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Managing the impact on your pension

Just two out of five have planned for inflation in retirement

Retirement planning can be complex at the best of times, so it is easy to understand how some people can find it daunting to take into account factors like inflation. The reality is that inflation hurts everyone, but it can be especially harmful to retirees.

Whether it's the price of food, fuel, energy or other goods and services that we purchase, inflation is definitely increasing. The current economic climate clearly illustrates just how important it is to consider the impact of inflation on your future retirement income and take proactive steps to manage this.

REACHING HISTORIC HIGHS

Just two out of five (37%) over-55s have planned for the impact of inflation on their spending power when they stop work, according to new research^[1]. As the consumer price inflation continues to reach historic highs, many over-55s who are either approaching retirement or have retired are facing an inflation shock as they try to manage their retirement income.

Indeed, 41% admitted they had not planned for inflation or did not know whether they had. The other 22% say they just have not planned their retirement income at all. Interestingly, the current discussion around inflation has impacted people's approach to retirement, with 43% of those who are working full-time planning to factor this challenge in – up from 39% of those who have already retired.

RETIREMENT SPENDING POWER

The current challenging economic situation is also encouraging a more thoughtful approach to retirement, with only 15% of the employed confessing to a lack of retirement planning compared to 23% of those who are already retired.

Among those who say they have planned for the impact of inflation on their retirement spending power, more than a third (34%) say they can rely on the State Pension keeping pace with rising prices while 33% believe their company pension will rise in line with inflation.

INFLATION ROSE SHARPLY

As well as looking to the State Pension and company pensions, the 30% of those who have prepared for inflation say they have anticipated the need for their income to rise each year and have approached their savings accordingly.

Around a quarter (26%) say they have considered how much spending they might need to cut if inflation rose sharply. The main reason for failing to take account of inflation was its unpredictability – 31% say they did nothing because they could not forecast it, while 30% say they had been caught out by the recent increase in inflation after years of stability.

EXPLORE DIFFERENT OPTIONS

The importance of future proofing your finances is clearly moving up the agenda and when you compare retirees with those over-55s who are still working, you can see that the recent inflation shock has encouraged people to plan more carefully.

No one wants to find that as they age, they need to cut back more and more just to make ends meet. While saving as much as possible for retirement and careful planning is clearly important, it is also vital to consider all your assets and to explore different options, whether it is boosting your tax-free savings, downsizing or accessing your housing equity. ■

CONCERNED ABOUT HOW INFLATION COULD AFFECT YOUR RETIREMENT PLANS?

Deciding when to retire is a potentially life-changing decision and can feel like a daunting leap. It's never too early to start thinking about how you should plan to fund your retirement and take into account the impact of rising inflation on those plans. To find out more, please contact us.

THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME. YOUR MORTGAGE IS SECURED ON YOUR HOME, WHICH YOU COULD LOSE IF YOU DO NOT KEEP UP YOUR MORTGAGE PAYMENTS.

EQUITY RELEASE MAY INVOLVE A HOME REVERSION PLAN OR LIFETIME MORTGAGE WHICH IS SECURED AGAINST YOUR PROPERTY. TO UNDERSTAND THE FEATURES AND RISKS, ASK FOR A PERSONALISED ILLUSTRATION.

EQUITY RELEASE REQUIRES PAYING OFF ANY OUTSTANDING MORTGAGE. EQUITY RELEASED, PLUS ACCRUED INTEREST, TO BE REPAYED UPON DEATH OR MOVING INTO LONG-TERM CARE. EQUITY RELEASE WILL AFFECT THE AMOUNT OF INHERITANCE YOU CAN LEAVE AND MAY AFFECT YOUR ENTITLEMENT TO MEANS-TESTED BENEFITS NOW OR IN THE FUTURE.

CHECK THAT THIS MORTGAGE WILL MEET YOUR NEEDS IF YOU WANT TO MOVE OR SELL YOUR HOME OR YOU WANT YOUR FAMILY TO INHERIT IT.

IF YOU ARE IN ANY DOUBT, SEEK PROFESSIONAL FINANCIAL ADVICE.

Source data:

[1] Key Advice 18 May 2022.