FinancialLandscape

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Getting finances in order

Financial worries don't just affect our waking hours

Financial fears are creeping into sleeping hours, as new research shows money worries are a top cause of nightmares[1]. Our dreams are how we naturally make sense of all the information and experiences that we unconsciously absorb every day.

They are not just some random occurrence but actually a deliberate process, enabling us to draw on our past experiences and then use them to make the most of future possibilities. Dreams provide us with meaningful insights into specific challenges that we may be encountering in our day-to-day lives.

POWER AND CONFIDENCE

Two in five (41%) people said money makes them anxious, which can have a big impact on the subconscious. One of the most common types of dream is about teeth falling out (18%). Teeth symbolise power and confidence, with financial concerns leading to nightmares about you losing them as you're not in control.

Financial worries don't just affect our waking hours: as the research shows, they are creeping into our subconscious and giving us nightmares. Keeping on top of finances makes us feel in control and eases money worries. Setting a budget can help towards getting our finances in order.

REALITY OF DREAMS

The research highlights the link between our dreams and what we get up to when we're awake; nine in ten people think real life issues (88%) and their emotions (91%) affect the type of dreams we have. People in the UK take it one step further, with three in ten (31%) basing real-life decisions on dreams or nightmares.

Nightmares plague millions of people, with nearly nine in ten (85%) of us suffering from them. A quarter (23%) suffer from nightmares once a week or more frequently, with falling (40%) and violence (29%) being the more common types of nightmare.

GENDER DIVIDE

The data also shows a gap between men and women when it comes to dreams, with more than half (56%) of men having based decisions or changed something in their life after a dream in comparison to just a quarter (27%) of women. Two in five men (44%) suffer from nightmares once a week or more frequently in comparison to one in six women (17%). Women (37%) are also more private about sharing their nightmares with other people in comparison to men (27%). ■

REWARDING PREPARATION

Whatever you want to do when you retire, the better prepared you are, the more rewarding it will be. Need to speak to us? You can call us to arrange an appointment or ask a question. We look forward to hearing from you.

[1] The research was carried out by RWB, on behalf of Royal London, between 6 and 9 July 2018 amongst 1,055 UK adults (aged 18+) and is representative of the UK population. The survey was carried out online and all research conducted adheres to the MRS Code of Conduct (2014).

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Financial planning for people and business.

Seize the day – today

Make your vision a reality

Exactly how much you'll need for a comfortable retirement will depend largely on your cost of living and lifestyle choices. For many people, retirement is about sun-soaked holidays, leisurely rounds of golf and that boat they've always coveted.

But retirement is not what it used to be, with more of us working longer to build up our decided retirement income. So it's essential to reassess how much you're saving into your pension if you want to make your own vision a reality. For many people, retirement may seem a long way off, and saving into a pension isn't always a top priority.

But the simple truth is the earlier you start, the easier it will be. If you have less time to invest, then the amount of money that you have to save is likely to be higher to make sure your retirement planning is on track. We've provided some ideas to help improve and boost your savings for a more comfortable retirement.

STARTING POINT FOR YOUR RETIREMENT PLAN

Working out what pensions you already have should be a starting point for your retirement plan. Locate the latest statements you have for all your pensions, including from previous employers and personal pensions. You can also get a forecast of your state pension via www.gov.uk/check-state-pension.

You should be sent an annual statement for each of your pension schemes, including any employer-based arrangements and personal pension plans, even if you are no longer contributing to them. If you don't have up-to-date statements, you can ask for these to be sent to you. You may also be able to access pension values online via your pension company/scheme website.

VALUING YOUR PENSION

As well as telling you what your pension is worth now, annual statements will also detail what your pension might be worth at retirement.

These forecasts (don't think of them as anything more than rough estimates) will be based on a range of assumptions including investment growth and inflation between now and retirement.
It is important to consider the effect of inflation because over time, this can significantly reduce the spending power of your pension.

COST OF YOUR LIFESTYLE

Whether your pension will be enough to pay for the retirement you want will depend on the savings pot you amass, as well as the cost of your lifestyle when you retire.

Working out what income you will need in retirement may not be straightforward, however. Your life in retirement will be different from your working life; some costs may go up, while others will reduce.

You may spend more on holidays and leisure (especially in the earlier years of retirement), but your housing costs may be lower. While you may no longer have the costs of bringing up children, you may still want to help them financially, and there could be grandchildren to think of. In your later retirement years, you could have care costs. The traditional rule of thumb has been a target pension income of two thirds of your salary.

KNOW YOUR MAGIC NUMBER

Having accounted for the State Pension and any defined benefit scheme pension, you need to calculate how much money you will need to save to produce the remainder of your target income. This can depend on factors such as the age you want to retire, income yields available on investments, how much prices rise during your retirement and how long you live for – and how much you have put aside already.

If you contribute through a workplace pension, your employer will also contribute on your behalf, and you could qualify for National Insurance savings using a so-called 'salary sacrifice' arrangement. Employer top-ups in particular can significantly increase the value of your pension contributions, so it is worth checking that you are making the most of any workplace generosity offered.

It's also important to be aware that there is a limit on the size of overall pension savings you can accumulate – currently £1.03 million (for 2018/19, and rising annually in line with inflation) – without facing a hefty tax charge of up to 55% on the excess.

This Lifetime Allowance (LTA) for pensions could also be a challenge for people whose retirement savings are currently less than £1 million, as well as individuals with sizeable final salary pension entitlements. Investment growth and ongoing contributions could lead to your breaching the LTA in future.

ALTERNATIVE WEALTH OPPORTUNITIES

Pensions are not the only way to save for retirement. Tax-efficient Individual Savings Accounts (ISAs) are a popular savings option, while many people see property – particularly in the form of buy-to-let – as their retirement nest egg.

TIMING IS EVERYTHING

Pension freedoms have now given retirees considerable flexibility over how they draw an income or withdraw lump sums from their accumulated retirement savings. Pension savings can be accessed from age 55. You no longer have to purchase an annuity – an income stream for life – and you can choose how much income you take and when to take it.

You could take your whole pension fund as cash in one go – with 25% being tax-free and the rest taxable. Other options include taking a lump sum now, with further withdrawals when you want, or an ongoing regular income (via so-called drawdown or an annuity). However,

the danger of these pension freedoms is that people withdraw too much money too quickly and risk running out of money before they die.

It is also possible to pass on your pension savings completely free of tax. So, as well as being a tax-efficient way to invest, pensions can be a very useful way to reduce Inheritance Tax bills.

SEIZE THE DAY – TODAY

Too many people fail to seriously consider how they are going to manage financially in retirement until they are about to retire. It is only then that they discover that their pension is not on target to meet their retirement aspirations.

When you are living a busy life, it can be difficult to find time to consider your long-term plans. Your mortgage or your children's education might be more immediate financial priorities; your career or running your business can make more pressing demands on your time. However, getting your pension on track as soon as possible could save you and your family a financial headache later on.

Another reason to take advantage of existing pension tax breaks is that there is no guarantee they will be there in the future. The Government has already cut the annual allowance to £40,000 – and as little as £10,000 for very high earners – while reducing the lifetime allowance from its £1.8 million peak in 2011/12. Higher-rate Income Tax relief on contributions could be next, so it makes sense to make the most of what's on offer now. ■

REACHING YOUR WEALTH GOALS

Saving for retirement is essential if you want fully to enjoy your later years, but how do you assess how much income you will need? Plus, how much do you need to save to reach your goals? If you would like to review where you are financially, please contact us – we look forward to hearing from you.

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

YOUR HOME OR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

Seeking a higher retirement income

Retirement needn't be an all-or-nothing decision

The onwards march of 'pretirement' – where people scale back on work or slow their retirement plans down rather than giving up entirely – is continuing, with half (50%) of those retiring this year considering working past State Pension age.

This is the sixth consecutive year[1] in which half of people retiring would be happy to keep working if it meant guaranteeing a higher retirement income. More than a quarter (26%) of those planning to delay their retirement would like to reduce their hours and go part-time with their current employer, while one in seven (14%) would like to continue full-time in their current role. An entrepreneurial fifth (19%) would try to earn a living from a hobby or start their own business.

FACTOR IN THE COST OF DAY-TO-DAY LIVING

Around one in twelve (8%) of those scheduled to retire in 2018 have postponed their plans because they cannot afford to retire. Nearly half (47%) of those who cannot afford to retire put this down to the cost of day-to-day living, which means their retirement income won't be sufficient.

The decision to put off retirement isn't always a financial one. Over half (54%) who are already or are considering working past their State Pension age say it is to keep their mind and body active and healthy. Over two fifths (43%) admit they simply enjoy working, while just over a quarter (26%) don't like the idea of being at home all the time.

WIND DOWN FROM WORKING LIFE GRADUALLY

The shift to 'pretirement' in recent years shows that many people reaching State Pension age aren't ready to stop working. Reducing hours, earning money from a hobby or changing jobs are all ways to wind down from working life gradually and, for many, are important to avoid boredom and maintain an active mind and body.

However, not everyone has the option of extending their retirement date if they need to carry on working for financial reasons, and others may be forced to stop working for health reasons. Saving as much as possible as early possible in their career is the best way for people to ensure they are financially well prepared for a retirement that starts when they wish (or need) it to.

MORE CHOICES THAN PREVIOUS GENERATIONS

Because people are increasingly treating retirement as a gradual process, regular discussions about their personal situation can help ensure that their retirement finances are sufficient to allow them as many options as possible.

Everybody wants to retire as comfortably as possible. But retirement needn't be an all-or-nothing decision – it's not a case of either you're still working full-time or you're completely retired. You've a lot more choice now than previous generations enjoyed. ■

HOW WE CAN HELP YOU?

There are important decisions to make in preparation for your future and at retirement. New rules that came into force in April 2015 offer greater freedom on what you can do with your pension pot. It is important to make sure you understand all your options so that you make the right decision. We can help you at every step – please contact us.

Source data:

[1] Research Plus conducted an independent online survey for Prudential between 29 November and 11 December 2017 among 9,896 non-retired UK adults aged 45+, including 1,000 planning to retire in 2018.