INVESTOR PROFILE

9 ways to retire early, without sacrificing your lifestyle

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Introduction

Life isn't a practice run - if you like to live in the moment, the idea of pension planning probably isn't very appealing. Talking about the logistics of retiring can be pretty dull.

However, the subject gets a lot more interesting when you realise you could retire sooner than you thought possible. It gets even more interesting to know you could retire earlier, without having to make big lifestyle sacrifices. No skipped holidays, no missed dinner out with friends, no FOMO!

Here are our top nine ways to achieve just that.

1. Start saving now

The sooner the better - it's never too early. Even if you are only tucking a little away here and there, it's significantly better than nothing at all. The main benefit is the effect of compound interest and compound growth.

Rumoured to be called 'the eighth wonder of the world' and 'most powerful force in the universe' by Einstein, compounding means that over time interest attracts its own interest - your money grows exponentially! There may be no need to cut back on life's luxuries, just make a start saving something as soon as possible.

> "Don't wait for things to happen. Make them happen"
>
> **Roy T. Bennett**

2. Invest for growth

Putting your cash into a savings account is great for saving towards short-term goals, like a holiday or a new TV. But, when you are saving towards a long-term goal like retirement, you need to invest in stocks and shares. There are two main reasons for this:

- Interest rates on cash savings are currently low. In the long term (five years or more) the buying power of cash savings will almost certainly be eroded by inflation.
- You are more likely to achieve inflating beating returns investing in stocks and shares.

How you invest is influenced by your current circumstances, goals and the level of investment risk you are comfortable taking.

It's also important to consider the investment risk profile of your wider portfolio, which might be made up of property, ISAs and other investments. Over time, having an investment portfolio will minimise the risk of being exposed to uncomfortable levels of market volatility, while hopefully providing the returns you desire.

It's also really important to regularly review your investment portfolio to ensure it remains appropriate and on track.

New to investing?

There are four main types of investments, known as asset classes.
They are:

1. Shares or equities
2. Bonds or fixed interest securities
3. Cash or money market
4. Property or other tangible assets

Each asset class carries a different level of investment risk. Generally, the higher the risk involved, the higher the potential returns.

It's best to spread the level of risk you are comfortable taking across a number of different asset classes, creating a diversified portfolio.

"I have been a client of Jaskarn since 2013 and since then my investments have performed really well... I am well on my way to achieving my retirement plans."

Steve Blaber

> "If you want to feel more in control of your financial investments, I can thoroughly recommend Investor Profile. I've been really impressed with their friendly approach and professional service."
>
> **Mark Barraclough**

3. Why pay tax?

Now, the extremely attractive tax benefits of pensions.

You get tax relief on pension contributions at the highest rate of Income Tax you pay, up to an annual limit, known as the Annual Allowance. The limit on the amount of contributions you can earn relief on is called the Annual Allowance. That is set at the equivalent to your earned income that year, up to a maximum of £40,000 in 2019/20. It's a little different for high earners with income over £150,000, as the allowance can be tapered down to £10,000, but up to £40,000 a year would start to grow quite quickly with compound growth!

Then you have the Lifetime Allowance, which is currently a relatively generous £1.055 million. That's the total value your pensions can grow to without triggering a tax charge. There is no immediate penalty if your pension does exceed the limit, a potential liability is calculated when you begin to take income or turn 75. If you do exceed the Lifetime Allowance, accidentally or not, expect to pay 25% tax on regular income and 55% on lump sums, so it's worth keeping an eye on this figure.

When it comes to spending your pension savings, you can withdraw as much or as little as you like from age 55. Usually, the first 25% taken is tax-free, then you will only have to pay Income Tax on the remainder.

Finally, it's worth noting that any growth in the value of your pension is free from Capital Gains Tax. Also, if and when you die, your pension is usually exempt from Inheritance Tax. Essentially:

- What you pay into your pension can be free of tax
- When your pension grows, it's free of tax
- When you spend it, the first 25% is free of tax
- When you pass away, your pension can be passed to loved ones free of tax

4. Take advantage of your workplace scheme

According to the **ONS**, three-quarters of UK employees were members of a workplace pension scheme in 2018. That's an increase of a third compared to 2012 when auto-enrolment was introduced. The increase in popularity is obvious when you start to consider why - employer contributions are essentially free money!

If for any reason you've opted out of your current workplace pension, it's time to reconsider that decision.

In April 2019, the amount you pay into your workplace pension increased from 3% to 5%. If you're 40 years old and earn £40,000, between your and employer's minimum contributions and tax relief, you'll be saving a minimum of £225.76 a month while only being £112.88 'worse off' on your payslip. No big lifestyle sacrifices necessary there. Your employer may even offer a more generous contribution, and if they do, it would be silly not to bite their hand off!

5. Track down old and forgotten pensions

It's estimated that you're likely to change careers five to seven times in your life. With the current GIG economy, that number is only likely to increase. People no longer work for one company and retire at 65 with a watch and a handshake.

By tracking down lost or forgotten pensions from previous jobs you will have a better understanding of your current financial position and what you need to do to achieve early retirement. If you're not sure where to start, **The Money Advice Service** have some handy pointers and letter templates to help.

"Retirement's the most wonderful thing. I get to enjoy all the things I never stopped to notice on the way up"

Patrick Macnee

"I'm very happy with the service I get from Investor Profile. Many thanks!"

Michael Foster

6. Minimise your debts

Any debt, especially high-interest like credit cards and overdrafts, should ideally be repaid before you retire. But, the sooner you can manage and repay debt the better - you can save quite a lot of interest that can go towards you retiring early.

Not having a mortgage on your home when you retire, if possible, is especially important. Not taking debt into retirement means your pensions can go solely towards its intended purpose - fulfilling your lifestyle.

7. Understand what your retirement is likely to cost

There's no single amount that is right for everyone, but remember that the earlier you retire the longer your savings will have to last. The amount you need will depend on several things, including:

- How soon you'd like to retire
- What lifestyle you'd like to maintain
- Other assets you could rely on
- Other sources of income available
- How long you are likely to live for

Consumer group **Which?** found that on average a retired household spends £2,220 a month. That's £27,000 a year. The same research also found that for a little more luxury in life, you need around £33,000 a year.

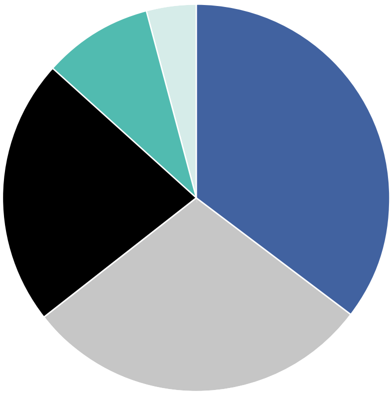
When budgeting your retirement, it's worth considering that your priorities are likely to change as you age. You might spend less on food, drink and recreation, but more on utility bills and your health the older you get. Being realistic and planning is key to understanding if you can retire sooner than you thought possible.

> "The trouble with retirement is that you never get a day off"
>
> **Abe Lemons**

8. Think about other sources of income

Your retirement income doesn't just have to come from your pension. An ONS report found that more than a fifth of pensioners' income came from earnings. We're working for longer but in much more flexible roles.

In 2017/18 retiree's income came from:



- Benefit, including State Pension income 35%
- Occpational pension income 29%
- Earnings income 22%
- Investment income 9%
- Personal pension income 4%

9. Get low-cost, high-quality financial advice

Long-term research from **ILC-UK** has found that people receiving professional financial advice between 2001 and 2006 resulted in a total boost to wealth of £47,706 in 2014/16 - there's no denying that could help you retire sooner.

Evidence also suggests that an ongoing relationship with an adviser leads to better financial outcomes, as people who were in contact with their adviser throughout the study had nearly 50% higher average pension wealth, than people who only took advice at the start of the study. Keep in touch people!

There's no reason to pay through the nose for financial advice, either. Investor Profile was set up to provide low cost, simple solutions to the majority of investors across the UK - why pay more unnecessarily? We work remotely via telephone and e-mail to keep your costs low. We also use simple, low cost, academically-backed investment techniques to deliver your returns.

We want to make you feel comfortable, confident and happy about the prospect of retiring early. We'll offer expert financial advice, create a plan and implement it for you, taking care of all paperwork in a simple and friendly way. We make the whole process as easy as possible.

If you're attracted to the idea of retiring earlier than you thought ever possible, without having to make lifestyle sacrifices now, you can get in touch with us at:

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