Client
Insight Blog

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Post Pandemic Retirement Planning

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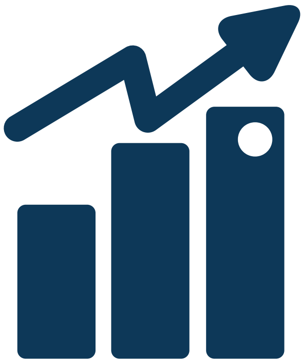
At the time of writing, it feels as though there is a little bit of light at the end of the pandemic tunnel. The successful role out of vaccinations across the UK is helping to weather the latest storm of infections and ease the pressure on the NHS.

At the same time, the economy is showing positive signs of recovery and financial markets are now far less volatile than at the beginning of the pandemic. However, if you've retired in recent years, or if you're fast approaching retirement, do you know what toll the pandemic has taken on your funds?

The FTSE 100 crashed by more than 34% in the first three months of 2021. This means we could be waiting until 2022 before our savings regain their pre-pandemic value. What does that mean for your retirement?



Approaching Retirement

For those of us approaching retirement it's a simple rule that we should do everything we can to continue contributing to our pension. That's because the more we invest, the more we'll benefit if stock markets start to recover.

According to research from Which? couples need a pot of around £155,000 alongside their state pension to produce the annual income for a comfortable retirement of £26,000 via pension drawdown – or just over £265,000 through a joint-life annuity*.

If you're 55 or over and have been made redundant or furloughed, you may be tempted to change your retirement plans and look to withdraw your private pension early.

However, if this wasn't part of your long-term plans then you should consider other options first, such as government support like Universal Credit. Considering all of the options available to you could help maintain the longevity of your pension savings.

If you can delay taking your pension this could also help in the future.

As markets recover, by delaying when you claim from a defined contribution scheme your funds will stay invested for longer, so you could benefit from a bigger pension pot when you come to retire.

Don't forget, if you defer you could also continue to save as much as £40,000 a year into a pension and earn tax relief under current rules.

Another option could be deferring your state pension for extra income. By deferring for five weeks or more, once you do start claiming you'll receive more than you otherwise would have.

During Retirement

For those of us already in retirement and relying on drawdown for our main source of income there are a number of things to think about.

Many of us underestimate how long we are likely to live. Put simply, the longer you live, the higher the risk of your funds running out.

The key here is to manage the level of income you are taking and to make sure you are invested in the right funds.

Firstly, look at your spending and outline what's essential and what's discretionary. By temporarily cutting down on your discretionary spending you may be able to make your funds last longer. Making savings may mean that if you're relying on a 'natural yield' from your investments you can get by without having to erode your capital so it maintains its value or grows over time.

Drawing money during a market downturn when values have dropped is also more costly than taking the same amount during a strong market. This is because of sequencing risk. When you invest into rising markets, you benefit from compound interest - your capital earns interest, and then the next year it earns interest on both its initial value and the interest reinvested.

However, if you start making withdrawals from your pension fund at a time when markets are falling, you lose out as it's not just the withdrawal that is gone, but so too are the future returns that that money might have generated had it been left invested.

If you get off to a poor start then your pension funds will have a harder time recovering and the smaller the fund becomes, the greater the proportion of it is needed to provide the same level of income. However, there are a number of actions a financial adviser can help you take to mitigate against this.

You also shouldn't underestimate the importance of inflation. In recent years we've enjoyed relatively low rates of inflation. However, as we deal with repaying the costs of the pandemic there are signs that the pressures are building.

The speed at which the prices of goods and services rise can be doubly damaging in retirement because it can reduce the value of your capital, as well as the purchasing power of your income. Investing in the right funds and ensuring your portfolio is well diversified is essential.

While this does look like a challenging situation by benefiting from financial advice you can take practical steps now to make sure you don't miss out on the retirement you planned for, despite the pandemic.

If you'd like to learn more, please get in touch now.

The value of pensions and investments can fall as well as rise. You may get back less than you invested.

Tax treatment varies according to individual circumstances and is subject to change.

*Source – The secret to a happy retirement? £26,000 per year, Which?