10 Steps to planning for your retirement

CASTLEFIELD

THE THOUGHTFUL INVESTOR

One minute you're stepping out in to the adult world: you've left school, college or university and you embark on your first job. Then before you know it you've been working for 30 years and your retirement seems to be creeping up on you. Ideally, you should start planning around ten years before you intend to retire, or sooner if you can. This guide gives you 10 steps to work through to help you formulate your plan.

1.

Can I visualise my retirement?

To start, think about what you'd like your retirement to look like.

- Think about how would you like to occupy your time. Is there a pastime you enjoy that you're looking forward to dedicating more time to? Or is there a new hobby you would really like to pursue?
- Are you likely to move, and if so where to and why? Perhaps you've always wanted to retire in a particular area of the UK close to the coast. Or abroad somewhere where the sun endlessly shines and the skies are always blue.
- Would you love to commit more time (and money) to support a charity or cause you care about?
- Do you have children or grandchildren who you would like to see more often?
- Do you want to retire 'with a bang', perhaps paying for a lavish retirement party for all your friends and buying that luxury motor home that you've always dreamed of?

2.

When will I retire?

Try to pin down the most likely point that you could retire. There may be an obvious point in time, for example when you become eligible for your work or state pension, although there could be other influencing factors that might change this.

Maybe your partner is set to retire on a particular date and ideally you'd like to retire at the same time. It may be that you would like to ease into retirement, initially moving to a part-time position or reduced responsibilities, assuming your circumstances can accommodate that.

Or there may be other factors that are more difficult to put a set date to. For example, if you love your work so much that you would only retire if your health forced you to, or if you expect to become a grandparent one day and you plan to keep working until then.

Think about your own situation and start putting dates to your plan, including step changes such as when you expect to move from part-time to full-time retirement. Embellish it with plenty of notes and make a record of any possible variables, such as ranges of dates or values.

3.

What do I have? How may this change?

Make a note of everything you have to support your retirement. It may help to use a spreadsheet to note items and their values in different columns.

As far as you can, put numbers to your list. For example, obtain a state pension forecast and use annual statements for savings, ISAs and private pension pots.

Include approximate amounts for pensions and investments projections, along with estimating for any inheritances you may receive (if they form part of your retirement plans), and any plans to downsize your property that may release funds.

If you want to get a little more sophisticated, calculate how these values may change over time. For example, by estimating the value of your investments or property assuming the value grows each year by a certain amount. Or look at the projected pension value from your annual statements.

Some of these will be tax free (such as ISAs), however the tax tables on our website can help you calculate what they will be worth after tax to give their net values if they are taxable.

4.

What do I need? What will I spend?

The next stage is to calculate how much you are likely to spend in order to accommodate your retirement lifestyle.

Again, note this down, ideally in spreadsheet format. It also helps to decide if you are going to calculate your budget using annual or monthly figures, but not a mixture of both, so you have a clear picture of how much you will spend. i.e. divide annual figures into twelve if you decide on using monthly amounts. Separate spending into three categories - essential, discretionary and other spending.

ESSENTIAL SPENDING

These are the things you will always need to pay out for e.g. council tax, utility bills, home insurance etc.

DISCRETIONARY SPENDING

This accommodates your regular spending, but covers non-essential items i.e. replacing car every 5 years or annual holidays. These can change from year to year, and may be tricky to estimate, but are important to include.

OTHER SPENDING

This category covers everything else and will be the hardest to estimate. To get a good idea of your spending, you could a) use previous bank statements to spot anything you have missed, b) consider what may need replacing or updating soon (new windows, car, etc), and c) list other things that you may spend money on at some point, (celebrations, graduation, weddings, house deposits for your children).

It's also important to make a note of how you intend to pay for items - if it is likely to come from your regular income or if you may need to use savings or release funds.

Make a note of things that are set to change, for example, if you have a mortgage that is due to be paid-off in a couple of years' time. Record these in a notes column.

5.

What are the risks? What could go wrong?

Despite your best efforts, some of your assumed figures and details could turn out to be drastically wrong.

It may be that you underestimate the income and assets that you'll end up with and overestimate what you'll actually spend. If so you will probably be OK – you'll be in an even better position than you've assumed.

But then again, you may have overestimated your income and underestimated your costs. This might be because of things such as poor investment performance or excessive inflationary increases, changes to your job, changes to your circumstances (if, for example, you get divorced or your partner dies unexpectedly), or you become ill and need to pay for medical care.

Of course, you can't predict precisely what will happen in the future, however there are ways and means of dampening the effect of surprises, for example:

- Set aside more money that you need – a good balance of 'rainy day money' in your bank or building society for less severe emergencies, plus, developing a surplus to cover other potential costs.
- Put protection policies in place relevant to your circumstances (such as life cover).
- Monitor and revise your plan over time and update it to reflect changes to your circumstances.

You could also repeat the exercise but taking a more prudent approach and more pessimistic figures i.e. lower wages and pension contributions.

6.

What else should I think about?

To make your planning even more effective, there are other factors that you could take into consideration, including the following:

TAX

It helps to have a good understanding of the tax implications of your affairs especially income tax, capital gains tax, inheritance tax. This includes any tax liability that would accrue on taking a retirement income, tax allowances that you can take advantage of, and the tax implications of the different options available to you. This is a complex subject in its own right and beyond the scope of this article, however, it is important that you account for this as far as you can.

COSTS

Invariably, there will be costs associated with what you do. Not just the costs of advice or tax, but there could be other costs such as set up and exit charges for your investments. Make sure you know what these are and consider whether they are worth paying if you intend investing money as part of your plans.

TIMING

How you time particular actions can make a drastic impact on your plan. If you own two investment properties and sell them both in the same tax year you may end up paying a lot more in tax than if you sell them if different tax years. Taking care to time when you do things can sometimes make a big difference to the result.

7.

What about others?

So far, this guidance has primarily been aimed at yourself (and possibly your spouse / partner). However, many of us would also like to consider others as part of a financial plan. If their affairs are likely to have an instrumental impact on your actions it is important that you reflect this in your plans and ideally involve them, at least to some extent. For example, if you'd like to gift money to them talk to them about this rather than assume that they'll welcome it. They may well do, for example if you can help them reduce their mortgage, but then again if they have no immediate need for the money (but may do in the future) they might prefer that you keep it for now for fear of them spending it prematurely.

8.

Can I afford it? What might change?

In order to afford your desired retirement, you will need to bring in more than you spend, with enough contingency to cover tax, other costs, poor investment returns and unpredictable events.

If you have already accumulated many of the assets and/or guaranteed income that you'll need, you can be more confident that you will be able to achieve your aims.

However, if you are relying on a whole series of assumed happenings over a longer period (for example, assumed investment returns, increased asset values, the ability to save money continuously), there is more of a risk that these things won't happen.

And it might be that you have to change your plans once you've completed this exercise. For example, you've always assumed you'll retire at a particular age but while completing your plan you calculate you'll need to work for a year or two longer in order to afford it. Or perhaps your plan will have the opposite effect – you realise that you can retire earlier than you first thought.

9.

Should I seek help?

You need to weigh-up whether you are confident dealing with planning your retirement yourself, versus paying a professional for their help.

As a rule of thumb, the larger your estate and/or the more complex your affairs, the more likely you are to benefit from help (and probably need it!). But that is not always the case; you may have fairly modest investments and pensions which you'll have to manage carefully in order to meet your financial goals. In this case getting it right will probably be critical, as getting it wrong could leave you financially disadvantaged.

A professional adviser can help you to see how different scenarios and decisions may impact on your projected figures, by using sophisticated cash-flow analysis. They can also provide a level of clarity and peace of mind that many clients value. Our separate article covers ten ways that a financial adviser can help you.

10.

What should I do now?

The Money and Pensions Service provide free and impartial pension guidance and access to money guides, tools and calculators with the aim to improve your financial wellbeing. These services won't be able to advise you on what is best for your particular circumstances, but they can help to point you towards ways that you can help yourself.

If it feels just too daunting to tackle these things on your own you may need some help. Rather than start working on a plan yourself you could turn to a professional. You might be unsure whether you can afford the assistance of a financial adviser, but once you make enquiries you will find that all regulated financial advisers in the UK must be clear about what their fees, costs and charges will be before doing work for you. They'll be able to guide you through all of the necessary steps and advise you along the way.

CONTACT US:

Our tailored advice and investment service is ideal if you have £500,000* or more to invest (or re-invest). Contact us using these details and we would be happy to set you up with a free initial consultation:

Call us on:

0161 233 4550

Visit our contact page here:

www.castlefield.com/contact-us/

*If you have less than this to invest but would still like to invest with us, you can do so by investing directly into our funds. Go to www.conbriofunds.com to learn more. Note, however, that this is a self-directed service and you would not receive financial advice as part of his investment process.