The Conundrum of Managing Money in Retirement

Living too long or not spending enough, by Jayne Gibson, Managing Director of Insight.Out Financial

There are two main conundrums facing advisers and clients managing money through retirement. Firstly, and certainly most importantly, is running out of money during your lifetime, which has obvious connotations for lifestyle and the ability to manage on state pensions. At the opposite end of the scale is dying with too much money, which would indicate that a retiree has not had as much enjoyment from their retirement funds as they could have had.

An important factor to take into account is how long you are going to live. We all know that's what eventually lies ahead of us all in this regard, however, thankfully, we generally don't know when this will be. The concern here is that if we assume too short of a time scale running out of money is a real possibility, and too long means you have not had full benefit of the money. Your own state of health, and that of your partner should be taken into account, as well as family history as these are indications of longevity, or any factors that may shorten life expectancy.

"How much do I need?" is another very important question. How to judge the sustainability of income is not a simplistic matter. The starting point is how much you need to maintain an acceptable lifestyle, and how much you want to fund the lifestyle you aspire to. In addition, it is important to take into account spending patterns. In general, more money is preferable in early retirement when you have the gumption and capacity to do all the things you have been looking forward to during your working life. Later in life we start to slow down and naturally don't spend as much, and further down the line we have the spectre of care costs.

Overriding all of these factors is your capacity for and tolerance to loss. In simple terms this is the amount of risk you can afford to take, and the amount of risk you are prepared to accept. If you have other assets in addition to your pension and your income requirements are not excessive, this could indicate a high capacity for loss as you are not wholly reliant on just one asset. If you only had one source of income, then any falls in value would have an impact on the sustainability of your income.

With regard to any planning strategy there is only one guarantee that stands the test of time, and that is that things will change. Economics are cyclical and we only have to look back over the last 10 years to see how things can change rapidly. Also, life has a habit of throwing in the odd curve ball just to set the cat among the pigeons every now and again. It is important to understand that there is no one size that fits all, it is important to have an individual plan that works for you, and to review this on a regular basis to make sure it is adaptable and able to deal with life's little idiosyncrasies.

Insight.Out Financial offers independent financial advice and is committed to upholding high professional standards. We provide lifetime financial planning, and this can include pension transfer advice, investment planning, financial and tax planning, personal protection, and business financial planning. Our aim is to help clients to understand and achieve their financial goals.

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