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Planning for an early retirement

Living life to the fullest and accomplishing long-held dreams

Early retirement typically signifies reaching financial autonomy before the statutory pension age, usually in the mid-60s. In the United Kingdom, retirees can begin drawing their State Pension at age 66. However, this retirement benchmark is set to increase to age 67 by 6 April 2028.

Consequently, the early retirement age could be anywhere in your early 60s. Yet, for most, the concept of early retirement begins at age 55, when individuals can start drawing on their personal or workplace pension savings. However, this age is also due to increase to 57 from 6 April 2028.

ASPECTS OF LIFE

During the early retirement phase, the focus tends to be on living life to the fullest and accomplishing long-held dreams. One's spending might then reduce as activity levels decline, only to surge again later, possibly due to rising care needs.

It's common for individuals to either overestimate their health or underestimate their lifespan. As average life expectancy gets longer, some people may spend over 20 years or more in retirement – over twice our grandparents' duration. Yet, as with many aspects of life, this depends on luck.

COMPLEX CALCULATION

In fundamental terms, full retirement implies that your lifetime expenses should not surpass your income plus any remaining assets, such as savings and investments. This can be a complex calculation in many instances. It will require you to weigh your pension and other income sources against your expenditure and evolving needs as you age.

Simultaneously, it's crucial to consider investment returns and inflation, which refers to the rising cost of living. As we have recently witnessed, everyday prices can escalate rapidly, significantly diminishing the purchasing power of a fixed income or cash savings.

MULTIPLE FACTORS

Embracing early retirement doesn't necessarily translate to a full-stop on professional life. Instead, many individuals transition into more flexible, part-time roles or switch toward volunteering. This shift allows retirees to sidestep less appealing aspects of working life, such as long commutes or stressful work environments while reaping employment benefits.

Unfortunately, early retirement due to ill health isn't a choice but a necessity, creating unique challenges for some. Time constraints limit opportunities to plan and build retirement finances. Additionally, careful planning for care and support becomes a priority. Making the decision to retire early is significant and requires thorough consideration of multiple factors.

To determine whether you can retire early, you will need to assess your financial standing. This means calculating your total pension pots, tracking lost ones and considering other possible income sources or debts. Additionally, you need to envision your ideal early retirement lifestyle and estimate its costs. ■

READY TO DISCUSS NAVIGATING YOUR RETIREMENT JOURNEY?

To retire early, starting to plan sooner rather than later is essential. The earlier you start saving, the harder your money can work for you. Please contact us for further information or assistance in navigating your retirement journey. We're here to help you plan for a secure and fulfilling future.

THIS ARTICLE DOES NOT CONSTITUTE TAX OR LEGAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.