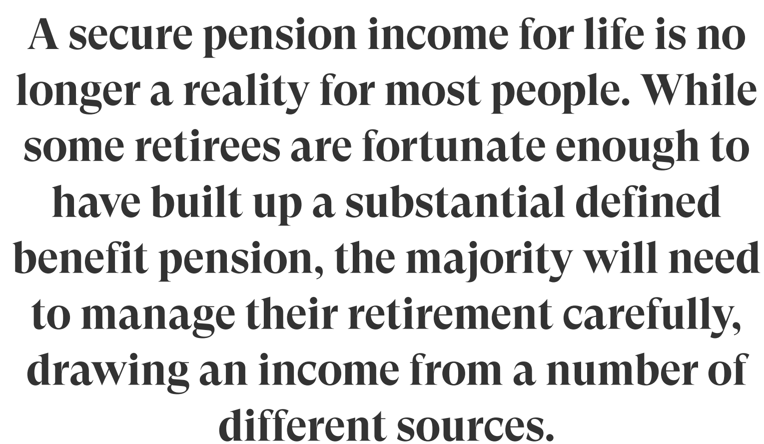
A Short Guide to Wealth Preservation in Retirement



A secure pension income for life is no longer a reality for most people. While some retirees are fortunate enough to have built up a substantial defined benefit pension, the majority will need to manage their retirement carefully, drawing an income from a number of different sources.

In the early years of retirement, the focus is on adjusting to your new lifestyle and making sure that you have enough income to cover your expenditure. You might also want to travel more and try new hobbies.

In later years, your concern may turn to care costs and passing wealth on to the next generation.

Balancing these priorities, and ensuring that you can achieve your goals without running out of money, can be challenging.

So how can you preserve your wealth in retirement, and make sure that your money outlives you?

HAVE A PLAN

The starting point is understanding what you would like to achieve. To do this, you will need to have a rough idea of your spending requirements. For example:

- Essential living costs
- Ad hoc capital expenditure such as home maintenance or replacing cars
- Discretionary and luxury spending
- Gifts
- Medical and care costs

You should also work out your various income sources, such as:

- Scheme pensions from your former employer
- The State Pension
- Rental income
- Investment income

Finally, you should also list any cash, investments, and pensions that you could use to fund your retirement. If you still have a mortgage, don’t forget to account for the monthly repayments or clearing the capital.

A cashflow plan can help you work out if your retirement goals are sustainable based on the income and assets you have available.

KEEP ENOUGH CASH

As an absolute minimum, you should keep an emergency fund of around three to six months' expenditure to cover any unexpected bills or urgent repairs.

In addition, you may find that you need to top up your income from capital, either on a regular basis or ad hoc.

Selling investments at short notice can impact your long-term returns, particularly if the market takes a downturn. It is far more efficient to keep a cash buffer so that any investment encashments are planned well in advance.

As a minimum, you should aim to keep a minimum of one year's spending requirements in cash.

If you are investing a lump sum, you should avoid investing any capital that you are likely to need within five years, as if the market dips (as does on a regular basis), your portfolio will have less time to recover.

INVEST (AND DISINVEST) TAX EFFICIENTLY

You don't need to start drawing your pension immediately when you retire. In fact, it can be far more tax efficient to leave it invested and use other assets instead. Pensions can be passed on to your beneficiaries free of tax if you die before age 75. After age 75, your beneficiaries will pay tax at their own personal rate. Pensions can therefore be a useful tool for estate planning.

You can even keep contributing to your pension after you retire. if you have no relevant UK earnings, you can contribute up to £3,600 per year gross (£2,880 net) into your pension. This allows you to transfer wealth from other assets into the more tax-efficient pension wrapper.

Additionally, you should continue to use your ISA allowance into retirement if you can. Moving assets from investment accounts into an ISA can make your portfolio more tax-efficient over time.

While everyone's situation is different, as an approximate guide, it is usually optimal to draw on your investments in the following order:

- Cash
- Non tax-advantaged investment accounts (aiming to keep the gains realised within your Capital Gains Tax exemption)
- Investment bonds (up to the 5% per year withdrawal limit)
- ISAs
- Pensions

DIVERSIFY YOUR PORTFOLIO

Unless you plan to buy an annuity, you will still need to hold some form of investment during your retirement. Your objectives will probably have changed, as the focus will be on capital preservation rather than accumulating wealth. This means that you will probably want to take less risk than someone who is starting to invest for the first time.

But there is no such thing as a no-risk investment. Cash does not fluctuate with the market, but at current interest rates is unlikely to hold its value when inflation is taken into account.

Bonds are less volatile than equities, but are still sensitive to market movements.

Property funds can add diversification to your portfolio, but often suffer from liquidity problems when the market falls.

Equities offer the best chance of beating inflation and growing your portfolio over the long-term, but are more susceptible to daily fluctuations.

A combination of asset classes, and a wide variety of different investments, can help to preserve your wealth and manage risk. This might include a modest selection of 'higher risk' assets as well as more stable investments.

KEEP AN EYE ON YOUR BUDGET

Tax and investment planning only go so far. It's also important to stick to the plan, as if you overspend, this can limit your options later on.

A cashflow plan is extremely useful when you retire, as it will give you an idea of whether your retirement goals are achievable, or prompt you to rethink your priorities.

But this involves a number of assumptions around inflation, investment returns, health, and life expectancy. We can make reasonable guesses, but the only thing we can say with certainty is that not one of these assumptions will be accurate.

Life happens, and sometimes we need to spend more than we expect. Sometimes the market falls and takes a few years to recover. These blips should not derail a financial plan, but should be built in with plenty of contingency.

If you regularly review your plan, your budget, and your investments, it is easier to make small adjustments and correct your course. A good financial adviser can help you, not only with the technical aspects of investment and retirement planning, but by holding you accountable and keeping you focused.

Please do not hesitate to contact a member of the team to find out more about retirement planning.

CONTACT

J Edward Sellars, The Drive House, Manor Farm, Kenn BS21 6TZ.

Tel: 01934 875 919
enquiries@jesellars.co.uk
https://www.jesellars.co.uk

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