

THE

Henderson Loggie

Financial Planning

RETIREMENT PLANNING GUIDE



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Welcome to our retirement planning guide

Before you retire, you need to make important decisions about the money you've worked all your life to earn. The right choices will make things easier for you – and better for your loved ones.

This guide will help you take wise steps toward retiring with dignity and peace of mind.

Your choices can also provide financial security for your children and grandchildren for decades to come. That's something you can always be proud of.

“

Henderson Loggie Financial Planning's attention to detail is second to none and they recognise the importance of family values which enables them to empathise with their clients.

We are fortunate in being able to enjoy a comfortable life, safe in the knowledge our advisor and Henderson Loggie Financial Planning put us at the centre of their business environment.

- Ian E Finlayson

Who is this guide for?

This guide is for you if you're approaching retirement age, but anyone thinking about retirement or pensions could benefit from this information.

Pensions and retirement planning decisions can be confusing so we've made the guide as simple as possible.

We all know parents and loved ones who are not sure how best to prepare for retirement. We're interested only in providing good advice so that you can make the right financial decisions for you and your family.



I have had the pleasure of working with Henderson Loggie Financial Planning for the last 6 years.

They handled my retirement planning seamlessly, making sure I had all the information I required to make the right decisions at the right time.

- Ms C MacInnes

What is retirement planning?

Retirement planning means taking decisions that will lead you to have the best standard of living possible for the rest of your life.

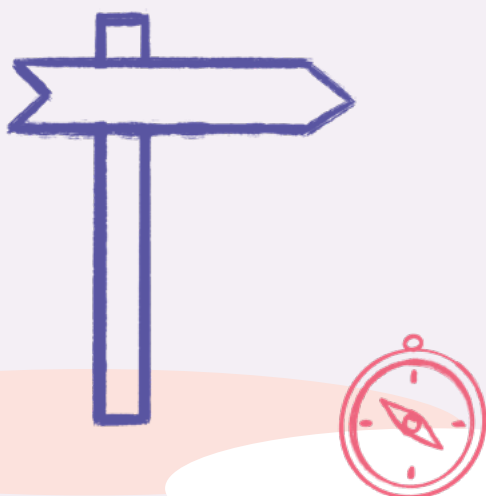
All of your income-earning assets – including investments, property and pensions – are put to work in the best way for your circumstances.

There are a lot of things to consider, and these are important decisions. Making the right ones means you set yourself up for the best retirement possible while also taking care of your family's future.

We recommend that you start thinking about your retirement planning at least six months before your intended retirement date.

That's because it can take a while to get together all the relevant information you need to make informed decisions. Ideally you should think about your retirement plans many years in advance to ensure you build up enough to meet your needs.

If you need professional advice to make wise retirement planning decisions, we're here to help.





Where do I start?

It's best to start by working out how much net income you will need in retirement. That means you need to take the following into account:

- how long you think you will live.
- how long the average person of your age lives.
- how good your health is (think of your quality of life and needs in retirement).
- how good your family history of health is.

The big question - how long will your retirement be?

Age now	Men		Women	
	Life expectancy	Chance of reaching 100	Life expectancy	Chance of reaching 100
60	85	3.3%	87	5.5%
65	85	2.9%	87	4.9%

Source: Life expectancy calculator - Office for National Statistics 2021

What are my income sources?

You probably have a number of different investments and other assets. These can provide income in your retirement and perhaps leave an inheritance for your family.



Pensions

This means a state pension as well as other pension entitlements, perhaps from several employers.



Capital

This means money from savings or inheritances over your working life.



Property

This means your home, which may now be larger than you need. Some of the value of your home could be used to boost your retirement income. If you have a second home, it could be rented to give you even more retirement income.

How much income do I need during retirement?

It's hard to say exactly how much income you need, but here are some things to consider when planning your retirement.

In the first stage of retirement, you might not want to give up work altogether. Perhaps you'd be happy to work part-time. That means you wouldn't need to draw the full potential income from your pensions and other investments for a while.

Further on in retirement, you'll give up working and may need all the income available to you, especially if you need care in your later years.

As well as your retirement income, it's wise to consider how to minimise inheritance tax on your estate so that your loved ones receive the best outcome for what you pass down to them.

Can I change my retirement decisions later?

Some retirement decisions can be changed later but others can't. For example:

- **A decision that CANNOT be changed:**
You decide to take a fixed income from your pension schemes.
- **A decision that CAN be changed:**
You choose to withdraw an income from a pension pot that remains invested. This needs regular review, to make sure your money is working hard for you.



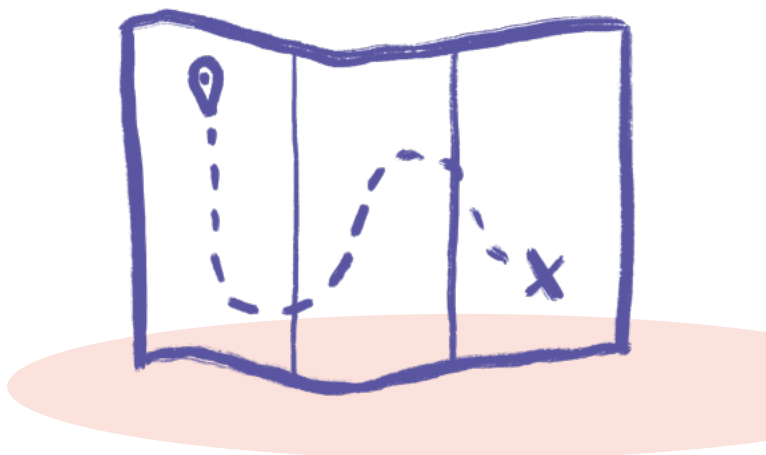
Your retirement plan: what to think about

Getting your investments right can be harder when you're retiring than at other times.

Here are some of the things to think about:

- your investment goals might change from growth to income.
- your attitude to investment risk and your ability to absorb losses will probably change once your earnings stop.
- your marginal rate of tax could fall when you stop work, as your full-time earnings also stop.
- your future income may be uncertain, for example, if you are planning to undertake some part-time work.
- your spending patterns are likely to change with no travel to work, and more leisure time.
- you could have a large one-off investment to make, such as a pension scheme lump sum. And you may well need to keep your pension fund invested to generate the right levels of long term income as your needs change.

- you may want to pay more attention to inheritance planning than you have before – how much to leave to your loved ones while keeping your income levels now at the required level
- you may have big costs to incur, for example paying off your mortgage or making significant renovations to your house – which funds will pay for this?



Pensions

Pension talk can be complicated, so we'll try our best to keep this as simple as possible. Remember that we're here to help if you have any questions.

There are two main types of pension to know about. These are the **defined contribution (DC) scheme** and the **defined benefit (DB) scheme**.

Let's take look at each.



Defined contribution (DC) scheme

DC pensions typically come either from a scheme set up by an employer or from a personal or stakeholder pension plan.

The DC scheme has a fund. You can draw part of the fund as a tax-free lump sum. The remainder is taxable, whether taken as income or as lump sums.

The fund built up in your DC pension plan provides a pot of money. The fund is made up of contributions from you and/or your employer, plus tax relief and investment growth.

You can use this to provide the following:

- **a tax-free lump sum**, usually up to 25% of the total fund; and
- **a taxable pension income**, provided by:
 - scheme pension, or
 - purchasing an annuity, or
 - pension income withdrawals from your pension fund.

Alternatively, the fund built up in your DC pension plan could be used to provide **all your income, without a tax-free lump sum**.

You have choices as to how you draw your tax-free lump sum, this may also depend on how you choose to draw an income from your pension.

Some may take the maximum tax-free lump sum immediately, where they have a need for larger expenses, some may withdraw this a series of capital sums. In some cases, the tax-free sum can be used to provide regular tax-free income.

The income choice requires more consideration as to which method is best for your needs.

Again, we can help you make the right decision if you're not sure what's best for your circumstances.

Income choice

Some people choose to buy an annuity; others choose to take pension income withdrawal. It's also possible to do both, for example by starting with pension fund withdrawals and then buying an annuity some years later.

A broad rule of thumb is that you should try to cover your fixed income needs with a fixed (annuity type) income.

There is no right option for everyone, only what is right *for you*. If you need support in making the right decision to best maximise your income, we're here to help.



Pension income drawdown

This means you draw your income directly from your pension fund. This is flexible and gives you control of how much income you do draw.

However, there are no guarantees that the fund will be able to pay out an income for the rest of your life.

Given the amount of income you are likely to take from the fund to make it worthwhile, it is likely that your fund size will gradually reduce. Therefore, this option needs sound management and regular reviews, to ensure your pension can last as long as it needs to.

You are effectively in a race against time – will the money last longer than you will? That's not to say a flexible income isn't right for you. A flexible income may be the best solution for you to manage the different income needs you may have across your retirement. For example, your income needs before and after your State Pension commences, but you need to understand the risks.

You should carefully consider the income needs of the loved ones you intend to provide for when you pass away and what may be left to them in the future. For example, it's sometimes better for them to have a guaranteed income instead of a lump sum.

We recommend that you prioritise a secure income for you (and your partner) first. Of course you may want to provide for your children and grandchildren – but you deserve to have a comfortable life, too!

Whatever you do, consider the tax consequences. Drawing down a substantial amount from your pension fund could cause more of your income to be subject to higher rates of tax than if you withdraw smaller amounts each year.

You might be able to plan your income so that you can take a substantial amount from your pension without an especially high tax charge. Taking advice on the taxation of the withdrawals you make is important.

There are some alternatives to income drawdown that can also provide some extra security. **Flexible annuities** offer income guarantees with the ability to vary the income received within certain limits, while **fixed-term annuities** allow you to secure income for a number of years and leave a pot of money at the end for future income.



Annuity

An annuity is a lifetime income that you can buy from an insurance company, using your accumulated pension fund.

If you buy an annuity, you must choose what form it should take. Your main options are to:

- **keep your annuity income** at the same level for the rest of your life, or
- **opt for a lower starting income** that increases each year to protect you against the effects of inflation.

You could also choose for income to be paid to your spouse, partner or anyone else you choose, perhaps at a lower level than your pension, if you die before them.

If you are under age 75 when you die, your nominated loved ones are paid a tax-free income.

In brief, these are the advantages and disadvantages of annuities:

- **advantage** – an annuity is simple and guaranteed to last for the rest of your life – and your spouse or partner's life as well if you buy an annuity that includes this.
- **disadvantage** – an annuity is not flexible.

We recommend that you take professional advice before selecting an annuity.

An annuity choice is a decision for life. Once made it cannot be undone.

As ever, we can help you make the right choice for your circumstances.

Fund withdrawal

It's possible to withdraw money from your pension, up to its full value, without needing to access drawdown or an annuity.

This has a fancy name: "uncrystallised funds pension lump sum".

It gives you 25% tax free, with the remainder taxed as income, although received as a lump sum.

This sounds attractive, but withdrawing the full amount could take you into a higher income tax bracket, and so may not be beneficial.

It will also restrict future payments to DC pensions without tax charges. Again, it's sensible to take advice if you consider this option.

Defined benefit (DB) scheme

Defined benefits (DB) pensions are paid directly from the employer's pension fund.

They are based on the guaranteed income your employer's or former employer's scheme promised it would provide for you.

Importantly, in most cases, the income from a DB scheme will be significantly BETTER than the annuity you could get elsewhere in the market if you took the capital value (transfer value) of your DB scheme and tried to "buy" that exact annuity.

In most DB schemes you will have one simple choice to make about how you receive your main benefits: **do you want to exchange some of your taxable pension for tax-free cash?**

So, that means a choice between:

- cash and pension.
- pension only.

Put this way, the answer might seem obvious. In practice, cash might not be the better option.

The terms on which you will be able to exchange some of your pension for cash are often far from generous.

And taking cash means a smaller income for life.

In some schemes, cash is often a fixed part of the overall benefits, although usually you will be able to commute a small part of your pension for extra cash.



Investments

Your new pension assets could play a crucial role in your retirement income planning.

It's essential that you look at your investments as part of the mix.



Investments

If you have a sizeable pension, an increasingly valuable benefit to using your investments for income is that you will generally be reducing the size of your inheritance-taxable estate.

Meanwhile, your pension, which is generally not subject to inheritance tax, can be retained and passed on.



How to use investments to generate income

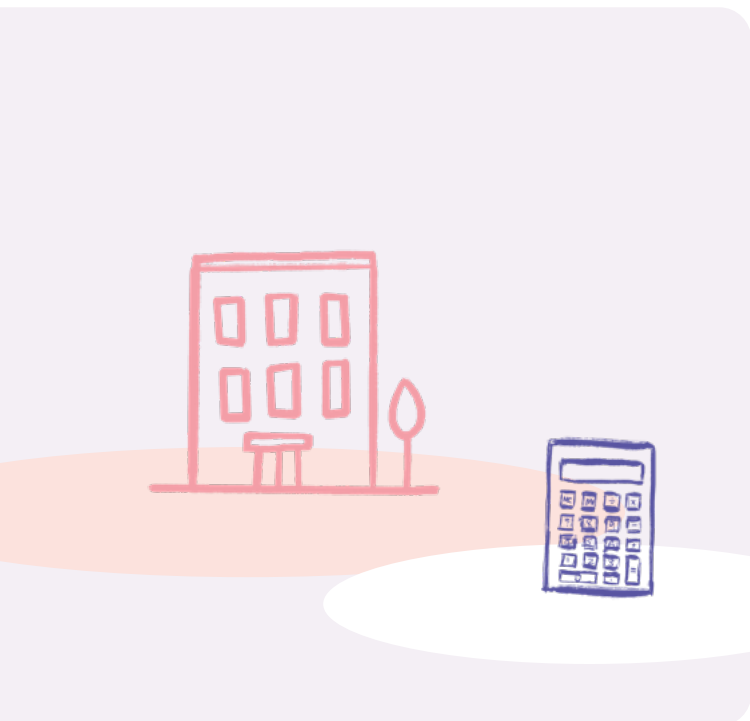
Broadly speaking, there are three ways in which you can take income from investments. Each has its own level of risk.

- some risk – you could just take the natural income. For example, dividend income. The hope would be that the dividends would rise in future and provide an increased income and even some capital gains. This is not guaranteed and income and capital values could drop.
- higher risk – you could regard the total return from your investments as your income. In that case, you would regard both the income and capital gains as your spendable income. You cannot count on making gains on a regular basis, and there may be years when there are losses. It also reduces the potential inflation protection for the portfolio of investments.
- highest risk – you could consciously aim to eat into the capital as well as drawing the income and gains. At some point the capital could run out – possibly while you are still living.

Professional financial advice will help you manage these risks, pay less tax and make your capital last longer. If you need that assistance, we're here to help.

You shouldn't expect your bank or building society deposits to pay a meaningful rate of interest. If you are looking for natural income now, there are three main investment sources of income to consider – both in the UK and overseas.

- fixed interest securities – which cover a wide area of investments from government bonds (gilts) to corporate bonds. Income yields vary considerably between different securities. The highest yields come from the riskiest bonds.
- shares – which in the UK and many other countries yield more than cash deposits. Over the long term, dividend income from shares has been less volatile than share prices.
- rental income – which comes from commercial property.



Using your home or buy-to-let in retirement planning

Planning for retirement should also take your property (or properties) into account. Selling and downsizing could release significant capital from which to produce income.

For those with well-established rentable second properties, this source of income could be invaluable. It is always wise though to compare net rental yields to other more liquid forms of investment, to ensure you are getting the best use out of your capital.

Tax wrappers

The three main investment sectors can be accessed through a wide range of investment funds (collectives). You can hold them directly or through other investment “wrappers”, such as ISAs and investment bonds.

The choice of investments, the appropriate wrappers and who should own what investments are all areas to explore with your financial adviser in the run up to retirement.

After that you should review your investments with your adviser regularly – usually once a year – to make sure that your objectives are still being met and to make any necessary amendments.

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Henderson Loggie Financial Planning have steered us on a steady course through the financial maze and have invested wisely on our behalf, along the way, clearly explaining the advantages, as well as the risks and pitfalls.

We would recommend them to any would-be investor.

– Mr & Mrs Neilson

Inheritance Tax

Inheritance Tax (IHT) is an area that should be considered in your retirement plans as it can be a complex subject that affects many individuals.

This is particularly important if you include your pension funds in your planning as these funds are usually held outwith your inheritable estate, and, as with other areas of tax, it may be possible to reduce the amount you pay.



Inheritance Tax

Are you wondering how Inheritance Tax (IHT) may affect your assets and the money that you leave to your family in the future? Below we explain what Inheritance Tax is and share 5 ways that you can reduce your Inheritance Tax bill.

What is Inheritance Tax and how can it affect you?

Inheritance Tax (IHT) may affect individuals when their estate is above a certain value on death or if they make certain gifts during their lifetime above a certain value.

Each individual has a nil-rate band, which is your exempt amount for Inheritance Tax. This is currently £325,000 per person. The nil-rate band can be transferred between spouses, so a total nil-rate band of £650,000 could be available on second death. It's important to consider that assets passed between spouses are exempt from IHT.

One potential issue with the nil-rate band is that it has been frozen for many years now, but over those years we've had a significant rise in asset prices, leading to more individuals being liable to IHT.

A further nil-rate band is also available in relation to your main residence. As long as you leave your main residence to your direct family, whether that be your children or grandchildren, a further exemption can be claimed. The current Residence Nil-Rate band is £175,000 per person, subject to the value of your home, if lower in value.

It's important to be aware that the Residence Nil-Rate band could be reduced if your estate value exceeds £2 million. The Residence Nil-Rate band is a complex subject and we would suggest that you seek professional advice to assess your position towards this.

If your assets exceed your available nil-rate bands, then IHT is applied at a rate of 40%.



5 ways to reduce your Inheritance Tax

There are several options that you can consider to help mitigate an IHT liability. 5 of these, that are beneficial ways to reduce IHT are highlighted below:

1. Spending

Although it sounds a bit strange coming from financial advisers, spending is a simple way for you to reduce the value of your estate. However, it is important to spend your money on something that is not a tangible asset. For example, you could go on a nice holiday. If you were to buy an expensive car however, that's still going to be an asset in your estate.

You need to be mindful about what you're spending, making sure it's within your means, and making sure you've still got enough to last the remainder of your lifetime.

2. Gifting

Gifting is another option to consider, allowing you to gift assets or money directly to your beneficiaries and also allowing you to see them enjoy the benefit of these gifts. There are a number of exemptions that you can consider when gifting that allow you to reduce your Inheritance Tax liabilities:

- The annual exemption, which allows you to gift up to £3,000 in total per tax year.
- The Small Gift exemption allows you to give up to £250 per person, per year.
- Gifts in respect of marriage. We can gift up to £5,000, to children, up to £2,500 to grandchildren and up to £1,000 to other beneficiaries in respect of marriage.

Gifts made to charities are also exempt, either during your lifetime or through your will. If you make any gifts that exceed your exemptions, these are regarded as Potentially Exempt Transfers and this means that you need to survive a period of seven years from making the gift for it to be regarded as fully out with your estate, for Inheritance Tax purposes.

3. Using trusts

A direct gift can be made into trust, allowing you to remove money/assets from your estate. Providing you survive seven years from the date of the gift, it will be exempt from Inheritance Tax.

A common use of trusts is gifting money to children or grandchildren for them to benefit from that money in the future. When we gift money into trust, we will place it in an appropriate investment so the money can still grow. The advantage, initially, is that any growth received within the trust investment will be out with your estate.

There are various types of trusts available and different options as to how money can be accessed in the future, from a trust.





4. Investments that qualify for IHT relief

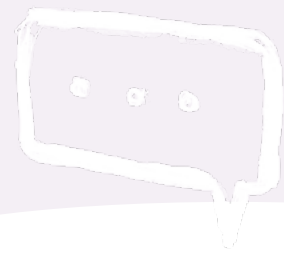
Another solution available is investments that qualify for an exemption called Business Relief. Providing these investments are held for two years and at the date of death, Inheritance Tax will not apply to them.

One of the benefits of these investments is that they are still your own investments, allowing you to retain control and access to the money. However, these investments do come with higher risks and wouldn't be appropriate for all individuals.

5. Life assurance policies

The final solution we can consider is arranging a Whole-of-Life assurance policy, held in a trust. This option will provide a capital sum on death to cover a potential IHT liability. The benefit of this being that your beneficiaries wouldn't need to sell your other assets to pay the IHT bill.

Arranging a life assurance policy isn't going to reduce your Inheritance Tax bill, however, it will just provide a means to pay that tax liability.



In conclusion

This section of the guide has provided an overview of Inheritance Tax and the potential considerations to mitigate any liability that may apply to your assets. As you can see, it is a complex subject and there is a need for professional financial advice.

If you would like some support with this and would like to speak to a member of our team, please get in touch with us using the details on the next page.



How can we help?

You can see from the above that preparing for retirement means thinking about a lot of things, some of which can feel quite complex even to financial experts.

The good news is that you don't need to make these decisions alone. We can help you with your planning. In particular, we can provide advice on:

- **choosing between annuity and income drawdown**, and finding the best annuity rate if relevant.
- **finding the best provider**, investment strategy and income levels for drawdown.
- **managing your liquid capital**, including the pension lump sum, in a tax-efficient way that meets your needs.
- **planning inheritance**.

Arrange a video call with an advisor

If you need help with anything related to retirement planning or pensions, please don't worry.

Since 2000, we have helped thousands of people with advice about pensions and retirement planning. We believe we can help you as well.

If you would like to arrange a free no-obligations video call with an advisor, please click the button below, or email us at info@hlfp.co.uk

[Arrange a video call](#)

Disclaimer

This guide is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before acting on any of the contents of this guide.

We can accept no responsibility for any actions you take as a result of reading this document, where you are acting independently of financial advice.

Henderson Loggie Financial Planning Ltd is authorised and regulated by the Financial Conduct Authority.

Investment warnings

- Investing should be regarded as a long-term strategy and should fit in with your overall attitude to risk and financial circumstances.
- Past performance is not a guide to future performance. The value of investments and income from them can go down as well as up, and you may not get back the original amount invested.
- Levels and basis of, and reliefs from, taxation are subject to change and depend on your individual circumstances.
- In retirement the level of capital is likely to drop because of the money you are taking out. It is vital that you ensure as far as possible that the money doesn't run out during your lifetime.

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