Retirement White Paper

2022

Welcome

Welcome to the Clarity Retirement White Paper. We've brought our years of experience together to provide you with a document aimed at demystifying retirement.

At Clarity, we understand that planning for your financial future shouldn't feel like rocket science. It's our mission to make financial planning truly inclusive, and provide everybody with the tools they need to improve their financial lives.

We hope that you find this White Paper informative, and that it helps you take the first steps in your own journey to a happy retirement.

Lisa Tipton
Co-founder Clarity for Life

Retirement around the world

Retirement age:

As you'd expect, retirement ages vary around the world. The official age of retirement is creeping upwards in most countries as governments try to manage stretched state benefits. The following table shows average and official retirement ages around the world, from OECD data.

Country	Average retirement age	Official retirement age
United States	66.85	67
United Kingdom	64.5	66
France	60.55	62
China	64	60 (men)/ 50 (women)
Canada	64.75	65
Japan	69.95	62

Median global retirement readiness score:

Fidelity have produced research into how ready households are for retirement across the world. Using data from the Global Retirement Survey and their own retirement planning methodology, they've calculated a score for each region ranging from 0 to 150. A score of 100 indicates that a household is likely to maintain its pre-retirement lifestyle in retirement.

Country	Score
United States	83
United Kingdom	73
Germany	73
Hong Kong	75
Canada	77
Japan	75

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What does retirement look like to you

There's no one size fits all when it comes to retirement. One person's dream of trekking through the Himalayas, may sound like a nightmare to someone who's looking forward to more time at home with the family.

It's really important to think about how you would like your own retirement to look, as this is the first stage in understanding what you will need. In an ideal world, you'd start this process well in advance, but don't worry, it's never too late to begin planning.

Based on our experience working with retirees, we've identified the following key areas to think about:

When do you want to retire?

Do you love working and want to keep going for as long as possible, or are you counting down the days until you can leave? The age you retire will make a big difference to what you need, so it's a good idea to start thinking about what works for you.

Will you stage retirement?

Are you planning to stop working altogether or will you gradually cut back your hours before retiring fully? Do you have plans to do any other paid or voluntary work, or even set up your own business?

Are you planning on travelling?

What are your holiday plans in retirement? Will you take any big trips? How about holiday homes or caravans, do these form part of your retirement plans?

How will you spend your leisure time?

Once you've stopped working you'll have more time available, so think about how you are planning to spend it. Will you continue with current hobbies or perhaps take up new ones?

What about family?

Does spending more time with family form part of your plans. Perhaps you'd like to help out with grandchildren? Or you may be hoping to make some gifts for house deposits or weddings.

Home and location

Will you stay in your current home or are you planning on moving to a different property or part of the country? How about downsizing, is this something that you're considering at some point?

2/3 retirees in 2022 will continue working

A recent report from Abrdn shows that many are embracing a new flexi-retirement trend and will continue with some kind of work in retirement.

For some this is because they feel they still need the money, whereas others are keen to keep busy.

Plans include working part-time in their current role, taking on new employment and 1 in 10 are planning on becoming entrepreneurs and starting their own business.

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Understanding what you have

We've included a separate work book to help you begin thinking about how your own ideal retirement will look.

Working out what you currently have can feel like a minefield. Pension statements are confusing, and knowing what they mean in terms of when you can retire can feel impossible.

In this section we take a look at some of the main types of assets which can help fund your retirement, and hopefully clear up some of the jargon. We also have a section in the work book for you to start recording what you currently have.

Savings

Savings are held in cash and can be accessed relatively easily. It's good practice to have an emergency fund of around 3-6 months expenditure in case of the unexpected. However, be careful about holding too much in cash as interest rates rarely keep up with inflation, so you may actually lose money in real terms.

Investments

Investments include Stocks & Shares ISAs, direct equities, investment bonds and general investment accounts. Unlike savings, your money is invested and the value fluctuates in line with the underlying funds. It's important that any investments you own are in line with your risk profile and reflect the level of risk that you're comfortable with.

Personal pensions

Within a personal pension you build up a 'pot' of money which can be used to support you in retirement. The amount available at retirement is based on the contributions paid into the plan and the performance of the underlying investments. Personal pensions are a tax efficient method of saving for retirement as you benefit from tax relief on contributions and the funds grow free from income and capital gains tax. At retirement you have a number of options and we'll explore these in detail later.

Women vs men

UK women have 64% less than men in retirement savings.

Working men have on average £62,336 in their pension funds, women have just £22,735 in theirs.

Defined benefit pensions

A defined benefit pension plan is designed to provide a secure income payable for life. The level of income you receive is based on pre-determined criteria rather than investment performance or the amount paid into the plan. Typically, your benefits are calculated based on your years of service, the scheme accrual rate (set by the scheme actuaries) and your salary at the date of leaving.

The State Pension

It's likely you'll have some entitlement to the State Pension. A full single tier State Pension currently pays £185.15 per week. To qualify for the full pension you'll need 35 qualifying years. If you're not sure what you have or when your State Pension is due, you can apply for a state pension forecast on Government Gateway.

Average UK pension pot

The average UK pension pot at retirement is £61,897. This would buy an annuity of just £3,000 a year at age 67.

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What are my options when I retire?

The options available for accessing your plans depend on the types of pensions and assets that you've built up during your lifetime.

In this section we take a look at the options available when it comes to taking benefits from your personal and defined benefit pensions.

Personal pensions

Individuals with personal pensions have three main options for accessing their pension benefits in retirement:

Flexi-access drawdown

A flexi-access drawdown plan is one of the most flexible ways you can access your pension benefits. It allows unrestricted access through regular or lump sum withdrawals. You can access 25% of your fund tax-free and the remaining 75% can be invested. Withdrawals above the tax-free lump sum are subject to income tax through PAYE. Although flexi-access drawdown provides flexibility, it also comes with risk. Your pension fund is invested and may go down as well as up. It is also possible that your funds may be exhausted depending on the level of withdrawals you take.

Pension annuity

An annuity provides you with a guaranteed income for life. You still have the option to take up to 25% of your pension fund as a tax-free lump sum at the outset. The remaining funds are then used to buy an annuity either through your existing pension provider or on the open market. Annuity income is not dependent on future investment returns and will be paid throughout your whole life. The level of income is based on your age, health and which features you include. Your income payments are subject to income tax and paid through PAYE.

Uncrystallised funds pension lump sum (UFPLS)

A key advantage to UFPLS is that you have the option to take the full pension fund in one go. Alternatively, you can access a series of lump sum withdrawals, whilst leaving the remaining funds invested. For each withdrawal you take, 25% is payable tax-free with the remaining 75% subject to income tax. It is worth noting that if you are accessing a large amount, there could be a significant tax liability, particularly if the payment pushes you into a higher tax bracket.

Defined benefit pensions

Defined benefit pensions provide a secure income payable for life. Your pension scheme will have a set retirement age and the pension is payable from this date. It is often possible to access benefits earlier, however, usually the level of income payable will be reduced to reflect the fact that the pension will be paid for longer.

Most schemes provide the option to 'commute' some of your future pension in exchange for a tax-free lump sum up front. Once in payment, it's not possible to vary the income from a defined benefit scheme.

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Do I have enough?

Just like how you want your retirement to look, the answer to 'do I have enough' varies from one person to the next. Factors such as the age you want to retire, how much you want to spend and your current assets all have an important part to play.

We've included a section in the work book to help you begin to cost out your ideal retirement. Once you know what you plan to spend, you're in a better position to start assessing what more (if anything!) you need to do.

Retirement expenditure

Everyone's expenditure needs are going to be different. However, to help you get an idea of what you can get with different budgets, the Pension and Lifetime Savings Association have done some great research into how much a couple may need in retirement:

Average UK pension income

In 2020, the average pension income was £21,663. Three quarters of the median full time-earnings income.

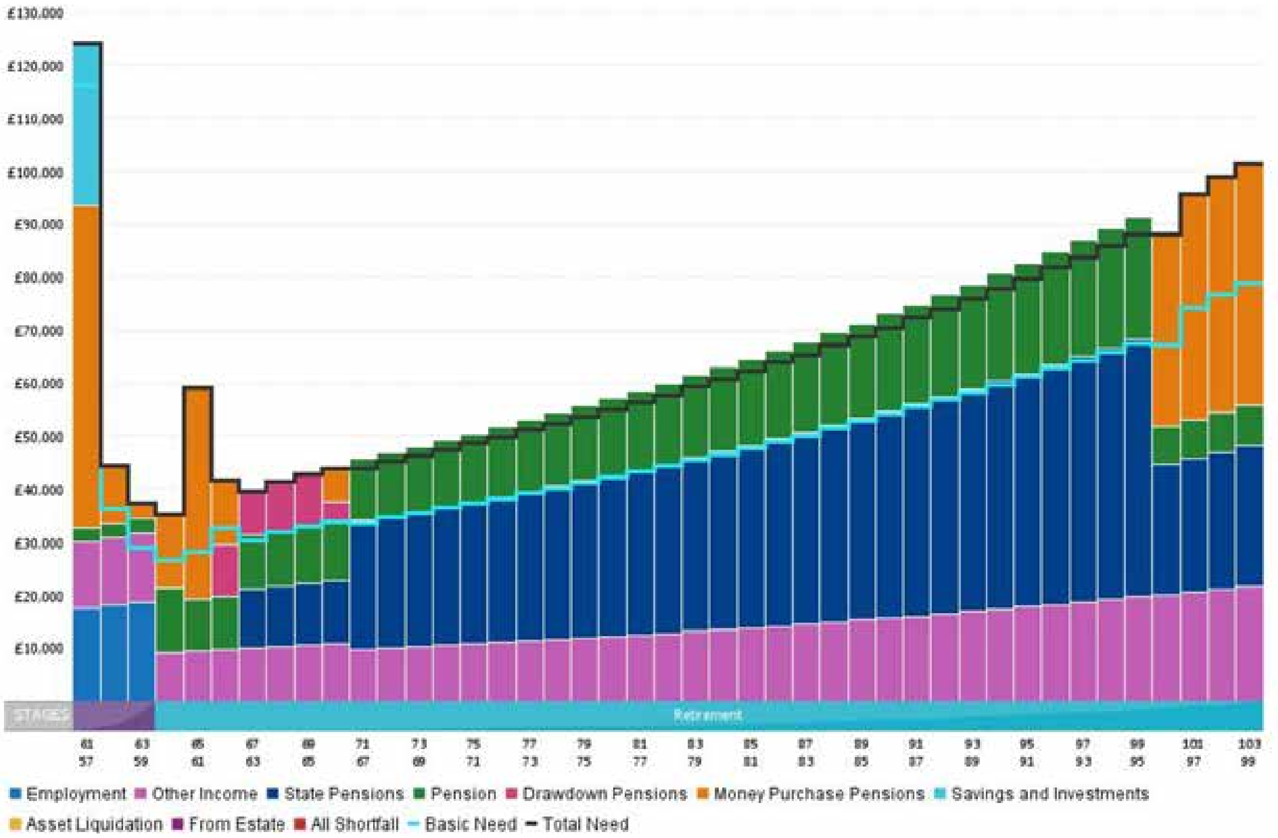
	Minimum lifestyle	Moderate lifestyle	Comfortable lifestyle
	£16,700 p.a.	£30,000 p.a.	£49,700 p.a.
House	DIY maintenance, decorating 1 room a year	Some help with maintenance and decorating	Replace kitchen and bathroom every 10/15 years
Food & drink	£67 weekly shop	£74 weekly shop	£94 weekly shop
Transport	No car	3 year old car replaced every 10 years	2 cars, replaced every 5 years
Holiday & leisure	1 week and 1 long weekend in the UK p.a.	2 weeks in Europe, 1 UK long weekend p.a.	3 weeks in Europe every year
Clothing & personal	£460 per person for clothes and shoes p.a.	£750 per person for clothes and shoes p.a.	Up to £1,500 per person for clothes and shoes p.a.
Helping others	£10 for each birthday present	£30 for each birthday present	£50 for each birthday present

The model below has been built for a couple who are looking to reduce work immediately. It shows how their different sources of income and savings fit together, to cover their expenditure throughout their retirement.

Making it personal

You might want to consider working with a financial planner to prepare personal cashflow models to see whether you're on track for your planned retirement.

Cashflow modelling enables you to see your financial future on screen. It shows your planned incomings and outgoings and how your assets can be used to meet your needs. This can help you understand whether you're on track, and if not, what action you need to take to get there.



How much do you need to save for retirement?

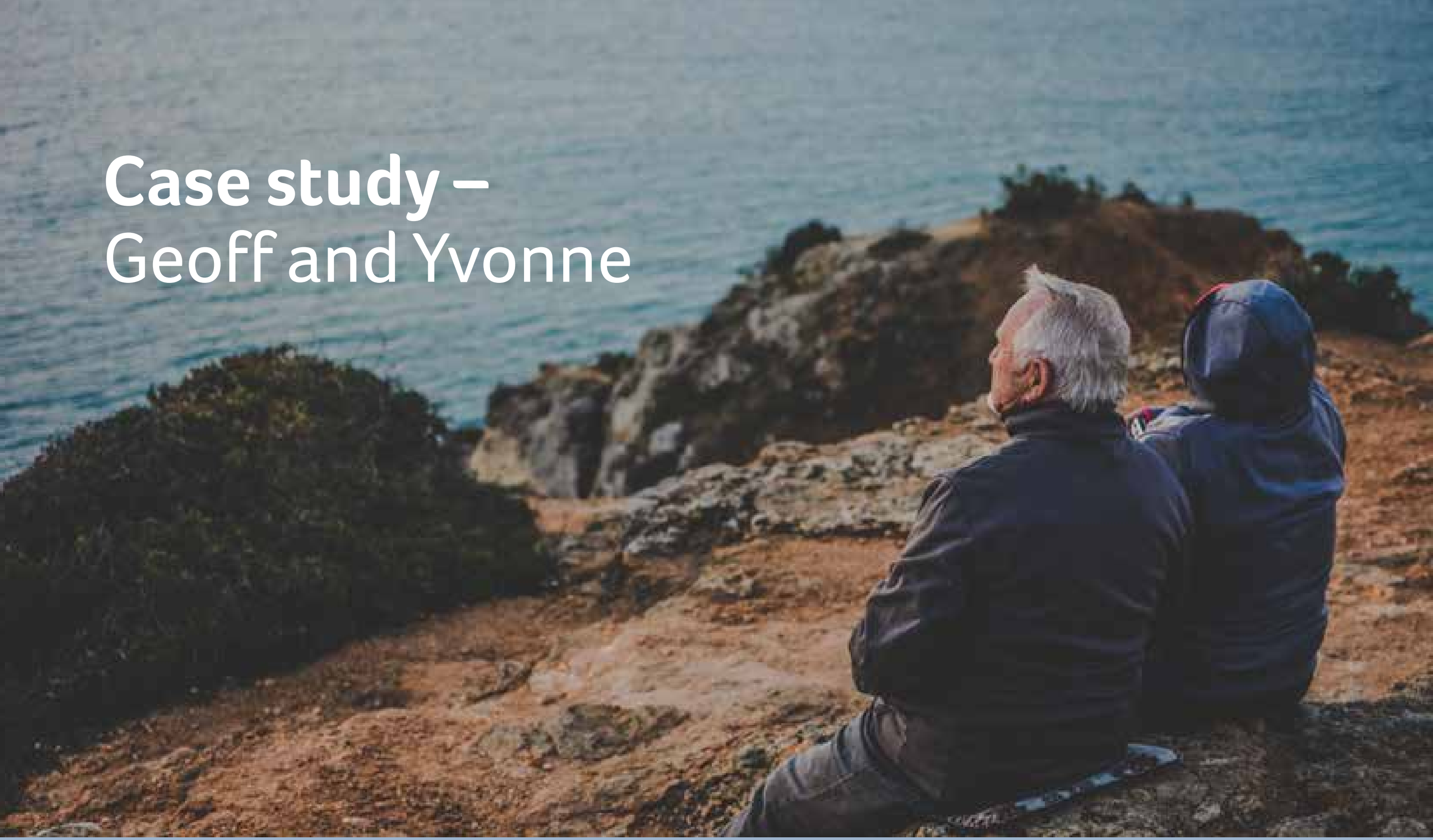
48% of people aged 54 to 74 don't know how much to save for retirement.

According to consumer group Which? the price of a happy retirement is £305,000 for a single person. This would cover the cost of an annuity at 65 for £12,548 per annum. With the remaining income needed to fund a comfortable retirement coming from a State Pension.

Cashflow modelling helps you to understand where you are in the context of your own personal objectives. It may be that you have more than enough. This is great news and means that you can retire with peace of mind. But it also means there are more possibilities. What would happen if you spent more, took some extra holidays or helped your children with their first house deposits?

However, what if you don't have enough to do everything you'd like? Obviously, this is disappointing, but the good news is there's always options. By working with a financial planner, you can explore different scenarios and establish your priorities. For example, what would happen if you worked a little longer, or maybe took on some part time work. Perhaps taking one less holiday a year will make the difference. Seeing the options available can help you to work out what is right for you.

Case study – Geoff and Yvonne



At the age of 64, Geoff has been working as a teacher for over 30 years. His wife Yvonne is 62 and has recently retired. They wanted to understand if they have enough for Geoff to also retire.

Retirement Goals

Geoff and Yvonne identified the following key goals:

- For Geoff to retire as soon as possible
- To continue to live their current lifestyle in retirement
- To be able to enjoy their leisure time, taking more trips away in their motorhome

Understanding what they had

Geoff and Yvonne had built up the following key assets:

- Teachers' defined benefit pension (Geoff)
- Personal pension (Yvonne)
- Personal pension (Geoff)
- Cash savings (joint)

Was it enough?

Geoff and Yvonne decided to work with a financial planner to build them a personal financial plan including cashflow models. The models showed that by using their existing assets and accessing Geoff's Teachers' Pension immediately, they could maintain their standard of living throughout retirement. Models were also prepared showing higher levels of expenditure to give Geoff and Yvonne an idea of how much they could spend without running out of money.

Action taken

Armed with the knowledge of what they had and what could be achieved, Geoff and Yvonne took the following action:

- Geoff retired immediately
- They accessed Geoff's Teachers' Pension, taking the maximum pension option
- Yvonne began taking an income from her personal pension up to her personal allowance
- They increased their regular spending, allowing them to enjoy additional treats and meals out
- They accessed an additional lump sum to purchase a new motorhome

Results

Geoff and Yvonne hadn't thought too much about how their retirement would look before this point. They had assumed they would have to budget more and possibly go out less. However, proper retirement planning showed them that not only could Geoff afford to retire now but they could actually afford to spend more in retirement. This meant they could really start to enjoy their leisure time, with additional weekends away and meals out.

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Hints and tips

> “Don’t delay your retirement ambitions and always have a plan for the next day.”
>
> John S. Sheffield

Here we’ve included some hints and tips to help you get on track with your retirement planning.

Request a State Pension forecast

Find out what you’re entitled to and when by applying for a State Pension forecast online. This will provide you with details of your current State Pension entitlement, how many more (if any!) qualifying years you need, and your State Pension age. It will also provide you with details of any years you’ve missed and what you can do about it.

Make sure you know what you’ve got

There are an estimated 1.6 million pension pots waiting to be claimed in the UK. Many people forget to tell their pension providers when they move home and it’s easy to lose track of what benefits you’ve built up. The Governments free pension tracing service can help you locate old pensions.

Ensure you’re a member of your workplace pension scheme

Most people should be automatically enrolled in their workplace pension. For each 4% you contribute you’ll benefit from a further 1% in tax relief and 3% from your employer. Meaning that for every £40 you put in, your pension will increase by £80. So if you’re not in your employer’s pension scheme, it’s almost always worth joining.

Make sure you’re getting all the tax relief you’re entitled to

If you’re a higher or additional rate taxpayer you’re entitled to claim back additional tax on your pension contributions. However, a study by PensionBee found that 80% of higher rate taxpayers and 54% of additional rate taxpayers aren’t claiming back the tax they’re entitled to. In 2017/18, it’s estimated that there was up to £750m of tax relief that went unclaimed!

Check your investments are in line with your risk profile

If you have a personal pension or Stocks & Shares ISA, the chances are your funds are invested. You may have picked the funds or they may have been automatically selected. It’s important to ensure that you’re comfortable with the level of risk that you’re taking. Factors such as timescale, capacity for loss and tolerance for risk should all be taken into account when selecting appropriate funds.

Plan for all eventualities

It’s not fun thinking about what would happen if you were to die, but planning ahead can help your loved ones at a difficult time. Completing a pension nomination form lets your pension scheme know who you’d like to benefit in the event of your death. So make sure these are completed and up to date. It’s also good practice to have an up to date Will in place to make sure your assets are distributed in line with your wishes and without the need for probate.

Next steps

The next step in planning your retirement is to start thinking about how you would like it to look. We've included a work book to help you to start thinking about your goals and to begin planning.

Once you know what you want, you can start to put some numbers behind it. You might even find that retirement is closer than you think!

Alternatively, if you'd prefer a qualified financial planner to do the leg-work for you, we're more than happy to help.

You can book a no-obligation meeting by calling **0330 0050028** or online at: **www.clarityforlife.co.uk**

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