How much will I need to retire?

Your guide to saving for life after work

octopuswealth

"How much will I need to retire?"

It's a tough question.
But this short guide should help.

Putting a number on the unknown...

"How much will I need to retire?" It's the big question that almost everyone will have thought about at some stage.

And it's a tricky one at that — as personal to you as your retirement itself.

But if you've found yourself mulling over this question a lot, or you aren't sure if you're on track to retire when and how you'd like, this guide should help.

We'll be looking at the best way to save for retirement, including identifying your retirement goals, exploring your predicted expenditure and working out how much you might need when you finally hang up your boots.

Hopefully, by the time you've finished reading it, you'll feel more confident about your retirement planning and how to stay on track until you get there.

Remember, this guide is just that: a guide, not advice. There's no replica for high quality, tailored financial advice — so if you still have some burning questions at the end, reach out and speak to an expert.

At a glance

Retirement: the dream versus reality

Maybe it's spending more time with your family, jetting off to a sunny second home somewhere, buying that impractical car you've had your eye on, or taking advantage of a free schedule to fit in time for those hobbies you might have neglected.

Whatever it is, everyone has their own idea of what retirement looks like. It's as personal as it gets. And after decades of hard work, why shouldn't you get to live life to the full?

But while it's easy to dream about the lifestyle we might want, working out how to plan and save for it (and how much you might need) can be much harder.

> Dreaming about your retirement lifestyle is the easy part. Working out how to make it a reality is much harder.

It's the classic "I'll get round to it someday" approach. As many of us will know, however, 'someday' can all too easily become 'next year' or 'never' — and before you know it, it's too late. That goal of retiring at 55 could quickly become 60, then 65, then 68...

Building an attractive nest egg for life after work all starts with the financial decisions you make today. And when it comes to retirement, it's never too early to start saving. But it could be too late to turn your retirement dream into your retirement reality.

How much will I need to retire?

The reality of how much money you actually need during retirement often takes people by surprise. (Spoiler: it's a lot more than you think.)

43% of the public don't know how much they'll need during retirement, while over half believe that £100,000 is enough to retire comfortably. According to recent reports, however, the average recommended amount is actually £260,000–£445,000.[1]

And remember — "comfortable" is entirely subjective. The amount you'll actually need will depend on how much you expect to spend during your retirement, and for how long.

Unfortunately, there's no tried and tested equation that's going to tell you exactly how much should you be saving. But there are some ways to give you a good idea.

It all starts with working out how much you think you'l be spending each year to fund the lifestyle you want.

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>
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1 www.finder.com/uk/pension-statistics

What income will I need?

This is the crux. Before you can confidently put an estimate on how big your pension pot will need to be when you retire, you first need to try and identify how much you'll be spending.

Do you want to put your children through university or help them get on the property ladder? Will you still have part of a mortgage to pay off on a property? Do you or a loved one need support paying for long-term care? Or do you want to enjoy what you've earned and splash out a little?

It's only by thinking about the big events in you and your family's future that you can begin to get a feel for that elusive magic number.

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To put things into perspective, consider the following examples:

Education costs

Paying for your children or grandchildren's education is a priority for some, but it's costly.

University fees in England are now the highest in the world, with a UK average of £9,250 per year.[2]

Private schools aren't cheap either — upwards of £17,000 per year is typically the norm.[3]

Healthcare

Although it's something none of us like to think about, our health will inevitably decline as we get older. And it comes with a price.

On average, residential care costs £617 per week in the UK (£721 in London), while for nursing care you're looking at a basic weekly rate of £844 (£922 in London).[4]

You'll be required to pay the bulk of the costs if you have the means. In some cases, this can mean losing your family home to foot the bill.

Though not an enjoyable conversation, planning and saving for medical care in later life could save you and your family a lot of heartache.

2 www.topuniversities.com/student-info/student-finance/how-much-does-it-cost-study-uk
3 www.theguardian.com/education/2018/apr/27/average-private-school-fees-rise-above-17000-a-year-for-first-time
4 www.payingforcare.org/how-much-does-care-cost/

Spending

Your spending pattern will change over the course of your retirement. The first decade you're likely to go on all those exotic holidays, treat your tastebuds to the finest restaurants, splurge on a few luxuries and have a more relaxed attitude to your spending. And why not — you've earned it.

If you're the kind of person that likes to change cars frequently, take multiple holidays per year and has a penchant for high-end fashion, you'll need a lot in the tank to be able to fund it continuously.

And of course, you'll need more if you're still paying off your mortgage, too.

Putting it all together

So what does this all mean for the income you're likely to need in retirement?

Well, while it's worth putting some thought into the sorts of things that'll drive your spend in retirement, the Money Advice Service has put together some useful rule of thumb advice.

It suggests you'll need at least half of your current income in retirement to maintain your current lifestyle, and more, if your current earnings are lower)...

Current salary	Percentage you'll need in retirement [5]
Up to £12,199	80%
£12,200 to £22,399	70%
£22,400 to £31,999	67%
£32,000 to £51,299	60%

5 Table courtesy of Money Advice Service, produced using research from the Department for Work and Pensions

So, how big should my pension pot be?

Once you've got an idea for roughly how much you think you'll need to spend in retirement, you can then start to put some numbers against how big your total pension pot will need to be.

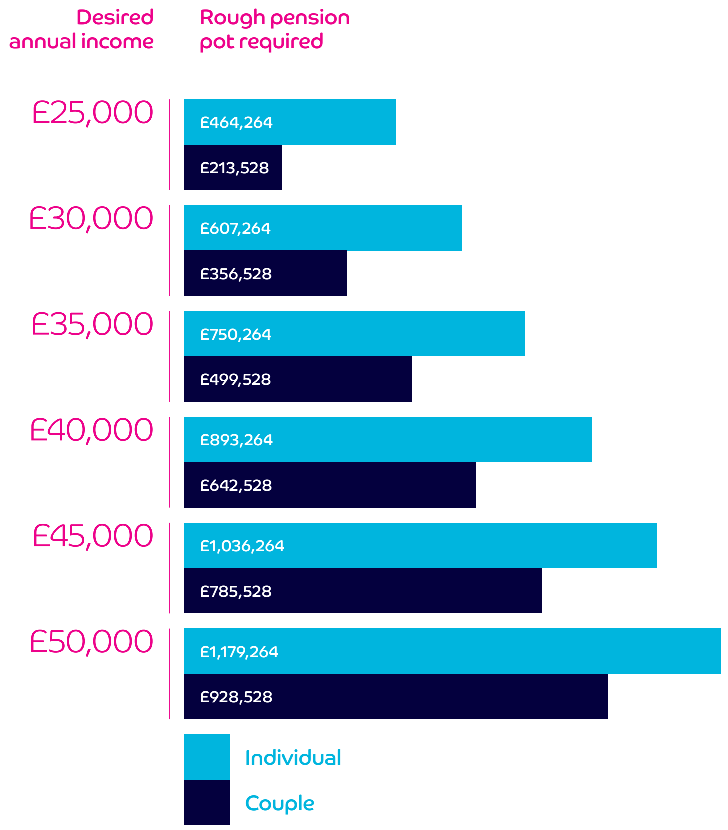
There is a general rule of thumb that you can take up to 3.5% of your total retirement savings every year for up to 30 years before running out of money.

It's known as the 'safe withdrawal rate' set by the Institute and Faculty of Actuaries.[6] It's typically used as a benchmark to advise on:

- How much you should have in your portfolio before you can retire
- How much you can safely take from this as your income each year — **assuming your retirement lasts for 30 years** (which is a big assumption, with important consequences, as we'll soon see)

Looking at the graph on this page, if you're a couple who expect to spend £50,000 each year (combined) over the course of a 30-year retirement, you'd need an overall portfolio worth £928,528 when you retire. This calculation assumes that you're both claiming the full state pension of £8,767 each year throughout your 30-year retirement.

This, of course, is a guide and not an exact science. Economic conditions might fluctuate over the course of your retirement so the return on your investments may go down as well as up. Your circumstances and spending habits will also be unique, and so everybody's individual scenarios will be different.



6 www.actuaries.org.uk/news-and-insights/public-affairs-and-policy/ageing-population/defined-contribution-pensions

Another point to think about is that this rule of thumb assumes your retirement will last for around 30 years.

But we're all living much longer and life expectancy is continuing to increase. What if you spend 40 or 45 years in retirement? Running out of money after 30 years isn't a chance you want to take.

If you think your retirement could last 40 years or more (which, if you're retiring early, could well be on the cards), your safe withdrawal rate will get proportionately smaller.

Take a look at the chart on this page, which compares two individuals retiring 10 years apart.

For the 65 year old we've assumed a 30-year retirement with a 3.5% safe withdrawal rate per year, and the full state pension (£8,767) for 30 years.

For the 55 year old we've assumed a 40-year retirement with a 3% safe withdrawal rate per year, and the full state pension (£8,767) for 30 years, kicking in when (and only when) they're 65.

Your retirement could last 40 or 45 years. Running out of money after 30 years isn't a chance you want to take.

How can I save for retirement?

One of the best ways to save for your retirement is, unsurprisingly, through your pension.

Pensions come with attractive tax relief. If you're a basic rate taxpayer, your tax relief will be 20%, for higher-rate taxpayers it's 40% and for top-rate taxpayers, it's 45%.

In other words, a monthly pension contribution of £1,000 would cost an additional rate taxpayer only £550 in real terms.

Tax breaks on pensions are there as an incentive to save. The government wants you to take advantage of them and not to rely on the state pension alone — which, at a mere £8,767.20 per year in 2019/20, isn't going to get you very far.

For this reason, your pension will probably always be your first port of call when it comes to retirement planning.

But if you've reached your annual or lifetime allowance, what other options are there?

When you consider that the timing of your retirement might not be left to choice, early planning and saving become all the more important.

ISAs

Anyone can save up to £20,000 in tax-free cash each year in an ISA account. There are a variety of ISAs available, some offering greater flexibility than others over how and when you access your money.

When it comes to saving for retirement, the Lifetime ISA is geared towards long-term saving such as this, and is available to anyone aged between 18 and 40. Each year, you can contribute up to £4,000 (tax-free) to your account, and the government will top it up with another 25% of what you've put in (e.g. if you pay in £2,000 in one year you'll have £2,500 in savings).

You can make contributions to your Lifetime ISA each year until you're 50 — after this, your savings will still earn interest but you'll no longer benefit from the additional 25% bonus.

To access your savings without paying a 25% charge, you'll have to wait until you turn 60 unless the reason you're doing so is to buy your first home — the Lifetime ISA was introduced in 2017 as an incentive to first-time buyers as well as those saving for retirement.

Venture Capital Trusts

While certainly not for everyone, so-called Venture Capital Trusts (VCTs) have become especially popular over the last decade as a complement to more traditional retirement planning.

Introduced by the Government in 1995, VCTs are listed funds, where the money that's raised from investors is used to support the growth of early-stage companies.

They're intended to channel investments into an exciting, vital, but high risk sector, and so stimulate job creation and economic growth.

Because smaller company investing tends to be risky, investments into VCTs carry a healthy 30% up-front income tax relief (provided they're held for five years or more).

Because they're complex and high risk, they're designed for sophisticated investors only — or only on the recommendation of a financial adviser.

Downsizing

After your kids have flown the nest, you might find that your 5 bedroom family home is getting a little echoey. Downsizing before or during retirement, when done correctly, can be a nice boost to your savings funds, especially if you're finding it more difficult to maintain your property as you get older.

Andrew McMillan
Head of Planning, Octopus Wealth

Remember, retirement isn't always a choice.

We might think of retirement as a later-life milestone — but sometimes, the choice of when we retire is taken out of our hands.

Whether it's due to poor health, a change in family circumstances, or an unexpected redundancy, there are a number of reasons why someone might find themselves hanging up their boots earlier than anticipated.

Inadequate planning for unexpected circumstances can lead to some pretty far-reaching consequences.

After all, trying to support a family or pay off a mortgage can be incredibly difficult if you're relying on the state pension alone.

When you consider that the timing of our retirement might not be left to choice, early planning and saving become all the more important.

It's never too early to plan for retirement. But it can be too late.

Summing it up: your retirement checklist

01
Set up a pension (if you haven't already)

Making regular contributions to a workplace or personal pension scheme is one of the most tax-efficient ways to save for retirement.

02
Make use of ISAs

Any additional cash you have outside of your pension could be put into an ISA as another tax-efficient savings option.

03
Identify what you're saving for

Enjoying a better quality of life, travelling more, helping your kids/grandkids out, paying for medical care, or something else.

04
Map out your predicted expenditure

Will you still be supporting your kids? How is your expenditure going to change during your retirement? What is your target annual income?

05
Calculate how much you might need

Once you've got a feel for how much you might be spending each year during retirement, work out how much that translates to over the course of your retirement. Use the safe withdrawal rate as a guide.

06
Review and track your progress

Remember to regularly reassess your expenditure and savings goals in line with any big life changes or market fluctuations.

Do I need financial advice?

Your retirement should be an enjoyable prospect, not a daunting one. And it can be.

While it might be tempting to bury your head in the sand or take a DIY approach to your finances, monitoring the ever-changing landscape for updates and legislation changes can be a full-time job in itself. So why not let someone else do the hard work for you?

With the right guidance from a skilled financial adviser, you'll be able to put in place a long-term retirement plan that can help put you on track for the later life you want — without you doing the heavy lifting.

Those who had financial advice over a seven year period accumulated 17% more in liquid assets than those with no advice.

And the proof is in the pudding. According to a recent study, those who had financial advice accumulated 17% more in liquid financial assets over a seven year period compared to those with no advice.7

Another study that found the return on investment for financial advice is 4,336% for someone who starts aged 35, and 5,813% if you get going a decade earlier.8

7 www.ftadviser.com/your-industry/2017/07/13/financial-advice-leaves-people-40k-better-off/
8 www.unbiased.co.uk/life/get-smart/cost-of-advice

Introducing Octopus Wealth

We're a team of experienced financial planners ready to help you ask more of life.

As the latest venture from the Octopus Group, we're proud to be part of a family of companies that, for the last two decades, have been investing in the people, ideas and industries that will help to change the world.

We know that retirement is one of the biggest life events that a person will ever go through. And we also think it's too big a moment to leave to chance.

Our team of financial planners can help you navigate the complexities of your pension and saving options, so you can avoid the common pitfalls and plan for the retirement you deserve.

We can also help you address your overall financial fitness, and advise on the most tax efficient investment options to suit your personal situation. It's all in a day's work.

Get in touch today to see how our financial planners can help you make the most of your pension plan.

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Want more info?

Head to the Money Advice Service (moneyadviceservice.org.uk) for more impartial information about planning and saving for retirement, or Gov.uk for more information related to your pension.

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