DREAM BIG

Your guide to retirement planning in your 30s & 40s

5 Step Guide

resetmoneycoaching.co.uk

Introduction

Who is this guide for?

This guide is for you if:

- You are confused about what retirement savings you've got and what they mean for you when you retire
- You want to know when you'll be able to stop working
- You're unsure if you're saving enough towards your future
- You want to know the steps you need to take to ensure you're on track for a comfortable retirement

It's likely that you'll already have some form of savings for retirement. That may be a pension set up by your employer, an old final salary scheme or ISA savings. But if not, don't worry. I've got you covered too!

And the good news? You've still got plenty of time! Well done for taking the time to address this now. I know you've got a lot going on and are likely very busy; balancing family commitments and career progression.

Retirement Today

Retirement is changing. We're living for longer. And there's far greater flexibility around employment. The days of leaving work forever on your 60th or 65th birthday are long behind us.

But it isn't just the age at which we retire that's changed. Our attitudes toward retirement have altered too.

Some people want to stop working completely far earlier than was historically the norm and live abroad, travel or spend time with their family. Others prefer to work part-time or start their own business to provide employment flexibility.

Whatever your vision for retirement, it's worth getting your finances in order beforehand. And this guide will help you to do just that.

"The best time to plant a tree was 20 years ago. The second best time is now."

– Chinese Proverb

STEP ONE

Where are you now?

The first step in planning for a dream retirement is to work out where you are now.

To do this, a good starting point is to gather information on all your existing pensions and investments.

Defined Contribution Pension Schemes

These could be pensions set up by your current or previous employer. Or a pension you have set up yourself. You could be making contributions to the pension or it could be a pot of money being left to grow.

With these types of pensions, you build up a fund that can be accessed when you get to retirement.

To find out what you've got, go through your old paperwork and give each of the pension providers a call (or send them a letter or email) and ask the following questions:

- What is the current value and transfer value?
- Are contributions currently being made? If so, how much?
- What funds am I invested in? And where do I find information about those funds?
- What charges am I paying?
- When I retire, what are my options to take my pension?

Defined Benefit Pension Schemes

These types of pension (also known as final salary pensions) are now far less common than in the past.

But if you work in the public sector (think NHS, teachers, local government etc), then you will likely be a member of this type of scheme. Or you may have a defined benefit pension from a previous private sector job.

At retirement, these pensions pay out a guaranteed income for the rest of your life.

To find out what you've got, dig out any paperwork, give them a call and ask the following questions:

- What is the retirement age of the scheme?
- What pension have I built up to date?
- How does this increase up until and during retirement?
- What would be paid to my spouse/dependents if I died before or after retirement?
- (And if you're an active member) On what basis is any future pension built up?

Lost Pensions

The Association of British Insurers estimate there are £1.9 billion of "lost" pensions in the UK.

If you have lost track of any old pensions, there's a really useful service on the Gov.uk website that can help - Find pension contact details service. Even if you didn't contribute for very long, you may be surprised how much any lost pensions are now worth. Every penny counts!

And once you've made contact, be sure they've got your current address so you get regular updates going forward.

State Pension

The State Pension is not enough for most people to live off in retirement. But it can provide a valuable income, that is guaranteed and increases each year. You can find out what state pension you are on track for by checking your state pension forecast using the Check your State Pension forecast service. This will also tell you when you are due to start receiving your State Pension. This has increased in recent years and people in their 30s & 40s will have to wait until age 67 or 68.

In order to qualify for the full State Pension, you will need to have made enough National Insurance contributions for at least 35 years. Also bear in mind that there's no guarantee that there won't be further changes to the State Pension (i.e. further increases to the State Pension age) so it's important to keep up to date with developments.

Other Investments

You may have other investments that can be counted towards your retirement planning. Here we're talking about ISAs, LISAs, Sharesave Schemes, non ISA investment accounts etc.

Give the providers a call and ask the following questions:

- What is the current value?
- What regular contributions are being made?
- (If it's an ISA or LISA) How much of my annual allowance is remaining?
- What is it invested in? Where do I find information about those funds?
- What charges am I paying?

Getting a clear picture can take time and effort, but it really is key to making sure you know what you're working with.

STEP TWO

What's enough?

Most people want to live comfortably in retirement. But knowing how much you'll need to live on can be tricky to work out.

What are you spending now?

Having a good understanding of your current spending can really help you work out what your likely retirement spending might be. If you know this information, you can then deduct certain costs that you will not paying in retirement (eg mortgage repayments, pension savings, childcare costs).

Then think about how you plan to spend your time when you retire. What is it you enjoy doing? What's important to you? And what might this cost? Have a think about these costs and add them back in.

What you're spending now

−

Costs that will have stopped

+

New costs

=

Future Spending

What are others spending in retirement?

Another good reference point is the Which retirement spending survey. Which have surveyed 6,300 retirees to find out about their spending habits and the research breaks down how much income is needed in retirement based on three levels of retirement; essential, comfortable and luxurious, with total spending ranging from £17,212 to £40,000 each year for a couple.

It's worth bearing in mind that many people overestimate what they will spend in retirement and in most cases spending often decreases the older you get.

One thing is certain, without a crystal ball you won't get it right. But it is important to have a target to work towards. And the closer you get to retirement, the clearer the picture will become.

STEP THREE

Are you on track?

So now you know what you've got and you know how much you need. It's time to work out if you're saving enough.

Your income when you retire will depend on the following factors:

- What you've built up so far
- What you (& your employer) continue to contribute between now and retirement
- Any other longer term investment or savings you make
- By how much your pensions and investments grow
- What age you retire
- Any other sources of income in retirement (e.g. State Pension, defined benefit pension income, part time earnings if you continue to work etc)

Armed with this information you will be able to work out if you're on track for the retirement you want.

Many pension providers have retirement calculators on their websites into which you can plug in your info and they will show you visually if the retirement you are aiming for is likely to be affordable or not.

This will be based on assumptions and cannot be guaranteed, but it will be a great starting point to see if you're in the ballpark of where you want to be.

These calculators are a good starting point to see where you stand:

- Vanguard Pension Calculator
- Aviva Retirement Planner
- Pension Bee Pension Calculator

Calculators such as these should only be used as a guide and there are no guarantees you will get the amounts shown.

STEP FOUR

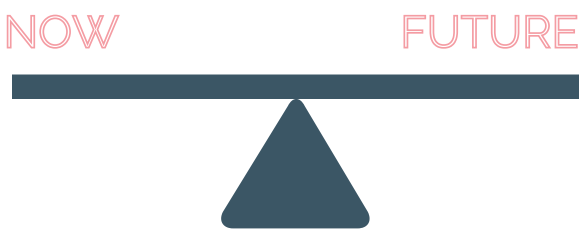
Make a plan

If you've undertaken Steps 1 -3, you'll have worked out if you're on track or if you need to think about saving more towards retirement. Step 4 considers your options if you need to save more.

What can you afford?

It's all very well saying you should save more towards your retirement, but you need to consider the balance between today's financial commitments and saving for your future.

Consider your current spending and budget and see where you can make savings to direct money towards longer term investments. It might mean some difficult decisions, but your future self will thank you for it!



To see the financial impact of additional savings, revisit the calculators mentioned in Step 3. Have a play around with different figures to see what saving more could mean for you. Often realising the effect is enough of a push to find the spare money to invest for your future.

What are your options?

We're keeping it simple in this guide. If you trawl the web, you'll find all sort of weird and wonderful investment options. I'm going to stick my neck out here and state your options for longer term retirement savings are:

- Pensions
  and
- Stocks and Shares Individual Savings Accounts (ISAs)

Most people can invest up to £40,000 a year into a pension (unless you are a very high earner) and every UK resident can invest £20,000 a year into an ISA.

So at a total of £60,000 per person, most people will be covered by these two options and won't need to look any further.

Pensions

This may be your current employers pensions scheme, an old scheme you've not paid into for sometime, or a new pension you set up.

The key benefit of pensions is tax relief, which has a big impact on the total amount invested. Depending on your income, tax relief on pension contributions ranges between 20% to 45%.

These charts breakdown the contribution splits, for Basic, Higher and Additional rate taxpayers per £100 (based on your contributions of 5% and another 5% from your employer):

BASIC RATE TAXPAYER	HIGHER RATE TAXPAYER	ADDITIONAL RATE TAXPAYER
TAX RELIEF - £20	TAX RELIEF - £40	TAX RELIEF - £45
COST TO YOU - £80	COST TO YOU - £60	COST TO YOU - £55
EMPLOYER - £100	EMPLOYER - £100	EMPLOYER - £100

Currently, you can take money from your pension anytime after 55. Although this will increase to 57 in 2028. Therefore, if you're aiming to retire before then, you'll need to consider building up another pot of money that can be used to cover until you can access your pension.

When you take your pension, 25% can be taken tax free, with the rest subject to income tax in the usual way.

ISAs

Unlike pensions, ISAs do not benefit from tax relief on contributions. However, the money invested in an ISA grows virtually free of tax and any money taken out is free of tax.

ISAs are a useful investment option to add flexibility to your retirement plans. If your situation changes, you will be able to access the money at any time. And if you are able to retire before you can access your pension, money invested in an ISA can be used to bridge the gap.

STEP FIVE

Review your progress

Well done - you've made it to the final step!

The one certainty about putting in place a plan for retirement is that it won't go to plan! And that's why it's so important to keep things under review.

Once a year, run through the following steps to make sure your plans are still on track:

- Get up to date values of your pensions and investments
- Check if the investments within your pensions and investments remain suitable. How have they performed compared to relevant benchmarks? Are you happy with the level of risk you are taking?
- Check your retirement spending assumptions. Are they still realistic? Has anything changed?
- Plug the updated figures (including any updated contribution figures based on your current salary) into a retirement calculator. Are you still on track?
- Have you had any additional income (payrises, sidehustle etc) that could be directed into long term savings? Or are there any savings you could make to free up some money to invest for your future self?