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## Will your pension run out early?

Impact on people opting for early retirement as a result of the pandemic

An increasing number of people have been forced into early retirement due to the economic impact of the coronavirus (COVID-19), with many worried about how they'll make ends meet in the future. Because of the pandemic, we are currently in a challenging economic period. The global economy has taken over ten years to recover from the shock of the last financial crisis.

In a recent survey, the findings showed that 3% of people in the 55-64<sup>(1)</sup> age group have taken early retirement due to the coronavirus pandemic. And 4% of people in this age group have had to access some of their pension savings to cover living costs because their income has dropped due to redundancy or reduced pay. These percentages may seem small, but they represent hundreds of thousands of people.

### RISKS OF EARLY RETIREMENT

While early retirement may sound like a dream come true, for those without insufficient pension savings it can be a ticking time bomb. Every year of early retirement will have an impact on your pension, in that it represents both a year lost for saving and a year added for spending. Simply put, you'll need to make less money last longer.

Unless you've budgeted carefully and are sure you have enough savings, you could run the risk of your pension running out in your later years. This is an expensive time for many people, due to the cost of financing care, and that can result in unexpected hardship.

### PLANNING FOR EARLY RETIREMENT

If you're planning early retirement, you should consider the following steps:

- Calculate all your savings in different pension pots to find out what your total is.
- Track down any lost pensions from previous employers and add these to your total.
- Check how much of the State Pension you can expect to receive, and from what age.
- Create a budget for your retirement

spending, making sure to include any additional future costs you're aware of and a little extra for future costs you're unaware of. Be honest about how much you'll need.

- Make sure that the total you have in pension savings, when combined with the State Pension you'll receive, is sufficient to cover all your future costs.

### ALTERNATIVES TO EARLY RETIREMENT

If your financial situation is forcing you to withdraw from your pension but you're not ready yet to stop saving, there are ways to access your pension that do not affect your annual allowance and therefore allow you to continue contributing at the same rate in the future.





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**These include:**

- Taking up to 25% of your savings as a tax-free lump sum (from a defined contribution pension)
- Accessing a defined benefit pension (if you have one)
- Withdrawing a pension pot worth under £10,000 in its entirety under 'small pots' rules
- Buying certain types of annuity

**CAN YOU AFFORD TO RETIRE EARLY?**

We know that you work hard for your money, so you should be able to enjoy it as much as possible. When planning for retirement, there are now more choices available than ever before. By understanding precisely what you'll need to get to where you want to be, you can ensure you're prepared for the future.

So when working out if you can afford to retire early, your starting point should be to think about whether your savings and investments will be enough to cover all your outgoings, as well as all

your essential living costs and any regular debt repayments you may have to make. ■

**ANSWERING ALL THOSE BIG QUESTIONS**

We can give you more information on any of these options and help you to choose the ones that are best for you. We'll answer all those big questions you might have: When can I retire? How can I make my money last? Should I take a lump sum? To find out more and discuss your options – please contact us.

**Source data:**

[1] <https://www.lv.com/about-us/press/covid-pandemic-pushes-more-than-154000-into-early-retirement>

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55

(57 FROM APRIL 2028). 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.

THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION WHICH ARE SUBJECT TO CHANGE IN THE FUTURE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND YOUR ENTITLEMENT TO CERTAIN MEANS TESTED BENEFITS AND IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

