Verve Financial

10 things to do in the five years before you retire

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Getting closer to your retirement can be an exciting prospect, but it may also be a cause for concern. A change in lifestyle when you stop working is inevitable and, with that, the income you have and the money you spend will change.

The five years before you retire present the perfect opportunity to get things organised. Plan now and, when your retirement date arrives, you'll be ready to enjoy some rest and relaxation. Or begin a new, exciting adventure of exploration and travel.

Get started with this practical to-do list. Want to chat about your retirement plans with an expert? Let's do it over coffee, email **office@verve-financial.com** or call **0330 320 5048**.

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1. Draw up a plan

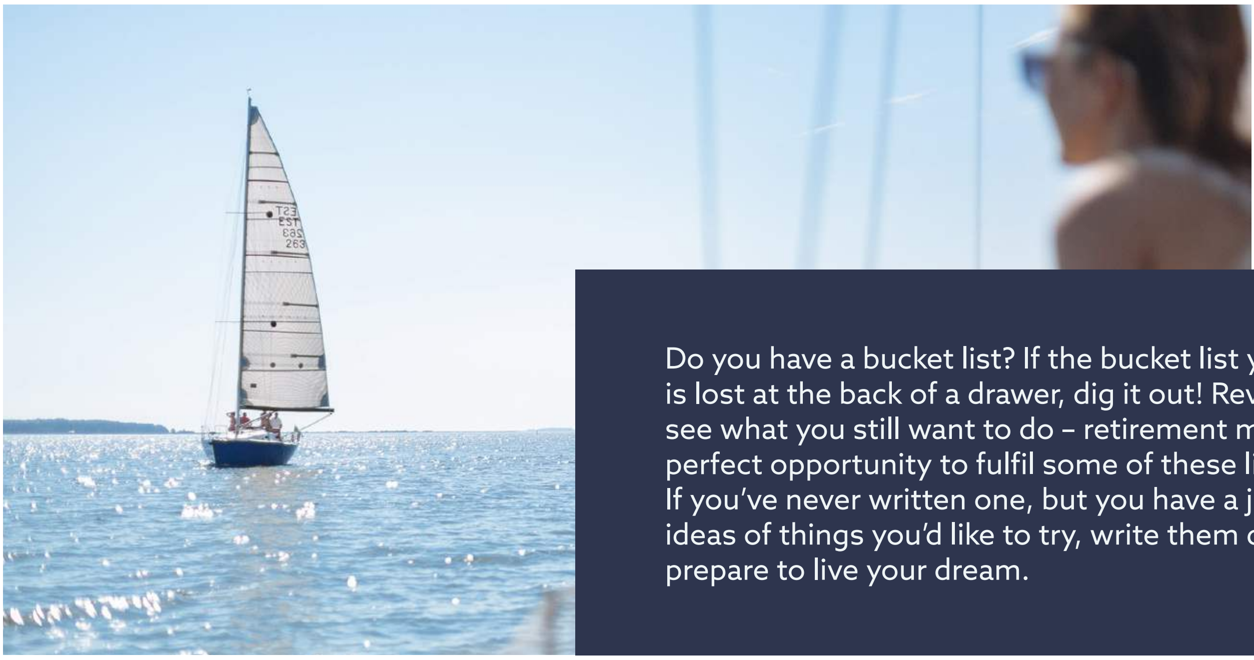
You can never plan too soon, and when it comes to your retirement sooner is better than later. Start by drawing up a plan.

What do you want to do when you stop work?

Do you have ambitions for things you wish to achieve, such as exploring the world and travelling to unknown places? Or do you want to spend more time with family and friends?

Your lifestyle desires will dictate how much money you'll need in retirement. It's essential you take time to imagine the life you want to enjoy so that you can judge how much money you will need to live on.

World travel will require a larger pension pot than spending more time tending your garden or playing with your grandchildren.



Do you have a bucket list? If the bucket list you wrote is lost at the back of a drawer, dig it out! Revisit it and see what you still want to do – retirement may be the perfect opportunity to fulfil some of these life goals. If you've never written one, but you have a jumble of ideas of things you'd like to try, write them down and prepare to live your dream.

Consider how much money you might spend each year

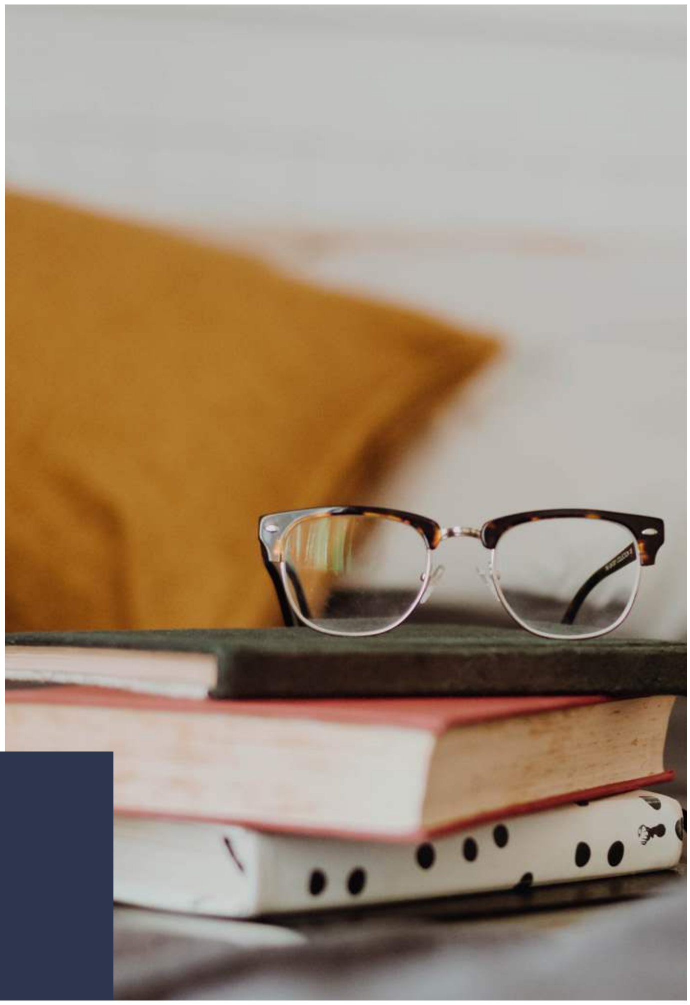
Once you know how you intend to spend your retirement years, you'll be able to calculate how much money your desired lifestyle might cost.

Lots of people expect to spend the equivalent of their final salary, but this is often a big overestimate of how much you'll actually need in retirement. To maintain a good lifestyle when they retire, most people need between half and two-thirds of their final salary (after tax).

The costs are lower than people often predict. Once retired, many will have paid off the mortgage, children are usually living independently, and you won't face the daily commute, or the associated cost.

According to a **Which? survey** in 2021, retired households spent a little under £2,170 a month, or £26,000 a year. This covers all the basics, and some luxuries such as holidays in Europe, meals out and hobbies.

Want more luxuries? Aim for £41,000 a year to include long-haul trips and a new car every five years.



Priorities change as you move through retirement. As you get older, you're likely to start spending less on food and drink, housing payments and recreation, but more on utility bills, health and insurance premiums.

You should also factor in the costs of care in later life, which could make a big difference to the way you plan your retirement budget.

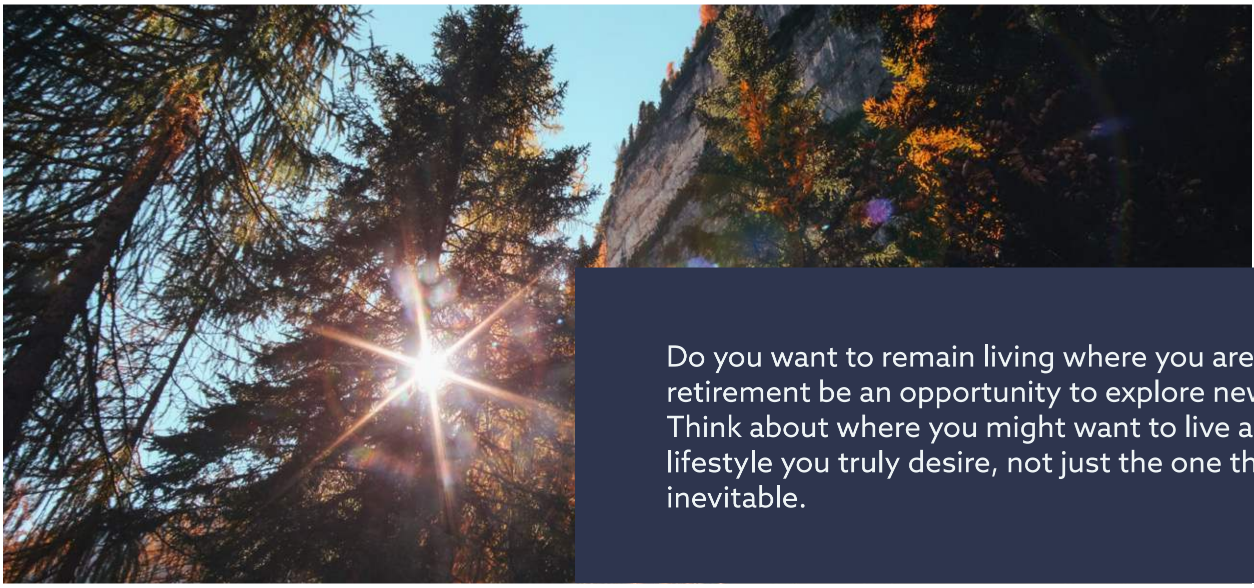
Find out how long your pension fund may need to last for by using the **Life Expectancy Calculator** on the Office of National Statistics website.

2. Imagine a new life

You've thought about how retirement might look, and how much money you're likely to need to fund your chosen lifestyle.

But is it what you really want?

Take the time to think about it again. Before you head down a route you've settled for, explore different options. Let your thoughts range on all the possibilities.



Do you want to remain living where you are, or will retirement be an opportunity to explore new pastures? Think about where you might want to live and the lifestyle you truly desire, not just the one that seems inevitable.

If downsizing is part of your dream, selling the family home could be a great way to boost your income and help fund your bucket list.

Change your plan now and you'll have enough time to make your financial plans fit around your newly imagined retirement.

3. Decide when you'll retire

Now you know how you want to spend your retirement and how much money you'll need each year, set a target date for when you expect to retire, and want to draw your pension.

You don't have to stop working to take your pension, but you must be at least 55 (rising to 57 in 2028), unless you're in very poor health.

Check with your pension scheme provider when you said you wanted to start taking your pension.

You may already be counting down the days until you finish work or perhaps you intend to wind down slowly and take a phased retirement. These days, more people are working longer, and retirement differs from how things were when your parents retired.

Many opt for a "phased" retirement. They reduce their hours, take on a consultancy role or get a part-time job.

Your retirement date needn't be set in stone, but it's useful to have a rough time in mind. This will help you calculate if you have enough savings to fund your desired retirement lifestyle, and whether your investments are suitably structured.

4. Calculate what income you can expect to receive

Your retirement income will probably come from a variety of sources. Now is the time to work out what money you have and where it is.

Start with the State Pension

Get a State Pension forecast to find out how much you could get, when you can get it and how you may be able to increase it. You can get your State Pension forecast online from the government website.

You can claim the State Pension when you reach the State Pension age, which is currently 66, for men and women.

The State Pension age is on the rise – The State Pension age is scheduled to rise to 67 between 2026 and 2028. It will then rise again to age 68 between 2037 and 2039, although the revised timetable is yet to be confirmed.

Check for gaps in your National Insurance contributions (NICs)

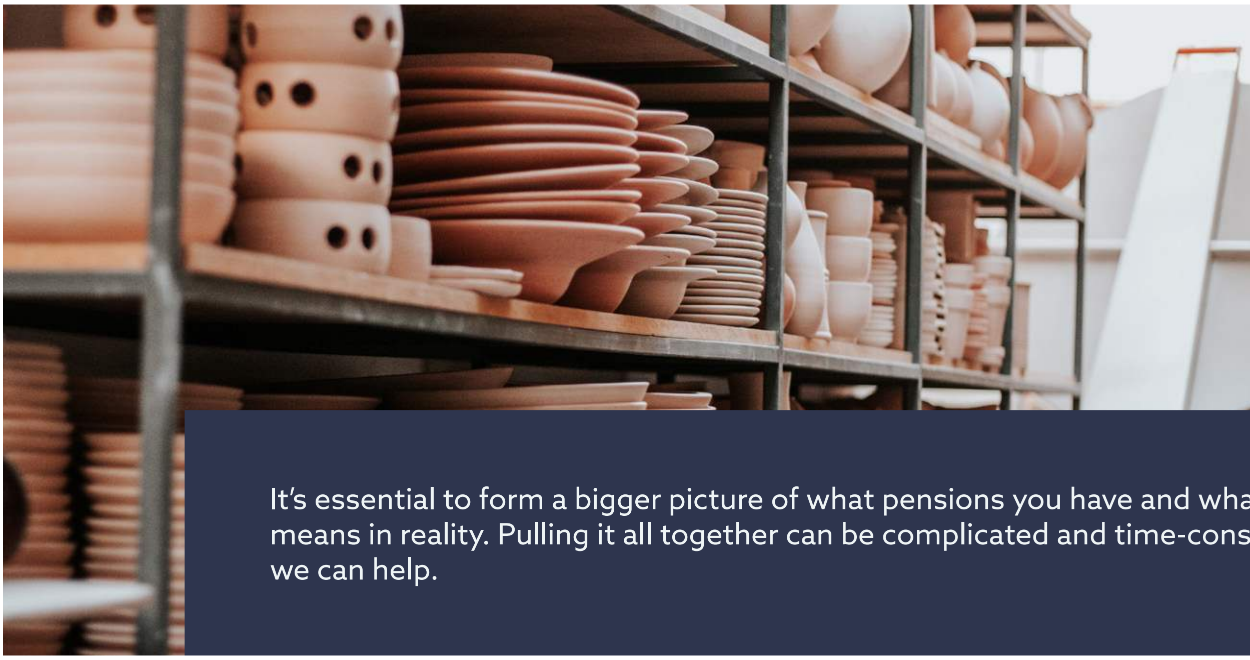
Your State Pension forecast is based on an estimate of what your NIC record is likely to be when you reach State Pension age.

You can check your NI record online. This will tell you what you've paid, up to the start of the current tax year (6 April 2022). It will list any NI credits you've received and show any gaps in contributions or credits. You will also learn if you can pay voluntary contributions to make up for any gaps and find out how much this will cost.

Get up-to-date statements on all your other pensions

Most pension schemes you've been a member of must send you an annual statement. These will include an estimate of the retirement income the pension pot might generate in retirement.

If you haven't received these statements, you can track them down. Contact the pension provider (if you remember who they are), your former employer if it was a work pension or use the Pension Tracing Service if you're stuck.



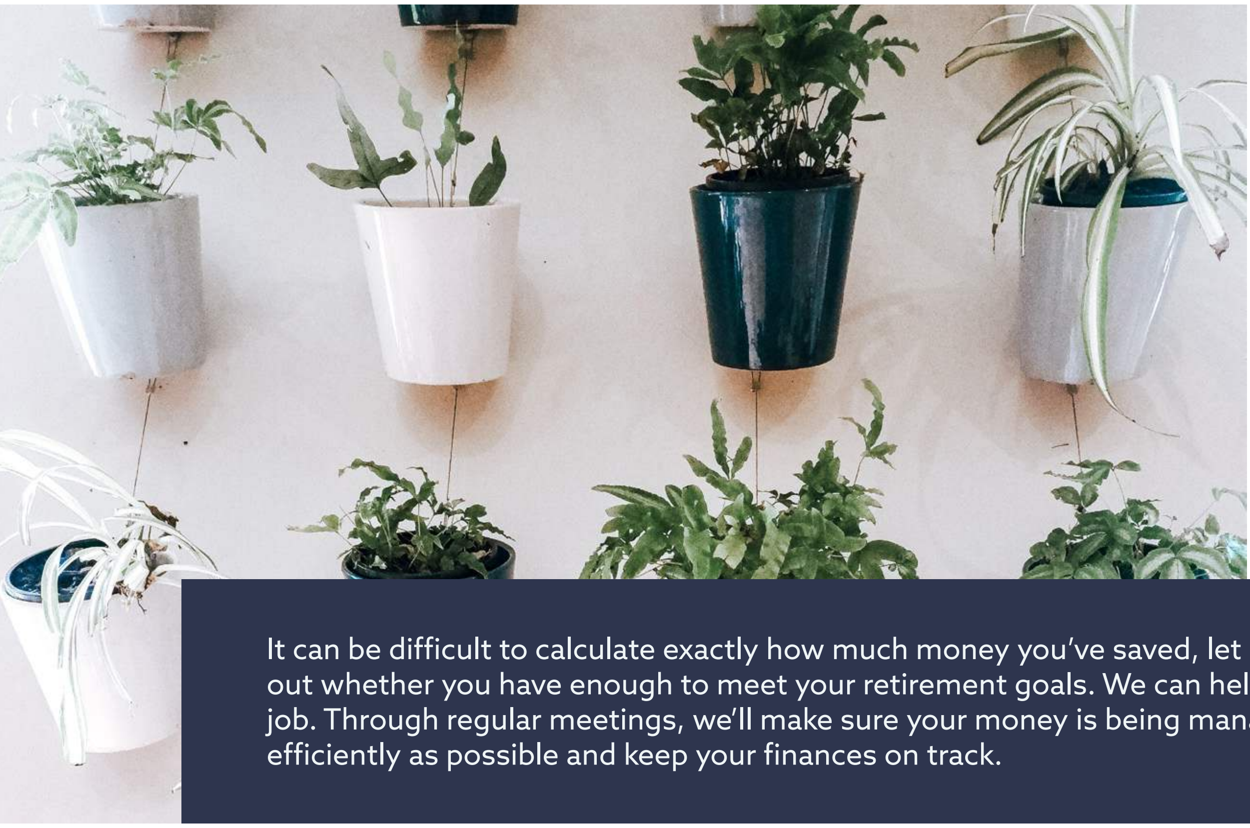
It's essential to form a bigger picture of what pensions you have and what it all means in reality. Pulling it all together can be complicated and time-consuming, but we can help.

Consider any additional income you expect to receive from other sources

Your retirement income doesn't have to come from a pension, it might come from other savings and investments. Perhaps you have income from rental property or have saved into ISAs or other investments during your working life.

You may find it more tax-efficient to withdraw money from your ISAs before pensions when you retire.

Although you can take 25% of your pension as a tax-free lump sum, the rest is taxed according to your marginal Income Tax band. With an ISA, you can withdraw money whenever you like, without having to pay any tax.



It can be difficult to calculate exactly how much money you've saved, let alone work out whether you have enough to meet your retirement goals. We can help with this job. Through regular meetings, we'll make sure your money is being managed as efficiently as possible and keep your finances on track.

5. Consider ways to boost your pension income

If you think your retirement income is going to fall short of your expected outgoings, there are things you can do to boost your income, including:

- **Increase your regular pension contributions** in line with any pay rises you receive
- **Continue to work –** this will give your money more time to grow, and your pension pot won't need to last as long
- **Pay a lump sum into your pension –** if you've received an inheritance or had a bonus from work you could use the money to top up your pension fund. You can pay money into your pension whenever you like, although the sooner you do this, the longer your money will have to grow.

Remember, there's no need to view retirement as a cliff-edge, consider it as a transition. If you're able to work part-time, this could allow you to enjoy some freedoms of retirement while still having a handy income stream.

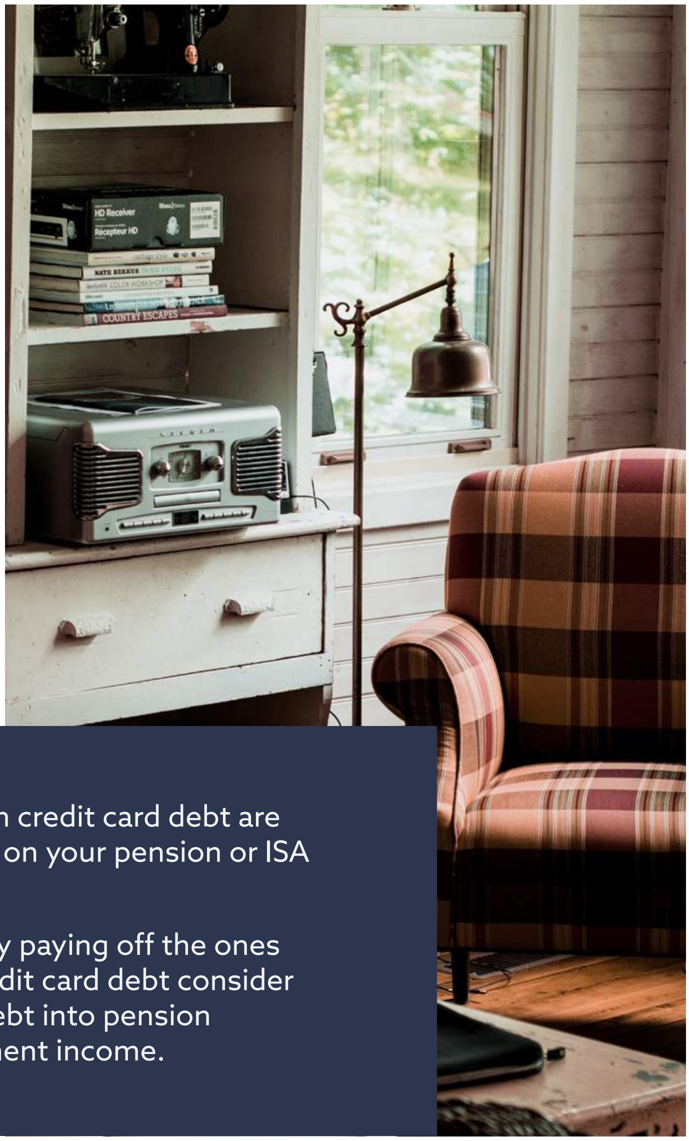
6. Clear any outstanding debts

If you can retire without a mortgage, this will mean more money to spend on the things you want to do, rather than servicing long-standing debt.

Although many people use the tax-free cash lump sum from their pension to clear debts, it may not be the best start to your retirement.

Review your mortgage now and it could make a real impact on the amount of debt you take into retirement. If you've already paid off your mortgage, that's great, but if not, ask yourself these questions:

- **How many years are left on my mortgage?**
- **Am I getting the most suitable deal?**
- **Could I be clearing my mortgage more quickly?**



Pay off your credit card debt: interest rate charges on credit card debt are likely to be above the average growth you can expect on your pension or ISA investments, so make this a priority.

If you have multiple cards you need to pay off, start by paying off the ones with the highest interest first. Once you're free of credit card debt consider diverting the money you were using to service this debt into pension contributions, or other savings to top up your retirement income.

If you've already paid off any loans or credit card debt, you're in a great position to retire when the time comes. With your debts cleared your retirement income won't need to be used to pay these off when you're supposed to be enjoying your well-earned freedom and relaxation.

Reduce the cost of your debts in the five years leading up to retirement and you'll increase the income you can spend on maintaining your desired lifestyle when you're no longer working.

Please note: Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured on it.

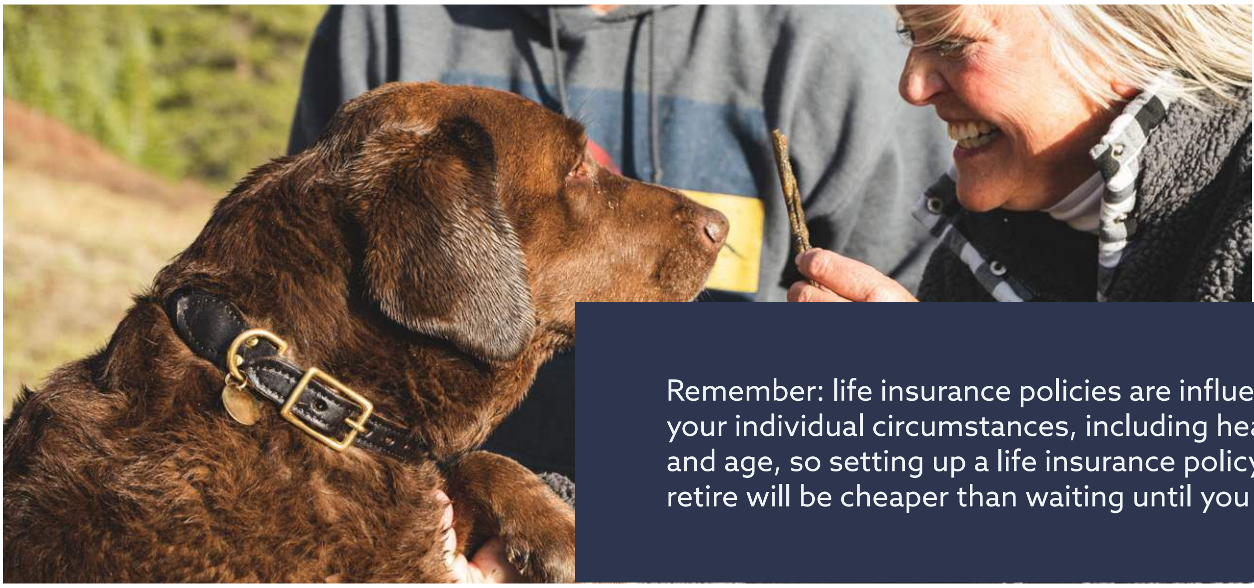
7. Assess what protection you might need

Do you need any life insurance when you retire? Thinking about it now could mean premiums won't cost as much later in life.

Some people have life insurance so they can guarantee leaving a legacy for their loved ones. When you've spent most of your life taking care of your own finances, and are now in a comfortable position, life insurance can be a good way to look after your children, or grandchildren.

You may be worried about Inheritance Tax eroding the money you leave for your beneficiaries if your estate is of significant value.

If you know this is likely to happen to your estate, you can use a life insurance policy to pay this tax bill, so your loved ones don't have to.



Remember: life insurance policies are influenced by your individual circumstances, including health, lifestyle and age, so setting up a life insurance policy before you retire will be cheaper than waiting until you retire.

8. Think about tax planning

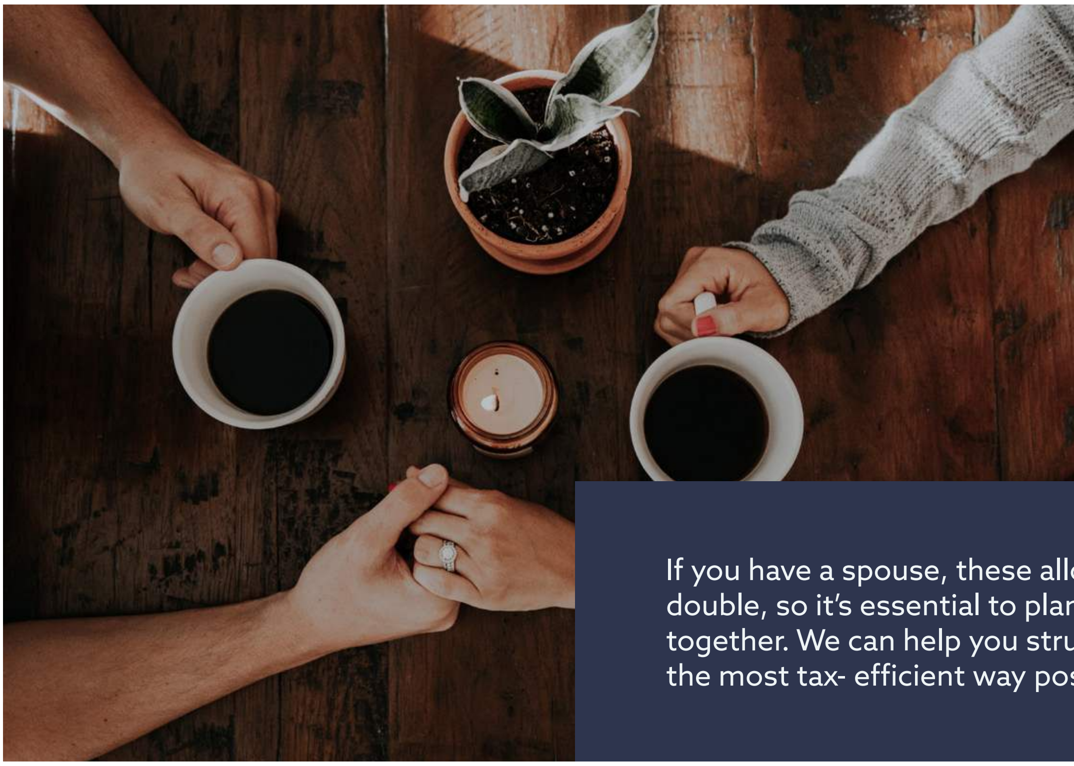
One of the best things about saving for retirement is the allowances and tax relief you can take advantage of if you need to save more before you finish work. Payments you make to your pension, whether through a lump sum or a regular contribution, benefits from tax relief of at least 20%.

If you're a higher-rate taxpayer, you can claim an additional 20% via your tax return. And if you're an additional-rate taxpayer, you can claim an extra 25%. You're allowed to contribute 100% of your earnings into a pension, up to a maximum of £40,000 per year. This is your Annual Allowance.

You may be able to pay in more than this using carry-forward, which allows you to use any Annual Allowance you have owing to you from the previous three tax years.

Other allowances you can take advantage of include:

- ISA allowance – save up to £20,000 a year (2022/23 tax year) into ISAs and your money can grow free from Income Tax and Capital Gains Tax
- Dividend Allowance – receive the first £2,000 of dividend income tax-free
- Capital Gains Tax Allowance – make profits of up to £12,300 a year (2022/23 tax year) before tax is payable
- Personal Savings Allowance – receive tax-free interest of up to £1,000 if you're a basic-rate taxpayer or £500 if you're a higher-rate taxpayer.



If you have a spouse, these allowances effectively double, so it's essential to plan your retirement together. We can help you structure your finances in the most tax- efficient way possible.

As well as making the most of tax allowances in the final few years before you retire, you also need to consider how you can plan to mitigate tax liabilities during your retirement and when you pass away.

Tax treatment warning: Tax treatment varies according to individual circumstance and is subject to change.

The value of investments can fall as well as rise. You may get back less than you invested.

There are several ways to mitigate potential Inheritance Tax charges, including:

- **Make a gift to your partner –** Make a gift to your partner – if you're married or in a civil partnership, you can give what you own to your spouse or civil partner without paying Inheritance Tax.

  For example, if your estate is worth £2 million, it would be entitled to the nil rate band and to a spouse exemption also equivalent to the nil rate band. This means that £650,000 would be tax-free and the IHT would be reduced to £540,000. The rules may differ if your spouse is domiciled outside the UK.

- **Give money to family members or friends –** you can give up to £3000 to any one person, and up to £250 to as many different people as you like. You can also gift money to family or friends as a wedding gift.

- **Put things into a trust –** putting assets into a trust means their value might not count towards your Inheritance Tax bill when you die. It's a specialist area, so good advice is recommended.

- **Leave something to charity –** anything you leave to charity is free of Inheritance Tax. If you leave at least 10% of your estate to charity, it will cut how much Inheritance Tax is due on the rest as the rate will be reduced from 40% to 36%.

- **Take out some life insurance –** the payout from the policy might make it easier for your family to cover any Inheritance Tax. Make sure the life insurance payment goes into trust, otherwise it will make your estate bigger and your beneficiaries will have to pay more tax.

We can help you reduce a potential Inheritance Tax liability by using gifts, allowances and exemptions.

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9. Consider your attitude to risk

How your pension pot is invested can be crucial to the success of the fund.

Different investments carry different levels of risk. Higher risk investments have the potential for higher investment returns but come with a higher chance of sudden short-term losses.

If retirement is still some time away, you could look to invest for more growth potential knowing that, over the longer-term, higher risk investments should deliver higher returns.

However, as your retirement date draws closer, a sudden drop in pension value could affect your well-laid plans. If this were to happen, it could take time for your pension fund to recover.

The five years before retirement is the ideal time to assess your investments and consider how much risk you are comfortable with.

There are many choices about where you can invest your money and finding the right solution can be complicated.

If you're unsure about different investment strategies and would like to discuss what is right for you, get in touch. We'll review and make sure you're taking the right amount of risk with your existing pensions, investments and savings.

10. Get professional financial advice

Retirement planning can be complicated, and financial advice can be crucial if you want to ensure you get the most value out of your pension and retirement savings.

Getting advice increases the feeling of control you have over your finances. A survey from Royal London found that people who take financial advice feel more confident and better prepared for retirement.

62% of people say that receiving professional financial advice helps them feel more in control of their finances.

A financial planner will help you with everything you should do in the five years before you retire. We can help you define and achieve your retirement goals while ensuring your and your family's wider needs are looked after.

The team at Verve Financial understands the importance of planning for a future based on the lifestyle you've always dreamed of.

Helping our clients get a sense of security with their finances is our passion. We want to keep things simple and help you work towards a successful financial future. Let us help you connect the dots between your financial realities and the retirement you want to live with a truly holistic plan that makes your retirement dreams a reality.

Get in touch today by emailing **office@verve-financial.com**

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