SUCCESSION WEALTH

Preparing for Retirement

A Financial Planning Guide

SUCCESSION WEALTH

Welcome to Succession Wealth

Plan for the future, plan for success.

Succession Wealth is a national financial advice firm, which delivers independent advice to clients throughout the UK.

When you choose to work with us, our Wealth Planners will provide an exceptional personal service tailored to your unique financial needs and aspirations.

We view assisting you on your wealth journey as a privilege. The relationships we build last longer than a lifetime, and we are proud to advise across generations.

Why is it important to prepare for your retirement?

Retirement is your opportunity to reap the rewards of a lifetime of hard work. When you finish working, you can pursue goals such as travelling the world or spending more time with family. Planning ahead can help you to get the most out of your post-work years.

Considering how you will fund your lifestyle and taking some key steps towards the end of your working life, can help you to achieve your dream retirement.

However, preparing for retirement can be daunting and you may not know where to start.

This guide will take you through some important financial planning steps that you may need to follow in the lead-up to retirement.

You will find useful information about:

- How and when you can retire
- What assets you can use to fund your retirement
- Different ways to draw an income in retirement
- How to build more wealth in the lead-up to retirement
- How long your savings are likely to last during retirement
- Wills and Powers of Attorney
- Protection
- Preserving your assets for future generations

1. Understand how and when you can retire

The first step to creating a retirement plan is typically deciding how and when you want to retire, and what you want your lifestyle to look like.

For instance, do you want to travel the world, or would you rather be at home, spending time with family? Do you like to get out and have an active social life, or are you more likely to spend money on home renovations?

Thinking about your priorities and understanding how you want to retire gives you a clear goal to aim for. You can then determine how much it will cost to achieve these goals.

It's equally important to decide when you can retire, and you may need to consider whether you will be able to fund your lifestyle when making this choice.

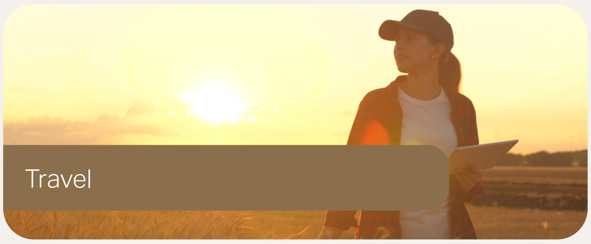
There are certain restrictions on when you can start drawing from your pensions, so you may need to wait until you can access these funds before you retire.

You can normally access your:

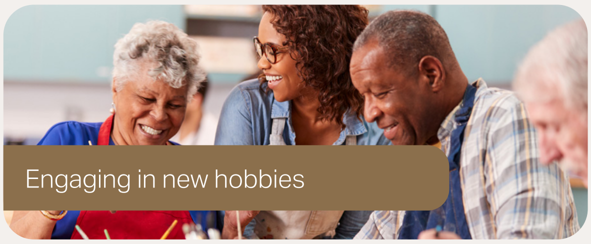
- Private pensions from age 55 (increasing to 57 in 2028)
- State Pension from age 66 (the State Pension age is scheduled to rise to 67 between 2026 and 2028, and eventually there are plans for it to increase to age 68)

As a result, you will likely retire after the age of 55 unless you have significant savings beyond your pensions to fund your retirement. The precise age that you decide to retire depends on how long you can afford to fund your lifestyle for, and when you would prefer to stop working.

Common goals you may have in retirement:



Travel



Engaging in new hobbies

Spending time with family

Financially supporting loved ones

Renovating your home or purchasing a new one

2. Consider what assets you have saved for retirement

Once you have a general idea of when you would like to retire and what you want your lifestyle to look like, it's important to then think about the assets you have that you can use to fund your retirement.

Pensions

You may draw a significant portion of your income in retirement from pensions, and there are several different types of pension that you might be able to access.

> **Did you know?**
>
> You can purchase NI credits to fill in gaps in your NI record. This could mean that you receive a higher income from the new State Pension.

The State Pension

Many people are entitled to a State Pension, and the amount you receive depends on the number of "qualifying years" you accrue before you retire.

A qualifying year is defined as a year in which you meet one of the following criteria:

- You were working and paid National Insurance contributions (NICs)
- You received NI credits – for example, if you were ill, looking after a child, or acting as a carer
- You paid voluntary NICs

If you reach State Pension Age after 6 April 2016, you need at least 10 qualifying years before you can claim any State Pension. You need 35 qualifying years to receive the full amount – which will be £230.25 per week in the 2025/26 tax year.

The amount you receive typically rises in line with inflation each year thanks to the protection of the "triple lock" (which means pensions usually rise by the higher of the following measures: the average percentage increase in prices, the average increase in wages or 2.5%). You can also claim your State Pension for the rest of your life, so it may offer a reliable income in retirement.

Private and workplace pensions

The State Pension might not be enough to fund your lifestyle, so you will likely draw from other pensions you have contributed to.

You typically pay into these pensions throughout your working life to build savings for retirement and the pension provider may invest the funds on your behalf. This could mean that your pension pot grows over time.

Additionally, you normally receive tax relief at your marginal rate of Income Tax when contributing to a private pension.

You can usually access funds in a private pension from age 55 (rising to age 57 from 2028).

Since the introduction of auto-enrolment in 2012, your employer is required to sign you up to a pension scheme and make contributions, provided you meet the earnings threshold. So, you will likely have a workplace pension of some kind if you have been employed at any point – certainly since 2012.

The two main types of workplace pension are:

- Defined contribution (DC) – Where you build a pot with your own contributions, employer contributions, and tax relief. You can then draw flexibly from your savings to generate an income or purchase an annuity
- Defined benefit (DB) – Where you receive a guaranteed income for the rest of your life, typically based on how long you worked for an employer and your salary. This type of pension may be more common for public sector workers

A third of UK adults may have "lost" pension savings

When you start a new job, you are enrolled in the pension scheme of your employer's choosing. This means many people have multiple pensions and you can easily forget old savings. According to a survey conducted by PensionsAge, 30% of respondents thought they may have lost pension savings.

Source: PensionsAge

There are also other types of private pension including:

- Stakeholder pensions – a basic type of private pension with low minimum contributions and charges. You typically don't have much control over how your savings are invested.
- Personal pensions – these pensions are usually offered by insurance companies and provide a wider range of investment options than a stakeholder pension.
- Self-invested personal pensions (SIPPs) – a SIPP gives you more options over how your pension funds are invested and usually offers more flexibility for withdrawing income than a workplace pension. However, investing in a SIPP does require a degree of financial knowledge and experience.

In the lead-up to retirement, it's important to understand what pensions you hold and how much you have saved in them. This includes looking for any lost pension pots from previous employers. (NB - The Department of Work and Pensions (DWP) online Pension Tracing Service can help reunite people with their lost pensions.) You may be able to consolidate these old pensions and combine them with your other savings.

Other savings and investments

You might have other savings and investments outside your pension that you could use to fund your lifestyle in retirement.

For example, you may save in a Cash ISA or invest through a Stocks and Shares ISA. The benefit of doing this is that returns from ISA savings and investments are normally free of Capital Gains Tax (CGT), Income Tax, and Dividend Tax.

Did you know?

You can pay up to £20,000 across all your ISAs in the current tax year. This is known as your "ISA allowance".

You might have investments in a General Investment Account (GIA) or Investment Bond, or savings in anything from fixed-interest accounts to Premium Bonds.

These savings and investments could supplement your pension income in retirement and using them before you draw from your pensions may help you reduce the tax you pay.

Property

Property is a significant asset that you may be able to use to fund your retirement in several ways. For instance, you might decide to downsize your home or use equity release to generate a lump sum, which you could then use to fund your lifestyle. Always seek professional advice before opting for equity release to ensure that it is suitable for your needs.

Alternatively, you may invest in a buy-to-let property and generate a regular income by renting it out. However, if interest rates rise and your mortgage costs increase, your profits may fall. As such, relying on property alone to fund your retirement may be a risk.

3. Decide how you will draw an income in retirement

Now that you have a clear picture of your assets, you may need to think about how you will use them to generate income when you retire.

You will likely receive your State Pension every 4 weeks when you reach State Pension Age, and you can take funds from savings and investments to supplement the income from your pensions.

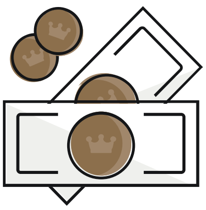
When it comes to your private pensions, there are several options for drawing an income and it's important to consider which is most suitable for you.

If you have a DB pension, you will likely receive a set income each month which usually increases annually, linked to inflation, and you typically can't change this. You may be able to take a lump sum from your pension too.

Conversely, if you have a DC pension, you could:

- Take a lump sum
- Transfer your pension into drawdown and take an income from it
- Purchase an annuity
- Use a combination of one or more of these options

Taking a lump sum from your pension

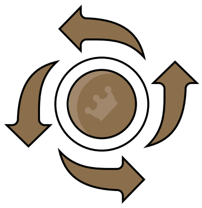


Normally, you can take the first 25% of your pension pot as a tax-free lump sum (up to a maximum of £268,275).

You are able to take the full 25% in one go, or you can take smaller amounts.

This may be a useful way to draw tax-efficiently from your pension. You could also use a lump sum for larger outgoings such as a new car or a child's wedding.

Transferring your pension to drawdown



When you transfer your pension to drawdown, you can choose to take a flexible income from it.

You do this by encashing some of the investments in your pension.

After the initial 25% tax-free lump sum, withdrawals may be subject to Income Tax.

You can usually take as much or as little as you need from your pension, leaving the rest invested.

Purchasing an annuity

An annuity is a type of insurance product that you can purchase with your pension savings.

It provides a pre-determined income for a set period of time – usually the rest of your life.

There are several different types of annuities that you can purchase. For example, you may buy an inflation-linked annuity so your income rises in line with inflation.

You need to consider your own goals and lifestyle in retirement when deciding which option is right for you.

Some people choose a combined approach. For example, you might use some of your pension savings to purchase an annuity and then transfer the rest to drawdown.

Also, bear in mind that if you can fund your lifestyle using cash savings or other investments, you may be able to leave your pension savings untouched for longer, and there are several benefits to this.

Firstly, you might be able to reduce the tax that you pay if you use funds in an ISA before using your pension. This is because savings in an ISA are not liable for Income Tax, while you may pay Income Tax on pension withdrawals, depending on the level of income you take.

The wealth in your pension can remain invested too, so you could see more growth in the future.

Moreover, currently your pension savings will usually fall outside your estate for Inheritance Tax (IHT) purposes. So, drawing on other wealth first and keeping more of your pension savings could mean that you are able to pass more of your estate to your loved ones. However, it should be noted that with effect from 6th April 2027, most unused pension funds and death benefits will be included within the value of your estate for IHT purposes and therefore this strategy may no longer be appropriate at that time.

It is important to consider all these factors when deciding how you will draw your income in retirement to determine the most tax-efficient and sustainable way to fund your lifestyle.

4. Consider building more wealth for retirement

After reviewing your assets and thinking about how you might generate an income in retirement, you will have a clearer idea of the kind of lifestyle you can afford.

If this doesn't match up with the retirement you pictured, or you are concerned about how long you can fund your lifestyle for, you may want to consider building more wealth.

There are several ways you could do this.

Increase your pension contributions

Increasing your pension contributions could be one of the most effective ways to build more wealth for the future.

You typically benefit from tax relief on your contributions, and your employer may match your payments too. Moreover, your pension provider may invest the funds, potentially generating growth over time.

As a result, a modest increase in contributions and a small reduction in your take-home pay could lead to a significant difference in the size of your pension pot in later life.

You may want to take advantage of this towards the end of your working life when you may be in your peak earning years. Increasing your contributions as early as possible could also mean that your savings have more time to grow.

Did you know?

If your total income, minus your pension contributions, is more than £200,000, you may be affected by the Tapered Annual Allowance. This could reduce your Annual Allowance to as little as £10,000.

Make use of important allowances

Taking full advantage of certain allowances could help you build more wealth for the future.

For example, in the current tax year, you can contribute up to £60,000 (or up to 100% of your earnings if they are lower than this amount) to your pension without triggering an additional tax charge. This is known as your "Annual Allowance".

If you have used your full Annual Allowance in the current tax year, you may be able to carry forward unused allowance from the past three years. This could increase the tax-efficient contributions you can make to your pension.

The rules surrounding the Annual Allowance and Tapered Annual Allowance can be complex, and it is advisable to seek professional guidance before taking action which may be costly or cannot be reversed.

Additionally, you have a £20,000 ISA allowance in the current tax year which you can use to make tax-efficient contributions to your savings and investments.

Using as many of these allowances as possible could help you take advantage of certain tax benefits and build your retirement savings faster.

Claim tax relief

When you contribute to a pension, you normally receive 20% tax relief automatically. This means that a £100 contribution effectively "costs" you £80.

However, if you are a higher or additional-rate taxpayer, you are entitled to 40% or 45% tax relief on your pension contributions. You must apply for the other 20% or 25% manually through self-assessment. Unfortunately, many people fail to do this.

In Scotland, income tax is banded differently, with pension tax relief at the following rates: starter and basic-rate 20%, intermediate-rate 21%, higher-rate 42%, advanced-rate 45% and top-rate 48%.

Claiming any additional tax relief you are entitled to could give a significant boost to your pension savings each year.

You are only entitled to tax relief on your contributions if you are under age 75 and they are no more than 100% of your earnings.

Use lump sums to increase your savings

If you receive a lump sum, such as a bonus from work or an inheritance, you may consider adding it to your retirement savings.

You can normally make one-off payments into your pension on top of your regular contributions. However, you may need to consider whether a large lump sum will cause you to exceed your Annual Allowance.

Taking these steps to build more wealth before you retire could mean you are more likely to achieve your desired lifestyle.

5. Make sure that your money lasts long enough

Making sure that your money lasts long enough is often one of the biggest challenges of retirement planning. Fortunately, there are measures you can take to help your wealth stretch further.

Be realistic about your life expectancy

Underestimating life expectancy is a common mistake that many retirees make when planning their finances. If you do this, you may draw too much from your savings and deplete them too quickly, leaving you with financial issues in later life.

That's why it's important to be realistic about your life expectancy and overestimate, rather than underestimate, if possible.

Could you live to 100?

In 2021, there were a recorded 13,924 centenarians – people aged 100 or older – living in the UK. This represents a 127-fold increase in the number of people living past 100 in the last century.

Source: The Office for National Statistics (ONS)

Create a retirement budget

Creating a detailed retirement budget could help you draw from your savings more sustainably. By understanding exactly what you are likely to spend, you can take only as much as you need from your pensions and other savings.

Managing your spending in this way could help you make your pension savings go further.

It also helps you understand how long you are likely to be able to fund your lifestyle for, and whether you need to build more wealth before retiring.

When creating a retirement budget, you may need to consider:

- Housing costs
- Utility bills
- Entertainment costs
- Travel
- Home repairs and renovations
- Financially supporting loved ones
- Care costs

If you seek advice, your Weath Planner can help you create a retirement budget and use cashflow planning to calculate how long you are likely to be able to fund your desired lifestyle in retirement. If necessary, they can also help you find ways to make your savings last longer.

Consider the tax you may pay on your income

You may pay tax on some of your retirement savings. This includes:

- Income Tax on wealth you draw from your pensions
- Income Tax on interest from cash in a non-ISA savings account
- Capital Gains Tax (CGT) when selling property, non-ISA investments, or other qualifying assets
- Dividend Tax on dividend payments from non-ISA investments.

There may be ways to reduce tax when drawing from your savings, so you can retain more of your wealth and use it to fund your desired lifestyle in retirement.

6. Make sure you have the right paperwork in place

Generating an income to fund your lifestyle is a crucial part of retirement planning. However, there are also some other important considerations.

Creating a Will and Lasting Power of Attorney

Without a clear Will, your estate may not be divided in the way that you intended when you die. Your family may also face legal issues when trying to administer your estate, so it's important that you make your wishes clear now.

You may also need to create a Lasting Power of Attorney (LPA), or the Scotland/Northern Ireland equivalent. This important document enables you to nominate "attorneys" to look after your affairs if you are not mentally able to. For example, if you are diagnosed with dementia or suffer a serious injury, your attorney can step in and make decisions on your behalf.

In England and Wales, there are two types of LPA:

- A health and welfare LPA – this appoints somebody to make decisions about your health and medical care, your social activities, and your overall welfare
- A financial affairs LPA – this appoints somebody to deal with your financial affairs including paying bills, managing investments, and accessing bank accounts and pensions

Without an LPA, your family may not be able to access your bank accounts or pensions, pay your bills, and make decisions about your health and care. You need to create an LPA while you are still mentally able, so it's important to do it as soon as possible.

Power of Attorney (POA) in Scotland

Power of Attorney (POA) in Scotland is similar to England, but the titles differ. The three types of POA are:

- Continuing POA – which deals with finances and property
- Welfare POA – which deals with health and general welfare decisions
- Combined POA – which has the power of both a Continuing and a Welfare POA

Power of Attorney (POA) in Northern Ireland

Unlike England and Scotland, you can't give somebody the legal power to make decisions about your health and welfare in Northern Ireland. You can appoint an attorney to look after your finances, and there are two main types of POA:

- General POA – this is a temporary POA. It is no longer valid if you lose mental capacity
- Enduring POA – this is an ongoing arrangement that is valid even if you lose mental capacity. It appoints an attorney to make decisions about your finances and property

7. Ensure you are protected against the unexpected

Protection provides a valuable safety net for you and your family and allows you to continue working towards your financial goals, even if the worst happens.

Without protection in place, you and your family could face financial difficulty if you fall ill and can't work. You may struggle to cover your living expenses and in the most extreme cases, you might even lose your home.

Additionally, you may be unable to contribute to your pension and might have to spend savings to pay for general expenses. As a result, you could disrupt your long-term financial plans and may have to make sacrifices to your lifestyle in retirement.

Similarly, if you die, your family may be unable to afford to maintain their lifestyle and meet their short and long-term financial goals after you are gone.

Fortunately, the right protection could help you and your family prevent this kind of disruption by maintaining your income when the unexpected happens.

For example, a life insurance payout could help your family remain financially secure if you die, helping them meet mortgage payments, funeral costs, and general living expenses.

Equally, income protection could provide a regular payment if you can't work, helping you meet your financial obligations until you are well enough to start earning an income again.

Even if you already have protection in place, your income and spending habits will likely change when you retire. So, you may want to review your protection needs to ensure you have adequate coverage.

8. Decide how you want to pass on wealth to your loved ones

You may not spend all of your wealth during retirement, so you will likely want to pass on any remaining assets to your loved ones.

However, they may pay IHT on wealth they inherit.

In the current tax year, each individual benefits from the "nil-rate band" – this means you can pass on £325,000 before any IHT is due. If you plan to leave your home to a direct lineal descendant, you can also take advantage of an additional "residence nil-rate band".

Spouses and civil partners can also transfer any unused allowance, so you may be able to pass on up to £1 million before IHT is due.

If you believe you may have an IHT liability, there are ways to potentially mitigate this, such as lifetime gifting, using trusts, or passing on wealth in your pensions.

You may need to plan ahead to find the most tax-efficient ways to pass your estate to your loved ones.

Seeking advice

There are many complex decisions to make to help you achieve your retirement goals. If you are unsure about any aspect of your retirement planning, always seek guidance before taking action.

We can support you on your retirement planning journey

If you are approaching retirement and want to get your financial plans in order, we are here to support you - please speak to your Wealth Planner.

Alternatively, email or call us and we will arrange for someone to contact you.

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Please Note

This guide is for general information only and does not constitute advice. The information is aimed at retail clients only.

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, cashflow planning, tax planning, Lasting Powers of Attorney, or Will writing.

A pension is a long-term investment not normally accessible until 55 (57 from April 2028). The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Past performance is not a reliable indicator of future performance.

Workplace pensions are regulated by The Pension Regulator.

Your pension income could also be affected by the interest rates at the time you take your benefits. The tax implications of pension withdrawals will be based on your individual circumstances, tax legislation, and regulation, which are subject to change in the future.

The value of your investments (and any income from them) 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.

Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.

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.

Cover is subject to terms and conditions and may have exclusions. Definitions of illnesses vary from product provider and will be explained within the policy documentation.

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