DOWNSIZERS

THE DEFINITIVE GUIDE TO DOWNSIZING FOR RETIREMENT

Things you need to consider

Getting the best price for your home

Future-proofing your money

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Downsizers: The definitive guide to downsizing for retirement

If you're considering downsizing to fund your retirement, you're not alone. Figure's from McCarthy & Stone's annual Retirement Confidence Index suggest that almost half of the UK's pensioners are considering moving to a smaller home.

With house prices still rising across most parts of the country, it can seem like an excellent idea, but make sure that you don't get caught out. According to new research by Royal London, workers on average earnings, relying on downsizing to fund their retirement **could see their income halved** in later life.

"Hoping to live off the value of your home could be a downsizing delusion for millions of people," said Steve Webb, director of policy with Royal London.

The research looked at a worker on an average wage of £27,400 a year downsizing from an average detached property worth £310,000 to a smaller semi-detached home valued at £197,000, who then uses the released capital to buy an annuity, to pay a secure income for life.

This income, combined with the state pension, could produce about £13,700 a year, which is half the pre-retirement earnings of the worker, according to the Royal London analysis.

However, according to the latest research from Which?, this may not be enough to fund the kind of lifestyle you were hoping for in retirement, with even a frugal retirement (essentials only) costing £18,000 a year on average (per couple) and a luxury lifestyle estimated at £39,000 a year. Even if both of you are in receipt of the maximum state pension (roughly £8400 a year), you could find yourself a way off a comfortable or luxury retirement.

Funding your retirement through the sale of a property is not necessarily going to leave you impoverished in your later years but it's really important to be aware of the pitfalls and plan ahead to avoid them.

Pay off your mortgage

Research from Aviva has found almost a quarter of Britons over the age of 45 with a mortgage are expecting not to have paid it off by the time they retire.

If you're hoping to use your home for retirement, maximise the amount you will walk away with by paying off your mortgage before you retire. This might mean you have to reassess your spending to up your mortgage payments, but it doesn't necessarily have to mean a miserable experience. Adopting a more frugal approach now could make a huge difference in the long run. Read our blog 10 everyday savings tips for some easy to adopt savings ideas.

You could also consider renting out a room or renting your home out as a holiday let on Airbnb if you're going away. Here are 7 more ways to make money if you're over 60.

Make Space

Downsizing at retirement may be difficult if the 'spare bedroom' you planned on losing is not actually spare. Growing numbers of young adults are living at home for longer because of difficulties in affording their own home or having moved back in after a job loss or relationship breakdown.

"Kidults - A so-called grown-up who doesn't want to grow up"

As the cost of housing has risen, so has the rise of the 'Kidult'. Grown up children who have either never flown the nest or who keep rebounding like boomerangs. 'Kidults' can throw a serious spanner in the works when it comes to downsizing as it can put pressure on people to downsize to a larger home than they had originally planned or delay the move altogether.

It's a delicate subject for many, and we're not family counselors, but if this is affecting you, maybe it's time to have 'the talk'...

Lay down some ground rules of the stay:

- Explain your retirement plans to them so that they know from the start.
- Agree on a reasonable timescale for the stay (and stick to it).
- Make them pay rent (even if you give it back to them to help set them up when they leave). The real world for 99.9% of us doesn't include free rent and it just provides another incentive to stay longer than planned.
- Get them to draw up a financial plan that includes saving for a deposit to rent or buy a place of their own.

Getting the best price for your home

You'll want to sell your home for the best possible price. Every penny you have to drop from your asking price is a penny out of your retirement fund, so it pays to present your home in its best light.

You don't have to spend thousands on 'doing your property up' to sell for the best price but a few savvy moves could seriously affect saleability and price.

Here are 3 things to do before putting your house on the market that have **minimal cost** and **maximum impact**:

Part 1 - Be prepared

Declutter - Clutter makes your home look smaller, untidy and lacking in storage space so clearing out the clutter is one of the most effective things you can do to get the top price for your home. Remove excess furniture, ornaments, clear out boxes, thin out wardrobes and book shelves. If you need some inspiration read Marie Kondo 'The magic art of tidying'

Clean - borrow or hire a carpet cleaner, then roll up those sleeves and get ready to scrub your home top to bottom. Nothing puts buyers off quicker than a dirty home.

Get some kerb appeal - tidy up the front of the house, remove any weeds from the path, cut the grass, give the front door a lick of paint. You'll be amazed at the difference

If you are still planning to do work on your property before you sell it, do your research and see what the competition is like in the local housing market first. Enlist the help of a recommended local estate agent and find out what buyers are looking for and what they are willing to pay extra for - some expensive upgrades may not actually add anything to the value of your home.

Income Planning

We all know people who've cashed in their house only to burn through large chunks of their money very quickly on unnecessary items, spending thousands on cars, motorbikes, family holidays, expensive home improvements like conservatories etc. But what you do with the money once you've sold your home is **crucial**.

It can be tempted to splash out on big ticket items but just because you can, doesn't mean you should.

Income planning is an essential part of retirement planning, especially if you're going to be surviving on less income that you were used to pre-retirement. It's important to think about long-term as well as short-term financial needs. It's easy to overestimate how long the money will last you.

Consider the following:

- Everyday items could become more expensive with inflation and could eventually outstrip your income.

- We are living longer so your money will need to last you - The average woman who reaches 65 will live another 20.9 years, and men 18.4 years and if you make it to 85 then ladies can on average live another 6.8 years and gentlemen 5.82. Source: Office for National Statistics

- You may need the money to help assist you later in life if you need care.

Part 2 - Post Sale

You'll need to work out how much you're going to need for day-to-day basics like:

- Food
- Household bills
- Council tax
- Clothing
- Rent/Mortgage (if applicable)

The Money Advice Service offer a comprehensive budget planner that you can use to work out how much you'll need every month. It's free and you can access it online here.

There is nothing wrong with earmarking some of your hard earned cash for fun and frivolity, but remember this money can form an asset and its appreciation over time can benefit you in the long term. keep that money working for you because there is every chance that you could need it later in life.

If you're not sure how much money you will need in retirement, why not read our blog post - How much do I need to retire?

Make a plan for your money

It is really important to have clear plan and this is a really good time to speak to a financial advisor; a retirement report by Old Mutual Wealth in 2015 found that you could have a 53% increase in income if you see an adviser regularly and have an income target in mind compared to not doing so.

If you have a plan to grow your money effectively (and efficiently for tax purposes) you can use the growth to help out with the bills or possibly give you some additional monthly income when you need it.

Research shows that 90% of people who see a financial adviser on a regular basis feel the advice has benefited them. The research proves that regular financial advice can deliver real benefits, with the top five benefits identified as:

- Peace of mind
- Finances are efficient for tax purposes
- Achieve financial goals
- Protection against losses
- Better off financially

A Financial Adviser will help you invest and access your money in the most tax-efficient way.

Future-proofing your money -
Inflation protection

Many people think having their savings in cash is preferable as it's 'safe' and they can access it whenever they want. However, with rising inflation and low interest rates, your cash savings could steadily lose value over time.

It's important to consider measures to 'future-proof' your money, that means choosing the right investment for you.

Although no investment is risk-free, investments can be matched to your appetite for risk. You don't have to choose high-risk investments, there are more conservative investments available.

Investing for growth

Historically people would have bought an annuity with their pension, which would have provided a guaranteed income for retirement. However, these can be expensive and are proving less and less popular with retirees with many more opting to invest their money for growth.

The key to a successful and financially stable retirement is to **maximise future returns** on your capital i.e. you'll need a plan in place to invest your money wisely.

According to the Royal London survey, the average person will release £113,000 by downsizing.

An invested sum of £113,000 could grow to £168,464.09 in 10 years if it averaged 4% growth every year. Leave it invested for 20 years and the figure rises to £251,151.78. You could slowly wrap the money up tax efficiently using your ISA allowance. This money can be used to help you at your discretion and whenever you want.

Investing for Income

It's possible to invest your money for income. Invest in the right stocks and shares and you could receive an income from dividends - although it's important to note that these are not guaranteed.

You may also be able to invest your money wisely and take a sustainable income whilst keeping your money invested.

The exact balance of investments that is right for you will depend on your circumstances. Speak to an expert and seek independent advice that's right for you.

Investment options

You can invest your money in **direct stocks and shares, tracker funds, managed funds, gilts, bonds property and cash**, it's normally a good idea to spread your money across a mix of these. Your financial adviser will be able to look at your circumstances and suggest the best approach for you.

Withdrawing funds tax-efficiently

Certain investments have tax advantages and since you want to maximise your money in retirement, it makes sense to withdraw your money as tax efficiently as possible. Here are some options:

ISAs

The 2017/18 ISA tax allowance is £20,000, so as a couple you can invest up to £40,000 tax-free per year and this can be in a cash ISA, a stocks & shares ISA, an innovative finance ISA, a Lifetime ISA or a mixture of all of them (with a little juggling). With an investment portfolio, you can allocate funds to ISAs every year from your investment. If ISA limits stay the same for another 10 years, that's £400,000 you can shelter from most forms of income tax and Capital Gains Tax.

Dividend Allowance

Currently, you also have a £5000 tax-free allowance for dividends although this is reducing to £2000 from 2018. Dividends over £5000 are taxed as below:

Tax band	Tax rate on dividends over £5,000
Basic rate	7.5%
Higher rate	32.5%
Additional rate	38.1%

Personal Pension

Pensions are a tax-efficient way of saving and have added benefits for higher-rate and top-rate taxpayers. Currently, individuals can pay 100% salary up to £40,000 each year and you get an instant leg up because tax relief is credited to the money. So, as a lower rate tax payer, if you make a lump sum investment into your pension of £8,000 then you will actually invest £10,000 for higher rate taxpayers it's, even more, cost effective. To get to the same £10,000 could effectively cost a 40%-rate taxpayer, £6,000 and a 45%-rate taxpayer as little as £5,500.

As a lower rate tax payer, if you make a lump sum investment into your pension of £8,000 then you will actually invest £10,000 (20% tax relief). For higher rate taxpayers it's, even more, cost effective e.g. the same £10,000 could effectively cost a 40%-rate taxpayer only £6,000 as they receive 40% tax relief and the same £10,000 investment will cost a top-rate tax payer as little as £5,500 with their 45% tax relief. So it could definitely be worth considering paying your money into a personal pension (or topping up your occupational pension if you have one).

While the money is in the pension it grows tax efficiency, just like an ISA.

Thanks to the new pension flexibilities you can now take all of your money from your pension, from the age of 55. If you need access before then this will limit the attractiveness of this option. There is an additional tax advantage because 25% can be released tax-free, any further funds can be withdrawn at your marginal rate of tax. So if you are a higher earner while you are saving for retirement, you could be able to take money from the pension at a lower rate of tax.

Start your plan today

If you'd like to speak to an independent financial adviser to discuss your options for retirement, contact us for a free initial consultation.

Get Started