

What will I need to retire?



The golden question when it comes to retirement planning is determining how much you will need to accumulate to successfully stop working, while maintaining your lifestyle.

Although it is beneficial to simply save as and when you can; obtaining a specific goal can provide much needed focus, and urgency, to prevent you from putting it off for that extra year.

A quick internet search will produce many basic calculators and statistics to give you a broad average of household expenses, and the lump sums required to meet these needs. The Office of National Statistics indicated a gross income of retired households as £29,000 in 2016, and Which? Has estimated an income of £26,000 being required to retire comfortably. In our experience these generic figures are not overly helpful for our clients, as everyone has a unique set of circumstances and needs.

Although it is impossible to predict the future, and with it your precise needs at retirement, a good start is to look at your lifestyle today, and the known factors that will influence your future spending.

Begin by looking at your regular expenditure. A good way of doing this is looking at your bank and credit statements for the last three or so months.

When looking at this, try to break down your spending into different categories of importance. An example of the categories is below:

Category	Summary	Examples
Essential	You cannot live without these	Mortgage, Bills, Groceries, Transport, Looking After Dependants
Basic	It is not worth living without these	Socialising, Hobbies and Interests
Luxury	Enjoyable, but unnecessary to live	Home Improvements, Holidays, Higher End Restaurants, Trips
Aspirational	Very enjoyable, but wholly unnecessary	Yachts, Fine Wine Collections, Multiple Homes, Vintage Cars

Naturally these examples will vary from person to person, and within each category there will be an order of importance, but by looking at your current habits, and splitting them up in this manner, you can get a basic idea for the bare minimum you will need upon leaving employment, as well as what would be required to lead the life you wish to lead.

Retirement

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My reference to 'known factors' above will include situations such as the mortgage being paid off in ten years, or that you will stop commuting at retirement. There are also some less tangible factors, which are important, but harder to estimate- for example you will have more spare time at retirement, which may increase your socialising and holidays. Use these factors to help refine the predicted amount of income required.

After this exercise you should have a general indication of what is required to meet each 'category', in today's terms. For example your essentials may be £12,000 per annum, to meet your basic costs increases this to £22,000, to meet your luxury costs would raise this to £36,000, and to buy, insure, and maintain the yacht you have always dreamed of would increase this to £150,000 per annum.

This is a time to stop and reflect. Do the figures you arrive at surprise you? Was it a particularly expensive or inexpensive three months? Were there particular one-off purchases you do not expect to happen again? By thinking hard and being honest with yourself you should hopefully have arrived at a minimum and aspirational income figure for retirement. An often quoted figure when estimating the capital required for income is to multiply it by 25. This assumes that taking 4% from investments is sustainable over the longer term, net of costs. While not a perfect calculation, it can be useful to obtain a general figure required. Taking the examples above, you would have the following:

Category	Income Required	Capital Required
Essential	£12,000	£300,000
Basic	£22,000	£550,000
Luxury	£36,000	£900,000
Aspirational	£150,000	£3,750,000

Armed with these figures, you now have a goal to aim for when saving; however there are some pretty big caveats:

1. These numbers are in today's terms, if you were to retire immediately, and over time inflation will increase the costs for your needs. If, for example, inflation averaged at 3%, in five years the £900,000 requirement would be £1,043,347.
2. This is an estimate only, and based upon your current lifestyle. Should you require nursing care, for example, your lifestyle costs may increase significantly.

The next step is to assess the feasibility of meeting this income, and take measures to get you on the right track to achieving it. As a part of our Wealth Management service, we look at your circumstances and timescale, and identify the opportunities available to accumulate and manage wealth effectively. These areas may include:

- Maximising pension contributions, and utilising allowances, to increase your retirement savings, and increase the tax efficiency of your arrangements;
- Providing recommendations for your existing investments, and providing ongoing management to ensure they continue to suit your objectives;
- Carrying out cash flow modelling exercises, to not only refine the estimated requirements, but also to test multiple scenarios, such as different ages of retirement, or needing nursing care.

Working together with you we will help you to develop and achieve your aims for retirement. We will review your arrangements regularly to ensure you remain in the most suitable position, and make you aware of the opportunities available to boost your chances of living the life that you want.