

THE DEFINITIVE GUIDE TO RETIREMENT INCOME PLANNING

JUNIPER | WEALTH MANAGEMENT

What Are Your Retirement Goals?

What is your plan for retirement? Enjoy the golf course? Travel? Spend time with grandchildren? Keep on working, but purely for fun?

In our experience, there is significant diversity in how our clients want to spend their retirement. But from a financial perspective, we've found most people are aiming to achieve one (or often more) of the following four goals. And before you focus on anything else, it is imperative you figure out what your goals are for retirement.

Avoid running out of money?

Ok so this one is less of a goal and more of an imperative but is without doubt the number one retirement fear amongst our clients. Being forced to turn to your children, go back to work or downsize one's lifestyle during retirement is a source of anxiety for many current and future retirees. Many think the key to achieving this goal is very low-volatility investments (e.g., Cash and Government Bonds), but as we will discuss this is not always the case.

Maintain or improve lifestyle?

Most people who have worked hard all their working life reach retirement simply wanting to enjoy it. As such, a common goal for many of our clients is to maintain, or better yet, improve their lifestyle during retirement. The key here is to maintain or grow purchasing power over time and this requires income growth to offset the ravaging impact of inflation.

Increase wealth?

Some are comfortably able to enjoy the retirement lifestyle of their choosing with no fear of running out of money. For these fortunate individuals, the goal is often to grow their wealth over the long term typically for legacy, whether that's children, grandchildren or philanthropy. Unsurprisingly, most people with this goal take a growth-oriented approach to their investments.

Spend every penny?

This isn't a typical goal among our clients, but there are some people who think success is spending all of their money before they die. But this is often a risky proposition there's no way to know exactly how long your retirement will last, and those who attempt this may find themselves out of money sooner than they think of they do not carefully plan out their spending.

Before you focus on anything else, figure out which of these goals are most important to you. You can't figure out how to get there if you don't know where you are going!

If defining your goals is too difficult try instead to think about what you DON'T want. We find people are much more certain about this. There is a useful tool on the following two pages which our clients often find helpful.

I see retirement as a time to:

- Travel
- Relax
- Teach others
- Spend time with my partner
- Explore
- Learn new skills
- Connect with family
- Engage in a hobby
- Do projects at home
- Start a new business
- Continue present work
- Find balance
- Mentor others
- Connect with my friends
- Educate myself
- Work with charities
- Help out with kids
- Take it easy
- Go back t school
- Dust off old dreams
- Do consulting work
- Increase my community involvement
- Hang out with retired friends
- Help others
- Connect with a cause
- Get a part-time hobby job
- Take on a new challenge
- Write about experiences.

This is

Most Important	Important

In retirement I DO NOT want to:

- Worry about running out of money
- Keep working in a job I do not enjoy
- Provide free childcare to family
- Pay more tax than I need to
- Only holiday in the UK
- Be bored
- Drive an older car
- Downsize my home
- Give up my cleaner/gardener/other help
- Be a financial burden to family
- Only holiday once a year
- Wait for medical treatment
- Be lonely
- Sell my home to pay for later life care
- Eat out less than I do now
- Withhold on luxuries
- Buy cheaper food
- Rely on family for care

Most Important	Important

How Much Will Retirement Cost?

Once you've figured out what your priorities are for retirement, you can start to calculate how much your retirement will cost. Four factors to consider are: non-discretionary spending, discretionary spending, inflation and your investment time horizon (e.g., life expectancy).

Non-Discretionary Spending

This is the spending you don't have a lot of control over. There may be some room to reduce these, but for the most part you can't avoid these costs.

1. ***Living Expenses:*** Day-to-day, how much does it cost to maintain your lifestyle? You'll want to consider everything from food shopping to running a car and heating your home. If you aren't planning on moving during retirement, you likely have a good idea of what these expenses look like already.

2. ***Debt:*** This can be credit card debt, your mortgage or car loans. Anything you owe needs to be accounted for when mapping out your expenses because you'll have to continue to pay down the principal and make periodic interest payments.

3. ***Tax:*** Tax can have a significant impact on how far your savings and investments will go. Later on I'll show you how you could save thousands in taxes and potentially pay as little as 1.5% tax whilst earning £100,000

4. ***Must haves:*** You may view Netflix as discretionary, but Gym memberships as a necessity, non-discretionary expense. Whilst this is just an example the takeaway is if you have a hobby or other expense you can't imagine living without, you'll need to include it in your non-discretionary expenses.

Discretionary Spending

Once you get past basic living expenses, you must think about discretionary spending. Discretionary spending is about your lifestyle and is the reason a one-size fits all approach doesn't work in financial planning. Below are some of the more common discretionary line items in retirees' budgets:

1. ***Travel:*** Many people look forward to traveling in retirement. This could include exploring the UK or bucket list destinations. If you've been thinking about a dream trip for years, now could be an ideal time to budget for one.

2. ***Hobbies:*** Retirement is a great time to rekindle old hobbies or pick up new ones. Ready to finally get your guitar playing up to speed or finish researching your family history? Hobbies almost always incur some costs, even if many are small.

3. ***Luxuries:*** This is somewhat subject to your own budget and definition of luxury. But whether you enjoy fine wines or simply having coffee out every morning, you'll need to factor non-essential purchases into your expenses.

4. ***Children and Grandchildren:*** For many, this last category includes aspects of all the others. Your family could require travel,

luxury purchases and be your favourite hobby all at once. If you need a generous budget to make children and grandchildren a focus in your retirement, you'll need to think about how much cash flow you'll need to support it.

Inflation

Inflation is sneaky. It silently decreases purchasing power over time and erodes real savings and investment returns. Many investors fail to realize how much impact inflation can have. Someone retiring in 1990 needing £25,000 would need £43,215.06 just 20 years later. Someone retiring in 1988 need £25,000 would need £65,852.50 today to achieve the same lifestyle in 2018.

Time Horizon

Your investment time horizon is a major determinant of your total retirement needs and is likely one of the most overlooked factors among today's retirees. Statistics show that people are living longer and longer. Investment time horizon can be your life expectancy, the life expectancy of a younger spouse, or bespoke to you depending on your investment objectives.

Average Life Expectancy*

The following table shows total life expectancies for Brits, based on current age.

Don't forget these are projections of average life expectancy and the very fact you are reading this guide means you are not average. About half of people in each bracket are expected to live even longer.

The takeaway is that your investment time horizon may be much longer than you realize. Prepare to live a long time and make sure you have enough money to maintain your lifestyle.

Current Age	Life Expectancy
51	81
52	81
53	81
54	81
55	81
56	81
57	82
58	82
59	82
60	82

Current Age	Life Expectancy
61	82
62	82
63	83
64	83
65	83
66	85
67	84
68	84
69	84
70	84

Current Age	Life Expectancy
71	84
72	85
73	85
74	85
75	86
76	86
77	86
78	87
79	87
80	87

Current Age	Life Expectancy
81	88
82	88
83	89
84	89
85	90
86	90
87	92
88	92
89	93
90	94

**Source: riskprediction.org.uk*

How Will You Pay for Retirement?

Once you have a sense of how much your retirement will cost, you can start figuring out how you're going to pay for it. We suggest you calculate all of the income you expect to generate without relying on your investments. The most common categories of non-investment income are listed below:

Non-Investment Income

1. ***Salary:*** Will you work at all in retirement? If so, you'll need to estimate how much salary you can expect and how much you want to rely on this. Many clients will continue with Trustee, Directorships or Non-exec work into retirement but choose not to factor this too much into their planning

2. ***Pension:*** If you have a Defined Benefit pension (one that guarantees an income) you will want to consider how much this could contribute to your retirement income.

3. ***State Pension:*** If you've started taking State Pension, you're likely familiar with how much to expect. If you haven't yet, you can get a quick statement from https://www.gov.uk/check-state-pension.

4. ***Business and Property:*** If you maintain an interest in a business or investment property, this could produce income. When calculating how much to expect, consider these sources of income are often more susceptible to risk and fluctuation than State Pension or a Defined Benefit pension.

State Pension Increase Begins	Phasing in begins	Phasing in ends
65 to 66	6 March 2019	6 October 2020
66 to 67	6 April 2026	5 April 2028
67 to 68*	6 April 2037	5 April 2039
* Not yet legislated for but announced in July 2017.		

Determining What You Need from Your Investments

Now that you've determined what your expenses are likely to be and how much non-investment income to expect, the worksheet below can help you put it all together.

Income	
Salary	£
Pension	£
State Pension	£
Business and Property	£
Other	£
Total income	£
Expenses	
Non-discretionary Spending	
Food	£
Insurances	£
Gas and Electricity	£
TV and Broadband	£
Other	£
Subtotal	**£**
Discretionary Spending	
Travel	£
Hobbies	£
Luxuries	£
Gifts to Family/Charity	£
Other	£
Subtotal	**£**
Total Expenses	**£**
Additional Income Requirement	**£**

Using Your Investments to Pay for Your Retirement

The difference between your total income and your total expenses is your additional income requirement. If this is less than zero your income is likely to exceed your expenses even in retirement and leave you with greater flexibility for your retirement lifestyle.

The remainder of this guide primarily focuses on generating cash flow from your investments to bridge this gap. But before we get into specific strategies, we discuss some important principles of investing.

Income vs. Cash Flow

It may seem pedantic, but there is a key distinction between income and cash flow. Income is money *received* and cash flow is money *withdrawn*. For example, dividends and bond payments are indeed considered income you report them as such on your tax returns. These are two completely acceptable sources of funds. But if you rely on them solely, you could be selling yourself short. On the other hand, selling an investment holding or asset also generates cash flow. When you sell an investment, the difference between what you put in and what you take out is considered a capital gain (or loss).

Note, cash flow withdrawn from your portfolio isn't a bad thing and is a very important component of your overall retirement income strategy.

Consider: If your portfolio of £1,000,000 grew 10% last year, and you realized £100,000 in annual gains, this really isn't any different than if your portfolio grew 5% last year and payed £50,000 in dividends. The total return (i.e., capital gains + dividends) is the same on a pre-tax basis; and, depending on your situation, selling a security and paying tax on the capital gains may be more tax-efficient than dividend income!

Bottom line: When it comes to funding your retirement, you should really only be concerned about the total return of your portfolio and cash flow after tax not whether it comes from selling investments or regular income.

Before you can generate income though, you'll need to decide what assets will make up your portfolio.

Asset allocation

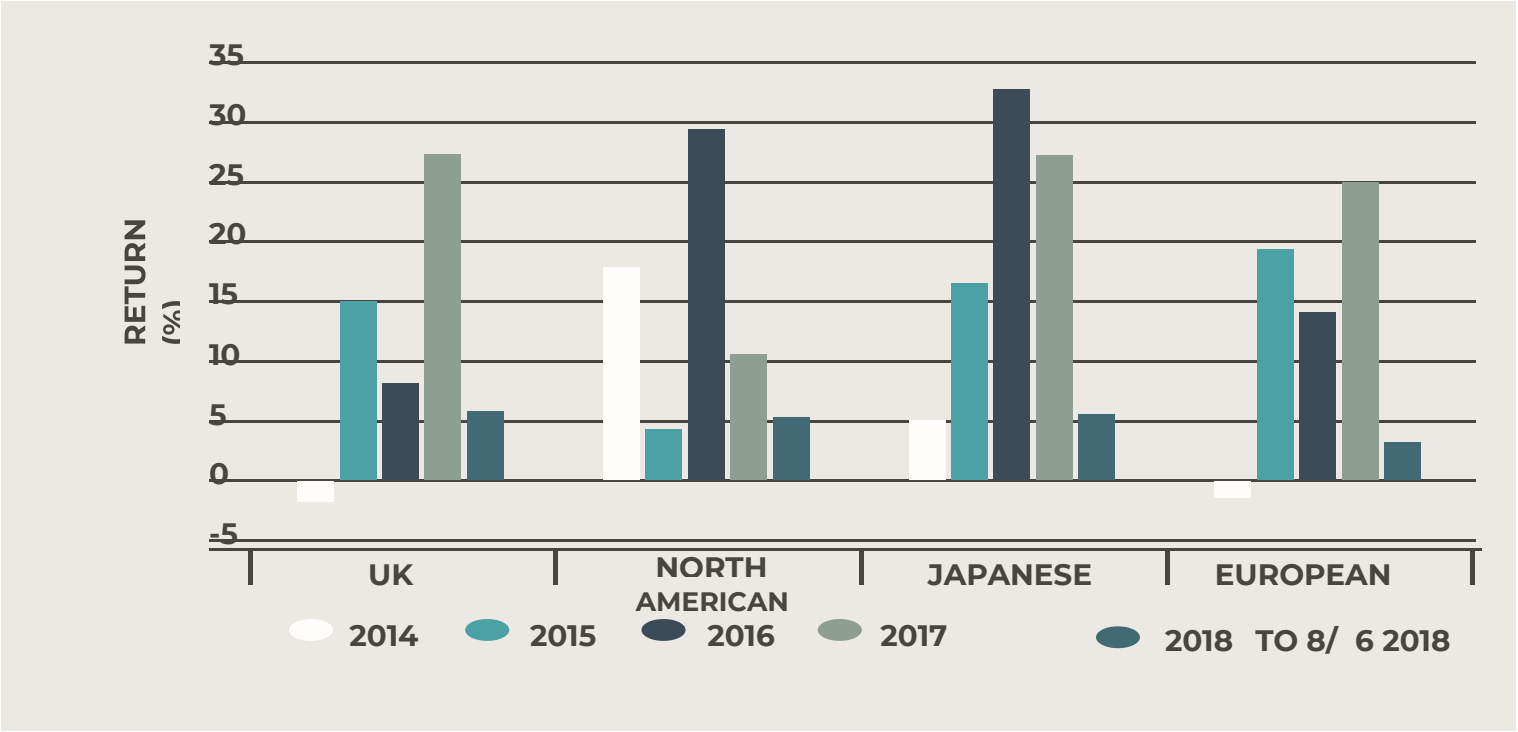
There is considerable academic research to show that asset allocation is a crucial factor in determining overall investment returns. This is well illustrated by looking at the IA sector fund performance over various terms. The following table shows five consecutive calendar years.

IA sector performance

	Best performing sector		Worst performing sector	
Year	**Sector**	**Average fund**	**Sector**	**Top fund**
2016	North American Smaller Companies	+40.0%	Short Term Money Market	+0.3%
2014	UK Index-Linked Gilts	+18.6%	UK Smaller Companies	+24.5%

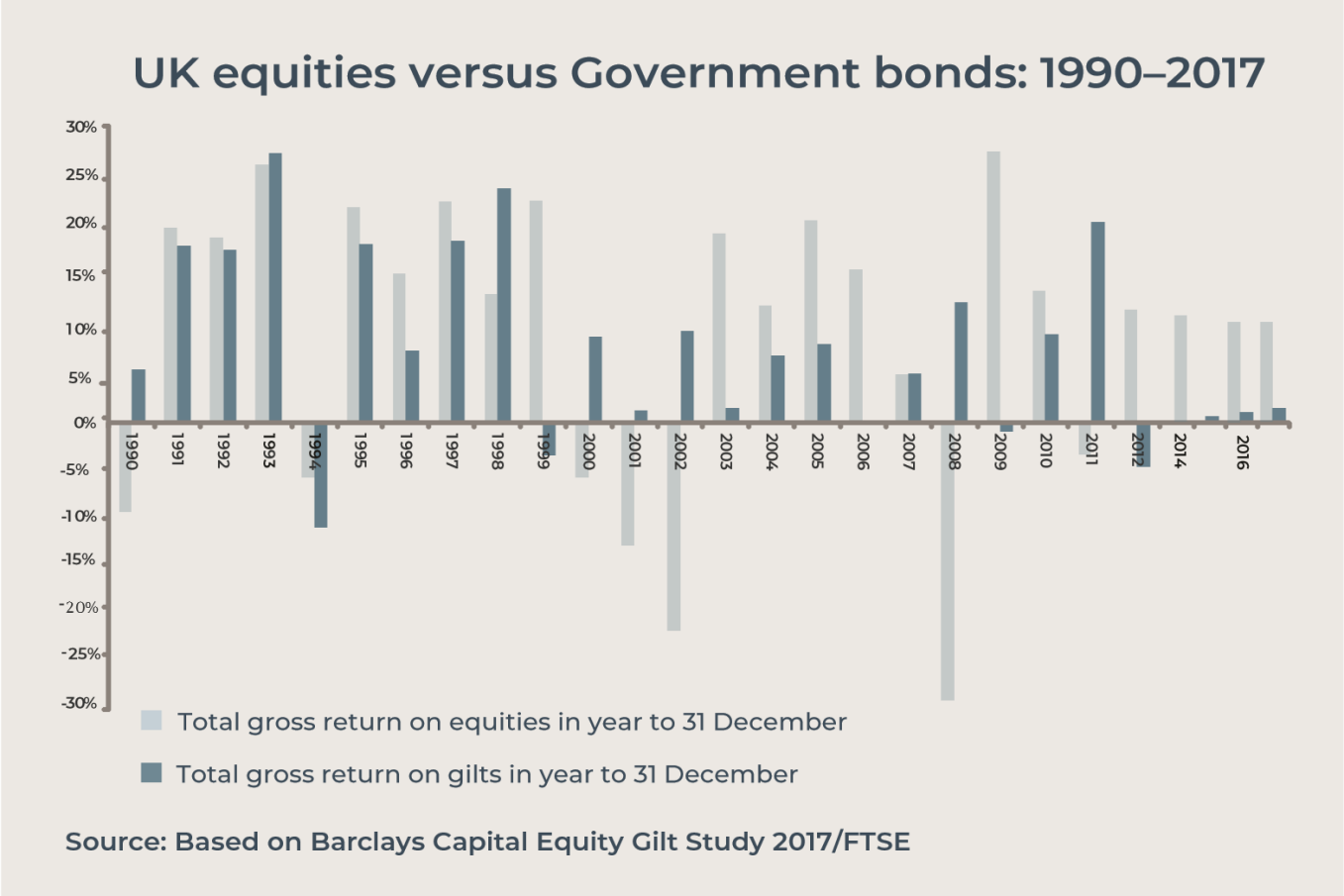
Return figures are calculated on a bid price to bid price basis (mid to mid for open-ended investment companies (OEICs)) with net income reinvested. Source: Trustnet.com. Past performance is not a guide to the amount you will receive in the future.

Asset allocation is not just about picking asset sectors. As the table also shows, the top sectors are often at the more volatile, higher end of the risk scale such as the smaller companies sector. The volatility of smaller company performance is well demonstrated in the graph.



The asset allocation decision is especially important in the management of risk. Diversifying across different asset classes, such as UK shares, foreign shares, fixed interest securities, property and commodities, can reduce your investment portfolio's volatility. What is bad news for one asset class might be good news for another. For example, a jump in inflation can be negative for fixed interest securities, but it may be positive for index-linked government bonds. The same can hold true for individual shares. For instance, the Brexit vote initially proved to be good news for multinational businesses, such as Unilever, but bad news for UK commercial property companies, such as British Land.

An example of the differing fortunes of two main UK asset classes – equities and government bonds (gilts) – is shown in the graph below. In most years, both asset classes have moved in much the same direction, if not to the same degree, but there have been notable exceptions. This was particularly the case during the financial crisis of 2008 to 2009 when first gilts outperformed strongly and then, in the following year, equities did so.



The process of matching asset allocation to your risk profile and investment goals is now one that can rely on computing power. This allows a portfolio to be constructed that takes account of the historic performance relationships or correlations between asset classes. As the graph above shows, gilts and equities often move in the opposite direction – a negative correlation. Therefore, a 50/50 combination of equities and gilts frequently produces more stable returns than either class alone. In the five years to the end of 2017, the 50/50 mix provided a return just over midway between the two classes with much less volatility.

Year	Equities	Gilts	50/50 Mix
2014	1.20%	18.3%	9.75%
2016	16.8%	1.8%	9.3%
Average total return	10.25%	2.96%	6.86%

Fund selection

Once the asset allocation has been set, the next decision is how to invest in the selected asset classes. For most private investors, that will mean using collective funds, such as unit trusts and open-ended investment companies (OEICs). The direct purchase of assets rarely makes sense because of the costs involved and/or the difficulty of achieving an adequate spread within the asset class. Even for the wealthiest private investors, collective funds may be the only option for some asset classes, such as commercial property.

Fund selection is not a simple matter of looking at a set of performance league tables and picking one of the top three. League tables only tell you what has been achieved, not how it was done, nor the likelihood of continued performance. For instance, a top-performing fund may have:

- Adopted an unacceptably high-risk strategy.
- Performed well while the fund was small, but may now be much larger and less flexible.
- Recently lost its lead manager to another investment group.
- Just struck lucky.

The fact is that luck can play a role in fund performance, particularly for more concentrated funds that have few relatively large holdings.

The uncertainties about future fund performance have prompted the increased use of index-tracking funds. They are often called 'passive' funds to distinguish them from 'active' funds where decisions are made by an investment team rather than an index setter.

Proponents of active fund management argue that an index fund should deliver returns slightly below the market index it is tracking, because of the effect of charges, whereas an active fund, without index constraints, can outperform. Passive fund managers accept this point, but argue that picking next year's outperforming fund is virtually impossible and that overall, the higher costs associated by active funds more than counter their supposed performance benefits. For both passive and active funds, selection involves an in-depth analysis of a variety of performance statistics. But it also requires a qualitative assessment of the fund manager. Even funds tracking the same index have differing returns. For active fund selection it is also necessary to investigate the manager's investment process.

Liquidity

When selecting funds, it is really important to consider how liquid the underlying investments are and how that may impact on your cashflow.

Funds with large holdings in unquoted shares or commercial property should be used cautiously if liquidity is important to you as it's not unheard for it to take 6 months to sell holdings.

Tax structure decision

Tax is not directly relevant to the design of an investment portfolio and should never dictate an investment decision. If tax saving is the sole motivation for your investment, then warning bells should sound. History is littered with tax-efficient, loss-making investment schemes. However, once the choice of asset classes and funds has been made, your personal tax position does become relevant in determining the structure – sometimes referred to as a 'wrapper' – in which you should hold the investments. For instance, you could hold the same investment fund directly, or in an individual savings account (ISA), or in a self-invested personal pension (SIPP) or in an investment bond. You can now add a LISA (Lifetime ISA) to this list if you are under age 40.

The tax consequences of each option are different. There are two layers of tax treatment to consider – within the chosen investment wrapper and then your personal position when you take withdrawals from it – unless you choose to hold the investments direct.

The use of a variety of wrappers need not add great complexity to the management of your portfolio, as we explain in the next section. Some investments are better suited to being held in tax wrappers rather than directly. For example, income from fixed-interest funds is free of UK tax in an ISA, but currently taxed at rates of up to 45% if held personally.

Tax allowances	2018/19	2019/20
Personal Allowance	£11,850	£12,500
Starting rate band @ 0%	£5000	£5000
Personal Savings Allowance	£1000	£1000
Dividend Allowance	£5,000	£2000
CGT Annual Exemption	£11,700	£12,000
Total mainstream tax allowance	£31,550	£32,500

The following example shows how effective tax planning can have a significant impact on someone needing to draw £100,000 from their Investment portfolio. Whilst examples on paper are hard to recreate precisely with clients they do show why it is important to consider the wider tax implications of one strategy over another as it could have a significant impact on the type of lifestyle you are able to live in retirement.

Traditional approach from pension	Alternative approach
Pension crystallise £120,000 • Tax free cash £30,000 • Gross pension £90,000	Pension • nothing
Offshore bond • nothing	Offshore bond • £50,000 (25 full segments) • Gain £25,000 (top sliced £2,500)
ISA – nothing	ISA • £26,000 (income and/or capital)
Funds • dividend £5,000	Funds • dividend £5,000 • part disposal £21,000 • Gain £10,920
Total gross £125,000	• Total gross £102,00
Allowances used • Personal £11,500 • Starting rate £0 • Personal savings £0 • Dividend £5,000 • CGT annual exemption £0	Allowances used • Personal £11,500 • Starting rate £5,000 • Personal savings £1,000 • Dividend £5,000 • CGT annual exemption £10,920
Total tax £24,700	Total tax £1,500
Net income £100,300	Net income £100,500
Effective rate of tax 19.76%	Effective rate of tax 1.47%

Platform Selection

The construction and management of fund-based investment portfolios is now largely undertaken using investment platforms. At its simplest, an investment platform provides a means of assembling and administering a spread of different funds from a range of investment managers, which can be held in a variety of tax structures.

The number of platform providers has grown as investment administration strategies have changed, although there have also been some disappearances. There are a number of DIY options available, but you should consider a range of factors when recommending a platform to you, including:

- Choice of funds and investment managers. Can you achieve your desired asset allocation efficiently?
- Range of tax structures available.
- Provider's record for administrative efficiency.
- Level of fees charged.
- Financial strength of the platform provider.

Reviewing your portfolio

The selection of the platform providers is the final step before the creation of your investment portfolio, but it is by no means the end of the process. Your investment plan should never be fixed or incapable of change. It needs to be regularly reviewed to check that both the asset allocation and chosen investments are still appropriate to your financial goals and that those goals have not altered.

A review that makes no changes is rare. For example, to maintain the original asset allocation there will often be a need to rebalance holdings because of intervening moves in investment values. At the fund level, manager changes, revised fund objectives or disappointing performance can all prompt adjustments. New investment opportunities also need to be considered.

If your portfolio is not subject to regular and systematic reviews, it may soon become just a random collection of investments rather than a coherent portfolio. The discipline of a regular review is therefore a key component of successful investment planning.

How Can Juniper Wealth Management Help?

Planning

Juniper Wealth are specialists in planning. We use leading technology to help our clients visualise and explore their Financial Plan.

We recommend and deliver appropriate investment and tax structure strategies based around the cash-flow needs and goals you have.

This strategy should guide your every financial decision. This is why we invest to your goals rather than pretending there is a universal "best" investment. A successful strategy incorporates several factors, including your investment objectives (goals), time horizon, tax structures and cash-flow needs.

Investment Management

We take your strategy and recommend investment management solutions that are the fit for you and your goals. This considers the risk tolerance and cashflow needs you have and matches them with one of our class leading portfolio managers.

We conduct regular due diligence on our panel of investment portfolio managers. This includes regular meetings with their teams, assessment of their processes and strategy and watching for changes in their strategy, objectives and investment styles.

Service

We meet with our clients regularly both face to face and via leading technology to ensure we keep apprised of their ever-changing planning needs.

This enables us to react quickly to their planning needs and keep them on track to achieve their financial goals.

Juniper Wealth provides a client portal for every client. This web and mobile app provides up-to-date valuations and access to all your plan information. It also provides a secure method of contacting your adviser and

- Help you understand what's going on in your account and why
- Review your investment goals and objectives regularly
- Handle your day-to-day needs quickly and smoothly

If you have income needs in retirement, we think we can help. Give us a call today at 01772 965608 and we would be happy to arrange for one of our expert advisers to discuss your situation with you completely at our expense. Start the conversation today.