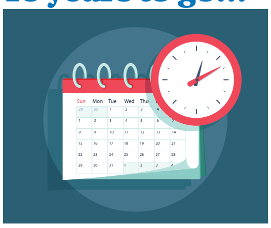
Your countdown to retirement

By Danielle Levy

There is more to retirement planning than just paying into a pension, and the sooner you start thinking about life beyond work, the more likely you are to achieve the lifestyle you want.

Starting at 15 years before you want to retire and counting down to your final 12 months in work, we run through the key considerations and actions you need to take to ensure a smooth transition.

15 years to go...



The first task is to make a plan. In addition to how much you'll save, think about how much risk to take with your investments, the returns you are targeting and the so-called 'tax-wrappers' you choose to invest in, such as pensions and Isas. It may feel like a long way off, but it's never too early to think about the life you would like to lead in retirement.

"I encourage people to sit down as a couple and to consider – if you retired tomorrow, how much income would you want?" says Steve Wilson, a director at Alan Steel Asset Management.

This provides you (or your financial adviser) with an opportunity to work out whether the assumed growth rate of your pension, savings and planned pension contributions can deliver the income you desire.

Toby Alcock, a chartered financial planner at Lockhart Capital Management, says this process will help you work out whether your objectives are realistic. Once expectations have been adjusted, he says you can "start to build a track to run on". This plan can be updated each year, in line with life's twists and turns.

Financial advisers typically use cash flow modelling tools to illustrate how much your savings will need to grow by to deliver the income you require, as well as the amount of risk you will need to take.

Individuals can access these tools via apps, such as 7Imagine. Alternatively, they may be available via your workplace pension scheme or pension provider.

Also check the value of your state pension to see what you're likely to receive once you stop working, via the website (Gov.uk/check-state-pension).

Carl Drummond, a senior wealth planner at Sanlam Wealthsmiths, suggests requesting a state pension forecast every five years, so that you can make any contributions to get back on track.

At this stage of the process, it's also worth obtaining up-to-date valuations from all of your private pensions to build a picture of the savings you have accrued over the years.

At this point – when your earnings are likely to be around their peak and your mortgage and any children hopefully less of a financial strain than they were – it's important you are paying as much into your pension as you can.

Tax relief on contributions effectively pays a refund of the tax you paid on your earnings and means that basic-rate taxpayers – who receive 20% relief – only need to pay £80 to invest £100 into their pension. Higher-rate taxpayers receive tax relief of 40%, while additional-rate taxpayers get 45%.

"It is about understanding what you are able to put in because the pension landscape changes. At the moment, you have an annual allowance of up to £40,000, but for those who earn more than £150,000, that annual allowance tapers down," Mr Alcock explains.

"For high earners, it's really important that they understand what they're able to put in each year and whether they are in a position to maximise that. For the tax savings alone, pensions are a very compelling long-term savings bucket," he adds.

Alongside your annual pension contributions, consider using your annual Isa allowance, which stands at £20,000 for the 2018/19 tax year. Any pension income you have could be subject to income tax, so money in Isas can provide a handy source of tax-free income or lump sums once you retire.

At this point, you should ensure you have completed an expression of wishes form, outlining who you would like to leave your pension to in the event of death. This is particularly important because pensions will not be covered by your will but can be passed onto your beneficiary of choice, free of inheritance tax.

10 years to go...

At this stage you should review any legacy pensions to assess whether it would be beneficial to consolidate them. By the time you reach your 50s and 60s, you may have a handful of pensions from previous jobs – covering defined contribution, defined benefit or personal pensions – some of which may not have been touched for years.

A financial adviser (see box) can help you review your pension arrangements, providing insight into the pensions that are worth keeping and those that should be combined. If you do this yourself take a look at the charges on each pension and the impact they are having on your pot, any potential penalties, the benefits on offer and the investment strategy that is being employed. Are you taking too much risk or not enough?

In some cases, consolidating pensions can reduce the overall level of charges within your pot. "But even more importantly, it means we can control the level of risk properly within the pension," Mr Drummond adds.

Five years to go...

If you have a defined contribution pension it's important to review how your pot is invested to make sure you're taking appropriate levels of risk to generate the required returns. Also ensure your portfolio is diversified across asset classes and regions.

Avoid taking on too much risk at this stage; the last thing you want to do is jeopardise the gains you have made so far. You can also book a free Pension Wise appointment, to get some insight into the next steps to take.

Like at 15 and 10 years, you should check your state pension forecasts and get up-to-date valuations from existing pensions to check you are on track.

Around the five-year point, you should also think about whether you would like to convert your pension into an annuity. This is a secure income for life, paid out by an insurance company. It can represent a good option for those who are risk averse.

The alternative route is to move your pension into drawdown. This means drawing a variable income directly from your pension, which remains invested through your retirement. While a drawdown strategy can produce a healthier income than an annuity, it's not guaranteed and you could run out of money.

There is no right or wrong answer and much will come down to your priorities. For some individuals, a

How can a financial adviser help?

A professional can help you navigate the complex world of retirement planning by:

- Setting up a pension
- Investing a pension and monitoring it on an ongoing basis
- Planning how much money you need to save and how to achieve your goals
- Making the best use of your pension allowance and tax relief
- Deciding whether to buy an annuity or draw down your pension
- Understanding when to make withdrawals from your pension and the potential tax implications
- Managing a pension in drawdown

For some individuals, a combination of an annuity and drawdown will make sense

The cost of financial advice – is it a worthwhile investment?

Good financial advice doesn't come cheap. The Money Advice Service estimates the average hourly rate for an adviser is £150. Some advisers charge up to £300 an hour. Looking beyond the charges, it's worth considering the value that a good adviser can add. Research from the International Longevity Centre carried out in 2017 suggests that affluent individuals who sought advice were, on average, £30,882 better off than those who didn't get advice. Meanwhile, those who were 'just getting by' were on average £25,859 better off than those who didn't get advice.

combination of an annuity and income drawdown will make sense.

"An individual might want to consider the annuity route to provide some guaranteed income for the level of expenses they need and then put the rest of the money into a flexible drawdown, so they can draw income when they require it," Mr Drummond adds.

Finally, it still makes sense to pump as much into your pension as you possibly can and consider paying any bonuses or windfalls such as inheritances into your pension. Although you may not have such a long investment timeframe at this stage, tax relief on that cash will still give it an instant boost.

If the amount you wish to contribute exceeds £40,000 during a tax year, you can carry forward any annual allowance you haven't used during the previous three financial years.

One year to go…

It's now time to start thinking logistics. First contact your pension providers to request up-to-date valuations for all your pots.

Up to two months before you reach the state pension age, you will receive a letter from the government outlining how to claim your pension. You can do this online or over the phone. Alternatively, you can download a claim form online (form BR1) and post it to your local pension centre. (Note you can defer this if you retire after your state pension age – just don't put in a claim.)

By this point you should have decided whether you want to buy an annuity or go into drawdown. If you have opted for the annuity route, the process of de-risking your portfolio should hopefully be under way.

Always shop around for the best annuity and declare any health problems you might have as this could get you a better rate. For more on how to get the best deal for you, turn to our feature on page 48.

Don't leave this to the last minute. Alex Brown, wealth management director at Mattioli Woods, suggests allowing a month to shop around. From his experience, it can then take another month to transfer pension assets over to the insurer. You may also need to allow some more time to amalgamate pension assets from different pots.

For those opting for the drawdown route, you'll also need to shop around for the right provider. Charges vary between providers and what makes sense for you will depend on what type of investor you are. Turn to page 40 to read our guide to choosing a Sipp platform.

You will also need to consider your investment strategy and how much you can afford to withdraw. Check out the dos and don'ts of income drawdown on page 45 and get some fund recommendations from our panel of experts on page 94.

Think about how you will access your income. Will you take your 25% tax-free lump sum straightaway or in stages? Alternatively, you may prefer to draw from your Isas and cash savings initially, allowing your pension to carry on growing.

If you like the idea of remaining invested in retirement but feel daunted by the task, it's worth enlisting a financial adviser to do the legwork for you.

A financial adviser will be able to chart a plan of action and work out the most tax-efficient way to draw down your retirement income. This will involve looking beyond your pension pot, and factoring in Isa savings and premium bonds, as well as any other cash savings you have acquired over the years.