Lync Wealth Management

What are my options for providing income in retirement?

Introduction

Planning for retirement involves careful consideration of how you'll generate income to support your lifestyle once you stop working. With increasing life expectancy and changing economic landscapes, it's essential to explore a variety of options for securing financial stability in retirement.

This guide provides an overview of the main income sources available to retirees. By understanding these options and their implications, you can begin to develop a comprehensive retirement income strategy that aligns with your goals and financial circumstances.

Whether you're approaching retirement or already enjoying your retirement years, the following sections will help you to navigate the complexities of retirement income planning and make informed decisions to ensure a comfortable and fulfilling retirement.

Pensions

There are a number of different types of pensions available to UK residents. These are:

The state pension

The state pension serves as a foundational income source for retirees. Eligibility for the state pension is based on national insurance contributions, with the amount received determined by your contribution history. It provides a basic level of income to support essential living expenses in retirement.

Accessible at age 66, increasing to 67 in 2026, you will need to have 10 qualifying years on your national insurance record to claim some state pension. In order to receive the full new state pension, which is £230.25 per week in the 2025/26 tax year, you will need 35 qualifying years of national insurance contributions.

If you receive the full new state pension, this equates to £11,973 per year which is a way below the retirement living standards estimation of needing £14,400 for a single person to have a 'minimum' standard of living during retirement let alone the £43,100 prediction for a single person to have a 'comfortable' standard of living.

This highlights the importance of having other income sources for your retirement.

Workplace pensions

Workplace pensions are split into two categories, final salary schemes (also known as Defined Benefit schemes) and defined contribution schemes (also referred to as personal pensions). The eventual pension income from a final salary scheme is typically determined by your length of service and the level of your salary when you retire and the risk is generally held with the employer.

With a defined contribution Scheme, the employee bears the investment risk, as the eventual pension payout depends on the performance of the investments held within the pension and are based upon the contributions made.

Workplace pensions are regulated by The Pensions Regulator.

Personal pensions

Personal pensions such as defined contribution schemes, offer individuals flexibility in managing their retirement savings as you can decide how much you save and when and where your pension pot is invested.

How to use my pension pot

There are a number of ways in which you can use your pension, such as:

Annuities: Annuities provide a guaranteed income for life or a set period in exchange for a lump-sum payment. They offer security and predictability, making them a popular choice for retirees seeking stable retirement income. However, annuities may not keep pace with inflation and once purchased, they cannot be changed or adjusted.

There are a number of different types of annuities such as a level annuity, which pays the same income each year and an escalating annuity, where your income will rise each year at a fixed rate. It is important to fully understand the different types of annuities to explore which is right for you and your needs, therefore, it is strongly recommended that you consult a financial adviser before purchasing one.

Lump sums & cash withdrawals: If your provider offers it, you can withdraw your entire pension pot as a lump sum in cash or make multiple cash withdrawals. This may not be the most cost-efficient option as only the first 25% of the lump sum is tax free. The remaining 75% is subject to tax and this may push you into a higher tax bracket. Although this is an option, it is not a recommended option as it doesn't reap the benefits that a pension provides.

Income drawdown schemes:
Drawdown schemes allow you to invest your pension pot into a scheme which is then invested into the stock market. With this option you can draw income from your investments. This can be a risky move as the stock market is subject to economic change so your income is not guaranteed which may result in you not having enough income to sustain your retirement.

Deciding how to use your pension pot is not an easy decision and can be one of the hardest decisions you will ever make as you will need to ensure that you have enough income to sustain your desired retirement lifestyle. You can work with a financial adviser to determine a sustainable withdrawal rate from your investment portfolio to cover your retirement expenses. A common guideline is the 4% rule, which suggests withdrawing 4% of your portfolio balance in the first year of retirement and adjusting subsequent withdrawals for inflation. However, the optimal withdrawal rate may vary depending on factors such as market conditions, life expectancy and investment performance.

Please note: A pension cannot typically be accessed until age 55 (57 from April 2028). The tax implications of pension withdrawals will be based on your individual circumstances, tax legislation and regulation which are subject to change in the future.

Other sources of retirement income

First and foremost, your pension should be the main source of income for your retirement and thus should be your focus in terms of savings. However, there are other ways in which you can save for retirement or gain a retirement income.

Investments

If you have invested during your life, when you reach retirement you will have additional funds to work with.

It is important to maintain an appropriate asset allocation in your investment portfolio that balances potential growth with risk management. As you transition into retirement, your attitude to risk will likely change and you might consider shifting towards a more conservative investment strategy that prioritises capital preservation and income generation. A financial adviser can help you to diversify your portfolio across asset classes such as stocks, bonds and cash to manage risk and to potentially enhance returns.

Individual savings accounts (ISAs)

An ISA is a tax-free way to save and/or invest for the future. There are four types of ISAs that you can save into for retirement and as of the 2024/25 tax year, you can have more than one type of ISA with different providers. The total annual ISA allowance remains at £20,000 for the 2025/26 tax year. This can be split between multiple ISA types.

The most common types are:

Cash ISA: Cash ISAs are offered by banks and building societies and are suitable for individuals who want to save money in a low-risk, easily accessible account. A cash ISA has an annual deposit limit of £20,000.

Stocks and Shares ISA: A Stocks and Shares ISA allows you to invest in a wide range of assets, including stocks, bonds mutual funds and exchange-traded funds (ETFs). Stocks and Shares ISAs are suitable for individuals willing to take on higher risk in pursuit of potentially higher returns over the long term. The Stocks and Shares ISA has an annual deposit limit of £20,000.

Lifetime ISA (LISA): A Lifetime ISA is designed to help individuals save for their first home or for retirement. You can open a LISA between the ages of 18 and 40 and you can contribute into it until you turn 50.

You can contribute up to £4,000 per year, and the government provides a 25% bonus on your contributions, up to a maximum of £1,000 per year.

Withdrawals from a Lifetime ISA are tax-free if used for a first home purchase, after age 60 for retirement or if you are diagnose with an illness with less than 12 months to live; otherwise, a withdrawal charge of 25% applies.

Investments carry risk. The value of your investments (and any income from them) can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Part-time work

Some retirees will choose to work part-time to supplement their retirement income. Part-time work can provide additional financial resources while offering opportunities for social engagement and personal fulfilment. However, it's essential to balance work commitments with leisure activities and relaxation in retirement.

Property equity release

Equity release schemes allow homeowners to unlock the value of their property without having to sell or move. This can provide a lump sum or regular payments to supplement retirement income. However, it's essential to understand the implications of equity release, including interest rates, fees and the impact on inheritance.

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