# An introduction to:
# Planning your retirement

wingate
FINANCIAL PLANNING

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Wingate Financial Planning specialise in retirement planning advice for those in the run up, at the point of, and through retirement.

Financial planning should cover all of your circumstances and relevant considerations, as one element of planning can invariably have an impact for better or for worse on other areas.

Therefore, it is core to our ethos that there is no such thing as "retirement planning" in isolation. Often our clients are in the process of making significant decisions about their future without work, or reduced work, and will typically believe that they are financially independent or near to.

## Financial Planning

The starting point of any retirement plan is to understand all your income and assets as well as your liabilities and any significant goals and objectives.

Our experience is that moving from the world of work to relying on your own resources leads to some potential "behavioural" issues. An example could be underestimating budget, which obviously has potentially negative implications.

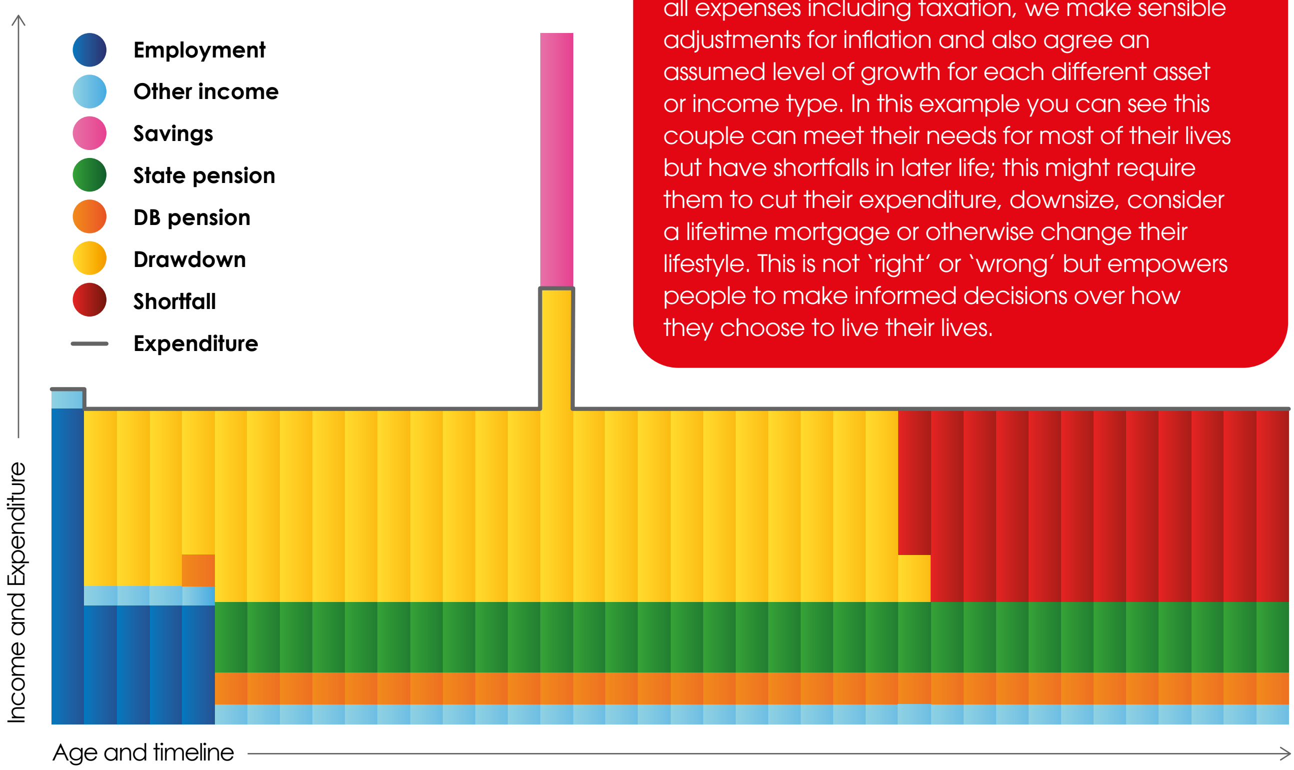
However, many people also overestimate the resources they need, which may lead them to be overcautious and therefore spend more time in the world of work than they would need, or wish to.

There is a presumption that retirement is desirable for most people, but there are non-financial reasons to continue work.

This means retirement financial planning can be described as the process which gives an understanding of what you need to do to be financially independent, and then implementing a plan where you can stop (or reduce) work because it is affordable, as opposed to working because you need to work.

If you do continue then maybe it is because of non-financial reasons?

The graph shows an example client's lifetime income need (the black line) taking into account all expenses including taxation, we make sensible adjustments for inflation and also agree an assumed level of growth for each different asset or income type. In this example you can see this couple can meet their needs for most of their lives but have shortfalls in later life; this might require them to cut their expenditure, downsize, consider a lifetime mortgage or otherwise change their lifestyle. This is not 'right' or 'wrong' but empowers people to make informed decisions over how they choose to live their lives.



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We are so pleased we retired when we did, and only wish we’d done it sooner. Wingate were instrumental in helping us understand our real concern was how long we would enjoy good health, when we had previously been focused on just earning money.

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# Issues to consider

## Budget

Whether we are considering an individual, a couple or a family their budget is not made up of the sum total of direct debits, standing orders and regular outgoings.

We also need to consider ad hoc expenses, for example, replacing cars, home maintenance, holidays etc and also one-offs which could be anything from funding children's weddings or education through to ensuring there is an adequate amount for disasters like property repairs or health issues.

Our early meetings will typically spend quite a bit of time talking about objectives, goals and concerns and other considerations.

A significant part of the value of good planning is to understand how "needs" are covered in priority of "wants", and how various decisions impact on finances.

Any plan that does not take into account a realistic assessment of someone's budget is doomed to failure.


## Taxation

A significant part of the advice that we give revolves around taxation as, to use a simplistic example, an investment return of 5% on which tax is due will be worth only 4% in the hands of a basic rate tax payer, but a tax free return is worth the full 5%.

Put another way, tax efficiency can increase returns without taking any more additional investment risk.

Unlike employed and self-employed income, many retirees will not pay national insurance and typically through good planning and use of allowances (personal income tax allowance, savings allowance, capital gains tax allowance, pension tax free sums, ISAs etc) tax rates in retirement can be very low.

This means, for many, retirement income has a greater purchasing power than earned income.

As an example, we have clients who are paying less than 10% total tax legitimately whilst still meeting their needs. Other than these regular taxes, as outlined in this document, we also give thought to other taxes that might be incurred, for example taxes incurred through gifting, disposing of assets and other succession considerations although these are not relevant for all clients.

# Pensions

For many workers, a pension is simply a tax efficient way of saving for retirement. There are restrictions on when a pension can be accessed (historically this had been 55 but is moving to 57 over the next few years), but few investment savings rival pensions with respect to "bang for buck".

Contributions to a pension will receive the highest rate of tax relief within a limit (known as the annual allowance). When an individual chooses to draw their pension they can typically get 25% tax-free and any other withdrawals are taxed at the income tax rate applicable to them at that time.

Additionally, pre-retirement savings into pensions are often made more efficient as an employer may offer a contribution (i.e. matching or "matching plus") which, along with tax relief, helps to give pensions a superior headstart compared with other investments.

Pensions are not the only option and many people will fund their retirement through non-tax relieved savings, like ISAs, cash or simply a portfolio of investments.

It can be legitimate to consider non investment assets, for example equity in a property, buy to let or even an inheritance as part of a retirement financial plan.

## Taking an income from a pension

An increasingly small number of people will have a defined benefit pension where the final benefits are a function of their salary and their years of service, and there is little input from them beyond deciding whether they do or don't want a tax free lump sum and the age which they draw these pensions. That is not to say that defined benefit pensions are simple, but they certainly have less decisions and risks attached than a defined contribution scheme as detailed below.

A defined contribution scheme will have a known contribution (unlike a defined benefit scheme) potentially from an employee and an employer (not relevant for self employed people) and the underlying funds will move up and down in line with the investments it holds.

Historically many people would swap this fund, irrevocably, at retirement for an income known as an annuity. It was possible to purchase things like annual increases, spouse's pensions, and other benefits like protection against unusually early death.

However, annuities have become increasingly unpopular due to falling interest rates which have led to typically historically low annuity rates, and changes to death benefits on pensions more generally.

The alternative to an annuity is known generally as drawdown and will not suit all people, but it does allow the investment to be held potentially for an individual (or even couple's) entire life. There is typically more volatility in the value of such a pot but it can be potentially more rewarding over the longer term, and offer the ability to increase and decrease income in a way that is not possible with most annuities.

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Of all the firms I spoke to Wingate were the only firm that focused on what was important to me, and the things I wanted for me and the girls. In hindsight, I cannot see how investment decisions can be made without a financial plan.

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## Lifestyling

Historically, most people would buy an annuity, at a fixed date (for example 65). This means most company pension schemes automatically moved individuals into funds that looked very similar to an annuity in the run up to this target date. Some funds might hold up to 25% in cash to match the anticipated tax free lump sum. The employer connected to the scheme would have decided whether they thought any annuity would be purchased on a non-increasing basis or if there would be annual inflationary increases.

These assumptions seem, for many, to be anachronistic these days and may be inappropriate for many investors. This is not meant to be a criticism of lifestyling, as it is known, but is an issue with any "one size fits all" approach which is necessarily present when an employer cannot facilitate tailored advice to pension scheme members.

In short, lifestyling, typically to an annuity, is very common on group pensions but may be inappropriate for some group pension scheme members.

## "Third Way" Retirement Options

If an annuity gives maximum certainty but minimum flexibility, and drawdown gives maximum flexibility but comes with no formal guarantees the allure of "third way" retirement products is to either give people the potential investment upside of drawdown but through an annuity, or to give the flexibility of drawdown with some sort of underlying investment guarantee.

We tend to be sceptical of these retirement solutions, as they most commonly offer the disadvantages of the alternatives they seek to replace, without the advantages. Guaranteed drawdown is invariably costly, and the protection applies at limited times. Meanwhile, if an individual is seeking upside on an annuity, but also wants no downside potential then the annuitant is typically locking into a far lower level of income at outset than the non-investment linked alternative.

This is necessarily a simplification, but our view tends to be that whilst it can suit some people to mix and match annuity and drawdown (i.e. secure a base level income for an annuity and use drawdown to fund the "nice to have" expenses) mixing these features in one plan does not benefit the investor, but rather may be of benefit to the innovator.

## Death Benefits

2015 saw the most significant change to pension death benefits in the history of pensions, with the well-publicised introduction of tax free death benefits for all under the age of 75, and the ability to leave a pension fund to any beneficiary (not just dependants) at any age.

Media coverage of this topic exaggerated the implications to many people of the changes to death benefits (as they may need their pensions for lifetime income, for example). However wealthier people may now choose to spend other assets in advance of their pension. This is because by using the pension in later life (this could be beyond what "normal retirement date" was considered to be in working life) they can protect a pot which has privileged treatment on income and capital gains taxes, and protect the inheritance benefits if the pension holder dies unusually early.

It is important to note that, just because the legislation has changed, not all pension schemes have been updated and many providers, particularly those who are no longer open to new clients have failed to update their pension schemes to take into account the new rules.

Advice is more complex, and the benefit of advice potentially greater, for those with larger pension funds. Some pension schemes may deduct a 55% lifetime allowance on death, but other schemes may permit the charge to only be 25%.

It is permissible to pass a pension fund totally tax-free now, as long as the initial pension holder has the right type of plan. Current rules mean the fund is totally exempt on transfer and thereafter of income and capital gains tax on growth, free of inheritance tax on death of the recipient, and does not ever get tested against the recipients own pension's lifetime allowances.  Additionally the pension is accessible with no minimum age on the nominee receiving the fund.

Withdrawals from this inherited pension fund are tax-free when the initial pension holder died under 75, and subject to income tax on the recipients own tax rates where the deceased was over 75. This tax treatment is unique.

It is important to note tax rules can change, and not all pensions will have this beneficial treatment. Despite the headlines there are still a number of older pensions which could be subject to inheritance tax, and offer none of these new rules. Just because the Chancellor suggested that pension funds would be tax free, this isn't necessarily the case in all circumstances!

> Thanks to Wingate we are delighted to feel more secure in our day-to-day lifestyle, whilst improving the position of our grandchildren. We also have a potential plan if either of us need care in later life.

## Investment

Whilst the focus has been on tax-relieved pensions they are really just one specific type of investment "wrapper". Alternatives, which could be more or less beneficial depending on individual circumstances could include ISAs or direct investments.

The underlying investment choice (i.e. whether it is equities, bonds or property) defines the overall return in terms of income and capital growth, and the "tax wrapper" defines any tax breaks on the way in, as the fund grows, and when money is taken out.

Our investment ethos is detailed in our separate document "An introduction to: How Wingate manage your investments"

Outside of good tax planning, we believe the key principles of a good investment strategy is summarised in our core investment principles:

- We provide independent advice
- We believe in strategic asset allocation
- We understand the benefits of diversification
- We consider the investment period
- We offer passive and active investment strategies

## About Wingate

We hope this has given a flavour of some of the considerations that face retirees.

We have a separate document detailing our accolades and awards - please contact us for more details.

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