

# Retirement Guide

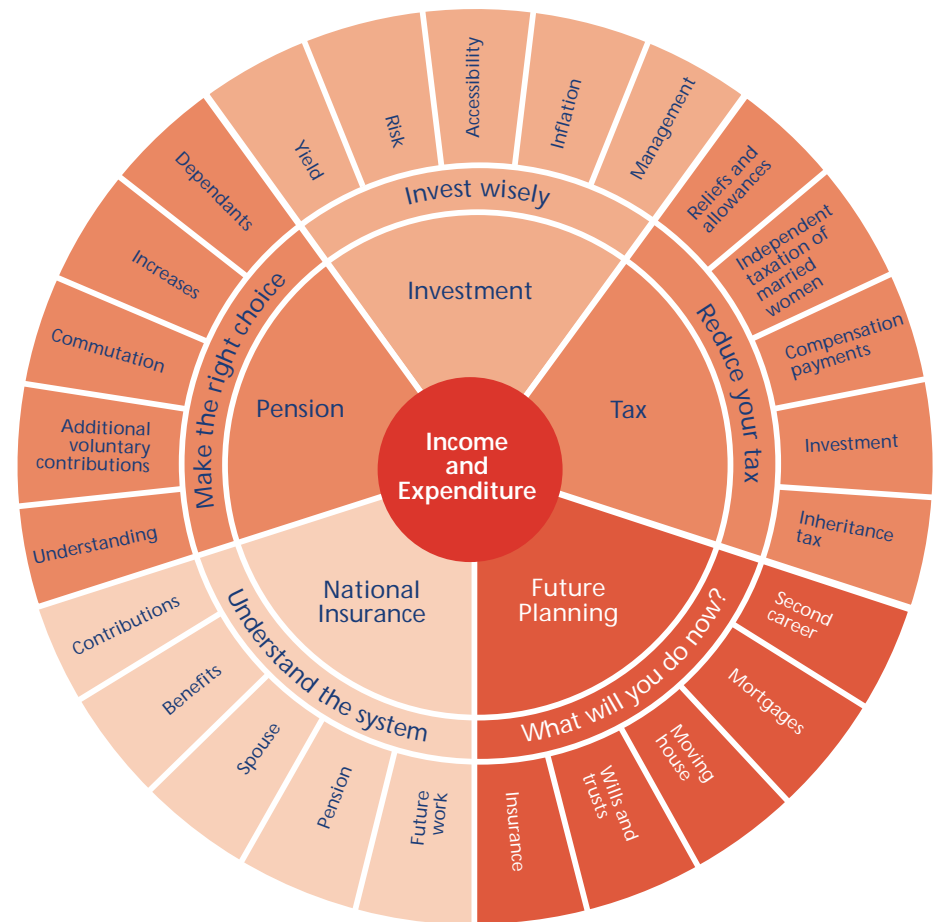
THE FINANCIAL DECISIONS

Many people find it hard to understand how the major retirement decisions interact. Our unique guide shows those decision areas in a graphical way pivoting round the crucial question of balancing your budget: ensuring that your income will match your spending needs in retirement.

Few changes in life are so fundamental as retirement. The whole concept of no longer having or needing to work produces freedom to enjoy life to the full. However, money is still a requirement, perhaps even more so as we grow older - many people will spend a quarter or more of their lives in retirement.

Hill Martin Limited specialises in helping people to make realistic financial plans for their retirement no matter how far away that event may be. This booklet touches on some of the more important topics, but there is no substitute for personal advice related to your own financial position.

## Balancing your retirement budget



## Expenditure

Almost inevitably, your income will drop at retirement. Even so, the impact of this on your financial position need not be severe, as long as you carefully budget for the money that you need to spend when you retire.

At retirement, there will be many changes in your spending pattern and you will need to take account of these. Drawing up a budget is a good habit to adopt at any time but at retirement it is vital. It provides an invaluable guide to the adequacy of income during retirement.

To help you, we provide a budget form at the back of this booklet. Not only will this help you with your own planning but it will also give us valuable guidance on the level of income that you will expect and need during your retirement.

## Income

If you are due to retire fairly soon it is important to work out your projected income from pensions and other sources during retirement. If you have dependants, you should consider their financial position if you were to die. The income resulting from these projections should be compared with your budget and with the income which you enjoy prior to retirement.

Even if you are some years away from retirement a longer term assessment on broader figures could help you decide how adequate your pension provisions are.

An income projection should take account of taxation and other outgoings and of receipts from investments or cash which you hold or may be able to acquire by the time that you retire.

This Retirement Guide shows how these two crucial areas are central to the many related issues which we go on to discuss.

## Pensions

Your pensions are likely to be the main source of income during retirement. It is very important to establish that you are making an adequate level of contribution if you are some way from retirement. Even if your retirement is close at hand, it can be very worthwhile to top up your pension provision, thus strengthening your income when you retire and taking account of valuable tax reliefs meanwhile.

Whilst many people are in pension schemes operated by their employers, there are alternatives available. A professional assessment in this complex field is important, if you are to avoid wasting the financial incentives which are given to those planning for their retirement through the medium of pension schemes.

When you retire, pension schemes normally offer the opportunity to extract a tax-free lump sum. This could be invested to produce regular income and growth in value and it would be available for your successors if you were to die. Nevertheless, the decisions as to whether to exchange some pension for a lump sum and which other options to select from the scheme to which you belong are ones which you should not take lightly, since they will bind you for the remainder of your life. It may be necessary to prepare calculations on the basis of various assumptions concerning interest rates, inflation and your possible expectation of life.

In any event, a decision as to whether to take a lump sum from a pension scheme must take account of your overall financial position and the availability of capital to you at that time.

## State pensions and benefits

Retirement pensions are available from the State if you have paid adequate contributions. These pensions provide a useful basic income but they are not normally sufficient to live on. Nevertheless, a review of your State benefit position would enable you to establish whether you need to make extra provisions.

The State pays other benefits which may be applicable to you or your dependants during retirement.

State pensions and benefits are undeniably a complex field and professional advice should be sought. Bearing in mind that these benefits are normally protected from the effects of inflation, ignoring them tends to leave you needlessly at risk during the later years of your life and so a review of your State benefit position is particularly important if you are some time away from retirement at present.

Hill Martin can supply you with a form on which to request a state pension forecast.

## Mortgages and borrowing

For many people, retirement provides a golden opportunity to pay off debts and mortgages. Whilst this is often the correct thing to do, especially where debts carry a high interest rate and the interest is not allowable for taxation purposes, it is by no means always sensible to pay off a mortgage at retirement.

It is necessary to take account of the rate of interest, the tax position, the type of mortgage and whether there are other types of repayment vehicle already in existence, for example an endowment policy. The continuation or otherwise of such a policy is a separate decision which needs to be considered on its own merits.

Certainly it is unwise to repay your mortgage and then seek advice, because such an event cannot always be reversed even if, in retrospect, it proves not to have been the best course of action.

Penalties can apply on early repayment of a mortgage.

## Taxation

You will probably continue to be liable for income tax during retirement although, as you grow older, an extra allowance is available and if your income is relatively limited, it is important to optimise this. Many people find that they will be paying much less tax during retirement than when they were working full time and receiving a higher income. This can be helpful in meeting your budget requirement.

Capital gains tax may apply to you in respect of your investments, whether you are retired or not. However, if you are in business on your own account or own a private company, there may well be special reliefs that you can gain when you retire.

If you have no investments at present, the availability of a lump sum could enable you to generate capital gains, free from tax up to a certain level. Realising such gains could be helpful in replacing worn-out capital assets such as a motor car.

Inheritance tax may very well be a more relevant consideration as you grow older and your capital is increased perhaps by means of lump sums from pension schemes and/or a leaving gratuity from your employer. With the value of your house and personal effects plus your other savings, liability to inheritance tax may arise. In the case of a married couple, this tax need only apply when the survivor of them dies, but even so, there are plenty of opportunities to reduce it.

Generally speaking, retirement forms a major opportunity to pay less tax. Until you retire, you should ensure that you are making the best use of tax minimisation techniques and that your savings are in areas where they can grow largely free from the imposition of tax.

## Wills and inheritances

During the years approaching and following retirement you may very well find yourself inheriting money from parents or other relatives. This has effects on your inheritance tax position and could represent a time at which it is appropriate to take financial advice.

Quite apart from this, your own will (possibly made many years ago) needs a review in the light of retirement. By this time in life, you should have decided whom you wish to benefit and when. Furthermore, the value of your estate should have been clarified.

Thus retirement is a prime occasion on which wills should be reviewed and brought up to date. Professional advice from a solicitor is highly desirable, but your financial planner should also be involved in order to take account of the taxation, income and investment implications.

Try to use an adviser who is a member of the Society of Trust and Estate Practitioners, who specialise in this field.

## Moving abroad and retirement

We can advise you on the complex requirements of moving outside the scope of UK taxation by emigrating. Often we can arrange for taxation to be minimised and special arrangements to be established offshore in order to protect your investments and optimise your situation for the longer term.

## Savings and investment

If your retirement is some way distant, it is very important that your surplus income is channelled into productive savings. Not only will this produce a valuable income and/or lump sum when you retire, but also when you stop paying the contributions this will give your income an effective boost. Our experience indicates that those with regular savings plans adapt more easily and freely to the lower income at retirement than those who have made no personal provision by way of savings.

There are so many schemes available at present over different periods of time and with varying results and tax treatments that professional advice is essential.

At retirement, many people find themselves in possession of a substantial lump sum, often for the first time in their lives. Depositing such a sum with a bank or building society is sensible whilst you are working out a plan of investment, but this will often not be a sound long-term strategy. Inflation will soon start to eat away its value, and the income that it provides will not grow but will simply fluctuate with the general level of interest rates.

It is important to build an investment strategy with a variety of different types of investment which may include, for example, government stock, income bonds, shares (both here and abroad), unit trusts, investment trusts, life assurance bonds and offshore funds, so that there is a good balance to your portfolio and risk is minimised.

You should avoid the temptation to answer newspaper advertisements or buy 'off the peg' investment schemes: your investments should be precisely tailored to your personal circumstances and should meet your own objectives.

It is vital that your investments should then be kept under review so that they cope with changes in financial and personal circumstances.

## How to get advice and what it costs

If you would like to discuss the ways in which we could help you plan your retirement, simply contact us in London or Bristol.

We provide a personal service: a single consultant is allocated to advise you on your financial planning, thus ensuring close contact and continuity of service.

We charge on a time basis, with any commissions we receive from financial institutions being offset against fees. This is the basis on which our independence is founded: it means that we can advise you without pre-set notions of recommending financial products or strategies because of the income that they might bring to us.

## Hill Martin Limited

Founded in 1981, Hill Martin offers private individuals the same quality of expertise and independence which merchant banks traditionally provide to their corporate clients. Our service covers a wide range of areas but is primarily concerned with financial planning and pensions. Investment management services are available through a connected company: Hill Martin (Asset Management) Limited.

Retirement counselling is a speciality whether you are an individual seeking advice or a company with the welfare of its employees at heart.

We are pleased to see clients at our offices in London or Bristol and can arrange local appointments where this would be helpful.

At Hill Martin, our independence provides the basis for a very discreet, efficient and individual service.

## Retirement budget

These two pages help you to plan your expenditure for the years after you retire. They will be of great assistance to you in planning for your retirement and to us if you ask us to help you.

	<b>Actual</b> expenditure in most recent tax year £	<b>Projected</b> yearly expenditure after retirement £
<b>Houses</b>		
Mortgage interest, amount after tax relief		
Mortgage repayments (capital)		
Insurance premium		
building		
contents		
Council Tax		
Water rates		
Decorations/maintenance		
Garden maintenance		
TV licence/rentals/other equipment		
<b>Utilities</b>		
Telephone		
Gas		
Electricity		
Oil		
Solid fuel		
<b>Motor car/ Transport</b>		
Petrol/oil		
Servicing		
Road fund licence		
Insurance		
Sinking fund for replacement over <input type="text"/> years		
Rail/tube/bus/taxi fares		
Totals to be carried forward to page opposite		

	Totals brought forward from opposite page		
<b>Food</b>	Annual food expenditure including drinks/entertaining		
	Pets – food		
<b>Holidays</b>	Travel		
	Accommodation		
<b>Personal</b>	Housekeeping		
	Personal expenditure		
	Clothing		
	Club subscriptions		
	AA/RAC membership		
	School/further education costs		
	Allowances to children/relations		
	Newspaper/magazine subscriptions		
	Charitable donations		
	Covenants		
	Gifts and presents		
<b>Credit cards</b>	Interest costs only – expenditure should be allocated under above headings		
<b>Life assurance</b>	Contributions		
<b>Pension contributions</b>	Amount after tax relief		
<b>National Insurance</b>	Contributions		
<b>Other expenditure</b>	Any item not included above, including a reserve for unexpected expenditure		
	<b>Total Budget</b>		

## Notes



## How to contact Hill Martin

Normally a meeting is held which will clarify your circumstances. We then quote a cost for reporting to you in detail and indicate what the scope of our advice will be. We are happy to work closely with your existing professional advisers.

An initial enquiry to Hill Martin is free from cost or obligation.

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