

How much is enough for your retirement?

The best way to foresee your future is to prepare for it now

Planning for retirement is one of the most important financial decisions you'll face in your lifetime. With many factors to consider, including income needs, inflation, investment strategies and unexpected life events, it's easy to feel overwhelmed. Remember, the best way to foresee your future is to prepare for it now.

How can you ensure you are saving enough to live comfortably in your golden years? While the answer is not one-size-fits-all, there are key steps to help you gain clarity, build confidence and secure your financial future.

Whether you're contemplating retirement or assessing your current plan, now is the moment to act. It's never too early or too late to improve your financial outlook. Here's a look at how to get ready for a comfortable and fulfilling retirement.

UNDERSTANDING YOUR INCOME NEEDS

One of the first things to determine is how much money you will need to sustain yourself during retirement. This requires categorising your projected expenses into two primary groups – essential costs and lifestyle expenses.

- Essential expenses encompass housing, utilities, food and health care. You'll need to cover these necessities to sustain your basic standard of living.
- Lifestyle expenses are the additional extras that enhance retirement, such as travel, hobbies, dining out or treating your family.

Start by reviewing your current spending habits. Look at your bank and credit card statements over the past year to get a sense of your regular costs. Then, try to project how these expenses might change once you stop working. Will you downsize your home? Plan to travel more? Or perhaps you'll spend more time with hobbies and less on work-related expenses like commuting.

One budgeting strategy is the 70% to 80% rule, which suggests that you'll need 70% to 80%

of your pre-retirement income to maintain your current lifestyle. However, this can vary widely depending on personal circumstances.

FACTORING IN INFLATION AND RISING COSTS

Inflation is an unseen force that gradually diminishes the purchasing power of money over time. While 2% to 3% inflation may seem minor, its effects can be considerable over 20 or 30 years. For instance, an item that costs £100 today could cost £181 in 25 years at a 2.5% inflation rate.

To protect your savings from erosion, plan for inflation in your retirement strategy. One popular method is to invest in assets that typically outperform inflation, such as equity-based investments. While stocks carry risks, they offer the potential for growth that matches or exceeds rising costs over the long term.

Alternatively, inflation-linked bonds offer protection for more conservative investors. These investments are linked to inflation rates, ensuring that returns match rising prices.

PREPARING FOR HEALTHCARE COSTS

Healthcare is one of the most significant yet unpredictable expenses in retirement. Medical advancements have increased life expectancy, but they have also resulted in higher medical costs. Consider whether you will need long-term care, such as home assistance or nursing facilities, and explore insurance options to cover these expenses.

The NHS offers free healthcare in the UK, yet many retirees opt to supplement this with private health insurance to minimise waiting times and access specialised treatments. Incorporating these

potential costs into your retirement budget can help you avoid financial strain later on.

PLANNING FOR THE UNEXPECTED

Retirement doesn't make you immune to life's surprises. Health emergencies and economic downturns can quickly derail even the best-laid plans. For instance, events such as the COVID-19 pandemic and market volatility from Trump's tariff announcements have demonstrated how unforeseen crises can impact incomes and savings overnight.

Establishing an emergency fund is a sensible strategy. Strive to save six months' to a year's worth of essential expenses in a liquid, easily accessible account. This safety net can protect you from withdrawing from your long-term investments during difficult times.

Be sure to review your insurance cover, from life to home insurance, to ensure all your bases are covered.

DIVERSIFYING YOUR INCOME SOURCES

Retirement is no longer about depending solely on a pension. A comprehensive income strategy can ensure financial stability and mitigate risks linked to fluctuations in the economy or government policies.

If appropriate, consider diversifying your income sources by combining different options such as:

- Workplace or State pensions
- Individual Savings Accounts (ISAs)
- Dividend-paying stocks
- Rental income from property investments
- Annuities or bonds

Fair, Friendly Financial Advice

Future Asset Management LLP

Number Three Waterton Park,
Bridgend, CF31 3PH

T: 01656 652199 E: enq@famllp.com W: www.famllp.com



Each type of income has its advantages and disadvantages, so the ideal mix will depend on your personal needs. For example, annuities offer guaranteed income for life but may lack flexibility, whereas investments in stocks or real estate can provide growth potential with greater risks.

USING CASHFLOW MODELLING TO STAY ON TRACK

Cash flow modelling is a tool that allows you to predict your future income and expenses based on different scenarios. This method offers a detailed visualisation of whether your retirement savings will last, taking into account factors such as inflation, investment growth and lifestyle expenses.

By using cashflow modelling, you can explore various scenarios. What if you retire five years earlier? Would you be able to afford a cruise each year? This proactive approach enables you to evaluate options and make informed adjustments to your saving and investing strategy.

REVIEWING AND ADJUSTING YOUR PLAN

Life is full of twists and turns, and your retirement plan should adapt accordingly. Changes in your

health, family situation or financial markets may all require adjustments over time.

Schedule an annual review of your plan to ensure it aligns with your current goals and circumstances. If you're uncertain about what to adjust, we'll help guide your decisions. Staying flexible and informed will help you feel secure about your financial future. ■

DO YOU KNOW HOW MUCH IS ENOUGH FOR YOUR RETIREMENT?

If not, now is the time to find out. Whether you're looking to start your plan or refine an existing strategy, having expert guidance will help you feel more confident about your financial future. Contact us today to discuss your retirement requirements or learn more about the options available to you. Together, we can create a personalised plan to secure the financial freedom you deserve.

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