Planning for early retirement: deciding your goals, ensuring an income

Leaving work behind you, not for a few hours but for good, can be a powerfully attractive prospect. But a reliable long-term income is essential – especially if you are planning on doing so early. Realistic financial planning is the key, and that in turn is linked to how you intend spending all that free time.

Alex Spreckley, Head of Wealth Management at Handelsbanken Wealth Management, sees a wide spectrum of customers hoping to retire in their 50s, or even their late 40s.

"There's usually a life event," he says, "a trigger for decision such as selling a successful business, or receiving an inheritance or a large bonus, can make people think 'I don't want to go on working 'til my mid-60s'."

Costing the dream

When considering retirement, grasping hard facts and figures about your assets and the financial products available to you is clearly vital. But there is another equally important and more human dimension.

"When I sit down with customers it is important to get a clear sense of their values as well as their finances: Why do they want to retire at (say) 55 in the first place? What does retirement look like for them – jet skiing in the Caribbean or a little cottage in Pembrokeshire?"

Depending on what you have in mind, there can be very substantial differences in the funds you will need available at different stages of your retirement. Good financial planning should take account of aspirations, as well as money, because the two are of course intrinsically connected.

Alex observes that some find their first five to ten years of retirement to be the most expensive because they are using the time to fulfil long-held ambitions. With others, however, the rise in spending comes later because it takes them a while for to gauge the possibilities of their new lifestyle.

And then there are the 'significant others': What does your spouse think? Will he or she go on working? Are you planning on giving money to your children, perhaps a deposit for a house, and do you want to make some extra provision for your grandchildren?

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Alex has found that many early retirees end up returning to work, especially as life expectancies increase. Indeed, the Office of National Statistics has estimated average life expectancies at aged 65 as extending into the mid-80s for both men and women[1].

"People are concerned about keeping their minds sharp. Many early retirees are experienced in business and have an eye to starting a new enterprise. If this is the case, it is important to allocate funds for that eventuality. Others want to help good causes, in which case it is similarly important to set some assets aside for that."

Planning to accumulate

Of course your options will, in large part, be determined by how much you've built up.

The age of retirement makes a big difference; the further off it is, the easier it becomes to fund. So the earlier you know how much to set aside for pensions, savings, or investments such as shares or property, the better. If you start planning at 45 – and some people do – then the focus is often still on accumulation. By the time you are 55, the focus has shifted to what income can actually be drawn on during retirement, especially if you are retiring early.

For those intending to retire early, considering other assets, such as buy-to-let properties or cash deposits in the accumulation stage, can be especially important. Your pension only starts to become accessible from aged 55 onwards through secured annuity income or through unsecured means, such as flexi-access income drawdown. And of course there are a variety of saving and investment options.

When it comes to investing, much depends on a person's appetite for risk, and their capacity for loss should an investment not perform as expected. "Bonds, equities, commercial property need at least 7-10 years to be worth considering. Begin planning 10-15 years in advance and you can consider investment options with slightly higher risks," says Alex.

A continuing conversation

Regular advice and monitoring of your retirement plan is important in order to make the most of opportunities, minimise risks, and respond to the constant possibility of changes in the legislative framework. It can be a good idea to continue seeking regular advice even after you leave work and have embarked on your retirement journey.

"You'd be surprised by the challenges which can arise," Alex explains. "Some people may want to release high levels of income; others may want less. Retirement breeds new perspectives on what people can do with their lives and the financial plan should always be reviewed."

"Reviewing your plan regularly, at least every 12 months or so, keeps the conversation going to ensure that retirement, at whatever age, and however you choose to do it, is a continued success."

[1]www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/20132015#life-expectancy-at-older-ages