Start with end in mind when it comes to long-term planning

CONSIDER HOW YOU WANT TO LIVE YOUR LIFE NOW AND IN RETIREMENT

BY HAZEL BROWN

Start with the end in mind. That is the principal rule of retirement planning.

The most important part of any financial plan is you; so consider how you want to live your life now and in retirement.

What are the things you must have, ought to have or would be fun to have?

As the American actor James Dean said: “Dream as if you'll live forever; live as if you'll die today.”

Evidence shows that healthy life expectancy in Scotland is only 60 for men and 62.2 for women. If you knew you'd become ill at a certain time, would this change your views?

Answering these questions will set you on the path to achieving your true aspirations in retirement.

Hazel Brown: “what-if” scenarios

Here is a five-point guide on establishing your retirement plan:

● De-risk – Amassing a capital sum large enough to enable you to live off the yield could involve taking more risk than necessary.

Controlled spending of capital, plus returns, in retirement is a better approach.

Clearly, if you need less capital, you will require less growth and won't have to take as much risk. A good independent financial adviser will run a lifetime cashflow model based on your circumstances. This will show the minimum growth rate required to ensure you don't run out of money.

It will also test your planned strategy under a variety of “what-if” scenarios.

● Cut charges – High charges can erode returns over time. Funds publish their total expense ratio (TER), but this rarely includes all costs.

Fund managers buy and sell shares in an attempt to beat the market, and incur turnover costs, which are not included in the TER.

UK equity-fund turnover is estimated to add 1.2% to costs, on average, so when you add typical annual charges of 1.5%-1.8%, the true annual cost could be 3%.

Smaller companies and emerging-markets funds normally have higher turnover, so costs here tend to be even greater.

KEEP EXPENSES DOWN: High charges can erode returns over time

Academics have shown that stock picking and trying to time markets add extra cost and account for a very small proportion of returns, so why pay for this?

It is far better to take the minimum risk at the lowest cost possible to achieve your target returns.

● Don't trade tax efficiency for accessibility – Use your tax reliefs and allowances wisely, but consider your post-retirement situation.

Pensions are very tax efficient, but might not offer the level of accessibility required at retirement to meet your aspirations. What good is a regular income if you need a lump sum to go on a round-the-world trip, say?

An individual savings account (Isa), which doesn't attract upfront tax relief, but gives tax-free capital withdrawals, might be a better way to save for this.

Make sure, too, that your savings are structured so that both you and your spouse or civil partner can fully use your personal allowances in retirement.

● Consolidate – People change jobs often these days, and accumulate a variety of pension pots.

Consolidating these (provided costs aren't unreasonably high and you're not forgoing valuable guaranteed benefits) means you can apply the same investment strategy across your portfolio and keep a close eye on performance.

● Review regularly – Review your retirement planning regularly with your adviser. With the right focus and prudent management of your existing assets, you might be able to realise your dreams earlier than planned.

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