

THE FOUR POTS OF RETIREMENT

Facing retirement can be overwhelming for many. Despite the excitement of slowing down to enjoy a life free of work-related responsibilities - it also creates a lot of upheaval in a person's life and routine. Amongst the many questions that arise - how can I begin to plan my finances in retirement? - is a common query. To answer this, it can be helpful to divide your retirement finances into four separate pots...



ACTIVE YEARS POT

This is the money you will need for the first part of your life beyond work...

Ask yourself...

How will my day-to-day life change?

You will likely not be paying for a daily commute to work or as many takeaway coffees, but you may wish to pick up a new hobby...

What's need-to-have and what's nice-to-have?

There are things essential to your lifestyle – like food shopping or electricity bills. Then there are things that you'd like to have but could manage with less of or even do without altogether – such as golf lessons or eating out. Only you can decide which things are needed and which are 'extras'.

Remember: You'll most likely want to make sure you have reliable income sources to meet your essential needs. However, you may be able to accept more risk in pursuit of higher reward with the money supporting your nice-to-haves.



LATER YEARS POT

This is the money you will need for the later stages of your life beyond work...

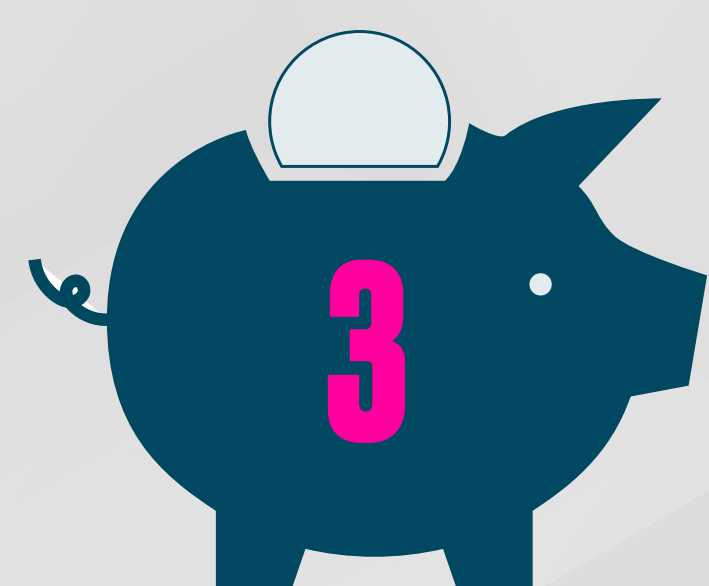
Ask yourself...

How will my life change?

The later years of your retirement might look quite different from your active years. As you age you may wish to travel less, have increased health needs or you may even want to move home.

How can I prepare for potentials?

It's impossible to know how long you will live or how healthy you will be. You may require assistance or care in your later years. You may want to set a part of your savings aside to fund care costs and you might also want to think about drawing on other assets, such as the family home if you need additional income.



RAINY-DAY POT

This is the money you will need for any out of the ordinary spending...

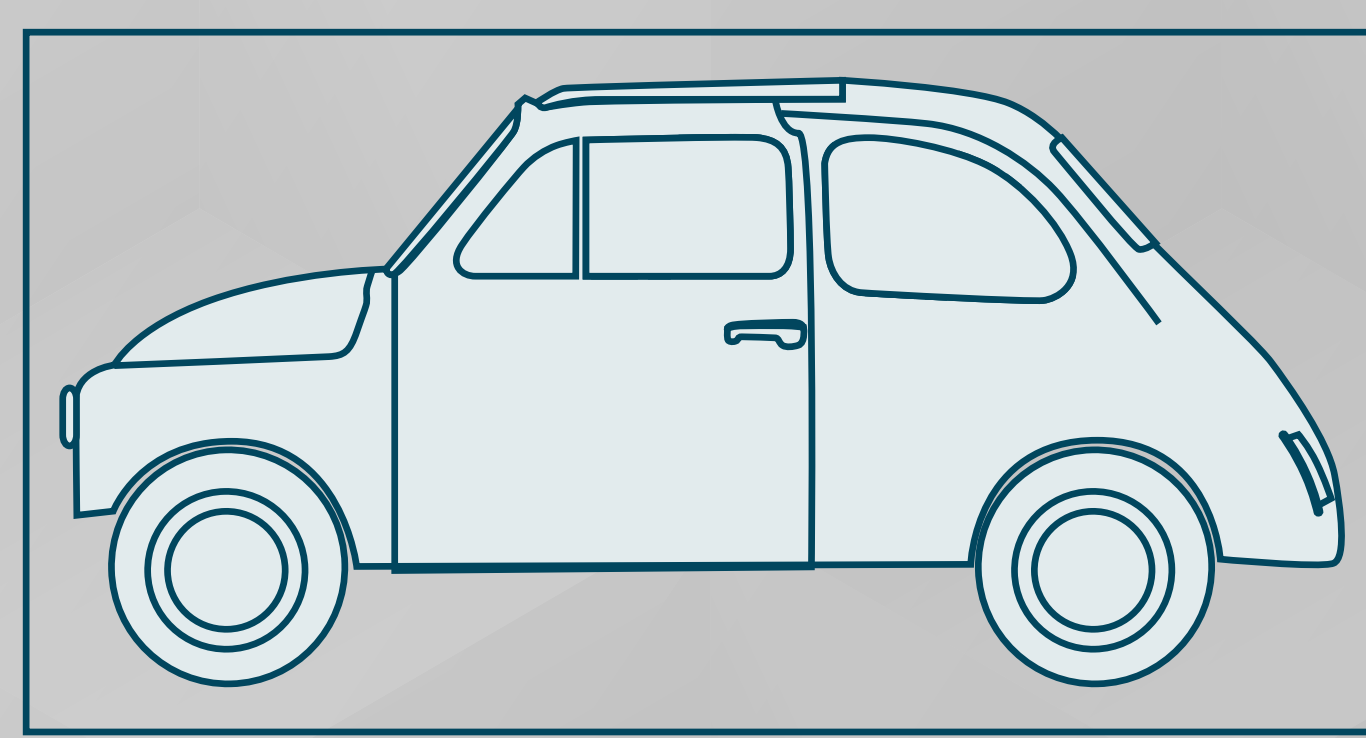
Ask yourself...

How can I plan for the unexpected?

It is sensible to include some allowance for less regular costs in your day-to-day income plans. These might include the cost of replacing a car or maintaining your home. But it also makes sense to have a rainy-day fund for any truly unexpected occurrences.

How much do I need?

This will depend on your lifestyle and what allowance you have made for one-off expenses in your income plans. It might make sense to keep the money in this pot accessible at short notice, and where it's not exposed to market risk.



LEGACY POT

This is the money you want to pass on to others...

Ask yourself...

What do I want to pass on to others?

A legacy is normally what we leave when we die but you may want to pass money on while you're still alive. Helping children with education or housing costs is increasingly common.

What legacy planning will I need?

You will need to consider the tax implications of passing on wealth as well as how you want this pot invested. You may want a higher-risk higher-reward approach, as it may be many years before these savings are needed. However, you might prefer a more cautious investment approach to ensure that the money will be there when loved ones need it.



Remember...

There is no one-size-fits-all approach to retirement planning, but using these four pots as a framework for what you might need during retirement, can be a helpful starting point. Discussing these questions and needs with a financial adviser could be a good first step into your life beyond work.

Important information

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