

Why the Last Five Years Before You Retire Are the Most Important

This document contains important information and you should read it carefully and keep it safe for future reference.



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IMPORTANT INFORMATION

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Investments carry risk. The value of your investments (and income from them) can go down as well as up, and you may get back less than you invested. Past performance is not a reliable indicator of future results. Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.

Introduction

As you approach retirement, it's crucial to recognise that the last five years leading up to this milestone are perhaps the most critical period for ensuring a smooth transition into retirement life.

But why? At this stage, you need to determine whether you can truly afford to retire and live off the income you have accrued over your working life. This guide aims to outline what you need to think about as you near retirement and why these final years are pivotal in ensuring that you can live the retirement that you had always dreamed of.



Reviewing income sources

Retirement income typically comprises various sources, including the new state pension as well as a workplace pension and/or personal pensions. Some will also benefit from having additional savings and investments.



The new state pension

The state pension serves as a foundational pillar of retirement income for the majority of retirees. Accessible at 66 years, rising to 67 in 2026, the amount of money that you will receive from the new state pension is based on your national insurance contributions throughout your working life. As it stands, in order to receive any of the new state pension, you will need to have 10 qualifying years on your national insurance record. In order to receive the full new state pension, which is £230.25 per week in the 2025/26 tax year, you will need 35 qualifying years of national insurance contributions.

If you have had gaps in employment during your life, a financial adviser will be able to explain the estimated amount you will receive if you are not going to reach 35 years of national insurance contributions and explore with you how much that you will need to do in order to have enough money to live off during retirement.

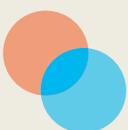


Workplace pension

The main decision employed people will need to make when they retire is how and when to access their workplace pension. Workplace pensions are split into two categories, Final Salary Schemes (also known as Defined Benefit schemes) and Defined Contribution Schemes (also referred to as personal pensions). The eventual pension income from a Final Salary scheme is typically determined by your length of service and the level of their salary when you retire and the risk is generally held with the employer.

With a Defined Contribution Scheme, the employee bears the investment risk, as the eventual pension payout depends on the performance of the investments held within the pension account and are based upon the contributions made.

At retirement, the accumulated pension pot can be used to purchase an annuity, which provides a guaranteed income for life or it can be transferred to a drawdown arrangement where the retiree can manage their investments and withdraw funds as needed. A combination may also be appropriate depending upon your individual circumstances and objectives. A financial adviser will be able to provide advice on which option is better suited to your circumstances based on your retirement goals.



Workplace Pensions are regulated by
The Pensions Regulator.



Personal pensions

Personal pensions, such as self-invested personal pensions (SIPPs), offer individuals flexibility in managing their retirement savings. Understanding the intricacies of each retirement income source, including eligibility criteria, contribution levels and potential tax implications, is vital for optimising retirement income and ensuring a comfortable standard of living in later years. Seeking guidance from a financial adviser can help you to navigate the complexities of retirement income planning effectively.



Understand tax-efficient allowances

Financial advisers are the professionals when it comes to ever changing tax laws and allowances. By working with them, they will be able to advise you on the most tax-efficient way of withdrawing your retirement income to make it go further. Additionally, they will be able to support you with estate planning so that when you pass away, the beneficiaries of your estate are left with a minimal inheritance tax bill.



Investments

If you have invested during your life, when you reach retirement you will have additional funds to work with. You can work with a financial adviser to determine a sustainable withdrawal rate from your investment portfolio to cover your retirement expenses. A common guideline is the 4% rule, which suggests withdrawing 4% of your portfolio balance in the first year of retirement and adjusting subsequent withdrawals for inflation. However, the optimal withdrawal rate may vary depending on factors such as market conditions, life expectancy and investment performance.

It is also important to maintain an appropriate asset allocation in your investment portfolio that balances potential growth with risk management.

As you transition into retirement, your attitude to risk will likely change and you might consider shifting towards a more conservative investment strategy that prioritises capital preservation and income generation. A financial adviser can help you to diversify your portfolio across asset classes such as stocks, bonds and cash to manage risk and to potentially enhance returns.

The decisions that you make when it comes to your retirement income can have a lifelong effect and may be overwhelming. A financial adviser can explain the options to you and demonstrate what they would mean for your retirement.



The Financial Conduct Authority does not regulate Estate and Tax Planning.

General considerations

How much money will I need?

Research from the [retirement living standards \(2024\)](#) indicates that in order to maintain a 'minimum' standard of living in retirement, which means covering essential expenses and participating in minimal leisure activities, individuals will require £14,400 annually if they are single and £22,400 for a couple. On the other hand, to enjoy a 'comfortable' retirement, characterised by having greater financial flexibility and the ability to indulge, the recommended amounts are £43,100 annually for a single person and £59,000 for a couple.

If you have certain retirement goals, you will need to understand whether the savings you have accrued during your working life will be sufficient. A financial adviser will work with you to create a financial plan in your final working years on how to make your retirement dreams a reality and they will give you a realistic understanding of how much money you will have to budget with per year.

How long will I be retired for?

Generally, many people retire either when they reach state pension age, which is currently 66 years rising to 67 in 2026, or when they can access their private pension/s, currently 55 rising to 57 in 2028. As of 2024, the average life expectancy of a UK citizen was 82.06 years. Therefore, you could have a good 15+ years in retirement if you retire at state pension age or 25+ years if you retire at 55.

Of course, these are averages and your life expectancy will depend on your general health, family history and lifestyle choices. However, it is always best to prepare for the best-case scenario and if for example you have 25+ years in retirement, you will need an income that lasts this long.

Planning your budgeting for retirement

Budgeting is essential for maintaining financial stability and security throughout your retirement years. With a fixed income from pensions, savings and potentially other sources such as investments or part-time work, careful management of expenses becomes paramount.

Creating a detailed budget that accounts for essential expenses like housing costs, food and utilities, as well as discretionary spending for leisure activities and travel, is crucial. It's also important to factor in inflation and potential increases in healthcare costs as you age. Utilising resources such as state benefits, pension schemes and tax-efficient savings options such as ISAs, can help you to stretch your retirement income further.

Regularly reviewing and adjusting your budget based on changing circumstances or unexpected expenses ensures that you can enjoy your retirement years comfortably and without financial stress. This is why it is paramount to seek financial advice in the build up to retirement as they can provide valuable guidance tailored to your specific needs and goals.

Are you on track?

In the build up to retirement it is essential that you explore whether you are on track to make your retirement goals a reality.

In order to see whether you are on track, you will need to see how your pension and any investments are performing as well as accumulating the total amount that you have in other savings vehicles. You are able to check your state pension forecast by

completing a [BR19 form](#). You can do this if you are over the age of 16 and at least 30 days away from your state pension age.

By working alongside a financial adviser, if you are not on track to achieve your goals, then they will be able to support you to either adjust your financial goals or explore options such as adjusting your investment portfolio in order to try and make your money go further. You may consider at this stage to not fully retire, but to slow down and work part time to continue having a regular income.

Attitude to risk

How your pension pot and other investments are invested can be crucial to the success of the fund. Different investments carry different levels of risk. Higher risk investments have the potential for higher returns, but they come with a higher chance of sudden short-term losses. If retirement is still some time away, you could look to invest for more growth potential knowing that, over the longer-term, higher risk investments could deliver higher returns, however, this does also mean a higher potential for losses. As your retirement date draws closer, a sudden drop in pension value could affect your well-laid plans. If this were to happen, your pension fund may not have the time to recover, especially in the five-years leading up to retirement.

The five-years before retirement is the ideal time to assess how your pension and investments are performing and to consider how much risk you are comfortable taking. Determining your risk tolerance with a financial adviser requires careful consideration of various factors, including age, net worth, investment goals and experience. By analysing your personal financial situation and balancing it against your objectives, you can make informed decisions about your risk tolerance.

Prepare for the worst-case scenario

Preparing for the worst-case scenario in retirement requires a comprehensive approach to safeguarding financial stability and well-being. It is important to consistently review your financial plans to mitigate the risk of outliving your savings. Regular reassessment allows for adjustments to investment strategies and retirement income sources to ensure sustainability.

Considering the potential for rising living expenses, soon to be retirees should factor in inflation and create buffers within their budgets to account for this. Staying informed about changing tax laws is also crucial to optimise tax efficiency and minimise liabilities.

Preparing for unforeseen health challenges, such as the possibility of requiring long-term care, necessitates the inclusion of healthcare costs and insurance coverage in retirement plans. By proactively addressing these potential challenges, retirees can better safeguard their financial security and quality of life throughout their retirement years.

Reviewing your retirement plan

Retirement planning can be complicated and in the final five-years before retirement, you don't want to be leaving your future to chance. At this stage of life, it is crucial to seek financial advice if you want to ensure that you get the right value out of your pension and retirement savings.

It is essential to note that a pension is a long-term investment not normally accessible until 55 (57 from April 2028). The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Your pension income could also be affected the interest rates at the time you take your benefits.



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