Will I run out of money?

A guide to how much you can draw from your savings to ensure you don't run out of money

Wealth for WOMEN
Independent Financial Advice

Sally, aged 52, able to retire 10 years sooner, maintain her lifestyle and have a sizeable legacy for her daughters.

Sally is aged 52 and has been working for over 30 years building her highly successful accountancy business. However, she now feels it would be a good time to step back from work to give herself more free time to enjoy more holidays, a more relaxed lifestyle and to do voluntary work for her favourite charity. But her concern is: can she afford to?

She has saved hard during her working life and has built up pension and savings to the value of £720,000. She also owns her home valued at £800,000 with no mortgage. Her state pension will be payable from age 67.

She recognises that since she would like to stop work at an early age this impacts on how much she can draw from her savings pot each year. If she were to live to age 90 for example, stopping work at age 52 means she would need the pot to last 38 years. If she continued to work for another 10 years and didn't draw until then, she would only need the pot to last 28 years.

It's this worry that has held Sally back from making any detailed plans up to now – the fear she would run out of money in later years.

Sally hadn't allowed herself the time to dream and plan for stopping work since she was too worried she wouldn't be able to afford to. It felt too much like a pipe dream, so she had put it on hold.

When I asked her what she would really like to do if money were no object, she wasn't sure. She'd never given herself the opportunity to think that.

I did a coaching session with Sally to determine her core values, what was important to her, and what it was she really wanted to achieve with her life.

After discussion, Sally decided she really wanted to change her lifestyle now if that was possible, and wanted to stop full time work.

Ideally, she wanted her savings to provide a net income after tax of £30,000 each year. She would be happy to undertake some consultancy work or ad hoc work over the next 10–15 years to boost her income if she felt she needed more.

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Now that her 2 daughters have left home, she is aware that her house is bigger than she needs and would be happy to downsize if needed. She would prefer to downsize than to continue working full time.

Sally is an experienced investor and has a portfolio with 60% equities and 40% bonds. She is happy to maintain this level.

Wealth Compass Review

The Wealth Compass Review looks at the investments and savings you currently have, your future income, and the future spending you'd like to afford. Using extensive historical data, it reviews over 1,000 actual historical scenarios to determine how successful your situation would have been.

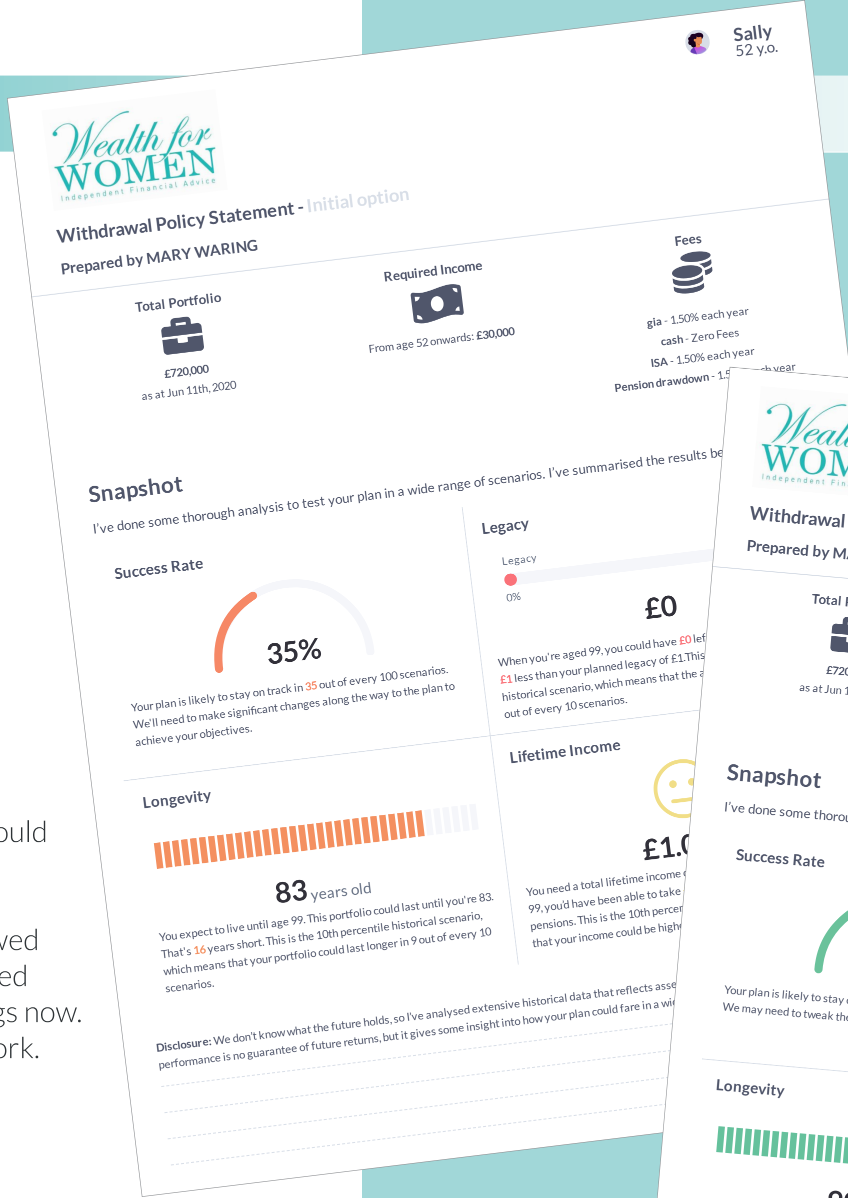
For Sally, the initial analysis was not appealing. This showed Sally was likely to run out of money at age 83 if she started drawing £30,000 (after tax) from her pension and savings now. There was only a 35% probability that the plan would work.

Refining her options

We had already discussed various options for Sally and I analysed the differences these would make for how long her funds would last.

If she downsized at age 75, released £300,000 additional cash, which she would then invest, the situation improved. But it still showed she was likely to run out of money at age 83, but the probability of the plan working had increased to 56%.

Therefore, I needed to consider further options.



And finally....

Sally was very keen to reduce her working hours now, so it was important for me to find the best options with this as a priority. After considering a number of scenarios, the option which suited was to downsize at age 75 as above, but from age 71 reduce her spending from £30,000 to £24,000 each year, since she felt at this age she wouldn't be spending as much on holidays.

The Happy Outcome

My analysis showed her portfolio could last to age 99 and there is now a 99% chance the plan will work. In fact, this analysis showed that not only would she have sufficient funds for her lifestyle, she was likely to leave a significant legacy.

On this basis Sally went away incredibly happy to contemplate what other changes she wanted to make since she realised that using the most recent assumptions, her plan was highly likely to succeed.

The options Sally was going to consider:

- Whether she wanted more than £30,000 each year now and could therefore take further holidays or provide annual financial contributions to her charity.
- Whether she wanted to amend the option to scale down her income to £24,000 from age 71.
- Whether she would like to leave a legacy to her 2 daughters in excess of the value of her house. Up to now Sally had planned to use all her savings to support her lifestyle since she wasn't aware prior to our work together, that she could afford otherwise.

Sally's comment:

"I'm delighted that not only can I stop work now as I had hoped, but I actually have so many more options available to me than I had considered. This allows me to confidently scale down my business and enjoy a totally different lifestyle"

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Let me give you clarity on the lifestyle you can afford based on your circumstances. Please do contact me for a confidential, no obligation discussion.

telephone: 020 7117 2628 email: mary@wealthforwomen.biz