

# 7 STEPS TO PLANNING FOR A SUCCESSFUL RETIREMENT

Part 2

## The Art and Science of Retirement Planning



*It's not just about the  
money, it's about life*



# Introduction

The transition from working life into retirement is one of the biggest we face during our lives. If you are in the fortunate position to have a degree of control and choice over the timing and approach to retirement, you will be well served to take the time to plan in advance.

At Strategic Wealth Management, we believe there are two distinctly separate, but ultimately connected aspects to planning for a successful retirement;

1. **Creating a vision and identifying the type of retirement you feel you are best suited to (the Art)**
2. **Developing a financial strategy to enable you to fund your ideal life in retirement (the Science).**

It's impossible to have a meaningful discussion or to make important financial decisions, if you have no idea of what your ideal retirement looks like. Equally, it's rather fruitless dreaming about your perfect retirement, if you don't engage in assessing how you can pay for it.

It can be helpful to think about this in terms of completing your retirement jigsaw puzzle. Think about the first thing you do when you start a jigsaw? Finding the corner pieces, isolating all the bits with straight edges, and grouping pieces with the same colour, are all very useful approaches. But the very first thing we actually all do is to look at the picture on the front of the box. By keeping that image at the forefront of our mind it becomes far easier to identify what we have available to complete the picture, and how all the pieces will fit together.

Hopefully if you have followed the first 3 steps of our Retirement Planning process, highlighted in Part 1 of our guide, you should now have a much clearer understanding and vision of your desired life in retirement – the picture on the front of your retirement puzzle box. You will have completed a fine piece of Art, and now it's time to move onto the science and complete the jigsaw via the next 4 steps.



## Step 4 – Clarity

### *Where are you now?*

Whether your retirement is imminent, a little way into the future, or you are already retired, it's important from a financial perspective to understand how you stand financially. A complete audit of your wealth covering all your assets, liabilities, income and expenditure will enable you to assess the likelihood of success going forward.

There are a number of different aspects to this financial audit:

- review your current spending
- identify expenses that may cease when you retire, e.g. mortgage repayments or commuting costs
- highlight additional expenses associated with retiring, such as joining new clubs, replacing a company car with a private car, more holidays
- categorize spending between, essential day to day living, discretionary e.g. travel and having fun and finally large one-off items e.g. home refurbishing or distributions to family members.

It can be very helpful if all the information collated at this stage is put together in the form of a cash flow forecast projected into the future. If you are looking to retire in your 60's your financial assets may well need to fund your retirement over a period in excess of 25 or 30 years. By utilising spreadsheets or purpose built software, assumptions can be made on key factors such as spending, inflation, and investment returns etc. Analysis of the numbers, including looking at a range of "what if" scenarios, provide the background information you need to move to the next stage of formulating your plans.



## Step 5 – Direction

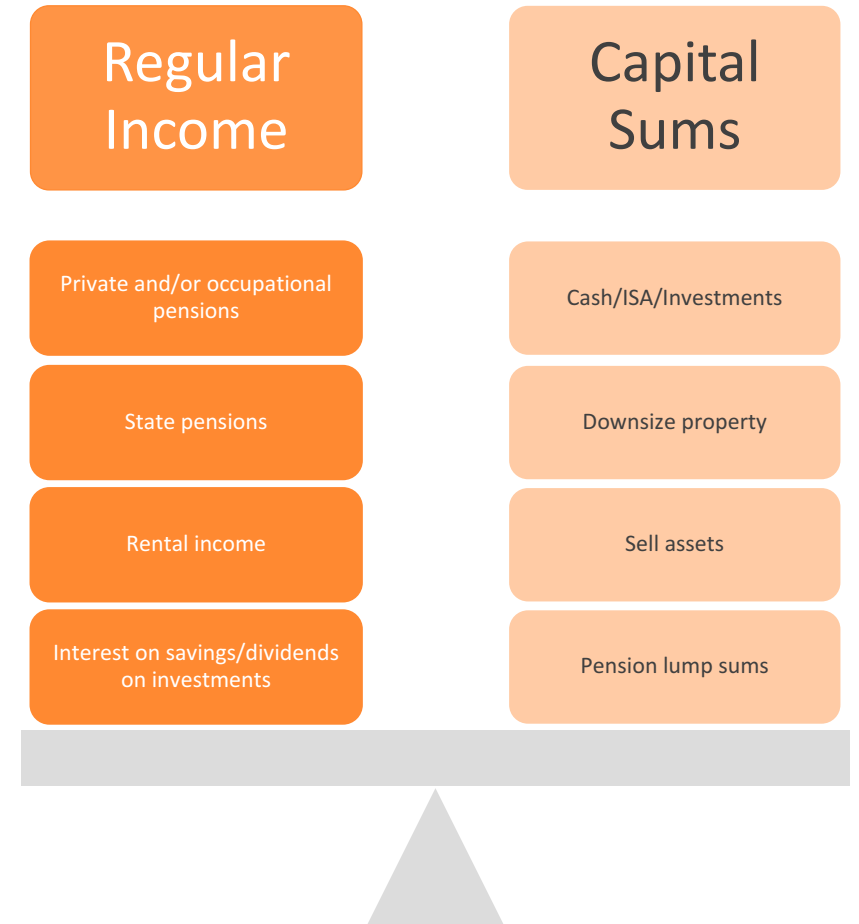
### *How will you get there?*

In building a strategy for funding a successful retirement, it is important to appreciate that a change in mind-set is needed in the first instance. This is particularly relevant for business owners and self-employed but also applies if you are employed by others.

When we are working we are used to our essential day to day living expenses, and to some extent our regular discretionary spending being met by our monthly income. The thought of this stopping when we retire can be quite unnerving.

The reality is that whilst some sources of our retirement “income” will be paid regularly, such as state pensions, private or occupational pensions, or annuities, it is highly likely that you will need to call upon your accumulated capital to fund some or all of your lifestyle.

We therefore need to put in place strategies to provide the cash flow to fund our retirement. Some of the potential sources of retirement cash flow are highlighted (opposite).



## Step 5 (continued) – Direction

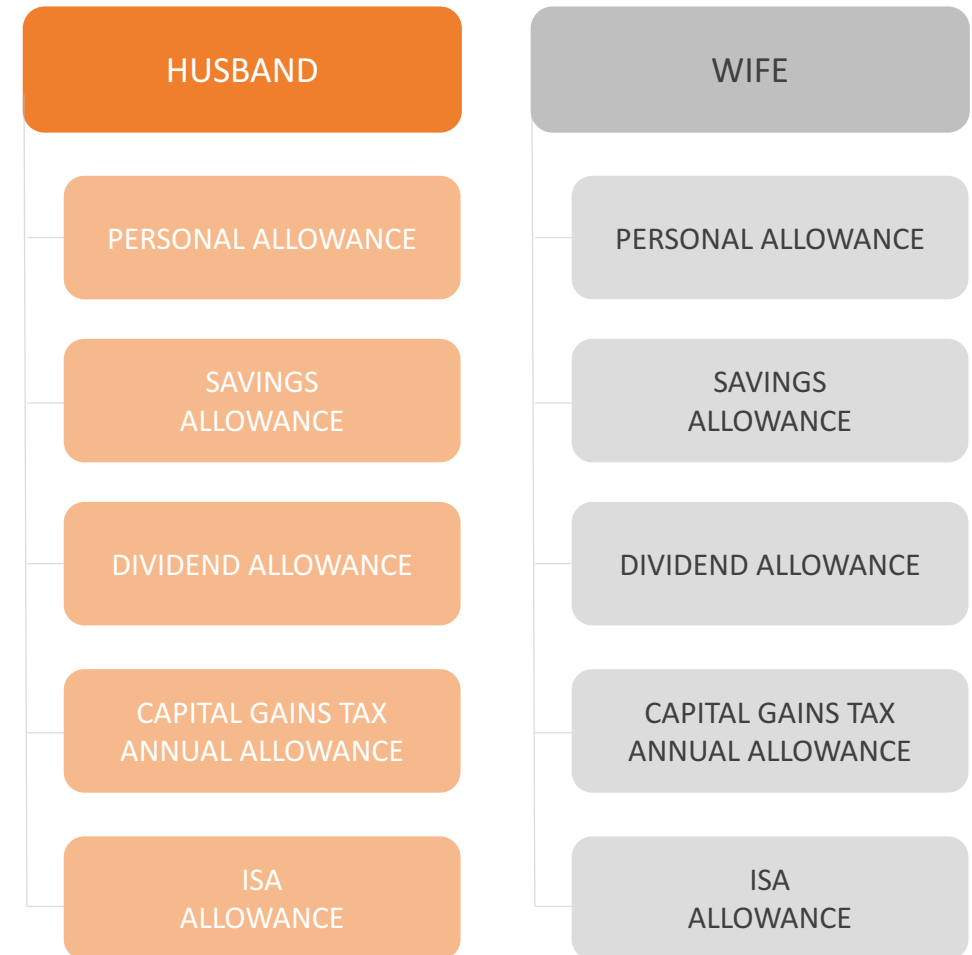
### *How will you get there?*

Ideally your cash flow forecast will show that the likelihood, based on reasonable assumptions into the future, is that you will never run out of money. If there is a shortfall you can look to what remedial steps could be taken to close the gap. Equally if there is a surplus you can consider using it to improve on various areas e.g. improving your lifestyle or helping other family members.

Having appreciated that you have a variety of sources of cash flow, and broken down your expected expenditure into the different categories, the key is to ensure your financial resources are used as effectively and efficiently as possible.

Whilst complex at times, and ever changing, the UK tax system does provide many valuable tax allowances and reliefs. The starting point with independent taxation, is where possible for married couples to allocate resources as evenly between them as practical, so both parties can use their individual allowances and reliefs as fully as possible.

It might also be sensible to re-structure capital into different tax wrappers to ensure the full breadth of available and appropriate allowances or tax reliefs can be utilised.



## Step 5 (continued) – Direction

### *How will you get there?*

The final point to ensuring that your financial resources go as far as possible, is to consider how you invest in retirement. Again this requires a change in mind-set. We have identified that you are likely to have to draw on your capital to meet your lifestyle costs, the natural response to which is to hold assets in cash or very low risk, liquid assets. The danger with this, particularly with current low interest rates, is that the purchasing power of those cash reserves will become eroded by the effects of inflation over time.

As previously noted it is important to take a long term view when it comes to investing in retirement, as if you are thinking of retiring at 65, an investment horizon of 25 years or more is not unreasonable based on current life expectancy trends. History tells us, over time investing in real assets such as equities and bonds provides a better return than holding cash.

The key is making sure you have the appropriate level of risk to meet your individual circumstances. Your tolerance to risk, the risk required to meet your objectives and your capacity to withstand any losses are all equally important. The objective of your individual investment strategy is to be able to maintain your desired lifestyle throughout retirement without the fear of running out of money. This often requires a very different and much more hands on approach than was needed in accumulating your assets during your working life.



## Step 6 – Commit

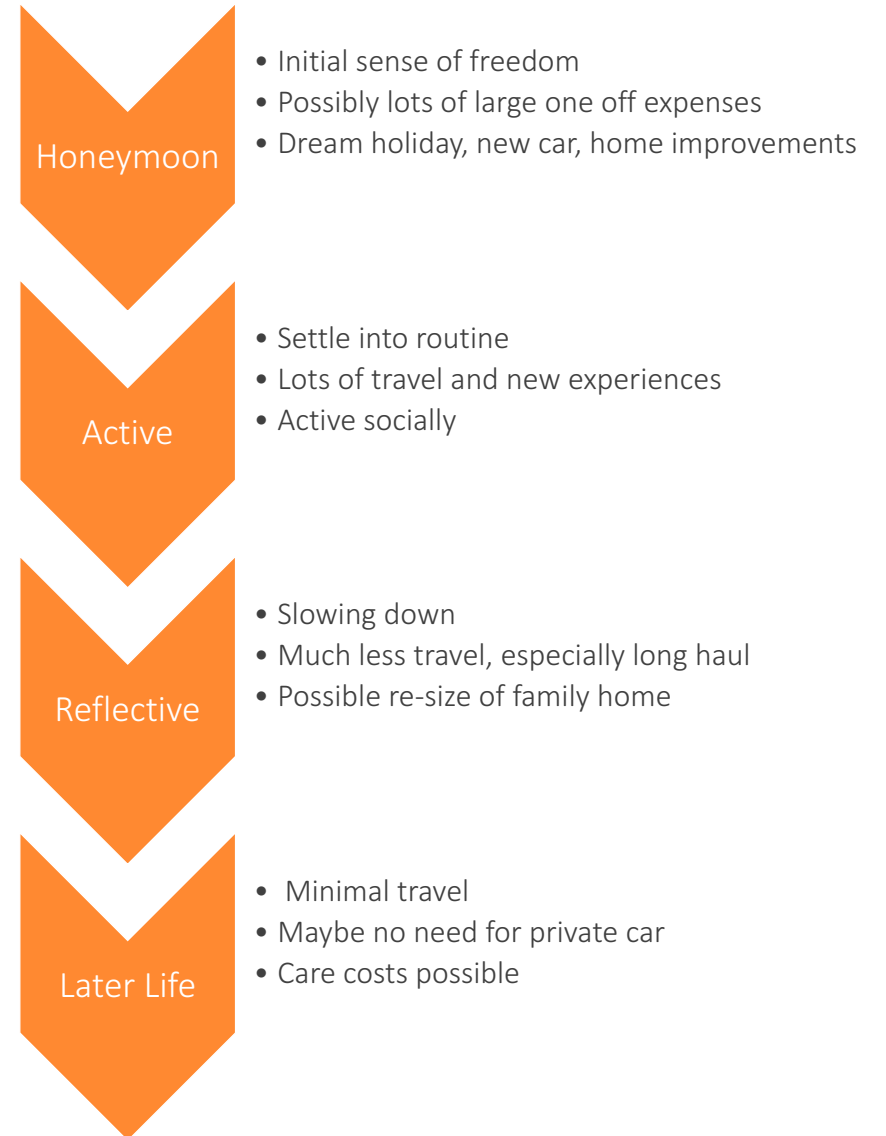
### *Making it happen*

Having identified the various sources of cash flow, considered the most efficient way to draw on your reserves, and the most appropriate way to invest the remaining capital, there is one final key element to designing a strategy to fund your retirement.

It is important to appreciate how your spending patterns are likely to change in retirement. Many incorrectly base their calculations on the assumption that their spending will remain constant (allowing for inflation) throughout their retirement.

Our experience is that people in fact have the potential to go through 4 separate phases in retirement, and during each their spending habits are likely to alter as indicated in the diagram (opposite). Higher spending in the **Honeymoon** and **Active** phases is likely to be replaced with lower expenses during the **Reflective** and **Later Life** phases, with the elephant in the room being the cost of healthcare.

The impossible questions to answer are how long each phase might last, and whether you will experience all four?. This is highly dependent on your health, and outlook. What we observe is that the transition from Active to Reflective tends to occur when people reach mid to late 70's, although we appreciate this is on average, and are delighted to say we have some very young and active clients in their 80's.



## Step 7 – Confidence

### *Keeping you on track*

Having a clear vision of your ideal retirement, and knowing how you are going to fund it, will provide you with the confidence to go and live it. However the chances of this being a one off exercise and still being successful are quite slim, as life has a habit of not quite panning out exactly as we envisaged.

There will be times when it is necessary and appropriate to re-evaluate your spending patterns or investment returns; your short term cash flow requirements, and your options to help out the next generation. Even if you have managed your financial affairs yourself or with limited assistance in the past, planning for a successful retirement can be aided with some professional expertise.

One of the benefits of working with a specialist retirement planning adviser is that, as well as providing the technical expertise you may lack, they can be on hand to help keep you on track, or talk through the alternatives or trade-offs without emotional attachment, in order to help you make informed choices.

Either way depending on the complexity of your situation a review and update on your situation should be done at least once a year

*'Life begins at retirement'*

*Unknown*







## Summary

By engaging in the 7 step Retirement Planning process, designing your ideal life in retirement, sharing your dreams and visions with those closest to you, and then appraising your financial situation in order to put a strategy in place to help you achieve a successful retirement is a fantastic use of your time and we would encourage you to undertake it.

As we know the alternative is months if not years of time trying to adjust to retirement, often full of anxiety and stress relating to how to utilise your two key resources, of time and money, with the potential for regrets later on that you hadn't done all the things you wanted to.

If you feel you have the time, expertise and desire to put your own retirement strategy in place then we wish you every success. If you would like to get some help we would be delighted to assist you. We can show you how to put yourself in control of your retirement plans, and provide some impartial and independent advice and guidance.

If you would like to test drive our retirement planning process, please do get in touch.

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