you want to change how much income you take from your pension over time, this can be a good option. For example, you may decide you want to take less income initially as you plan to continue working, but then take a greater level for a few years as you enjoy your freedom before settling into retirement.

Typically, your pension will remain invested if you choose this option. This is both an advantage and a drawback. The clear advantage is that it has an opportunity to continue generating returns. On the other hand, your pension will still be exposed to investment risk and can fluctuate. This means you need to take more of a proactive approach to monitoring pensions and the level of income that's withdrawn. Not all pension providers will offer this option. If yours doesn't and it's right for you, a pension can be transferred to another provider.

5. Empty your pension

Should you choose to, you can completely empty your pension too. In some circumstances this may be the best option, if it's a relatively small pension and you have other pensions to use to create a long-term income, for example. However, in the **vast majority of cases**, this isn't the best course of action.

First, withdrawing your entire pension could mean your future income is placed at risk. Second, it's not tax-efficient. Usually, only the first 25% is tax-free. After this, you'll be taxed at the standard Income Tax rate. For example, if you have an annual income of £14,000 from other sources and choose to entirely withdraw a £100,000 pension, using the 25% tax-free allowance, you'd be taxed at £23,100.

Please note: *The tax implications of pension withdrawals will be based on your individual circumstances, tax legislation and regulation which are subject to change in the future.*



Blending your options:

While there are broadly five options to choose when accessing a DC pension, you don't have to pick just one. Many retirees find that creating a hybrid solution is the best option for them and their retirement plans. You could, for example, initially withdraw a lump sum, taking advantage of the tax-free allowance. You may then decide to purchase an Annuity with a portion of what's left, providing some financial security, while leaving the rest where it is until your later retirement years.

Understanding your options and the impact it could have on your future can be difficult; we're here to help you decide how to access your pensions.



Balancing aspirations with pensions

Once you've considered the lifestyle you want to achieve and the retirement provisions you've made, it's time to bring the two together. This is an area we can help you with.

Balancing retirement goals with savings can be challenging, but it's important for building a plan that works for you. We're here to help you make sense of both sides of the retirement plan, giving you the confidence in your finances to meet your aspirations.


Using cashflow planning, we'll help you see how your wealth will change over time in relation to the retirement decisions planned. For example, we can give you a visual representation of how:

- Working part-time will affect your income
- Taking a lump sum from your pension will impact long-term financial security
- The impact volatile investment markets could have if you used Flexi-Access Drawdown
- How long your savings will last with your ideal retirement lifestyle

Please note: The content of this guide is for information purposes only and does not constitute investment advice. It is not an offer to purchase or sell any particular asset of product and it does not contain all of the information which an investor may require in order to make an investment decision. A pension is a long-term investment not normally accessible until age 55. Investments should be regarded as long term and fit in with your overall attitude to investment risk. Investments and the income from them can fall as well as rise and you are not guaranteed to make a profit.



If you're making plans to retire now, whether you'll continue to work in some form or not, please get in touch.

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 [Book in a chat](#)