SUCCESSION WEALTH

Life Stage Guide

Financial Planning in your 50s and 60s

SUCCESSION WEALTH

Welcome to Succession Wealth

Our Wealth Planners are here to help you take control of your finances and provide you with the confidence you need to go after the things that matter to you.

Succession Wealth Management Limited is a large national UK financial advice firm. Our teams of Wealth Planners deliver high quality independent advice to thousands of clients across the UK, and we're committed to helping people achieve more with their money.

Our clients are at the heart of everything we do and looking after their wealth journey is a privilege to us. The relationships we build last longer than a lifetime, and we are proud to provide advice across generations. When you choose to work with us, we promise to provide an exceptional personal service tailored to your unique financial aspirations.

This guide has been designed to help answer some of the questions you might have about managing your wealth as you enter retirement and includes suggestions of how you can be better prepared as you embark on this exciting stage of your life.

Important financial considerations as you approach retirement

After many years of hard work and careful saving, your retirement date may now be just around the corner. You may be feeling excited about all of the opportunities that retirement could offer you to travel, pursue your passions, and spend more quality time with your family and friends.

During this life stage you are likely to be well established in your career, your children may be grown up or heading to university and you could have taken over some caring responsibilities for your own parents.

Retirement can be a time of great change. The shift from earning an income from your work to relying on your pensions and other savings to fund your day-to-day lifestyle can feel daunting, as it requires you to make some important decisions about how you will generate and protect your income for the rest of your non-working life.

Your financial needs may be more complex, and you will probably value regular structured reviews to ensure that your retirement plans are on track, your investment performance is being monitored and that you are fully utilising all available allowances to mitigate your tax burden.

In this guide you'll find helpful information about:

- Taking a sustainable income during your retirement.
- Making sure you have enough money to last as long as you need it to.
- Preparing for the cost of later-life care.
- Building an estate plan that provides peace of mind for you and your family.

If you require more help with your finances, our experienced team here at Succession Wealth can provide support. Email us at hello@successionwealth.co.uk or call us on 0800 051 4659 and we will arrange for someone to contact you.

Your retirement is a significant life milestone, which can be exciting and daunting in equal measure

You have likely been saving and preparing for your retirement for many years, so the prospect of finishing work and finally fulfilling those ambitions will be exciting.

You may also feel some nerves or trepidation about your retirement, though, after all, there are a lot of decisions that you need to make:

- When would you like to retire?
- What does your dream retirement look like?
- How will you use your retirement savings to fund your lifestyle?
- Is downsizing something you're considering, or would you prefer to remain in your family home?
- How can you ensure that your savings last for as long as they need to?
- Will you need to balance pursuing your dreams and ambitions with caring responsibilities?
- Would you like to leave a legacy for your loved ones, either during your lifetime or after you're gone?

Making these decisions by yourself can feel daunting, especially if your preferred retirement date is fast approaching.

But by understanding the options available to you and taking your time to really reflect on how you want your next chapter to look, you can make sensible decisions that help you to feel confident about your future.

The following pages offer insights into **five areas** of your finances that could help you successfully manage your wealth and work towards a more financially secure future.

The top 3 retirement aspirations are:

1. Spending more time with loved ones (53%)
2. Travelling (45%)
3. Pursuing new hobbies (33%)

Source: Aegon

The top 3 concerns for later-life are:

1. Running out of money (45%)
2. Declining physical health (39%)
3. Not being able to do the things I enjoy (34%)

Source: Aegon

1. Decide the most suitable way to take a sustainable retirement income

You've worked hard for many years and have finally come to withdraw from your retirement fund. But deciding how to take an income from the savings that will last you the rest of your life may present an even bigger challenge than building up those savings in the first place.

Moreover, with life expectancy increasing, you may need to fund your retirement for longer than you previously anticipated.

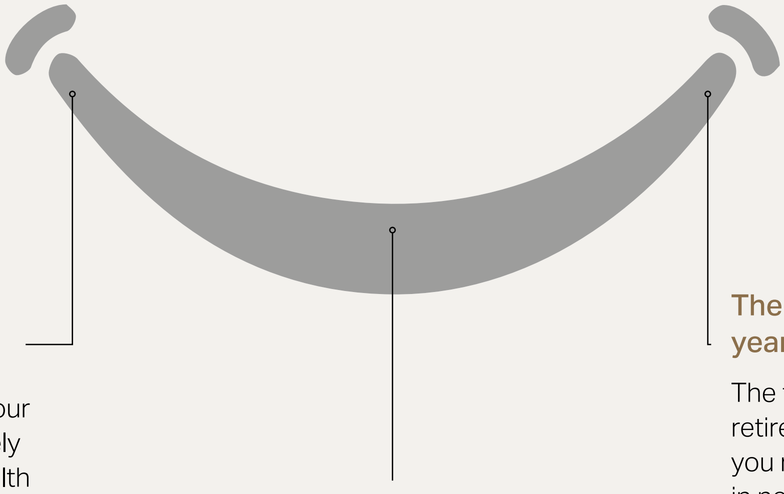
According to the Office for National Statistics, the average life expectancy for a 60-year-old man in 2024 is 85 with a 3.5% chance of living to 100. A woman of the same age has an average life expectancy of 87 and a 6.2% chance of living to 100.

So, if you retire at age 60, you may need to fund your retirement for 25 years or more.

Your retirement income may be composed of several different sources, including:

- Savings and investments
- A defined contribution (DC) or defined benefit (DB) workplace pension
- Private pensions including Self Invested Personal Pension Plans (SIPPs)
- Property
- The State Pension

What's more, your income needs may fluctuate throughout your retirement, a phenomenon known as the **"retirement smile"**. It splits your retirement into three sections:



The initial "go-go" years

In the first stage of your retirement, you're likely to still be in good health and ready to make the most of your new-found freedom to achieve your goals.

As such, your spending is likely to increase as you enjoy holidays, new hobbies, and socialising.

The middle "go-slow" years

In the second stage of your retirement, you may have already achieved many of the ambitions you had for retirement, as well as potentially experiencing declining health.

This stage in your retirement could see your spending fall, as you choose to slow down and spend more time at home.

The later "no-go" years

The third stage of retirement is a time when you may find yourself in need of help with healthcare complaints or decreased mobility.

Typically, your spending needs will rise again at this time due to the cost of later-life care, whether it's delivered to you at home or in a care or nursing home.

Of course, everyone's journey will be unique to them. However, this rule of thumb can give you a helpful indicator of how your spending might change as you progress through your retirement.

It's important to factor these stages of retirement into your strategy when deciding how to take an income from your pensions and other savings. If you spend too much in your initial few years of retirement, you may not have enough to cover healthcare and other expenses in your later years.

You may have different options available to you dependent on the type of pension you have

If you have a DB or "final salary" pension, you will usually receive a fixed income for the rest of your life, typically based on your salary and the length of time that you worked for an employer.

If you have a DC pension, you have three main options when it comes to taking an income from it, and each has its own pros and cons.

Taking a lump sum from your pension

You can usually withdraw up to 25% of your pension pot tax-free, either as a one-off lump sum, or, if you wish to withdraw multiple smaller amounts, 25% of each one will be tax-free. This is known as the "lump sum allowance", previously the "pension commencement lump sum".

Pros

- Taking a lump sum could help you to achieve your retirement goals, for example a dream holiday, home renovations, or to help loved ones pay for milestone life events such as a wedding.
- It is a tax-efficient way to withdraw from your pension.

Cons

- The lump sum you withdraw will no longer be invested, so it could lose spending power over time.
- You will have less in your pension pot to last you the rest of your retirement, increasing your risk of running out of funds later on.

Purchasing an annuity

An annuity is a type of insurance product that you can purchase, usually with your pension savings. It provides a pre-determined income for a set period of time – sometimes the rest of your life.

There are different types of annuities to choose from, including:

- Inflation-linked annuities where your annual payouts will rise in line with the cost of living.
- Joint-life annuities that can provide for your spouse or other dependents after you pass away.
- Enhanced annuities that may offer you a more favourable rate if you are in poor health.

Pros

- A guaranteed annual income usually for the rest of your life can provide valuable peace of mind.
- By choosing an inflation-linked annuity, your payouts will keep pace with the rising cost of living throughout your retirement.
- Your annuity is not dependent on investment performance, so volatility won't affect your income.

Cons

- Once you've bought an annuity, you can't usually change your mind.
- You won't benefit from any potential investment growth.
- It can be expensive to buy an annuity that links to inflation or provides for your spouse after you die.

Transferring your pension to drawdown

Drawdown is a flexible way to withdraw from your pension pot as and when you need to. Instead of using a lump sum to buy an annuity, you can take as much or as little as you would like from the fund when you need to, leaving the rest invested.

Pros

- It offers flexibility, so that you can withdraw only as much as you need according to your changing needs.
- The rest of your pension pot will stay invested, potentially generating further returns and growing your remaining pension pot.

Cons

- It requires careful management to make sure you don't withdraw too much in the early years of your retirement, increasing your risk of running out of funds later in life.
- Funds that remain invested can fall in value as well as rise, meaning you may need to reduce the amount you withdraw each year.

It may be possible to mix and match several of these options, such as by purchasing an annuity with a lump sum from your pension and accessing the remaining funds using drawdown.

The State Pension could form an important pillar of your retirement income

Starting from your State Pension Age, you can claim your State Pension for the rest of your life, so it will offer a reliable income in retirement alongside any private or workplace pensions you have.

Did you know…?

The State Pension Age is increasing.

Between 2024 and 2026, you can access your State Pension from age 66. It will then rise to age 67 between 2034 and 2036, and again to age 68 between 2044 and 2046.

The amount of State Pension that you receive depends on how many qualifying years of National Insurance (NI) credits you have accrued.

For the new State Pension, you need at least 10 qualifying years of National Insurance contributions (NICs) before you can claim any State Pension, and 35 qualifying years to receive the full amount.

The amount you receive from your State Pension typically rises in line with the cost of living each year.

Other means could help you to achieve your retirement goals

Though your pensions will likely provide the majority of your retirement income, your home may also be a valuable asset that could help you achieve your goals.

One way to use your property to support your financial goals is to downsize, using the proceeds of your move to fund your goals. But, of course, your home may be an important part of your life, and you may wish to pass it on to beneficiaries after you die. If this is the case, downsizing may not be something you feel comfortable with.

Equity Release offers an alternative solution. Using this method, you could unlock a lump sum of cash from the equity you already own in your home without needing to move. Equity Release isn't suitable for everyone, though, so seeking financial advice from a certified professional will be necessary before you proceed.

There are a couple of important considerations that might influence how you choose to withdraw from your retirement savings

Tax efficiency

Your retirement income may be liable for Income Tax, so it's important to consider the tax implications of any decisions you make.

After you have withdrawn the tax-free lump sum from your pension, any further withdrawals will be taxed at your marginal rate. So, if you withdraw a large sum, it could push you into a higher tax bracket for the year.

Additionally, if you take an income from dividends, you may be liable for Dividend Tax if you exceed the Dividend Allowance for that tax year.

A financial planner can help you to explore your options for tax efficiency, so that you can make the most sensible decision for you.

Leaving a legacy for your loved ones

The decisions you make about your retirement income might affect how much you are able to leave your loved ones when you pass away.

For example, if you decide to downsize or take out an Equity Release lifetime mortgage, you might not be able to leave the full value of your family home to your loved ones.

So, as well as ensuring your savings last as long as you need them to, you might also find it helpful to align your retirement income strategy with your values and priorities.

2. Save and invest to continue to grow your wealth throughout your retirement

As you read earlier, the increase in life expectancy means that you may need to fund your retirement for 40 years or more.

In that time, prices can rise significantly. If you had retired in 1984 with an average annual income of £20,000, the Bank of England suggests that you would need an annual income of more than £62,000 to be able to afford the same lifestyle in 2024.

> The average life expectancy for a 60-year-old man in 2024 is 85 with a 3.5% chance of living to 100. A woman of the same age has an average life expectancy of 87 and a 6.2% chance of living to 100.
>
> So, if you retire at age 60, you may need to fund your retirement for 40 years or more.
>
> *Source: Office for National Statistics*

So, the amount of income that you need in your early years of retirement may not be sufficient in the later years of retirement.

The way that you access your pension can play a role in inflation-proofing your retirement income.

For example, choosing an inflation-linked annuity means your payouts will rise with inflation each year (although this will mean you are offered a lower starting rate). Similarly, leaving some of your pension invested through drawdown might give it the opportunity to generate positive returns that keep pace with inflation.

But what about the funds you have already withdrawn from your pension, or your existing savings?

Easy access savings accounts

For short-term goals such as going on holiday and paying your bills for the coming year, an easy access savings account or Cash ISA may be a suitable place to hold some of your wealth.

The interest rate you can achieve on cash savings varies between providers, so it's important to shop around to ensure you receive the most competitive rate.

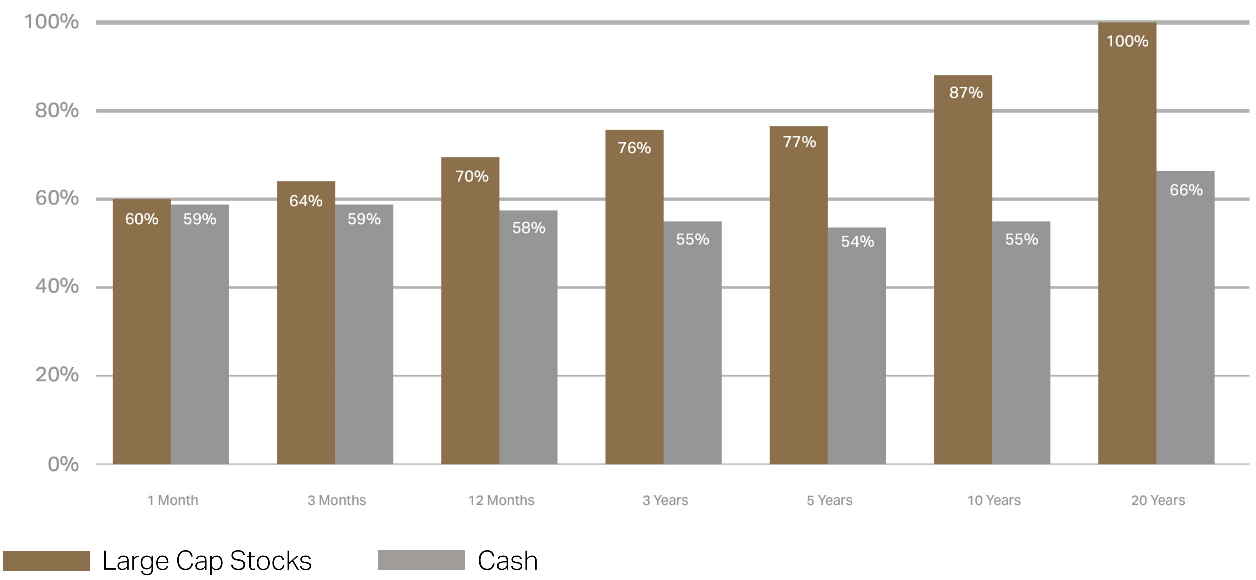
> In 2024, more than £43 billion is saved in ISAs paying less than 1.5% interest.
>
> *Source: Yorkshire Building Society*

How do interest rates on cash savings accounts perform against inflation?

Though shopping around could help you to find a higher interest rate for your cash savings, they might still struggle to keep pace with inflation. As such, over time, the spending power of your savings could fall, even if they are earning interest.

Investing in the stock market could help your wealth to grow above inflation, increasing your spending power. In the graph below, you can see the percentage of time periods in which stocks and cash have beaten inflation between 1926 and 2022.

You will notice that cash beats inflation around about 50% to 60% of the time. However, over any 20-year period, investing will beat inflation 100% of the time.



[Source: Schroders]

It's important to remember that past performance doesn't guarantee future performance, and the stock market exposes your money to risk, so the value of your investments can fall as well as rise.

However, these historical trends can provide helpful insights into how the stock market could help you grow your wealth over the long term.

An ISA can shield your savings interest and investment returns from tax

An ISA is a tax-efficient wrapper that shields your investment returns or savings interest from a tax liability.

Each tax year, you can save or invest in a range of different ISAs up to the limit of your ISA allowance. These include the:

- Cash ISA
- Stocks and Shares ISA

You don't pay any Income Tax, Capital Gains Tax, or Dividend Tax on the interest or returns you make from investing in an ISA. Consequently, this makes them a very tax-efficient way for you to build wealth.

3. Factor in the cost of illness and later-life care to your budget

In the early years of your retirement, you're likely to be making the most of your new-found freedom by fulfilling your ambitions and ticking goals off your bucket list.

But as you grow older, the likelihood of developing a critical illness or requiring long-term care increases. It makes sense to factor this into your financial plan, so that you can mitigate the impact that falling ill could have on your wealth.

Later-life care could be costly, so it's sensible to have a plan in place to help you pay for it.

As you grow older, you might need more help with daily tasks such as washing and dressing. Some people choose to move into a care home for additional help, while others might prefer residential care from their own home.

If you have more specialist medical needs, a nursing home might be a more suitable place to receive care.

The cost of care is on the rise. June 2024 data shared by Lottie (a care and retirement living discovery website) shows that the average nursing home costs £1,232 a week, or £64,000 a year. In most cases, you will need to pay at least a portion of this from your own pocket.

4 questions to ask yourself to help you prepare for the cost of later-life care

1. Would you be willing to move into a care home or would you prefer to receive care at home?
2. How much support could your friends or family offer, and would you feel comfortable relying on them for this?
3. Based on your preferences about how you'd like to receive care, how much is this likely to cost?
4. Which assets could you use to cover these costs? For example, could you set aside a lump sum of cash, or would you prefer to explore other options, such as unlocking equity from your home with an Equity Release lifetime mortgage? How might this affect the inheritance you can leave for loved ones after you pass away?

4. Create a plan for passing on wealth to your loved ones

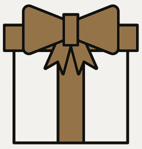
Leaving a legacy for your loved ones might become a bigger priority for you as you enter retirement. Perhaps you'd like to:

- Help your children or grandchildren onto the property ladder.
- Support your children with the financial implications of starting a family.
- Contribute to your children's or grandchildren's wedding or civil ceremony.
- Enable your loved ones to fulfil other ambitions that they might otherwise have needed to save up for.

If this is the case, it's important to balance your own needs during retirement with your goal of providing for your family after you're gone.

Creating a plan for this early on means you can make the most sensible financial decisions for you throughout your retirement. This can ensure you are able to live your preferred lifestyle without reducing the amount you can leave behind to loved ones.

There are three main ways you could pass on your wealth to loved ones:



Gift a living legacy

A living legacy means passing on wealth during your lifetime rather than waiting to pass it on in your Will. It is becoming an increasingly popular way to use wealth to support loved ones for several reasons:

- You can help your family when they need the money most, rather than having to wait until you pass away.
- You are able to see the good that your gift has done for your loved ones.
- You could reduce a potential Inheritance Tax (IHT) bill on your estate.

Before giving a living legacy, it's important to be sure that you still have enough set aside to cover your costs throughout retirement. You also need to consider the possible tax implications of your gift. You can read more about this below.

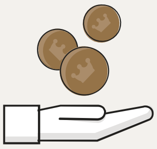
Pass on assets in your Will

A more traditional approach is to leave assets to your loved ones in your Will. This may be a more suitable option if:

- You want to be sure your savings will last the rest of your life.
- Your wealth is mostly held in illiquid assets such as your home.
- Leaving assets to loved ones in a Will is important to you.

It's important to update your Will regularly, particularly after milestone life events such as getting married or divorced, buying a property, or having children.

You can read more about the importance of your Will in the next section.



Place assets in a trust

A trust is a legal arrangement that enables you to hold assets for beneficiaries outside of your taxable estate.

It's usually managed by a trustee, and you can include instructions about how you'd like the assets to be used.

A trust might be a helpful way to pass on assets if:

- You want to pass on wealth to children or vulnerable adults.
- You have a clear idea about when or how the assets should be used.
- You want to create a legacy for future generations.
- Your estate could be liable for IHT.

Setting up a trust can be complex, so it's sensible to consult a certified financial professional for guidance before you proceed.

Could your estate be liable for Inheritance Tax (IHT)?

Depending on how you choose to pass on your wealth, your family may need to pay IHT on your estate after you pass away if it exceeds the nil-rate band. The nil-rate band refers to the value of assets that you can pass on to beneficiaries free from IHT in that tax year - and is currently £325,000.

In addition, there is a separate residence nil-rate band that you could benefit from, provided you are leaving your home to a direct descendent – this is currently £175,000.

Any part of your estate that exceeds the nil-rate bands may be liable for IHT. So, without a plan to mitigate this bill, your loved ones could lose out on a sizeable portion of their inheritance.

If you are married or in a civil partnership, you can leave your entire estate to your spouse after you pass away, and it would not be liable for IHT.

When your spouse passes away, you can combine your nil-rate bands (and residence nil-rate bands if you are leaving your home to a direct descendent), meaning that, as a couple, you can pass on twice as much wealth free from IHT as you could as an individual.

Gifting can help you to reduce the value of your taxable estate

Giving financial gifts to your loved ones during your lifetime can help you to reduce the value of your taxable estate, potentially mitigating the IHT that may be payable after you die.

There are several gifting allowances available to you each year, and gifts that are within these allowances are immediately considered outside of your estate for IHT purposes. This includes:

- The annual exemption
- The small gift allowance
- Gifting from income
- Helping your children or grandchildren to pay for their wedding or civil ceremony

Gifts that exceed these allowances are known as "potentially exempt transfers" and may be liable for IHT if you pass away within seven years of giving them. So, it's important to keep clear records of the gifts you have given and when, to ensure that your family pays the correct amount of IHT when the time comes.

Life insurance could be a powerful way to cover a potential IHT bill on your estate

If you believe that your estate may be liable for IHT when you pass away, life insurance could help your loved ones to cover this cost.

By choosing a whole-of-life policy and holding the policy in trust, your loved ones could receive a lump sum payout on your death that they can use to settle the IHT bill for your estate.

A certified financial professional can help you to select the most appropriate policy for your needs, ensuring that the payout is sufficient to cover the anticipated liability and that premiums are affordable.

5. Update your estate plan to give yourself and your family peace of mind

As well as ensuring your finances are in order, another important part of preparing for retirement is to update your estate plan.

While it can be uncomfortable to think about the end of your life, having your estate plan in order is essential for several practical and emotional reasons:

- You can ensure your assets are distributed according to your wishes.
- You can feel reassured that you've reduced the potential stress your family could face when organising your affairs.
- You may be able to mitigate a potential IHT bill on your estate, enabling you to leave more of your estate to the people and causes you care about most.

Did you know...?

Half of UK adults don't have a Will in place. The most common worries of those who do not have one included:

- Leaving too much paperwork for their family to cope with after they pass away (27%)
- Their estate being divided up differently than they would like (23%)
- It taking a long time for their estate to resolve (18%).

Source: Canada Life

In particular, there are three crucial documents to review that will help at this stressful and emotional time.

Your Will

If you die without a Will in place, your assets could be distributed according to intestacy laws, which might go against your wishes.

It's sensible to review and update your Will regularly, particularly if your circumstances change such as on marriage or divorce.

Lasting Power of Attorney

A Lasting Power of Attorney (LPA) enables you to appoint someone to take responsibility for your affairs if you lose the mental capacity to do so.

Your family is not automatically allowed to take care of your financial or healthcare decisions, so if you lose mental capacity without an LPA in place, it could create additional stress and cost.

"Expression of wish" for your pension

Your pension is not usually covered by your Will, so if you would like your pension to go to anyone in particular after you pass away, you will need to complete an "expression of wish".

Though this isn't a legally binding contract, the pension trustees or administrators will usually follow your wishes when deciding who will inherit the remainder of your pension after you pass away.

We can help you to maintain financial security throughout your retirement

Contact Us

Financial planning is a marathon, not a sprint. If you'd like to learn more about how we can support you at every step of the way, please get in touch..

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The content was accurate at the time of writing, changes in circumstances, regulation and legislation after the time of publication may impact on the accuracy of the article.

The Financial Conduct Authority does not regulate estate planning, trust planning, tax planning, Lasting Power of Attorney, or Will writing.

A pension is a long-term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Your pension income could also be affected by interest rates at the time you take your benefits.

The minimum pension age is due to increase from 55 to 57 by 2028.

This information is based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from, taxation are subject to change and tax implications will be based on your individual circumstances.

The value of your investment(s) and the income derived from it, can go down as well as up and you may not get back the full amount you invested.

Past performance is not a reliable indicator of future performance.

An Equity Release lifetime mortgage is a loan secured against your home. To understand the features and risks, ask for a personalised illustration.

Note that life insurance plans typically have no cash in value at any time and cover will cease at the end of the term. If premiums stop, then cover will lapse.

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