

Planning for early retirement

Is it time to move forward towards your financial freedom?

Early retirement appeals to many, driven by reasons such as a desire to travel or a need for a break from high-pressure or demanding jobs. However, reaching this goal requires more than just asking 'Can I afford to retire early?' It involves understanding financial planning, lifestyle adjustments and personal preparedness.

Generally, early retirement refers to leaving full-time employment before reaching the State Pension age, which is currently 66 in the UK but is scheduled to increase to 67 between 2026 and 2028. For those contemplating retirement at 55 or even earlier, it may involve completely stepping away from paid work or shifting into part-time roles or personal pursuits. Ultimately, early retirement is about enjoying the freedom to choose how to spend your time without depending on a regular salary.

EXPLORING THE REASONS BEHIND EARLY RETIREMENT

People choose early retirement for various reasons. Some wish to enjoy good health while they can, while others feel the need to take it easy after many years of demanding work. For many, financial security is essential in supporting this lifestyle, relying on assets such as private pensions, Individual Savings Accounts (ISAs), property portfolios or investments.

For those with sufficient wealth, the freedom to regain control of their time is highly attractive. Nonetheless, it is equally crucial to consider the long-term challenges faced by early retirees, such as inflation reducing the purchasing power of money and market fluctuations affecting investment returns.

PREPARING FOR EMOTIONAL READINESS

Although the financial aspect often dominates early retirement planning, it is equally crucial to consider the psychological side. After years of structured routines, mentally preparing for a major lifestyle change is essential. Are you ready to fill the void left by your career, both in terms of time and purpose?

Another point to consider is the limited access to pensions before the age of 55 (rising to 57 from 2028). Retiring at 55 or soon after may result in a smaller pension pot and fewer benefits, especially for those on final salary schemes. To ensure your savings last, you need a careful withdrawal plan.

DON'T OVERLOOK THE PENSION AND BENEFITS PUZZLE

Without proper planning, early retirees can quickly exhaust their funds faster than expected. For example, accessing your pension early results in fewer contributions and less time for growth. Withdrawing funds during a market downturn can worsen the situation, emphasising the importance of a solid strategy to withstand economic fluctuations.

You also need to bridge the income gap caused by not claiming your State Pension until the official age. Checking your situation through a State Pension forecast on gov.uk can reveal potential gaps in your National Insurance record. While recent reforms removed the Pension Lifetime Allowance, future legislative changes could still impact larger pension pots, especially for early retirees seeking to optimise long-term returns. The Lump Sum Allowance (LSA) and Lump Sum Death Benefit Allowance (LSDBA) are now in place to limit tax-free lump sums (lifetime and death).



THE IMPACT OF LEAVING EMPLOYMENT

An often-overlooked consequence of leaving the workforce early is the loss of employer contributions and workplace benefits such as private medical insurance or death-in-service cover. These are valuable assets that enhance financial security and should be part of your decision-making process.

Meanwhile, cashflow modelling can help estimate how much money you'll need for early retirement, providing clarity on whether your planned lifestyle matches your available resources. Consulting a financial planner can simplify this process and highlight any potential blind spots.

BALANCING RISKS WITH REWARDS

There's no denying the appeal of early retirement. Retirees finally gain time to pursue hobbies, personal interests and family, often boosting their physical and mental wellbeing. For some, stepping away from high-stress careers brings immediate health benefits and offers a much-needed reset.

However, there is another side to the coin. Retiring early extends the period during which your funds must last, increasing the risk of outliving your money. Retiring at 50, for instance, could mean planning for more than 30 years of expenses. Financial resilience, tax-efficient strategies and contingency plans become even more essential.

LIFESTYLE AND SOCIAL CONSIDERATIONS

Leaving work early doesn't just impact your finances; it also influences your lifestyle. Work offers more than just an income; it provides structure, purpose and social connections. Without access to a workplace community or regular responsibilities, some retirees can feel isolated or lack direction.

Furthermore, the absence of employer-subsidised healthcare means you will have to pay higher private insurance premiums as you get older. These healthcare costs can unexpectedly put a strain on your finances, highlighting the importance of detailed financial planning. ■

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A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE). THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

ARE YOU READY TO PLAN YOUR PATH TO EARLY RETIREMENT?

Early retirement can signify a rewarding new chapter, but it requires careful financial and personal planning. From securing income to adjusting to a life without the daily work routine, every detail counts. Expert financial advice helps ensure your goals stay achievable. Contact us to discuss your retirement ambitions!

