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investment sense

The guide to **later-life planning and care**

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When you think about your future, how far ahead do you plan? Perhaps you've thought about what your life will look like in 10 years, but have you considered your later years?

While retirement planning is common, it's often the early years of retirement that people focus on. However, your needs and lifestyle wishes can change drastically over a retirement that could last decades. It's just as important to think about how you'll spend your later years as those first years when you are still celebrating retirement.

Planning for later-life financial security means being proactive. The decisions you make in early retirement, and even before that, can have a profound impact on your later years. Considering what's important to you and what you want your later years to look like sooner rather than later can help you build long-lasting financial security.

3 reasons to make later-life planning part of your financial plan

1. Life expectancy has increased

Modern medicine means today's retirees are likely to live longer than their parents or grandparents. That means you'll probably be spending more time in retirement and need to plan accordingly. What would happen if you only planned for a 20-year retirement, but lived for 10 years beyond this?

Planning with your expected life expectancy in mind is crucial. According to the Office for National Statistics, a 66-year-old man has an average life expectancy of 85 years. But you can't simply plan your finances to last this long – it's an average and many retirees will live longer than this.

In fact, a 66-year-old man has a 1 in 4 chance of celebrating his 92nd birthday, and a 1 in 10 chance of reaching 96. Planning as far as the average age could mean you spend more than a decade with uncertain finances.

For a 66-year-old woman, the average life expectancy is 87, with a 1 in 4 chance of reaching 94 and a 1 in 10 chance of reaching 98.

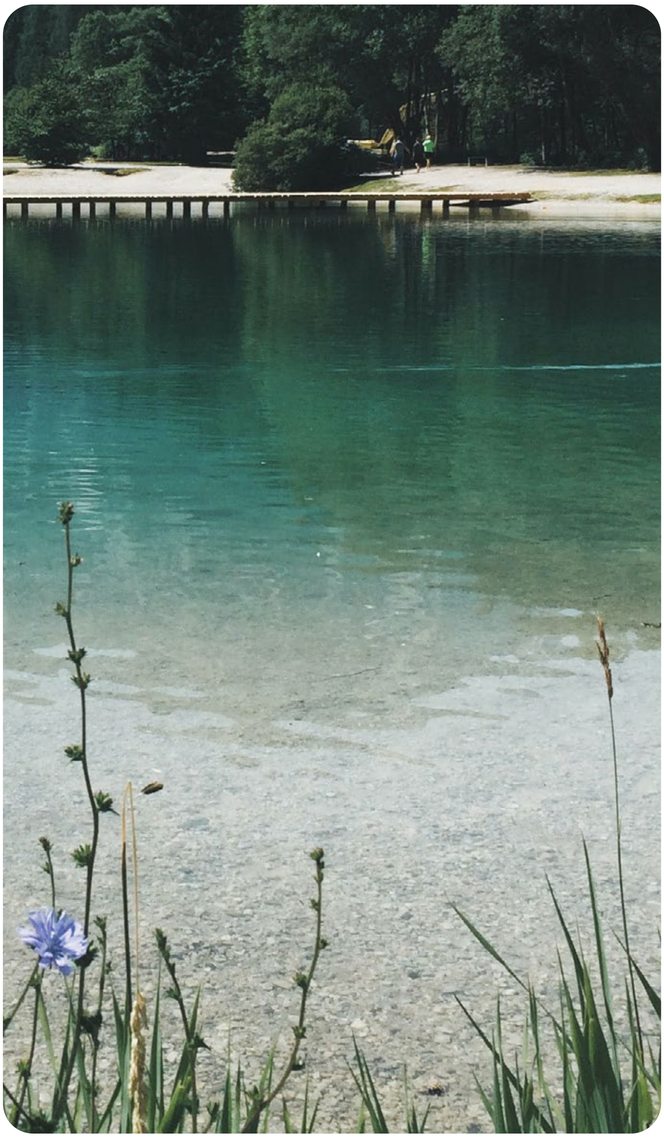
2. More people need some level of care

Rising life expectancy is a positive, but it also means that more people will need some level of support as they get older. That may simply be family giving you a helping hand with day-to-day tasks, but it could mean needing to use professional care services. In many cases, individuals are required to pay for care themselves, either wholly or partly. As a result, it's important that these potential costs are factored into your long-term plan.

According to Carehome, almost half a million people are living in care homes across the UK. As the number of people reaching their 80s and 90s increases, this figure is likely to rise.

3. Have confidence in your future

Knowing that your financial plan covers your later years and has a safety net if the unexpected happens, means you can enjoy living in the present. You shouldn't underestimate the benefit of having confidence in your future. It can help you get the most out of life and focus on what's really important to you.



How can you create financial security in your later years?

With retirement lasting longer for many people, effectively managing finances to reflect this becomes crucial. You'll have a longer period where you're not earning money but need to rely on the assets that you've built up during your working life.

For many, this starts with a pension. Your pension is a tax-efficient way to save for retirement, so it makes sense that pensions are at the centre of retirement planning.

Pension Freedoms have given retirees more choice, but one of the challenges they now face is making sure their pension lasts throughout retirement. If your plan sets out your retirement lasting for 20 years, but you lived for a further 10, how would you continue to maintain your lifestyle?

Running out of money in later years is something that two-thirds of retirees are risking, according to Standard Life Abrdn research. Despite the findings showing many retirees face the very real risk of running out of money, just 37% said they are worried about not having enough to last throughout retirement.

So, how do you ensure that your pension will last for the rest of your life?

The first thing to do is make sure you consider life expectancy when planning for retirement. How you factor this into your finances will depend on how you decide to access your pension.

What will the State Pension provide?

The State Pension provides a foundation retirement income for many. If you have 35 years on your National Insurance record, you will usually receive the full State Pension. For the 2021/22 tax year, this is £179.60 per week.

The State Pension rises each year, helping to maintain your spending power. You can use the government's State Pension forecast to see how much you could get and when.

Annuity: An annuity is one of the simplest ways to create long-term security. If you have a defined contribution pension, it is one of the only ways to create a guaranteed, regular income that will last for the rest of your life. An annuity is a product you purchase with a lump sum, usually from your pension, which then provides an income for the rest of your life. You can opt for an annuity where the income is linked to inflation, provides an income for your partner, or covers a fixed period, so it's important to understand which type suits your needs.

Flexi-access drawdown: With flexi-access drawdown, you take a flexible income from your pension while the remainder is usually invested. This provides your pension savings with an opportunity to continue growing even in retirement. Investment returns can help your pension go further. However, your investments remain invested which carries risk and therefore you will need to be mindful of your pension value falling as well as rising depending on performance.

Taking lump sums: You're also able to withdraw lump sums from your pension as and when you choose to. Much like flexi-access drawdown, the remainder will usually be invested. Usually, you can take 25% of your pension tax-free. However, withdrawals beyond this may be subject to Income Tax. If you're taking out lump sums from your pension, you should consider how they add up and whether a withdrawal could push you into a higher tax band.

Using your other assets to create income security in retirement

While pensions are essential for retirement planning, you may also have other assets you want to use when retirement planning or to have as a safety net if needed. These may include:

- **Savings:** After a lifetime of saving, it can be difficult to switch your mindset to start depleting your savings. However, money placed in Cash ISAs or other savings accounts can give you more confidence in your retirement plan and help ensure you're financially secure in your later years.
- **Investments:** If you have an investment portfolio outside of your pension, this can also be used to provide an income. You can either start depleting your investments or build a portfolio that will deliver an income. Keep in mind though, you can't guarantee an income from investments and market volatility can mean values rise as well as fall.
- **Property:** Property is often one of the largest assets a retiree holds thanks to soaring property prices. It's an asset you can also include as part of your retirement plan. Traditionally, retirees would downsize to release some equity from their homes. However, there are other alternatives, including equity release, that you may want to explore.

For many, pension planning means pulling together different income sources to create security in retirement. A financial plan can help you understand how your assets can work together to offer you peace of mind.

Retirement risk: Inflation

One of the challenges of planning for a longer retirement is the impact inflation will have on your spending power.

Inflation refers to the rising cost of living. While the impact can seem minimal year-to-year, it can be significant over a 30-year-long retirement. If you don't consider inflation when retiring, it can mean your income buys far less than you expected in your later years, potentially affecting your lifestyle.

The Bank of England's inflation calculator highlights the impact inflation can have on retirees. A 1990 retiree who decided they needed an income of £20,000 would now need an income of more than £45,000 simply to maintain the same standard of living they had at the beginning of their retirement. Failing to factor in inflation could mean you're financially vulnerable in later retirement.

Why care should be something you think about

Needing to rely on someone else or care services isn't something anyone wants to think about. But as life expectancy increases, more people rely on some form of care.

According to Carehome, almost half a million people are living in care homes in the UK. There are also many more that are receiving some level of support in their own homes, whether from family or a professional.

Despite more people relying on some form of care, it's still something many retirees aren't thinking about. A survey from Aegon found that almost two-thirds of people in the UK are not considering healthcare costs when thinking about their retirement expenditure. Just 7% said planning ahead for possible future social care costs is a financial priority.

With the average residential care home costing £34,944 a year, according to Paying for Care, it could mean your outgoings are much higher than expected later in retirement.

Even when residential care isn't needed, costs can quickly add up. You may, for instance, need to adapt your home to suit your needs. Or you may benefit from a care worker visiting your home regularly to help you with day-to-day tasks. Even just 10 hours of support a week at £15 per hour adds up to £7,800 a year. That's a sizeable expense to fit into your regular outgoings if it's not something you've thought about before.

The cost of care

The cost of care varies between regions and the type of care you need.

However, in 2020, the average cost of a residential care home in the UK was £34,944 a year. This rose to £48,720 when nursing care was included.

Source: Paying for Care

Should you make care part of your retirement plan?

The short answer to this question is yes.

It's true that you might not need any form of care. However, to create a retirement plan that you can rely on and have confidence in, you need to think about what could happen and how to create security if some things don't go according to plan.

Rules around when you must pay for care vary between England, Scotland, Wales, and Northern Ireland. However, in the majority of cases, those needing care will need to pay for at least part of the cost either out of their accumulated wealth or from their regular income.

Setting aside some assets or creating an income that considers the potential cost of care can create certainty.

There are other reasons for being proactive when it comes to care, including:

1. **You will have more choice**: By setting aside money for care, you'll have more choices open to you if care is needed. That means you may be able to pick a care home that is closer to friends and family or has facilities you'd like to benefit from. In contrast, if the council is funding your care, you may have limited options that don't suit you.

2. **It can provide greater security**: Applying for care support from local authorities or other organisations can take time. These delays can leave you in a vulnerable position. With a care plan set out, it can help you and your loved ones make the decisions needed quickly.

Thinking about needing care can be difficult. But by making it part of your plan from the outset means you're able to enjoy your retirement knowing that you have taken steps to secure your long-term wellbeing.

Do you have a Power of Attorney?

Planning for the cost of care and thinking about your wishes aren't the only steps you need to take to ensure security in your later years. A Power of Attorney gives someone you trust the ability to make decisions on your behalf if you're unable to.

This may include decisions like medical care and moving into a care home. Without a Power of Attorney, it can be difficult and costly for loved ones to act in your best interests. Registering a Power of Attorney is just as important as creating a care plan.

Making a plan for your care fund

While having a care fund earmarked in case it's needed is important, so is understanding what you want to happen to it if it's not needed. Who would you like to benefit from the fund if it's not used? This should be reflected in your will. You may also need to consider the impact it could have on a potential Inheritance Tax (IHT) bill. There are often things you can do to reduce an IHT bill while still providing you with long-term security. Please contact us if this is something you'd like to discuss.

Making long-term security part of your retirement plan

We understand that it can be difficult to consider how your needs and income will change from the start of retirement to your later years. There's a lot you need to think about and many "what if?" scenarios to consider, from the impact poor investment performance could have to what would happen if you needed care. We're here to help you create a financial plan that reflects your retirement goals and provides the peace of mind you need to enjoy the next chapter of your life.

If you'd like to discuss your retirement and later-life plans, please contact us.

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