PENSION geeks

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Your Second 50 needs a plan

Until now, people have generally followed the traditional three-stage life path: education, employment, retirement.

But times they are a-changing.

The 'Second 50' is a brand-new concept that has been developed by pensions and investments provider, Aegon, referring to the second half of a modern, more varied and longer (possibly even 100-year) life. Their research has found that as we live longer and feel older later: "no longer are life's stages defined by age, but more by our decisions on how we spend our time".[1]

The traditional three-stage model for life is changing; people are now tending to live 'multi-stage lives'.

It's a bit of a paradigm shift.

So what will your retirement – your Second 50 – look like, and how do you plan for it? Will you use it to return to university and study a new subject? Maybe you never had the chance to travel the world and want to use your retirement to explore other countries. Perhaps you simply want nothing more than to enjoy not working and to live a traditional retirement lifestyle.

Whatever your multi-stage life looks like, you're going to need a plan. And there's no better way to prepare for retirement than by mapping it out.

How do you picture your Second 50?

Knowing what you want out of retirement is the first step to upgrading your plan. It's about achieving financial wellbeing – in other words, having financial security now and in the future, but simultaneously knowing what makes you happy and having goals to achieve that. It's normal to feel unsure about what you want. In fact, just 1 in 4 people know what genuinely makes their life enjoyable, and only 1 in 5 could say what makes their life meaningful.[2]

Thinking about what makes your day-to-day life enjoyable can be a great first step in working out the bigger picture for your Second 50. Asking yourself a few key questions could really get you in the picturing mood:

- Where do you see yourself in 10 years? In 20 years?
- Who will you be spending the majority of your time with?

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[1] Could you live to 100? What the 'Second 50' means for you | Customer | Aegon
[2] Financial Wellbeing Index 2023 (theapsgroup.scot)

- What will you be doing?

Maybe you'll be considering studying, travelling, moving, or staying put, but whatever it is, it'll need funding.

Funding the fun

Only 77% of savers know how much they will need in retirement. That's according to the Retirement Living Standards, a group who conduct regular financial research to provide accurate estimates of how much various retirement lifestyles cost.

The Standards break down potential retirement expenditure into three categories: minimum, moderate and comfortable retirement lifestyles. What's more, the figures provided are constantly updated, so that they account for things like inflation or the cost of living crisis. They're great for understanding what a more traditional retirement might look like.

Another way of working out how much you'll need in retirement is to aim for an income worth 70% of what you currently earn. Research by Aegon found that the majority of retirees can live comfortably on 70% or less of their pre-retirement income.[3]

Don't forget to factor in your State Pension, which can be worth up to £11,500 per year for the 2024/25 tax year. Check how much you could receive here.

A planned retirement is a happy one

Once you've got an income estimate figured out – or a ballpark established – it can be worth spending some time to plan your Second 50. Written down and committed to paper. Or saved in the notes app on your phone (but if, like many, that's a black hole where all random thoughts and shopping lists go to die, maybe commit it to paper anyway).

In your plan, account for your future self – your motivations and ideas for retirement. It can all change. Nothing is set in stone after all.

You could also consider the sort of eventualities you'd like to protect yourself and your family from financially, so you can begin creating a rainy-day fund – a financial safety net.

Do you plan to go on holidays? Spend a month or two away from home? Renovate the house so it's ready for your retirement? Whatever it is, writing it down can help get the ball rolling.

Pay day is a good day

Your Defined Contribution pension needs withdrawing at some point. It's how you'll fund this plan of yours. But the options you have for withdrawing it are varied and juiced with jargon.

[3] Financial Wellbeing Index 2023 (theapsgroup.scot)

So, before retirement comes calling, you'll need to have a rough idea of which method makes the most sense for your plan.

The headlines are:

- You can normally access your pension from the age of 55, but this is increasing to 57 from 6 April 2028.
- You can still work when you begin to take it.
- You'll usually be able to take up to 25% of it as a tax-free lump sum.

How you take the money likely depends on how you're planning to spend your retirement. But whether you're planning on travelling and know you'll need a larger amount of money upfront to help book travel and accommodation, or you know you'll need a set amount each year, there'll be a method that works for you.

It's possible, for instance, to guarantee yourself an income for the rest of your life. It's called an annuity and is bought from an insurance company.

You could even take your pension pot in one go – yes, all at once! This certainly has benefits, but there are drawbacks. For example, it'll attract income tax (like all of these options), and you'll need to be confident you can stick to your spending budget; the money has to last, after all.

You can also take your money bit by bit, whenever it suits, either using 'flexi-access drawdown' or taking an 'uncrystallised funds pension lump sum' (UFPLS).

To find out more about drawdown, check out MoneyHelper's handy guide.

And if you want to discover the ins and outs of an UFPLS, then Unbiased have what you're looking for.

Sometimes you won't be offered all of these options, which is why speaking to your provider early will arm you with the information you need to make the right plan and the right choice.

Remember that if you have a Defined Benefit pension, you'll be paid a guaranteed income for life based on how long you've been a member of the scheme, or the salary you are earning when you leave the company, or retire.

Regardless of the type of pension you have, doing your homework can really help when it comes to deciding how to take your money - and to help you, the government has created an impartial guidance service called Pension Wise. If you have a Defined Contribution pension, Pension Wise will talk you through your options via a free, 60-minute appointment.

Alternatively, you could look into taking financial advice. It's a big decision after all, and advice tailored to your situation could be helpful. If you don't have a financial adviser, then Unbiased or Money Helper can help you find one.

Plug the gaps before you set sail

Before you sail into the (retirement) sunset, it can be a good idea to get an overview of any gaps in your finances. Things such as debt can have a significant impact on your overall financial health, in both a good and a bad way. In general, taking an effort to manage your debts as you approach retirement and understanding the risks associated with any debt you hold during your Second 50 can be a constructive way to boost your financial wellbeing.

One form of debt is a mortgage. If you're a homeowner, are you on track to have paid off your mortgage by the time you retire? It's easier said than done, of course, especially in a time of national economic hardship. If you can afford to pay off your mortgage by the time you retire, you'll be putting your retirement in the best place possible to sustain your multi-stage life.

And, with new research from the Institute of Financial Accountants (IFA) finding that the percentage of retired households living in private rental accommodation by 2041 will increase to 17%, it's important to factor in the potential monthly cost of rent.[4]

Finally, your contribution level can drastically impact the value of your pension, especially if you've still got some time before you retire. Checking that you're paying in enough each month and making the most of your employer contributions is a great way to ensure that there are no missed opportunities to fund your retirement plan.

It's your plan. Now live it.

Everyone's singing to their own tune, especially when it comes to planning out retirement. It's easy to compare your situation to that of your parents or your friends. But making those comparisons can put unfair pressure on you to meet goals you've not planned for.

This is your plan. Your retirement. Your Second 50. Now you just need to live it!

[4] More pensioners are renting in retirement – what can be done? - FTAdviser