Clarity Wealth Limited

Guide to Retirement & Financial Freedom

Introduction

We believe that retirement, or "financial freedom" as we prefer to call it, is a time to relax and enjoy the fruits of your labour. However, it can also be a time of financial uncertainty with lots of lifestyle changes and important decisions to make.

This guide will help you on your path for a comfortable retirement by providing information on:

- How much money you need
- Pension payment options
- Income from other savings/investments
- Tax Planning
- How does a financial adviser help you plan for retirement
- How a financial adviser can help you plan for retirement

How much money do you need?

The amount of money you need to save for retirement will depend on many factors, including your lifestyle, your health, and your financial goals. The actual amount that you need to have saved can be complicated and depends on how much you wish to spend and how much you may wish to leave behind. It is unique to each person and family.

The best place to start is to examine your income and expenses and work out how much you spend now and what you would like to spend in retirement. It is important to recognise and appreciate that some costs will be higher in retirement, and some will be less. For example, you may have planned to repay your mortgage at retirement and as such this will represent a reduction in your costs. Conversely, you will have more free time so there may be costs associated with any additional hobbies or activities you plan to start.

It is also likely that your tax position might be different as you may have been paying higher/additional rate tax during work and this could change when you retire , meaning you may not need as much income as you thought.

We have provided a useful table on the next page to help you understand what some of the main costs are to take account of.

Expense	Monthly expense now	Monthly expense in retirement
Mortgage/Rent		
Credit Cards		
Loans		
Finance/Hire Purchase		
Council Tax		
Electricity		
Gas		
Water		
TV Licence		
Broadband/Landline/TV		
Fuel		
Motoring Insurance		
Motoring Tax		
Motoring Maintenance		
Food/Housekeeping		
Clothing		
Holidays		
Savings		
Socialising/Entertainment		
Meals Out/Takeaways		
Dental		
Optician		
Accountant		
Solicitor		
Financial Advice		
Insurance		
	Total	**Total**

Other Expenditure

Other Expenses	Monthly expense now	Monthly expense in retirement
	Total	**Total**

Now that you understand how much you may need each month to live on you need to make decisions regarding how you draw any of the pensions that you have accumulated. Some typical options for drawing income from pensions are listed on the next page.

Life Time Annuity

If you are planning to buy an annuity, then you will be giving up your accumulated pension pot and receiving a fixed income for the rest of your life. This fixed income can include indexation, guarantee periods and spousal/dependent benefits also. The more benefits you add on to the annuity product , the lower the income you initially receive will be, as it will cost the provider of the annuity more money to provide those benefits. Please let it be noted that you should always shop around for the best annuity rate as your existing provider may not be able to offer you the highest market rate.

Drawdown

Another option you have is drawdown where you decide how much income you wish to draw. If you draw more down than the pension is making, then you will be depleting your pension pot. If you wish to spend the money during your lifetime, then this decumulation is not necessarily an issue but if the money runs out whilst you are still alive then you will need to use other funds to help meet these expenses. Conversely if you wanted to ensure funds were available for your spouse or children etc then you would need to ensure that you either only take the profits that the pension makes or that you have a desired amount left at the end of your life. As you can see the choice between an annuity or drawdown is based around risk and flexibility.

Do you want to give up control of the pension and receive a fixed income for life? Or do you want to control the pension but have exposure to investments that will fluctuate yet enable you control over the spending and the subsequent distribution of the pension when you are not around anymore?

It is important to note that not all pensions provide drawdown. Particularly the older pensions that were established before flexible drawdown was available. This may mean that you might have to transfer your pension to take advantage of drawdown but please ensure you seek professional advice before doing this as you could lose valuable benefits that you may have built up in your existing pension.

Fixed term Annuity

Another option is a fixed term annuity that provides you with a guaranteed income for a set term. The length of the term can vary, but it is typically between 1 and 25 years. At the end of the term, you will receive a lump sum of money, which is basically money that has not already been used to provide the annuity. In essence, this is part annuity and part drawdown. However, when you receive said “left over” money you could then still use this to buy another annuity at the applicable rates prevailing at that time.

When you purchase a fixed term annuity, you will choose the amount of income you want to receive each year. The amount of income you receive will depend on your age, health, amount of money you invest, and the current annuity rates.

Fixed term annuities offer a number of advantages, including:

- Guaranteed income: You know exactly how much income you will receive each year, so you can budget accordingly.
- Tax-deferred growth: Your investment grows tax-deferred, which means you do not have to pay taxes on the earnings until you start receiving income.
- Flexibility: You can choose the length of the term to fit your needs.

However, there are also some disadvantages to fixed term annuities, including:

- Low interest rates: If rates are low, you may not receive as much income as you would if you invested your money in other ways.
- Lack of flexibility: Once you purchase a fixed term annuity, you cannot change the amount of income you receive or the length of the term.
- Surrender charges: There may be surrender charges if you cash in your annuity early.

If you are considering a fixed term annuity, it is important to weigh the advantages and disadvantages carefully. You should also talk to a financial adviser to get personalised advice.

However, there are also some disadvantages to fixed term annuities, including:

- Low interest rates: If rates are low, you may not receive as much income as you would if you invested your money in other ways.
- Lack of flexibility: Once you purchase a fixed term annuity, you cannot change the amount of income you receive or the length of the term.
- Surrender charges: There may be surrender charges if you cash in your annuity early.

Once you have considered these factors, you can start to compare different fixed term annuities to find the best one for you.

Options for drawing income from other savings

Cash savings

This comes with a large warning. Cash has never kept pace with inflation over the long term. It is often tempting to think short term and procrastinate over longer term decisions but please be warned that if you leave monies in cash over the long term it is highly unlikely to keep pace with inflation. Therefore, the option of drawing income from cash should be treated as a short-term solution. Having said that it could be appropriate in certain situations for a short term. Please see some useful guidance here.

1 Choose the right account

There are many different types of cash deposit accounts available, so it is important to choose one that is right for your needs. Some factors to consider include the interest rate, the number of withdrawals allowed per month, and any fees associated with the account.

2 Set up a direct deposit

If you have a regular income, such as a wage or rental income, you can set up a direct deposit to your current account. This will automatically deposit your money into your account each month, so you will always have access to it when you need it.

3 Make withdrawals as needed

When you need to withdraw money from your cash deposit account, you can do so in person at a branch, over the phone, or online.

4 Track your spending

It is important to track your spending so that you do not overdraw your account. You can use a budgeting app or spreadsheet to track your income and expenses.

By following these tips, you can easily draw income from your cash deposit accounts and manage your money effectively.

Investment ISA

Investment ISAs are a great option to build up additional investments that can provide long term investment income. They can be streamed into your current account along with pension income to build up your tax free income when you are retired. They are exposed to investment risk so should be viewed as long term investments of at least 5 years.

1 Choose the right investments

When you invest in a stocks and shares ISA, you are choosing to invest in a range of assets, such as shares, bonds, and other investments. The type of investments you choose will affect the amount of income you receive. For example, if you invest in dividend-paying shares, you will receive a regular income in the form of dividends.

2 Consider your investment goals

When you are choosing investments for your stocks and shares ISA, it is important to consider your investment goals. Are you looking for a regular income, an annual income or ad hoc withdrawals? Are you looking to grow your wealth over time or spend it down? Once you know your investment goals, you can choose investments that are most likely to help you achieve them.

3 Rebalance your portfolio regularly

As your investments grow, it is important to rebalance your portfolio regularly. This will help to ensure that your portfolio remains diversified and that you are not too reliant on any one investment.

4 Withdraw income as needed

When you need to withdraw income from your stocks and shares ISA, you can do so in a number of ways. This can be done monthly, quarterly, annually or on an ad hoc basis. Leaving more money in the ISA will help it grow and maintain you in the longer term.

Here are some additional tips for drawing income from a stocks and shares ISA

Invest for the long term

The stock market is volatile, and there will be times when your investments lose value. However, if you invest for the long term, you are more likely to see your investments grow in value.

Diversify your investments

Spread your money across a range of different investments to reduce your risk.

Rebalance your portfolio regularly

This will help to ensure that your portfolio remains diversified and that you are not too reliant on any one investment.

Withdraw income as needed

Don’t withdraw more income than you need. This will help to preserve your capital and allow your investments to grow over time.

Other investments for Retirement

There are numerous other assets that can be used to supplement or provide retirement income. We have covered off some of the main building blocks that are the most common. Other assets include rental property, holiday rentals, investment bonds and general investment accounts. The scope of covering these is too broad for this guide but they are all subject to their own inherent risks and tax legislations. We would recommend seeking independent financial advice in this area.

Tax planning

Moving into retirement often means changes to tax codes, income levels and sources of income. This can cause complications in tax planning and is something that needs careful consideration. Regular issues that people can encounter are provided below.

- **Lack of knowledge:** Many people are not aware of the tax implications of their income and expenses in retirement. This can lead to them paying more tax than they need to.
- **Complexity of the tax system:** The UK tax system is complex, and it can be difficult to understand all of the rules. This can lead to people making mistakes that can cost them money in retirement.
- **Changes to the tax system:** The tax system in the UK is constantly changing. This can make it difficult for people in retirement to keep up with the latest rules and may lead to them paying more tax than they need to.
- **Income received from pensions:** Due to pension freedoms, people in retirement now have a wide range of options as to how to withdraw income from their pensions. Choosing the wrong withdrawal method can significantly increase your tax liability.

There are a number of things that people in retirement can do to address these issues. These include:

- **Seeking professional advice:** A financial adviser can help you to understand the tax implications of your income and expenses. They can also help you to plan your finances in a way that will minimize your tax liability. They can use advanced cash flow modelling software that models out the most tax efficient method of withdrawals across various savings and investment products
- **Using tax-efficient savings and investment products:** There are a number of tax-efficient savings and investment products available in the UK. These can help you to save money on tax
- **Keeping up to date with changes to the tax system:** The government publishes regular updates on changes to the tax system. You can read these updates to stay up to date with the latest rules and make plans for any impending changes.

By taking these steps, people can help to ensure that they are paying the correct amount of tax and that they are not missing out on any tax reliefs or exemptions.

Here is some additional guidance for tax planning in the UK during retirement:

- **Make a budget:** This will help you to track your income and expenses and to see where you can save money.
- **Consider your pension income:** If you have a pension, you will need to consider how much income you will receive from it.
- **Get professional advice:** If you are unsure about your tax planning, you should get professional advice from a financial advisor.
- **Consider your other sources of income:** You may also have other sources of income, such as state benefits, savings, or investments. You will need to consider all of your income when planning your taxes.
- **Take advantage of tax reliefs and exemptions:** There are a number of tax reliefs and exemptions available for people in retirement. You should make sure that you are claiming all of the reliefs and exemptions that you are entitled to.

Here are some specific examples of tax issues that retired people may face:

- **Pension income:** Pension income is generally taxed as income, but there are tax reliefs available for pension contributions.
- **Inheritance tax:** Inheritance tax is a tax that is paid on the value of assets that are passed on after death. There are exemptions and reliefs available for inheritance tax.
- **State benefits:** Some state benefits, such as Universal Credit, are taxable.
- **Savings and investments:** Interest and dividends from savings and investments are generally taxed as income. However, there are several tax-efficient savings and investment products available, such as ISAs and pensions.

If you are a retired person, it is important to understand the tax implications of your income and expenses. You should also take steps to minimize your tax liability.

How can a financial adviser help you plan for retirement?

A Financial Adviser should spend time getting to know you, your family and your main objectives and goals. Each financial advice firm will have different processes and below is some specific detail of how we work here at Clarity Wealth Limited.

Our advisers will work with you to firstly find out as much we can about you, your objectives, dreams and what your "blue sky " looks like. We will get to know you and your family and what drives you. We will help you understand how much you spend now and what you need/want to spend in the future. We will gather detailed information regarding all of your assets, including pensions, savings, investments, property and any other assets you have. We will then research and analyse all of your existing investments. From this we will make recommendations about how suitable your current investments, pensions and savings are and may propose changes to where or how they are invested. We will be advising you to ensure we recommend investments aligned with your goals in the most tax efficient manner. Once we have collated all of this information, we will provide a detailed lifetime cash flow report that illustrates your current projection based on your circumstances. It will visually illustrate how achievable your "blue sky" is based on your current trajectory. If you don't know what your "blue sky" is then we can use your current income and expenses to see if this is still sustainable once you stop working. We can then show you what you need to do to make it a reality. We will then explain how achievable we think this is and what maybe more realistic based on your circumstances. We will add multiple scenarios into this plan to show what it would look like if you took the advice, invested more, spent less, or wanted to meet a specific goal.

Moving into retirement often means changes to tax codes, income levels and sources of income. This can cause complications in tax planning and is something that needs careful consideration. Regular issues that people can encounter are provided below.

Below is a summary of how we service our clients so that you can see how we work in more detail.

Review & Recommendation

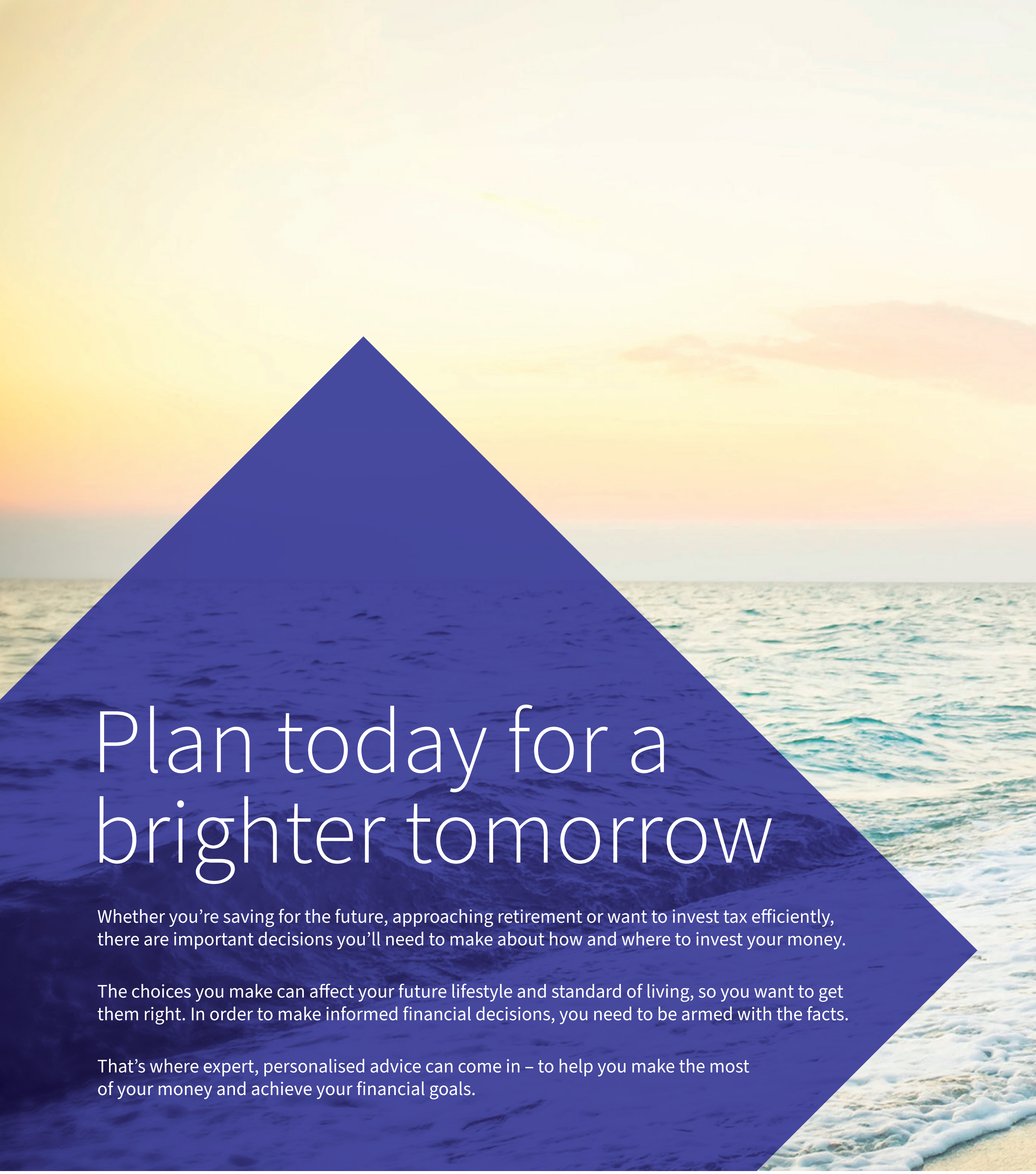
- Write to and liaise with your existing pension/investment providers ascertaining all relevant information
- Analysis of your existing pensions/investments - costs, performance, guarantees, withdrawal options, relevant features and anything else of relevance
- Cost comparison of your existing pensions
- Establish a long term income strategy for your income requirements including whole of market independent research
- Recommendation of actions – be that remain, switch or make any other changes with the existing pensions/ investments
- Whole of market independent research on funds and provider
- Recommendation of funds and provider
- Implementation of advice for your existing pensions/ investments and work involved in transferring the funds/ investing new funds between relevant providers

Cash flow modelling

A cash flow plan will provide the following:

- A clear and detailed summary of your financial arrangements
- Minimise your tax liabilities
- Tax liabilities
- Tax planning Estimate anticipated future cash flow and provide answers to questions such as
- Will my pension alone be enough to support me in retirements?
- Will my pension be able to provide me a sustainable income until I receive my state pension?
- Can I afford for any of my pensions to be unsuccessful?

We hope that you have found our guide useful for more information or if you would like to make an enquiry please contact us at **enquiry@claritywealth.co.uk** or call us on **0113 258 6000**.



Plan today for a brighter tomorrow

Whether you're saving for the future, approaching retirement or want to invest tax efficiently, there are important decisions you'll need to make about how and where to invest your money.

The choices you make can affect your future lifestyle and standard of living, so you want to get them right. In order to make informed financial decisions, you need to be armed with the facts.

That's where expert, personalised advice can come in – to help you make the most of your money and achieve your financial goals.

For more information

Call 0113 258 6000 or email enquiry@claritywealth.co.uk

claritywealth.co.uk

Why choose Clarity Wealth Limited

We are Independent Financial Advisers
This means we aren't restricted by the services or financial products we can offer you, unlike many commercial Financial Advisers. We have access to the whole of the market, which gives you significantly more options without any bias.

We're a family run business
Our small, but very professional team of financial experts are based in Horsforth town centre, where you can arrange to come and see us face-to-face.

Supported by the latest technology
We invest heavily in software and technology to ensure that the most comprehensive assessment of the market can be provided. This enables us to provide clients with illustrations and recommendations that are founded on extensive research and analysis.

Competitively priced advice
All financial advice companies charge for their advice. We feel our advice fees are very competitively priced and we will always give you an indication of charges, so there will be no hidden fees or surprise costs. At your first free, no obligation meeting, your adviser will explain our charges and how they work.

Clarity Wealth Limited

Investment Planning

Retirement Planning & Pensions

Business & Protection

Clarity Wealth Limited

0113 258 6000

enquiry@claritywealth.co.uk

claritywealth.co.uk

8 Kerry Street, Horsforth, Leeds LS18 4AW