Skipton Building Society J02205 Life and Money Podcast: Episode 4: When should I retire? Transcript

Tom McDermott: Hello everyone and welcome to episode four of the 'Life and Money' podcast brought to you by Skipton Building Society. My name is Tom McDermott, and I'm joined by a panel of experts to talk about retirement and to pose the question that many of us ask, when should I retire? Now, everyone will have their own idea of what an ideal retirement looks like but I'm sure we can all agree that retirement should be about spending your time doing the things that are important to you and focusing on enjoying yourself after years and years of working. What this podcast aims to do is to provide you with a quick guide to planning your finances for retirement and help understand better when you might be able to take the plunge. We aim to give you a better idea of the things you need to consider so that you can decide your next steps. Over this episode, we'll be joined by our special guest, Melanie Wright. Melanie is a well-respected financial journalist and money editor of the website, restless.co.uk, which is dedicated to providing resources to help over fifties and make the most of life.

Before we speak to Melanie, though, I am absolutely delighted to be joined today by a pair of experts from Skipton Building Society. First of all, hello to Catherine Hargrave, who is a senior financial advice supervisor at Skipton. Welcome, Catherine, and I understand that you provide training and support to Skipton's financial advisors on areas like retirement planning. What's the most satisfying part of that role?

Catherine Hargrave: Well, so I'm involved in all aspects, um, quite a varied role. So training our advisors, helping them formulate the right advice. I can also help shape the processes and procedures and occasionally speak to our customers directly. The most satisfying part is the close relationships that I have with my regional advisors, helping support them to develop within their role and help them to provide the best advice to our customers such as retirement planning as you said.

Tom: Thank you Catherine. Second up is Ben Smith. Ben is a technical planning leader at Skipton Building Society. Welcome Ben, and I understand a big part of your role is to provide tax guidance to Skipton financial advisors on pensions and retirement planning.

Ben Smith: Yep hi Tom. Thank you for having me and for the introduction. Um, yeah, I've worked in and around retirement planning for a decade actually now. I've definitely seen a fair share of changes over the years, particularly the pension freedom rules coming in. And yeah you're a big part of my role is to analyse anything that does change in the pension and retirement space, make sure that we have the right approach to how we give advice to our customers and importantly that our advisors remain up to speed as well with everything that's going on.

Tom: And thank you to you both. Now, before we go any further, the opinions and information provided in this process are not to be taken as advice. If you are looking for advice, it's recommended that you speak to a financial advisor, as with all investing your capital is at risk and past performance doesn't guarantee future results. Off we go then. So firstly, and I'll start with Catherine. Catherine, I'm keen to know a bit more about when people typically might think or know they're ready to retire. What does that look like?

Catherine: Yeah. I mean, obviously everyone's different. Um, but typically customers may start to think about their retirement plans a few years before. So it can often be linked to the sort of current retirement age on their pensions, which usually is sort of 60 or 65. And it might be prompted by a letter from their pension provider, which has caused them to start thinking about what they have in pensions. So you asked when do customers know they're ready to retire. Uh, and whilst we do see a lot of customers who are ready to stop working, we don't see a lot of customers who completely know whether they can afford to retire or not. So that's often the first question.

Tom: Ben, we have this almost fixed idea in this country. Don't we? That you retire at 65, but that's not really the case for a lot of people, is it?

Ben: No. 65 was known for a long time as state pension age. I know it changed a little bit more recently with 66 and 67. But for a lot of people, it felt like drawing state pension hand in hand with retirement. So I guess I can see where that perception comes from. The reality is though that your retirement age will be specific to you.

And I suppose growing on that, pension freedom rules have given people a lot of food for thought as well on what their retirement might look like. Some of us, it might be possible to retire well before retirement age, even in our fifties, for example. Or others, we might need more time to save or it could be a personal choice as well to work on beyond 65, because the key is that we are all different. But one thing we do have in common is that the earlier we start to think about what we want retirement to look like, the clearer that can become.

Tom: How important then, Catherine, is the strength of your finances likely to prove in deciding when to retire?

Catherine: Yeah. I mean, very, so it is really important because you're relying on those finances for a long time. Uh, you know, hopefully the rest of your life. So based on current life expectancy statistics, we're expected to live into our eighties at least. But obviously that is an average. So, you know, many people will live longer, possibly even to the hundreds. So on a really simple level, the bigger your retirement pot, the longer it will last, which then gives you greater options to retire on time or even retire early.

However, it's not just the value of your retirement pot which can influence when to retire as the longevity of your money can also be impacted by having the right retirement approaches, strategies and setting up those right withdrawal strategies. So you need to balance not taking too much too early, which risks depleting finances with, you know, not enjoying your retirement or possibly retiring late because you're being unnecessarily cautious with your withdrawals. So that's an important balance. So ultimately the strength of your finances is just as important as the retirement strategy you implement when it comes to deciding when to retire.

Tom: Bearing this in mind then Ben, what would you say to people listening who might be worried they're not building up enough money into a pension?

Ben: I would say it's never too early to start planning or start dreaming about what that retirement might look like. To really take the time to understand what you want in retirement and importantly, take the time to review what you've already got. Um, you might be surprised by what amount you've already got in pensions and even if you don't have enough just yet, the earlier that you're aware that you don't have enough, the easier it is and the more time you have to get where you want.

Catherine: It's also worth mentioning that we would consider your retirement pot as all your assets. So any savings, investments, pensions and other income, not just the pensions. So it’s worth also digging around for any paperwork from previous jobs that you might have forgotten about. So no matter how small or large they might be, they all contribute to this retirement pot. And if it's been a while since you last reviewed those pensions, especially if you've forgotten about them. But it's worth considering if that performs perhaps as well as others in the market. So could they be working harder for you to meet those retirement goals?

And of course you might also be entitled to the state pension, which Ben mentioned earlier, so you can check how much you'll receive and when you receive it by logging into the government gateway.

Tom: Catherine, I think while most of us can, with a bit of effort, find out how much we've got saved up for it. The really difficult part is understanding how that might translate into retirement income. How can people work this out?

Catherine: Yeah. So I'd say the starting point is that you're likely to receive an annual pension statement from any pensions you have, which will probably state a projected annuity income amount that you're on track for. However, that doesn't consider what income you could get from other assets and also an annuity scheme might not be the most appropriate option for you. So here at Skipton, we start by understanding how much income our customers need in order to fund their ideal retirement lifestyle. Then we use quite a sophisticated cashflow modelling tool to assess if that is affordable from their retirement pot. This tool can account for a number of factors, which are likely to impact your capital over the years, such as inflation, investment growth, changing expenditure requirements, as well as the impact of potential market crashes, which obviously can happen. So there are other online versions, which you could Google, which may give you a good starting point, but it is really important to understand how they work if you're gonna use them. If you use a tool to picture what your retirement is without any other guidance, then you need to understand the assumptions and have confidence it's accurate.

Tom: How then Ben can cashflow modelling be used to help people work out when they could retire?

Ben: I think that cashflow modelling can be a valuable tool and it helps paint a picture of what retirement could look like and factor in some of those variables as well about, you know, what age might retirement be at. It can help understand how drawing an income could impact on your savings and pensions over time. Uh, and, and the good thing is that the first time you filled it in, I suppose it gives you a starting point of what could happen.

But beyond that it's a really good platform to play around with and change some of those goals. So, you know, what would it mean if you did retire a few years earlier, how would that impact on how long your assets would last? What if you wanted to take the extra a thousand pounds a year? It's really useful to help visualize what those next steps might be and play around a little bit with what age might be realistic.

Tom:	This I think is a great point to bring in our special guest Melanie Wright, who is a well-respected financial journalist. Melanie's work has appeared in a range of national newspapers and websites such as the Sunday times and Daily Telegraph. She also often appears in the media to talk about money matters, and she's the money editor of restless.co.uk, a website dedicated to helping over fifties enjoy life. Hi, Melanie and thanks for joining us. We've been chatting about understanding better when you could afford to retire. I know it's a topic you've written exclusively about.
Melanie Wright:	I actually started at university. I was writing a bit for the student newspaper and covered things like student loans and managing debts and that really gave me a leg up to getting a job as a researcher on the then money go round section of the Daily Telegraph. I was there for several years and ultimately became deputy editor there. I've always loved writing, but I have to say, I never thought this was a subject I'd end up specializing in, but I'm glad I did, as it's something that kind of interests everyone and impacts on our lives in so many different ways.
Tom:	What would you say you enjoyed most about it then?
Melanie:	I think it's that, the fact that it affects every single one of us. I mean, love it or hate it, money plays a massive part in our lives. You know, we all need to live somewhere. We all need to save for retirement. It's something that affects our lives, our lives on a daily basis. And I think knowing that you might be able to make a difference to people's lives, even if that's something like somebody reading an article on switching energy suppliers and the savings they can make from that, you know, just knowing that you're having a tangible effect on people's finances and perhaps helping them save a bit more or encouraging them to think about the future. That's all to seek financial advice if they need help. That's a really satisfying thing to do.
Tom:	We’re talking about retirement planning in this edition of the podcast. What are the key things, Melanie, do you think to consider if you're starting to think about retiring in the next few years?
Melanie:	So I think the main thing is to have a plan. If you're retiring in a few years, you need to consider things like what sort of income you're going to need in retirement, and then need to look at whether you've got enough saved up to provide you with this income. So I think a good starting point perhaps, is to think about what your outgoings are likely

	to be when you retire. These might fall, perhaps if you've no longer got commuting costs or if you paid off your mortgage. Um, but it's really vital to think about how much you're actually gonna need when you stop working. And then once you've got a sort of figure in mind, then you need to dig out all your pension paperwork. If you've got pensions and ISAs or anything like that, find out how much you've got saved up for your future. Um, lots of us might have pensions we've forgotten about if you've worked for lots of different people. So you need to go about tracking those down, just to have an idea of exactly what you've got saved up. And it's also important to find out how much you're likely to get from the State pension and you can get your state pension forecast from the gov.co.uk site. So it's worth finding out. I think the main thing is not to panic if you find you don't have as much saved up as you thought you were going to. Because it's a really good opportunity to think about maybe trying to put away a bit more, if you can afford to, and remember you'll get valuable tax relief on all your pension contributions. So it's something that's never too late to do. As I say, the main thing is to know where you stand financially as you approach retirement. Cause that might determine whether perhaps you work for longer or perhaps decide to go part-time temporarily to boost your pension savings. But what you don't want to do is reach retirement and then face any big shock.
Tom:	We've all heard the phrase, ‘pension freedoms’ quite a bit over the last few years. What exactly is it and how does it help people planning retirement?
Melanie:	So patching freedoms were actually introduced in 2015 and their role was to make it easier for people to access their pension savings flexibly. So previously, before these pension freedoms were introduced, most people used their pension to buy an annuity, which is an income for life. But they are quite restrictive and rates are quite low at some points. It meant people weren't getting the income they were expecting. So pension freedoms meant that they had a whole different range of options. So they do have a range of options. And that includes things like drawdown, which means you leave your pension invested and you can take money out as and when you need it. Or you can take lump sums directly from your pension. So it's just widened the range of options. You can still buy an annuity if you want to, but it's just providing people with that flexibility for them to take an income when they want to, to determine how much income they want to take.
Tom:	And what are the potential downsides of the pension freedoms that people should be aware of?

Melanie: Probably the biggest bite is there's a risk that people will take too much out of their pensions too soon. So if you can access your pension when you want, you can see the temptation, you might say, oh, I'll just splash out on that holiday. Or maybe buy a new car or something like that and face the risk of running out of money in retirement. So I think that's one of the biggest downsides. Um, and there's also the risk of unexpected tax bills. If you do take a big lump sum out of your pension, as you might end up sort of in a higher tax bracket, um, I think it's also important to acknowledge that there's a flip side too. You know, we always hear about the risk of people running out of money in retirement because of pension freedoms, but actually some people use their money, very conservatively, because of that worry. So therefore they might not enjoy their retirement as much as they could. So I think those are the biggest risks.

Tom: Not all of us do get to choose when we retire. For example, our health might mean we have to retire sooner than perhaps expected. What would you say to people in that kind of situation?

Melanie: Well, yeah, you're right. We can't, we can plan as much as we like, but no one knows what the future holds and things like being made redundant or illness can throw us completely off-kilter financially. Um, I think that's a good thing to think about protection as part of your financial planning. So if something unexpected happens, you'll have a buffer in place to see you through the tough times. So for example, that might include things like critical illness cover, which pays out a lump sum. If you're diagnosed with a serious illness or income protection, which pays a regular income, if you can't work due to sickness, disability. It's also always a good idea to try and have a cash savings buffer in place that you can fall back on if anything unexpected happens. It just gives you a bit of peace of mind that you're prepared for every eventuality.

Tom: As there's a lot to think about when planning retirement, what would you say are the benefits of getting a financial advisor on board to help you?

Melanie: So there is some free government guidance available to help with retirement planning in the form of an organization called Pension Wise and this service can explain the various options available. But the key difference between this and professional financial advice is that Pension Wise can't recommend which option and decisions are right for you. So that's where professional financial advice proves invaluable because what an advisor does is make specific recommendations based on your requirements, your approach to risk, your timeframe and so on. So they can do things like suggest where your pension savings should be invested. They can check the charges you're paying on your pension, make sure you're getting the best possible deal. And they can recommend the best way for you to take an income from their pension whilst ensuring you don't run out of money.

I think lots of people are wary of getting financial advice because there are costs involved, but usually I have to say the value of the advice you receive and the boost it can give you retirement savings, significantly outweighs the risks and costs.

Tom: Melanie, thank you very much, indeed, for your time. That was Melanie Wright, a well-respected financial journalist and it's worth just pointing out here that the views Melanie expressed are her own personal views and must not be treated as advice. Catherine, Melanie talks about some of the options for using your pension to fund retirement, how can financial advice help people take a suitable approach?

Catherine: As you said, it can be a complex area to determine what the best retirement approach is because factors such as the size of your fund at retirement and future interest rates and tax legislation can all impact how much income you may receive at retirement. You might also have a multitude of products that need to be considered as part of this process. If you have investments and pensions, how do you determine which one is the right one to draw from and does this change over time? So ultimately taking all things into account what's right for one person might not be right for another.

So here at Skipton, we help our customers by taking the time to understand their personal circumstances, goals, and personal attitude, to risk, to help them establish what their ideal retirement looks like. We can then recommend and implement the most suitable withdrawal strategy. It’s worth mentioning that where we go ahead with the recommendation through Skipton it will often involve a product that places your capital at risk. Also, Skipton offers restricted advice as our customers refer us to focus on those areas where they need our help, the most, which is why we have a panel of products and providers, which we use to help practice.

Tom: Ben, we might assume that in retirement, your life doesn't really change, but that's probably unrealistic.

Ben: That's where you can, you can probably look at three phases in retirement that most people can relate to. Initially you've got the active stage. You feel like the first 10 years, the first decade when you might see an increase in spending. So you've got that, that tax free lump sum set in your bank account. And that dream holiday that you've always wanted to go on suddenly becomes a reality or that dream car, whatever, whatever it might be. And we don't, perhaps think too far beyond that, but at some point, you're going to start to get a little bit older. Those holidays suddenly become a little bit less realistic. Now we're spending might decrease as we become less active and even further beyond that too, into a different phase of life where we might need that support. So the supported years, where we need healthcare at home, perhaps even residential care in the future and the cost in retirement, may start to increase. I suppose the key thing there too is how about being that, you know, things will still change when you are in retirement, your spending habits will still change and you should have an eye on that as you start to plan for what that future could look like.

Tom: I think most of us, Catherine, when we picture retirement and hope for lots of blissful relaxation, certainly not worrying about our finances, how can Skipton help people through retirement?

Catherine: Yeah, so we have a fantastic proposition where we can really help those customers through retirement by establishing their financial goals and formulating the right income strategy based on their individual circumstances. This can start from up to five years away from retirement. Support them right in the way through their retirement. This is through our ongoing service offering, which is a really valuable service available to our customers, um, where one of our senior financial advisors would regularly review their retirement plans, on an annual basis and implement any changes that may be required. As Ben said, life and retirement can change. So your spending habits are likely to change as well as tax legislation and all those things that we mentioned earlier. So whilst the ongoing service isn't suitable for everyone and can be cancelled at any time, it's incredible support and peace of mind for a lot of our customers, allowing our customers to enjoy that blissful relaxation, retirement, which you mentioned.

Tom: Final question for you then Ben, what would you suggest to anyone who is listening and unsure about what to do about deciding when to retire or who has a better idea and is looking for some help?

Ben: So the easy answer is to speak to somebody about it. As we've mentioned throughout this really is that retirement will look different for each of us. The sooner you start to think about it, the sooner you start to think what it might look like, what age do you want to retire? What income do you want to receive? The more chances there are of making that a reality. So I might be biased because I've worked at Skipton for a good few years now, but we really do have a great team here who you can speak to over the phone or in your local branch. And if it looks like it's the right thing to do then we can definitely arrange for you to speak to a financial advisor and really start to delve into what your plan can look like.

Tom: That's really helpful. Thank you. And it's worth adding at this point that with flexible retirement solutions, such as draw down, your capital is at risk and there are tax considerations when withdrawing your pension as a lump sum or taking it as an income. If you take too much income too quickly, your fund could be depleted. Or could run out all together. Okay. That's just about all we have time for this edition. My thanks. Go to Catherine, Ben and Melanie. If you're still a few years away from retiring, though, and want to hear more about how you can get your pension working harder for you, it might be worth checking out episode two of our podcasts series if you haven't already. We really hope that this has helped you to think about how planning your retirement with Skipton could ultimately free up your time to get on with the things that matter to you the most. As always and to find out more. You can give us a call on 0345 266 7724, or visit skipton.co.uk/insights where you can subscribe to our ‘life and money’ emails and receive regular updates, news, insights, and developments, which may affect you. Until next time, bye for now.