THINKING AHEAD

HOW OUR RETIREMENT PLANS MAY CHANGE IN RESPONSE TO THE CORONAVIRUS PANDEMIC

The coronavirus (COVID-19) pandemic has touched virtually every part of our lives and is having a widespread impact across all aspects of financial life, including retirement plans.

As a result, 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]. The findings also suggest that people, particularly those who have been furloughed or seen a pay decrease, would benefit from a financial review to assess their options before changing their plans.

DELAY RETIREMENT

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 over-50s workers 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.

FUTURE PLANS

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.

REGULAR REVISION

Retirement planning and financial planning, in general, are not 'one-and-done' exercises. It's much better to think of them 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 the potential impact of massive stimulus initiatives by governments and central banks.

ECONOMIC UNCERTAINTY

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.

BETTER OPTION

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. ■

MAKING THE BEST DECISION FOR YOUR SITUATION

Whatever option you choose, make sure you've thought about the advantages and disadvantages so you know you're making the best informed decision for your situation. For further information or to discuss your situation, we're here to help you.

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

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.