DEVELOPING YOUR RETIREMENT STRATEGY

Have you developed a retirement strategy yet? Whether you're nearing retirement, or you still have many years of your working life ahead, careful planning is essential to secure financial stability and peace of mind when you stop working.

Active planning is important

According to a recent report[1], individuals on average begin actively planning for retirement around the age of 36. At this age, 63% of respondents expressed confidence in their financial decision-making abilities, a notable increase compared to younger demographics where only 56% share the same level of confidence.

With more than a decade of work experience under their belt by age 36, the 'age of responsibility' arrives for many people, with increasing awareness of the importance of financial planning, including actively thinking about their retirement. Whatever your age, a well-thought-out retirement strategy is a must!

Decades to go?

Younger individuals can afford to adopt a more aggressive investment approach with their pension pot, embracing riskier assets for potentially higher returns over time, if they are comfortable doing so. Although this strategy does involve exposure to short-term market fluctuations, the longer investment horizon allows ample time for recovery from any downturns (during which monthly pension contributions may be invested at the cheaper asset prices).

If you're closer to retirement

For those on the cusp of retirement in the next few years, a prudent approach involves creating a smooth, non-volatile investment profile which minimises risk for the first five to ten years of retirement, with the remainder invested in more volatile funds which have the potential to grow over the longer term.

This approach should help to shield your pension pot from the unpredictable nature of market volatility, as witnessed during events like the pandemic or financial crashes. By maintaining a stable portfolio for the initial years of retirement, you minimise the risk, thus safeguarding your financial wellbeing.

How about the 'inbetweeners'?

For those falling between these two extremes, a balanced and risk-managed approach is advisable. The strategy here is to aim for a balanced mix of stable and more volatile investments, aligned to your risk tolerance and personal financial goals. Diversifying your portfolio across various asset classes helps mitigate risk while providing the potential for growth.

The importance of rebalancing

Regular portfolio rebalancing is vital for a sound retirement strategy. Market fluctuations and varying asset performances can cause your portfolio to deviate from its original allocation over time. Without intervention, this drift could lead to unintended asset concentration and increased risk exposure.

[1] https://www.standardlife.co.uk/about/press-releases/retirement-countdown-begins-at-36