

‘Phased retirement’

Pre-retirees starting their plans but will rising living costs halt their plans?

Retiring early is a dream for many people and it is achievable for people who have been able to plan, save into a pension over a long period and taken financial advice to help them plan their finances. However, it can become a financial problem if retirement is forced upon people before they have had time to prepare.

It's estimated that to maintain your current lifestyle, you'll need around 60 – 70% of your present monthly income. The reduced outgoings are due to not having a mortgage to pay, reduced commuting spend and, hopefully, your children can now support themselves financially.

LIFESTYLE YOU WANT

But those people retiring early have less time to save into a pension fund and their fund needs to last longer. They potentially will have a reduced retirement income and run a greater risk of running out of money in retirement.

People planning for retirement should think hard about what they want to do when they eventually stop work. It is helpful to have a good idea of the lifestyle you want, how much it will cost and how you are going to pay for it.

RETIREMENT NEST EGG

Retirement might seem a lifetime away for younger people who are concentrating on their careers, buying a home or raising a family but they can take action now to secure their retirement. The simplest option is make sure you join your company pension and save as much as you can. Making additional contributions early in your career can make a huge difference to the size of your retirement nest egg.

Research^[1] has found that 34% of pre-retirees^[2] (those aged 55+ who are still in some form of work) have already started phasing into retirement – equating to 3.3 million^[3] employees. The study reinforces the idea that retirement is no longer a line in the sand.

PERCEPTION OF LATER LIFE

The number of pre-retirees considering a gradual or phased move into full retirement shows how much the perception of later life has changed in

recent years. However people choose to approach retirement, it's important they see it as something that should be actively managed, and not something they already feel they are 'in' or have 'done'.

Almost half (48%) of all employees aged 55+ expect that they will cut down the amount they work rather than completely stopping, with one in seven (14%) planning to wind down over the next year.

PHASED RETIREMENT ROUTE

Many people want to take the phased retirement route by reducing their hours, so they can keep their job but lessen their stress (37%). However, most people have revealed they are making the decision because they simply cannot afford to retire fully (44%).

On average, over half (54%) of all people who are taking a phased approach to retirement are working 15+ hours less every month, consequently earning £9,150 less every year. As a result, many expect to have to adjust their lifestyle (38%), and some even anticipate they could struggle with meeting the cost of household essentials (17%).

POTENTIAL GAP IN SALARY

Despite the intention to slow down at work, the cost of living has had an impact, with one in ten people who had begun to phase into retirement having to increase their work commitments again. In addition, two-fifths (40%) of people who anticipated gradually moving into retirement in the next five years now worry living costs might mean this plan is not possible.

For those wanting to keep their options open while also looking for ways to supplement their income, flexible products such as fixed term annuities can play an important role. They provide a guaranteed income for a set time – in some cases as little as three years, helping to bridge any potential gap in salary. ■

FINDING IT CHALLENGING TO NAVIGATE YOUR RETIREMENT PLANS?

With the increased pressures applied by the cost of living crisis, your money must go further than it ever has done. Ultimately, the key thing is to make sure you are making well-informed decisions about what works best for you. If you would like to discuss your situation, please contact us for more information.

Source data:

[1] Research was carried out online by Opinium Research amongst 4,000 UK adults between 14– 20 October. The results are weighted to nationally representative criteria.

[2] 'Pre-retirees' refers to those aged 55+ who are still in some form of work

[3] On a nat rep survey of 4,000, 248 55+ year-old workers have already taken a phased approach to retirement (248/4,000 *52.890m = 3.3m)

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP AND YOU MAY GET BACK LESS THAN YOU INVESTED.