PLANNING FOR LIFE AFTER WORK

Alliance Trust Savings

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Laws and tax rules may change in the future without notice. The information here is our understanding in September 2018.

INVESTING IN YOUR FUTURE

The end of your working life is just the beginning of a new life in retirement. With many people living for 20, 30 or more years after they make the change, there's plenty to plan ahead for.

In financial terms there's a great deal of flexibility these days for those approaching, at or in retirement. The nature of retirement is evolving too. It's more common now to wind a career down gradually over a number of years, or to switch to self-employment for a time.

This can bring potential opportunity. The flip side, though, can be complexity. It's more important than ever to have a strategy in place for getting the most from your savings and investments, while also making sure they last for as long as you need them to.

Investing in forward planning for your future and that of your loved ones can make a positive difference to your quality of life after work.

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WHERE DO I START?

It can take a lifetime of diligent saving and investing to build up a decent retirement pot. As your working life ends or winds down you can begin to enjoy the fruits of those labours. But it's also a time to maximise the benefits of your efforts, by forming a plan for your life after work.

From accessing your savings in the most efficient way and putting the most effective investment plans in place, to working out the best way to get an income and ensuring your loved ones are looked after, there's plenty to think about. Over the next few pages we'll cover the key things you need to know to secure the retirement that you want and deserve.

This includes a wide range of considerations, from taking stock of where you are now and working out what kind of income you'll need in retirement to providing for your family and getting the legal paperwork in place. We'll also look at the challenges faced by those taking a phased approach to retirement and the growing number of people who will want to continue investing long after their working lives have wound down.

Your future is in your hands – and it starts with taking control and having a clear view of your priorities and goals.

TAKING STOCK

This is the first step and involves working out what you have in place now and how much those pensions, savings and investments are likely to give you in retirement. Ideally you should do this several years before retirement and then revisit annually as you approach it.

What you can do now:

- Check your state pension entitlement. You can obtain a forecast either online at www.gov.uk/check-state-pension or by calling the Pension Service's Future Pension Centre helpline on 0800 731 0175.
- Track down any lost pensions you might have. The government's Pension Tracing Service website can help you find any pensions you've paid into by giving you up-to-date contact details of employer schemes (www.gov.uk/find-pension-contact-details).
- Contact the providers of any workplace or private pension plans you have for a current projection of what they are likely to be worth when you reach retirement.
- If you have non-pension savings and investments, such as ISAs, build an idea of how much they are worth and the value they could reach by time you retire.

UNDERSTANDING THE RETIREMENT YOU WANT AND WHAT IT WILL COST

When you know what you have in place, what you can expect and what you might be entitled to, you can really start thinking about the kind of retirement you would like, how much it's likely to cost and the plans that you need to put in place.

Things to consider:

- Your current income and outgoings. An honest appraisal of your current spending will help you work out what you might spend in future.
- Some costs will fall or disappear – such as commuting expenses, mortgage payments and funding children through further education – but others might increase (you may have more travel plans, for instance). If you're spending the same or perhaps more in retirement as you were beforehand, you're unlikely to want your income to fall. Remember that you may also need to factor in care costs as you go deeper into retirement.
- Do you have debts to pay off? If you can, begin clearing some of your unsecured debts (such as loans and credit cards) well ahead of your planned retirement. Those with the highest interest rates should go first.
- How will your income change? If you're not planning to work into retirement, you may be reliant on the income from pensions, investments, other assets (rental income from example), or from a spouse or partner. Think about the effect this will have on your spending plans, both on a day-to-day basis and over the year.
- What do you want to do in retirement? You may plan to launch into a new area of work, enjoy some well-earned holidays or renovate your home, for instance. Or it could be about having the means to continue the lifestyle you already have, whether it's regular meals out, trips to the theatre, weekends away or simply not having to worry too much about your grocery bills. Whatever it is, try to build an idea of what your wish-list looks like and how you can balance this with your income needs in retirement.
- What about the much longer term? Many of us are likely to live for many years after we've stopped working, so it's also worth considering how much you might need to put aside to meet any care home or other assisted living costs in future. This isn't just about peace of mind for you. If you have children, some forward planning in this area could also help alleviate a potentially major burden on them.

Being clear on all of this will help you work out the difference between what you have and what you need. Then you can look more closely at the income options you have available to you, and how you might go about boosting them should you need to.

Getting on track

Our interactive tools can help you work out how much you need to invest to meet your goals and what you might expect to get back from those investments in future. You can find them at **alliancetrustsavings.co.uk/investing-hub/tools/**.

BOOSTING YOUR INCOME IN RETIREMENT

There are a few ways you could look to do this, depending on what you expect to be using as your main sources of income in retirement. These include:

1. Depending on your State Pension forecast, topping up your State Pension by making voluntary National Insurance Contributions (NICs). You need 35 years of NICs to qualify for the full amount. Details of how to go about topping up are at www.gov.uk/volutary-national-insurance-contributions.

2. Paying extra contributions into your workplace pension scheme, if your employer allows this. If you're lucky enough to receive an annual bonus, for example, it's worth checking if your employer offers salary sacrifice (sometimes known as salary exchange) on it. This is where you technically give up some or all of your salary in exchange for a contribution to your pension. Depending on the size of your bonus the tax and NIC due on it could potentially be reduced by salary exchange, while boosting your pension pot.

3. Investing more through other routes, in hopes of building up a bigger pot to draw from. Private pensions and Stocks & Shares ISAs are two popular ways to do this.

Other than the State Pension and any workplace final salary (defined benefit) pension you may be entitled to, the retirement income you can achieve will largely depend on how much you've managed to build up through saving and investing over the years and the income options you choose. You may also need to stay invested during retirement to support your income plans.

Accessing your pension savings

This guide doesn't go into your retirement income options from a pension pot, which is a whole different subject. You can find out more about these in our separate guide *Accessing Your Pension Savings*.

BOOSTING YOUR INCOME IN RETIREMENT (continued)

Investing to make the most of your money for and in retirement can be quite complex, given the need to think about factors such as market volatility, inflation, and rising life expectancy. So professional advice can be especially valuable here.

Here are four key pointers that will help stand you in good stead when investing for and in retirement, whether you do take advice or decide to manage your own affairs:

Stay diversified

Some investment rules of thumb apply just as much in retirement as before it. The art of diversification – managing investment risks by spreading your money across different asset classes and investment types – is one of them, and perhaps the most important.

Be particularly careful in the early years of retirement

If you're staying invested, positive returns at this point can boost the amount of income you're able to take, but poor performance tends to have the opposite effect. One option is to keep some of your pension pot in cash in the first part of retirement, to protect it from investment volatility.

Keep an eye on it

Reviewing your investments regularly is as important in retirement as it is when saving for it. Do this at least once a year to check that your investments are doing what you expected them to do and are still aligned with your objectives and risk appetite. This should be simpler to do if all your pensions and investments are in one place, such as an investment platform like Alliance Trust Savings, where they can be easily monitored and managed. Regular reviews are also part of the service offered by many financial advisers.

Understand how much risk you're willing to take

You may well feel more risk averse in retirement than you were previously, given the need to make your pot last. The mix of investments you use will depend largely on how much risk you are willing to take. Risk profiling tools and other calculators are available that can help you work out your risk appetite, and this is another area where a professional adviser can be especially useful.

Be realistic

The more income you take from your pot, the less you have left over to benefit from any future investment returns, and the greater the risk of emptying it prematurely. Good investment returns early in retirement can bolster your pot, but taking money out when investment returns are falling can have the opposite effect.

WORKING INTO RETIREMENT

The fact we can all expect to live longer, combined with the flexibility we can have when it comes to accessing pension pots, are among a number of reasons why more and more people are taking a different route to stopping work at a set retirement age.

Some carry on with their job for as long as they can, perhaps because they enjoy it, don't like the idea of not being busy or can't afford to give up the income entirely. Others choose to wind down gradually – often well ahead of their State Pension Age – by reducing their hours over a period of months or years, perhaps going part-time or taking a back seat but retaining an interest. Others take the opportunity to embark on new enterprises as they phase into retirement, take on non-executive roles or find part-time work in a different area.

If you're going to continue working, a key thing to consider is whether your earnings will be sufficient on their own to provide the income you need and cover your main expenses.

If yes, there's the option of leaving your retirement pot invested and giving it a chance to continue growing. If no, you could consider topping up your income by accessing a workplace or private pension, taking your State Pension or using any other savings and investments you might have, such as ISAs.

Before making any decisions, you may need to check the rules around any workplace pensions you have. For instance, if it's a final salary (Defined Benefit) scheme, there is likely to be a certain point – often your State Pension Age – at which you have to start claiming it.

One of the advantages to working past your State Pension Age is the ability to defer taking the State Pension. There's an incentive to do this in the form of a higher rate of State Pension when you do begin claiming it. Assuming you haven't reached State Pension Age already, the extra pension you'll get for deferring when you do is almost 5.8% for each year that you defer (as the State Pension rises by the equivalent of 1% for every 9 weeks deferred).

There are many complex rules in this area that can affect your ability to keep saving toward your retirement for example, and the tax breaks potentially available when you do. A financial adviser can help you to navigate these rules and maximise the benefits of continuing to work.

PASSING YOUR MONEY AND ASSETS ON

One of the financial priorities for many people in later life is being able to pass at least some of their money and assets to their loved ones when they die.

Most people have a good idea of who they want to leave their money and assets to. However, it's worth clarifying who should get what, and if there's anyone or anything (such as a charity) that you would particularly like to provide for once you've gone. It can be an emotive subject and a difficult one to discuss, but to avoid any surprises and potential conflict after you are gone it's worth talking about your plans with your family and any others to whom they may be relevant.

Having an up-to-date Will is important for putting your plans into action. Setting up a Power of Attorney will also give you some control over how your finances are managed in the event that you become incapacitated in later life and unable to make your own decisions.

Any pension pots you have built up can also play an important role in passing money on. For example, final salary schemes may pay a pension to your surviving spouse or civil partner when you die. It's worth checking the rules around this for any final salary scheme you belong to.

Any money left invested in Defined Contribution pension pots when you die can be passed on as a lump sum or as income to beneficiaries. In either case, other than in certain specific circumstances, the money is only taxable in the hands of your beneficiaries if you die after age 75. At this point, it becomes subject to income tax at your beneficiary's marginal rate.

This means it can be particularly tax efficient to think about passing money in these types of pots to those who would otherwise have a low rate of tax, such as children, rather than those already paying tax at either 40% or 45%.

Beneficiaries don't usually pay Inheritance Tax on money from a pension pot because payment is usually discretionary. The pension provider chooses whether to pay it to them based on what you told them in your *Expression of Wish Form*.

Filling in an *Expression of Wish Form* for each pension you have and keeping them up-to-date for any major changes in your life – like marriage, the birth of a child or a divorce – tells the trustees who you ideally want your pension to go to after you die. This can be one person or several people, family or friends, charities and other institutions. Your pension provider will be able to provide you with the relevant form.

PASSING YOUR MONEY AND ASSETS ON (continued)

Inheritance Tax – what you need to know

Passing on their wealth will for some people involve navigating the rules around Inheritance Tax. This is often a complex area in which – if you think you may be affected – it's important to plan ahead. Professional advice can be invaluable.

Inheritance Tax is charged at 40% on the amount of a person's estate that is above the nil rate band. This band is currently £325,000. There's also the Family Home Allowance, an additional nil rate band currently set at £125,000 and due to rise to £175,000 by April 2020, after which it will increase annually in line with inflation.

Married couples and civil partners can inherit each other's unused nil rate bands. From April 2020 that means they could potentially pass assets worth up to £1m (including the family home) to their children and/or grandchildren when they die without having to pay Inheritance Tax.

You may think £1 million (or £500,000 for those who don't have a spouse of civil partner to share their nil rate bands) sounds like a lot, but in some areas of the country particularly, house price inflation could drag the value of your estate into Inheritance Tax territory more easily than you think. The tax itself is typically paid from the estate or from the proceeds of the sale of the assets within the estate.

If you think you might be in the tax zone, there are various ways of mitigating Inheritance Tax. Three of the main ones are outlined below.

Gifting

You can pass up to £3,000 a year in assets or cash (or a combination of the two) to a beneficiary without it being liable to Inheritance Tax. This allowance can be carried forward from the previous tax year if it wasn't used in that period, doubling the gift exemption to £6,000. Small gifts up to £250 in a tax year to any number of people are entirely free of Inheritance Tax, provided they haven't already benefited from the annual exemption. Gifts between spouses (including civil partners) are also exempt from Inheritance Tax, while parents and grandparents can make one-off gifts on the marriage of children or grandchildren (up to £5,000 and £2,500 respectively).

Trusts

These are designed to allow children or other family members access to funds when they reach a certain age. The assets placed inside a trust are kept outside of your estate for Inheritance Tax purposes. But there's a range of different trusts with their own tax rules, so this is an area where professional advice is especially recommended.

Insurance

Writing life insurance policies in trust can keep the proceeds outside of your estate, so they can potentially be used by your beneficiaries to cover any Inheritance Tax bill they might face.

GETTING A HELPING HAND

Planning your life after work allows you to start thinking about the ways in which you can benefit from your retirement saving efforts. But there's a lot to think about too, as we've seen, with a few potentially complex decisions along the way.

There's a vast amount of support and information available these days, including free guidance and information from Pension Wise (the impartial government service), The Pensions Advisory Service and the Money Advice Service. These three government backed organisations are due to merge into a single guidance body during 2018.

Paying for professional advice may be one of the best investments you can make if you really want to get the best out of life after work and still pass wealth to the next generation.

Professional financial planners and advisers can help you to understand what you want to get out of later life, navigating the more complex decisions you will need to make and then recommending a plan of action for reaching your goals.

For example, they can help with finding suitable investment options for you, based on your circumstances, objectives, tax status and appetite for risk. Most will also help you keep your plan of action under regular review, making adjustments as needed over the years to keep things on track.

YOUR PLANNING CHECKLIST

Work out how much you have now. The starting point is to determine how much your current pension, savings and investments are likely to give you in retirement.

What kind of retirement do you want? Think about your plans for retirement, what they might cost and how your income will change.

Work out the difference between what you have and what you need. Consider how you can bolster your post-work income.

Make sure your investment plans are positioned to provide what you need. Are you sufficiently diversified? Do your investment plans reflect your objectives and your risk appetite?

Is later life an opportunity for a role change or a new career? More people are continuing to work, rather than stopping at a set age, and there can be advantages to doing so. If this is for you, make sure you don't miss out on any of those potential benefits.

Determine what you want to leave behind and to whom. Do you have dependents who will expect or need support, or any person or cause you would particularly like to provide for? Talk to your family about your plans, so everyone knows what to expect.

Get the legal paperwork in place. Having an update to date Will, organising a Power of Attorney and completing an Expression of Wish forms for all of your pension pots will all help ensure your wishes are adhered to.

Consider professional advice. If you really want to get the best out of life after work and still pass wealth to the next generation, it could be the best investment you ever make.

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ATS GEN G 0031 (9841)