SUCCESSION WEALTH

Life Stage Guide

Financial Planning in your 70s and 80s

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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.

In this guide, you'll learn more about how to cover your expenses in later life, while also being able to leave a meaningful legacy to your loved ones.

Important financial considerations in later life

As you grow older, you may find that your investment needs become more complex. You may have achieved many of your retirement goals, and now need to change focus, perhaps looking to generate additional income to meet long term care needs due to your own failing health or the care needs of others.

You may want to review your investment portfolio to make sure that it matches your current risk appetite, and that you are taking full advantage of any tax reliefs available.

You may be looking at your intergenerational or estate planning needs in much closer detail to ensure that you leave a legacy.

Importantly, you may be feeling more vulnerable and need to be confident that your specific needs are understood and are handled with care and respect.

In this guide you'll find helpful information about:

- Taking a sustainable income throughout your retirement.
- Making sure your savings last as long as you need them to.
- Preparing for the cost of later-life care.
- Leaving a meaningful financial legacy for your loved ones after you're gone.

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 70s can be a time of reflection as your priorities shift

As you enter your 70s, you may enjoy travelling, pursuing your passions, or spending quality time with your friends and family. After working hard and saving for many years, your retirement could allow you to enjoy the fruits of your labour.

But this might be accompanied by some health concerns – maybe you are experiencing more health challenges than you did earlier in your life?

This can lead you to think about how you will support yourself later on. For example, maybe you're thinking of downsizing, relocating, or simply adjusting your home to be more accessible?

Budgeting for the cost of any potential later-life care you may one day need could be on your mind.

Your 70s might also see your priorities shift somewhat from working towards your own ambitions to wanting to help your loved ones achieve theirs. You might be thinking more deeply about how you can use your wealth to support children or grandchildren, helping them to buy their first home, get married, or fulfil other ambitions.

As such, you may be considering bringing them into your financial planning conversations so that they can support you with your wishes and plan for their own next steps in life.

So, how can you balance budgeting for your own later-life needs with your desire to support your loved ones with their goals? The following pages contain insights into how you can manage your finances sensibly so that you can maintain your preferred retirement lifestyle while also preparing to pass on wealth later on.

The top 3 retirement aspirations are:

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

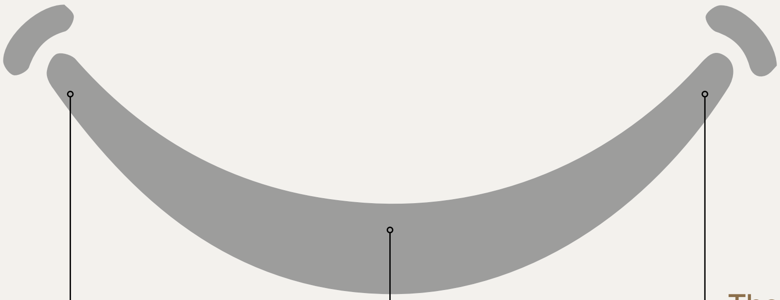
Source: Aegon

1. Ensure your retirement savings last as long as you need them to

One of the biggest concerns that retirees today have about their money is having enough to last them for the rest of their lives.

You may have already begun to use your retirement savings to provide an income, but how can you make sure that the remainder of your pot is sufficient to cover your expenses over the coming years?

Many people mistakenly believe that their spending needs will gradually decline through their retirement, but this isn't true for everyone. You can usually split your retirement into three stages of spending needs, also known as the **"retirement smile".**



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, but this rule of thumb can give you a helpful indicator of how your spending might change as you progress through your retirement.

You will most likely have already decided how to utilise your pension savings by now, but if not, there are different options available to you depending on the type of pension you have.

If you have a defined benefit (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 defined contribution pension, you usually have three main options when it comes to taking an income from it:

- You can take up to 25% of your pension pot as a tax-free lump sum or as a series of smaller withdrawals.
- You could transfer your pension to drawdown, enabling you to withdraw from it as and when you feel you need to.
- You could buy an annuity, which can provide a guaranteed annual income for a fixed period or the rest of your life.

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.

Commencing pension benefits after age 75

If you haven't taken your pension benefits by the age of 75, it is important to know that some pension rules change after this age. One of the main things is the impact on the death benefits you leave to your loved ones.

As a general rule, if you die before you turn 75, any pension death benefits are free from income tax. However, once you turn 75, the recipients of these death benefits will pay income tax at their marginal rate.

If you are still contributing to your pension, then you should be aware that tax relief on contributions ceases when you turn 75.

In addition, although the legislation around pensions has been modernised over the past decade, that doesn't mean that all pension providers have updated their products.

If your pension provider hasn't incorporated the latest flexibilities into its rules, you need to know how your own pension works before you reach 75, as you may need to consider moving it to a new provider before your 75th birthday to increase your options regarding withdrawal of lump sums, taking an annuity and so on.

It is always wise to take financial advice before you make any decisions.

You may have other types of savings, investments, or assets that can supplement your retirement income.

- If you're in your 70s, the State Pension is likely to be providing a reliable income. This will typically rise in line with the cost of living and you can claim it for the rest of your life.
- Any property that you own, including your home, could comprise a large portion of your estate. Downsizing or unlocking cash through Equity Release could help you to fund increasing income needs. This isn't suitable for everyone though, so consulting a certified financial professional for guidance on the most sensible next steps for you will be necessary before you proceed.

How could Equity Release help you to achieve your retirement goals?

Equity Release allows you to "borrow" some of the equity that you already own in your home, most commonly in the form of a lifetime mortgage.

It can be a helpful way to unlock cash that you can use to achieve your goals, such as home renovations, travelling, or helping your loved ones. What's more, you don't usually need to repay the loan or interest until you move into another property (such as a care home) or you pass away.

It's important to note that lifetime mortgages often charge a higher rate of interest than standard residential mortgages, so the interest you owe on the loan could accrue quickly – especially if you're letting the interest "roll up" by not making any repayments. This might significantly reduce the inheritance you can leave loved ones.

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 may 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.

If you are concerned that this may impact you, seeking financial advice 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 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.

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

Life expectancy is increasing, so 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 70-year-old man in 2024 is 86, with a 2.8% chance of living to 100. The average life expectancy for a woman of the same age is 88 with a 5.1% chance of living to 100.

So, your retirement savings may need to last you another 20 years and may even need to last for more than 30 years.

In that time, prices can rise significantly. So, it's sensible to ensure your strategy considers how your income might have to rise each year to keep pace with the rising cost of living.

In doing so, you not only ensure you can continue to live your preferred lifestyle in retirement, but you also maximise the amount that you are able to leave your loved ones as an inheritance after you're gone.

Short term goals require easily accessible funds.

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.

> If you had retired in 1994 with an average annual income of £20,000, the Bank of England suggests that you would need an annual income of more than £40,000 to be able to afford the same lifestyle in 2024.

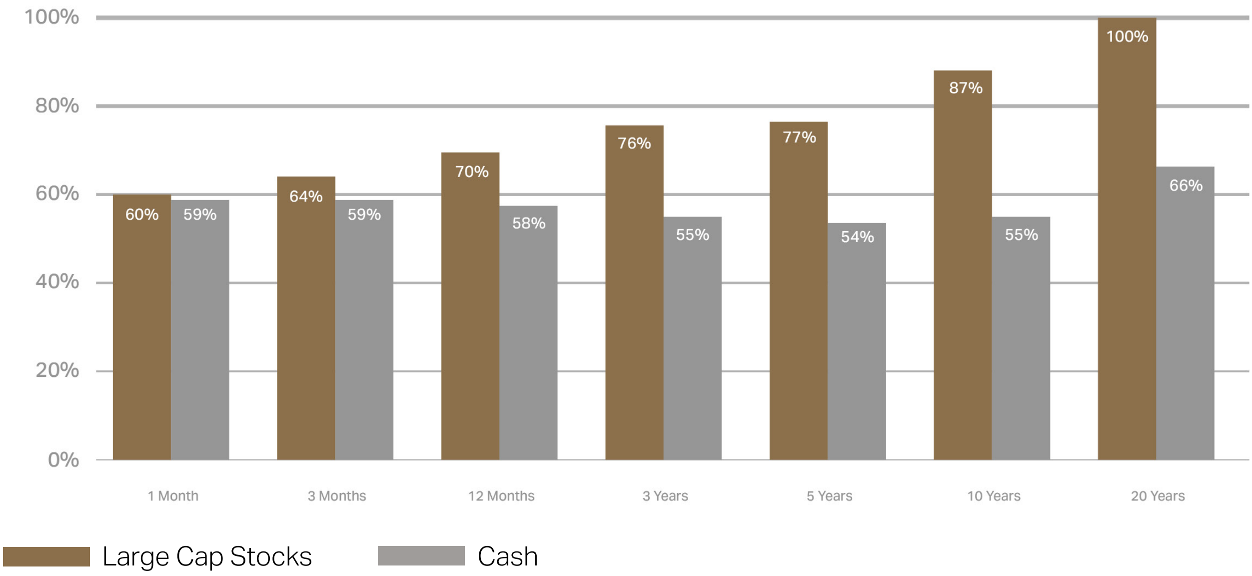
> In 2024, more than £43 billion is saved in ISAs paying less than 1.5% interest.
>
> *Source: Yorkshire Building Society*

Should you save or invest your money?

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 see 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 your money to maintain or increase its spending power throughout your retirement.

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.

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

In the early years of your retirement, you have likely been 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. You may already have experienced some health concerns that have caused you to think more carefully about what sort of help you might need in the future.

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 and the legacy that you can leave for loved ones.

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

The most suitable type of later-life care may depend on your individual circumstances and your preferences. 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?

3. Would you like to support your loved ones financially during your lifetime?

Gifting while living is becoming a more popular way to pass on wealth to loved ones, for several emotional and financial 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.

Could your estate be liable for 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 would like to gift a living legacy to your loved ones, there are some practical things you need to consider beforehand:

How much can you afford to give?

It's easy to get carried away by all the exciting ways you could support your family with a financial gift, but before you do, remember that your savings need to support you for the rest of your life, too.

This means budgeting for things like later-life care, the rising cost of living, and any retirement goals you have yet to achieve for yourself.

Cashflow modelling can help you to understand how a financial gift might affect your finances. This is an illustration of your net worth over the course of your life to see whether a financial gift might create a shortfall in income later on.

This could give you the confidence to give a financial gift, knowing that it won't affect your future financial wellbeing.

What are the tax implications of your gift?

If your estate is likely to be liable for IHT after you pass away, any financial gifts you give during your lifetime may be included in this.

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 gifts 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, make sure you 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 mitigate a potential IHT bill on your estate

If you believe that your estate may be liable for IHT, 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. It could also provide your family with financial support to cover the cost of a funeral after you have passed away.

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.

4. Create an effective estate plan to support your family after you pass away

A more traditional way to pass on wealth is by leaving your loved ones an inheritance after you pass away.

You can detail the assets you would like to pass on in your estate plan, so it's important to keep these documents up to date.

Updating your estate plan has several key emotional and practical benefits, including:

- 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

There are 3 crucial documents to review that can help with these points.

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 will usually follow your wishes when deciding who will inherit the remainder of your pension after you pass away.

Did you know...?

Your pension is usually considered outside of your estate for IHT purposes. So, it could be a tax-efficient wrapper for passing on wealth to your beneficiaries.

There are 2 main ways that you can pass on wealth after you die through your estate plan:

Pass on assets in your Will

Your Will is the most traditional way to pass on wealth to loved ones after you die. This may be a 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.

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 one or more trustees, 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.

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.

As well as leaving wealth to your loved ones, you may also wish to support a charity in your Will.

Many people choose to leave a financial gift to a charity in their Will. It can be a rewarding way to ensure your legacy makes a difference to a cause that is close to your heart.

As well as helping others, your charitable gift might offer benefits in the form of tax relief. Charitable donations are exempt from IHT, so this could reduce the value of your taxable estate after you pass away.

Moreover, your donation could reduce the rate of IHT your family pays on the remaining taxable assets.

More people are now leaving gifts to charity in their will

Research shows that leaving money to a charity in your Will (also known as "legacy gifting") is becoming more popular.

Legacy giving increased by 43% between 2013 and 2023.

Source: Remember a Charity

Support your family in making the necessary arrangements after you pass away.

As well as setting out the legacy you are leaving to loved ones, your estate plan can also be a helpful way to support your family with your funeral arrangements.

When a loved one passes away, there can be some significant associated costs, such as the cost of a funeral and professional fees. This can create a financial burden for your family at an already stressful time.

By adding some details to your estate plan, you could help to relieve this stress and support your family in carrying out your wishes.

This might include:

- Documenting any wishes you have about how your funeral will be arranged, including whether you would like to be buried or cremated.
- Taking out life insurance to provide a pay-out that can cover the cost of your funeral and other fees.
- Pre-planning your funeral.

Measures such as these can support your family after you pass away, providing valuable peace of mind for them and for you in the meantime.

The "cost of dying" is increasing

Between 2022 and 2023, the total cost of dying, which includes a funeral and professional fees, rose by 5%.

Around 20% of families experience notable financial concerns when paying for a funeral, with many using their own savings, credit cards, or loans from friends to cover the cost.

Source: Sun Life

We can help you to maintain financial security throughout your retirement while also supporting your loved ones after you pass away

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.

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The Financial Conduct Authority does not regulate estate planning, cashflow 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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