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INDEPENDENT FINANCIAL ADVISERS

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GUIDE TO

THE EFFECTS OF COVID-19 ON RETIREMENT PLANNING

WHAT DOES THE PANDEMIC MEAN FOR YOUR RETIREMENT PLANS?

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What does the pandemic mean for your retirement plans?

In our *Guide to the Effects of COVID-19 on Retirement Planning*, as the coronavirus pandemic continues to dominate world headlines, we consider how this may affect individuals' financial plans for retirement.

A significant number of people aged over 50 and in work are potentially considering delaying retirement (15%) by an average of three years, or will continue working indefinitely on a full or part-time basis (26%), as a direct result of the COVID-19 pandemic, according to new research[1].

Change to retirement plans

Data from the Office for National Statistics currently shows the number of workers aged above 65 years is at a record high of 1.42 million[2]. However, if people change their retirement plans in response to the pandemic, this could increase considerably.

While, on average, those who plan to delay their retirement expect to spend an additional three years in work, 10% admit they could delay their plans by five years or more. These figures are significantly higher for the 26% of workers over 50 who have been furloughed or seen a pay decrease as a result of the pandemic. 19% of these workers will delay, and 38% expect to work indefinitely.

Impulse to react, and to protect

Some retirees nearing retirement age might need to be flexible with their plans for the future. It's uncertain just how long it will take for life to return to normal, and while some people may still be able to retire right on schedule amid the COVID-19 crisis, others may need either to postpone retirement or consider retiring early.

As a result, the impact of COVID-19 on stock market performance may also be leading some retirees and those close to retirement to question their investment strategy, but what's the right approach? Understandably, the impulse to react – and to protect what we have – is strong.

Not 'one-and-done' exercise

In general, retirement planning is not a 'one-and-done' exercise. It's much better to think of it as fluid and as requiring regular revision. Attempting to time the market and avoid volatility by making dramatic changes to your portfolio can cause harm to your long-term investment results.

With many areas of the global economy coming to an abrupt halt, markets have see-sawed between gains and declines as investors weigh up the potential impact of massive stimulus initiatives by governments and central banks.

Benefit from a potential recovery

The barrage of news is unrelenting. On a daily basis, we hear about more COVID-19 cases, job losses, economic concerns and oil price shocks, to mention just a few. But long-term investing is ultimately about avoiding selling out of the market during periods of economic uncertainty and crystallising losses. Staying invested means you'll be able to benefit from any potential recovery, and it helps to remember that volatility is actually the norm for stock markets.

To give yourself the best chance of achieving your retirement investment goals, the right mix of asset classes is essential. An effective strategic asset allocation is one that takes enough risk to give your portfolio the potential to grow, but not so much that you feel uncomfortable – and therefore more likely to withdraw funds at the wrong moment.

Build a stronger retirement fund

Whether you decide to postpone retirement or retire early depends on your situation. If you still have a job and your savings have been impacted over the last few months, delaying retirement to give yourself more time to prepare may be a better option.

On the other hand, if you lose your job and don't know when you'll be able to find another one, you might choose to simply retire earlier than you'd planned. If you have plenty of savings set aside, you may be able to enjoy retirement comfortably. Otherwise, you might choose to go back to work in a few years when jobs aren't so scarce to build a stronger retirement fund.

While some people will choose to work for longer, or indefinitely, the key consideration when it comes to this research is that it seems this decision has been driven by the financial impact of the pandemic, rather than personal choice.

Time for markets to recover

It's really important to remember that retirement savings are for the long term. If you're young and currently paying into a workplace pension, then there is time for your pension pot to achieve growth over the long term and recover from the fluctuations currently being experienced in the stock markets. You shouldn't be too concerned, as you have many years ahead of you, and this will provide time for markets to recover before you take your pension income.

If you're older and closer to retirement, you may have seen your funds lifestyled. This means your pension will have been moved into predominantly less risky funds and invested in 'safer' places such as in cash, gilts or bonds, which are lower risk and usually offer a fixed rate of return. The older you get, the more schemes tend to choose to invest in such assets to limit investment risk. However, not all pension schemes offer automatic lifestyling.

Annuities

If you're about to retire and were planning to buy an annuity, in March the Bank of England cut the base rate twice in just over a week in a further emergency response to the coronavirus pandemic, reducing it from 0.25% to 0.1%. This has meant

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annuity rates have also fallen. An annuity is a type of retirement income product that you buy with some or all of your pension pot. It pays a regular retirement income either for life or for a set period.

If you are thinking of securing an income by purchasing an annuity, the recent volatility shows the importance of gradually reducing the risk in your portfolio as you approach your expected annuity purchase date. Doing this provides greater certainty over the secured income you can expect to generate from your fund.

Drawdown

If we continue to see a protracted period of negative investment returns, and you're already using drawdown or plan to move into drawdown soon, you might also want to avoid taking out any more than you need to while fund values remain depressed. The more you can leave invested, the more you will benefit over time once there is a recovery.

Drawdown is a way of taking money out of your pension to live on during retirement. You have to be aged 55 or over and have a defined contribution pension to access your money in this way. You keep your pension savings invested when you reach retirement and take money out of (or 'drawdown' from) your pension pot. Since your money stays invested – and it's usually in the stock market – there is the risk that your fund may fall in value. The upside is that investment growth can provide higher returns and see your pot continue to increase in value.

Contributions

If you are still in the process of saving for your retirement (and if appropriate), now might be a good time to consider increasing your pension contributions if you can. Even though your strategy may depend on the movement of the markets, increases in contributions over the long term can make a difference to your eventual retirement pot value, if it coincides with the market recovery.

Again, there is no need to panic – at this stage, we do not know what the long-term implications of coronavirus will be. We can help you see the bigger picture, weigh all your options and take a balanced assessment of your risks.

Staggered

Some people may opt for a staggered retirement and work part-time before giving up work completely to make sure their pensions last the rest of their lives. With people living longer, and with the added prospect of health care costs in later life, retirees increasingly understand the benefits of having a larger pension pot in later life.

Of those who haven't accessed their pension pot, research[3] shows that half (51%) say it is because they are still working, while more than a quarter (25%) of people in their 60s say it is because they want their pensions to last as long as possible.

Of course, retirees who haven't accessed their pension pot must have alternative sources of income. When asked about their income, nearly half (47%) said they take an income from cash savings, others rely on their spouse or partner's income (35%) or State Pension (22%), while 12% rely on income from property investments. ■

THINKING AHEAD TO YOUR RETIREMENT AND PLANS FOR THE FUTURE?

It's always important to think ahead to retirement and plan for the future, and even more so as we face up to the coronavirus crisis. People should not rush into making life-changing financial decisions and should obtain professional financial advice. We can discuss the advantages and disadvantages so that you can consider the options and know you're making the best informed decisions for your situation. For further information, or to discuss how we can help you, please contact us.

Source data:

[1] Opinium Research for Legal & General Retail Retirement ran a series of online interviews among a nationally representative panel of 2,004 over-50s from 15–18 May 2020.

[2] Office for National Statistics, Labour market overview, UK: May 2020

[3] LV= survey of more than 1,000 adults aged over 50 with defined contributions – 25 February 2020

WANT TO MINIMISE THE EFFECTS OF THE CORONAVIRUS PANDEMIC ON YOUR RETIREMENT PLANS?

During this uncertain time, we can help you with practical professional advice to inform and support you with your plans for retirement.

If you would like to review your situation or discuss the options available, please contact us for further information – we look forward to hearing from you.

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