SECURING AN INCOME IN RETIREMENT

HOW DO I MAKE SURE MY PENSION LASTS?

Ensuring you have enough money to enjoy a carefree retirement is not just about investing regularly and wisely throughout your career.

When you reach the point of retiring, you have some important decisions to make about how to generate the income you require while making sure your pension lasts as long as you need it to.

Anyone who wants to take money from a private pension - whether it is a lump sum or regular monthly amount - must first convert their pension into what is known as an income drawdown account. This type of account lets you take out what you need and leave the rest invested in the stock market.

The beauty of drawdown is that you can take as little or as much as you want as one-off or regular payments, so whether you need money to top up your income and get through the cost of living crisis or to pay off your home loan, you have flexibility without having to decide what to do with all of your savings pot at once.

Predicting how long savings are likely to last is a challenging task. The amount in your pot depends on how the stock market performs – so the value of your pension will fluctuate alongside share prices.

Knowing how much to withdraw from your pension pot is part and parcel of retirement planning.

One rule of thumb suggests a safe withdrawal level is 4%. Some people believe that this is what you should be able to take out of your pot each year for it to last an entire 30-year retirement.

But this isn't an exact science. If global economic conditions are rough for a while, you need to be prepared to react to changes in the market environment.

If the markets struggle, then 3% might be a better level. If your investments are growing well, 5% might be possible.

If you don't amend your withdrawal strategy accordingly, you could run out of money more quickly than you first thought. The 4% rule (of thumb) is based on a 30-year retirement. If you retire early and live a long life, the sums might not quite add up.

Deciding on what level of income also depends on your circumstances. If your goal is to leave as much of your pension pot to loved ones, then you might favour another strategy to preserve the value of your savings.

This is known as taking the 'natural yield'. In other words, only withdrawing the amount of income your pension investments generate every year, from dividends, shares or interest from bonds. The aim is to leave the initial sum – the capital - intact.

What your adviser can do to make sure your pension fund lasts

An adviser can help predict how long your savings will likely last using cash flow modelling technology that not everyone has access to.

As mentioned, this is not an exact science because the amount in your pot depends on how the stock market performs. However, an adviser could help set sensible withdrawal levels with an idea of how long the savings would last.

Your adviser can also flag any significant market changes that require any adjustment to your income or how your money is invested.

This is another important factor in making sure your pension lasts. The financial watchdog – the Financial Conduct Authority (FCA) – has highlighted the importance of seeking advice on how your pension is invested when you start taking income.