

VIEWPOINT

BRAYBROOK & CO

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How to move into the decumulation phase of retirement planning

1. Accumulation:

During your working life, you focus on building up your assets. This might involve contributing to a pension, saving in other accounts, or investing in property. The goal is to create a financial cushion that will support you in retirement.

2. Decumulation:

Once you stop working, you shift your focus to using your accumulated assets to fund your retirement lifestyle. This might involve drawing down on your pension, selling investments, or accessing other sources of income. The goal is to manage your spending wisely so that your assets last throughout your retirement years.

Transitioning into retirement can present new challenges, not least, understanding how to sustainably start using your assets to create an income. As you move into the decumulation phase, you might worry about balancing your needs now with your long-term financial security, but a plan could give you more confidence.

Managing the decumulation of assets is something more people will need to do in retirement as the number of workers with a defined contribution (DC) pension rises.

With a DC pension, you'll retire with a pot of money that you'll have to decide how and when to access. You may need to ensure the pension you've built up over your career will continue to provide an income for the rest of your life.

According to a report in FTAdviser, the Pensions Policy Institute (PPI) expects the assets held in DC workplace pension schemes by over-55s still in work to increase almost threefold to £527 billion over the next decade.

With most workers now automatically enrolled into their employer's pension scheme, which is usually a DC pension, the figure could rise significantly in the future.

Switching from accumulation to decumulation might require changing your mindset

Switching your mindset to start depleting your assets could be more difficult than you think.

To secure your retirement, you may have diligently saved into a pension or built-up other assets over decades. Watching the value of your assets grow can be satisfying and might help you feel more financially secure. When it comes to using those assets to create an income, it can be challenging.

So, what can you do as you move into the decumulation phase of retirement planning to effectively manage your assets? Here are some steps that could be useful.

Seek tailored financial advice

While general advice can be useful, tailored advice will take into account your circumstances, goals, and concerns to create a bespoke plan.

The PPI has set out five principles for "good" decumulation to help DC pension savers manage their assets. Among them is ensuring savers are supported when making key decisions about their pension, including when decumulating.

Booking a meeting with a financial planner could help you manage the decumulation phase of retirement planning and give you peace of mind. Please contact us if you'd like to speak to one of our team.

Understand how long your pension and other assets need to last

One of the reasons you might worry when depleting your pension or other assets is the risk of running out in your later years. So, understanding how long your pension needs to provide an income is often essential.

It's not uncommon for retirees today to spend several decades in retirement. Indeed, according to the Office for National Statistics, a 65-year-old man has a 1 in 4 chance of

celebrating their 92nd birthday. For women of the same age, they have a 1 in 4 chance of reaching 94.

As a result, you may need to plan to decumulate your assets over a long period.

Manage your investment risk

When you're accumulating wealth, investing might be a good way to help the value of your assets grow over the long term.

However, as you start decumulating your wealth, your risk profile could be very different. As you might not be earning an income, taking the same amount of investment risk may no longer be appropriate, as you may not have the opportunity to recover from potential losses.

The money held in your pension is typically invested and you might have other assets that are exposed to risk too. So, a complete financial review to assess your risk profile and whether your current assets align with this could help you strike a balance that suits you.

Carry out regular financial reviews

Even if you've set out a long-term financial plan you're confident about, reviews throughout retirement can be valuable.

During your retirement, your wishes and circumstances might change. For instance, you might decide you want to travel for an extended period and will fund it by taking a lump sum out of your pension. Or perhaps you plan to downsize, which could release equity, and might mean you don't need to withdraw as much from other assets.

Regular reviews could help ensure that the way you're using assets continues to reflect your goals and financial situation.

In addition, factors outside your control might affect how and when you want to deplete assets.

To maintain your standard of living, you might have needed to increase the amount you were withdrawing from your pension as prices increased. A financial review could help you understand if that would be sustainable, as well as the potential long-term effects.

Contact us if you have questions about using assets to fund your retirement

If you've already retired or are nearing the milestone and have questions about how to use your assets to create financial security, please contact us.

We can work with you to create a plan that focuses on decumulating sustainably, as well as incorporating other important factors, from managing your tax liability to what assets you'd like to pass on to loved ones.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.