FINANCE Q&A's



Retirement Options

Saving for your retirement is essential to ensure you can live comfortably once you finish work…but when should you start, and how do you pick the right retirement option to suit? Here Lakeside Technical Specialist, *Adam Chambers*, talks retirement planning, savings and solutions.

When should you start planning for your retirement, and how much should you be saving?

A: The earlier you start planning and saving for your retirement, the better, as this will impact when you can retire and how much you will have in your pension pot/savings when you finish work.

The easiest way to work out how much money you will need to save is to assess how much income you will need to live per year during your retirement. You will have likely paid your mortgage off by that point, but you need to consider bills and food as well as extra money for luxuries, like a holiday, or to provide relief when things need replacing, like a boiler. Once you have that figure, times it by 25, and that is roughly the lump sum figure you will need for your retirement. You will be entitled to a basic state pension which will contribute towards this figure, but the payment will usually only cover essential bills and basic food needs.

What are the key retirement options available, and are there any advantages or drawbacks to be aware of?

A: There are two main retirement options:

Flexible Access Drawdown - A flexible access drawdown will enable you to keep your pension funds invested while still drawing from them. You can choose and adjust how much you withdraw and when, but be aware that by taking too much money too soon, you could run out earlier than expected, so it's best to keep things under review. Also, keep in mind that the value of your investment can fall as well as rise.

Annuities - Buying an annuity product provides more security than the above options in that it pays a guaranteed and regular income for the rest of your life. The drawback here is that such products offer little flexibility, so you lose out on potential growth if you lock into an annuity at a low rate. Also, when you die, an annuity stops paying out, so there is nothing passed onto the beneficiaries of your estate.

Both of these options enable you to also take a tax-free lump sum - you can take 25% of the money in a pension tax-free. The remaining money will be subject to income tax. It's worth remembering that the government adds money to your pension as tax relief when you are paying into it, though, so you don't really lose out overall. Also, you will benefit from the long term growth of the funds during the time the money is invested in a pension. The drawback of taking the 25% TFC as one lump-sum is that you need to budget your funds accordingly, or you could risk running out of money. You can structure the 25% TFC to be paid over time, so you don't have a large lump-sum in one go.

You can find out more about pension fund withdrawal here and more about annuities here.



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How should you go about deciding which is the best retirement option(s) for you?

A: Generally speaking, we advise clients to work out how much income they will need every month in retirement to cover their essential bills and basic living costs and to buy an annuity that would pay out this amount each month. That way, you have a guaranteed, regular amount coming in, that you will know will cover those costs. Then the money you have remaining in your pension, can be used to cover additional living costs and hopefully some luxuries too. If the pension was to run out, you would still have the safety blanket of the annuity payment coming in every month until you die.



How can Lakeside help clients plan for their retirement and find tailored solutions?

A: When considering retirement plans for our clients, we look at their individual circumstances and what they want to achieve to get them the best value on their money and meet their wishes overall. We'll also look to balance how much money the client needs and wants for their retirement with what is a reasonable amount to take from the pension by providing income security and budgeting funds accordingly.

For further information on retirement options, please contact: *admin@lakesidefs.co.uk*

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