Cost of Living

Why a plan is crucial when you start to spend your wealth in your retirement

Making your retirement savings last a lifetime

To help ensure a sustainable income, you first need to understand how much you'll need to live on.

- **On the go** – during the early stages of retirement, there's a strong likelihood that you'll spend more on travel, hobbies, or home improvements
- **Slowing down** – while you may be slightly less active, you're still busy with hobbies, but you may be less inclined to long-haul travel
- **Coming to a stop** – in later life, your mobility may be more limited, which risks increasing costs due to needing care

Structuring a sustainable income

The most efficient retirement income strategy should be planned well in advance and ensure that:

- Allowances and exemptions are used to their full capacity
- Married couples plan together so income and assets are allocated effectively

> **"You first need to understand how much you'll need to live on."**

When it comes to withdrawing funds, you may want to consider using cash first, followed by taxable investments, ISAs, and finally pensions.

Tax efficiency is key

While tax-efficient savings helps enhance your wealth for retiring in style, tax-efficient withdrawals helps preserve your capital and increases the chance of having money to leave to your loved ones.

So, maximise all your tax allowances including:
- Income Tax allowances
- The Dividend allowance
- 5% return of capital allowance from investment bonds
- Personal savings allowance
- ISA allowance
- Capital Gains Tax allowance

By planning together, couples can use these allowances to maximise the amount of tax-free income available.

Consider spending excess cash first

Ideally, you should hold an emergency fund to cover around six months of regular expenditure. If you have more cash available, consider using this before withdrawing from pensions. Using excess cash allows you to leave funds invested, which may provide enough time for funds to recover any lost value.

Think twice before drawing on your pension

While you may consider your pension as the foundation of your retirement plan, if you have other income that uses your tax allowances, it may be prudent to defer drawing on your pension. Since pension funds benefit from tax-free growth, interest, and dividends, leaving your pension invested is especially useful for maintaining capital value. Plus, pension funds are usually not subject to IHT.

Leaving your pension fund intact while drawing on other investments may help to reduce your IHT liability.

Enjoy flexibility from ISA savings

ISAs are considerably more flexible than pensions. Growth, interest, and dividends are all free of tax and you can withdraw money tax-free without restriction. As for IHT, ISAs can be passed between spouses on death, which preserves the tax-efficient treatment.

Useful in reducing tax in retirement, you can use your ISA to:
- Fund large, one-off purchases
- Top up your income – especially useful if your pension exceeds your tax-free allowance
- Make your portfolio more efficient over time, by gradually moving taxable funds across

Take a savvy approach to investment accounts

A basic and flexible wrapper, investment accounts can hold funds, shares and investment trusts. Interest and dividends are taxable at your marginal rate and selling assets can incur Capital Gains Tax (CGT) if your profit exceeds your annual exemption (£6,000 for 2023/2024 or, for a couple, £12,000).

The following strategies can help reduce tax:
- Move your taxable investment accounts into ISAs
- Use your annual CGT exemption to avoid large gains rolling up
- Structure your investments depending on the type of income they generate

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Past performance is not a guide to future performance and should not be relied upon.

An ISA is a medium to long-term investment, which aims to increase the value of the money you invest for growth or income or both.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen. Tax concessions are not guaranteed and may change in the future. Tax free means the investor pays no tax.

Get in touch

If you'd like help to create a financial plan to structure a tax-efficient income in retirement, we can help. **Please get in touch to arrange a time to chat.**

PART OF THE Openwork PARTNERSHIP

Approved by The Openwork Partnership on 04.10.2023