

How Financial Planning Helps You Manage Longevity Risk

Understanding the financial risks of living longer, and the strategies to help you enjoy every year



In This Guide

Planning for a longer life means planning for more possibilities. This guide explores the financial risks of living longer than expected, and the steps you can take to protect your future.

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Looking Ahead with Confidence

What Is Longevity Risk?

Longevity risk is the possibility that you will live longer than expected, which could mean you outlive your retirement savings and have to rely on Social Security or other income sources for the rest of your life.

Longevity risk is a growing concern for many people, especially those who have retired or are approaching retirement. This is because life expectancy is increasing, and people are living longer than ever before. This means that people need to have enough money to last for a longer period of time than they might expect.

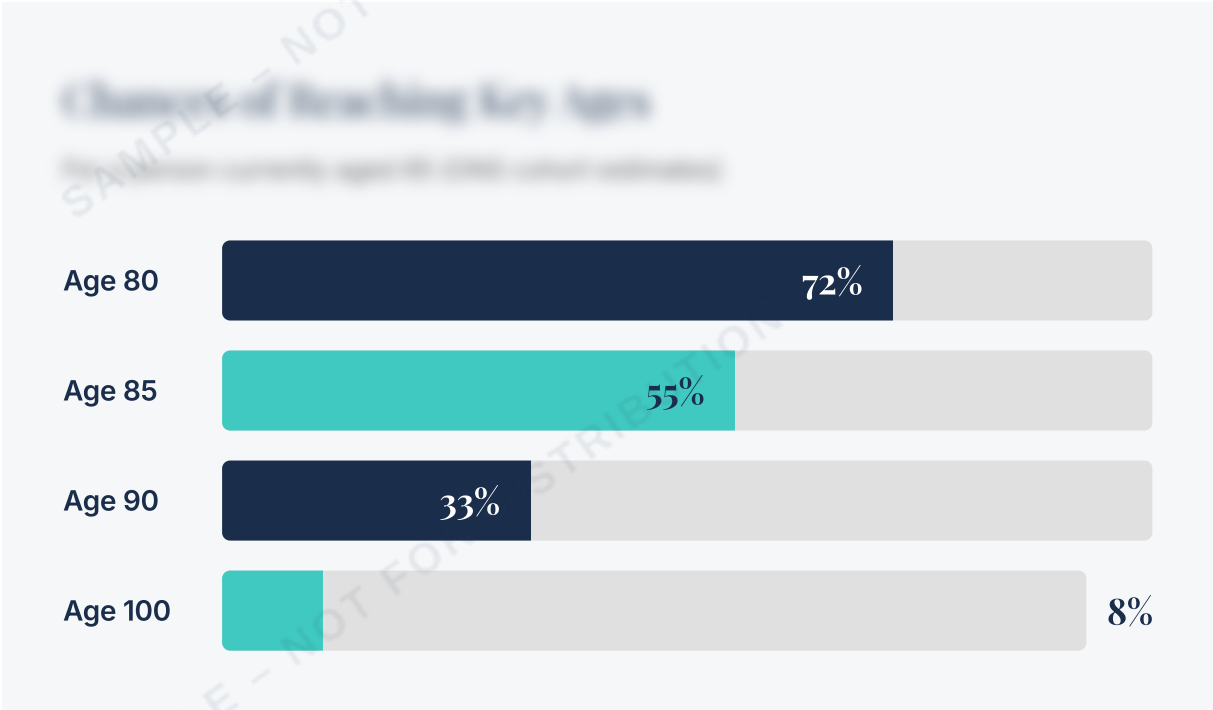
Why It Matters Now

- People are living longer than ever before, which means they need more money to last for the rest of their lives.
- Many people are retiring with less money than they need to last for the rest of their lives.
- Retirement savings are often subject to market risk, which means they can lose value over time.



How Long Could You Really Live?

The numbers may surprise you. According to the Office for National Statistics, life expectancy in the UK continues to rise, and many people significantly underestimate their own chances of reaching older ages.



The Underestimation Gap

Research shows people underestimate their chances of surviving to age 75 by around 25 percentage points. 28 underestimate their chances of reaching 85 by over 20 years.

Your Retirement Income Building Blocks

A secure retirement typically draws on several sources of income. Understanding each one, and how they work together, is the first step towards managing longevity risk effectively.

The State Pension

The full new State Pension is currently worth £203.28 per week, or £10,570 per year, for the 2024/25 tax year. You need 35 qualifying years of National Insurance contributions to receive the full amount. The State Pension age is 68, rising to 67 between 2026 and 2028.

- The State Pension provides a guaranteed, inflation-linked income for life
- It forms the foundation of most retirement plans, but rarely covers all your needs
- You can check your National Insurance record to see what you are or need to receive

Workplace and Personal Pensions

Your workplace pension, personal pensions, and SIPPs all sit top of the State Pension. The annual allowance for pension contributions is £10,000 for 2024/25, and you can carry forward unused allowance from the previous three years.

Did you know?

Employer and employee contributions to all eligible SIPPs of the working population, plus the working allowance for self-employed, can be carried forward from previous years. The transfer allowance for pension contributions is £10,000 for 2024/25, and you can carry forward unused allowance from the previous three years.

Will Your Money Last?

The numbers and advice in this guide are based on the 2025 published Retirement Living Standards that show how much income you need for different lifestyles. These figures are not guaranteed and your savings are at risk.

Standard	Single	Couple
Minimum	£13,400	£20,800
Moderate	£31,700	£43,100
Comfortable	£43,900	£59,000
State Pension alone	£11,973	£23,946
Gap to Moderate (single)	£19,727/yr	£19,154/yr
Pot needed at 3.35% SWR	£589,000	£572,000

The additional gap needed

Retirement allows the state pension to be used for all income is around 3.35% of the retirement savings figure. This means you need a large pot of money to cover the gap to moderate. For a single person that's £19,727 per year and for a couple it's £19,154 per year. At 3.35% you need a pot of £589,000 for a single person and £572,000 for a couple.

Drawdown vs Annuity: Finding the Right Balance

The right approach for you will depend on your needs and the retirement income they provide. Many people benefit from a variety of both, tailored to their needs.

Pension Drawdown

- ✓ Flexible withdrawal amounts
- ✓ No income tax on growth
- ✓ Tax-free lump sum up to 25%
- ✗ No guaranteed income
- ✗ Risk of running out of money
- ✓ No inflation adjustment

Best for: Those wanting flexibility and control over their income

Lifetime Annuity

- ✓ Guaranteed income for life
- ✓ No investment decisions
- ✓ Predictable regular payments
- ✗ No flexibility over payments
- ✗ Typically ending with the death
- ✓ Fully guaranteed around 5% p.a.

Best for: Those wanting steady and predictable income

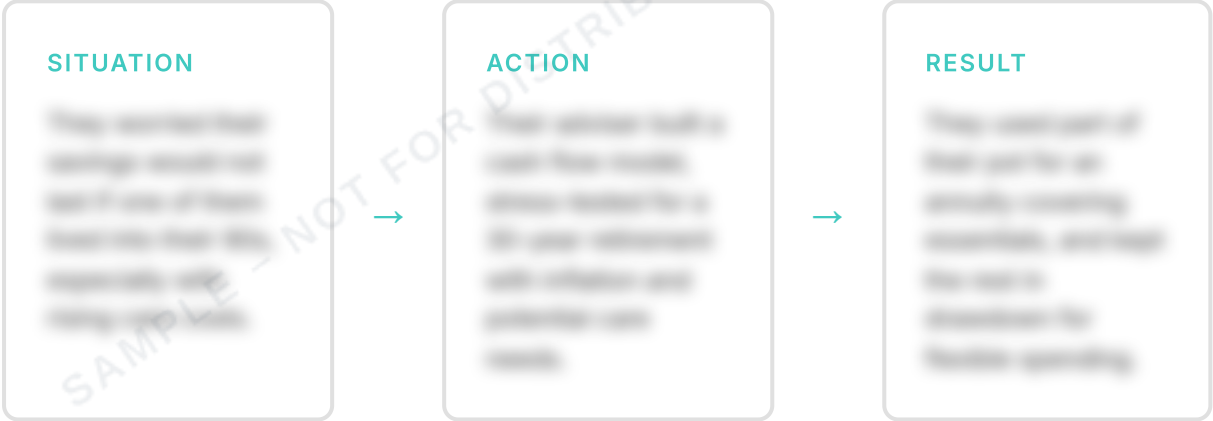
Case Study: Margaret and David

The National Longevity Study shows that people experiencing retirement and financial planning to address their longevity risk.



Margaret and David, both 68
Combined pension plus of \$10,000 per month from their employer's 401(k) plan
Retiree health savings

- Travel in early retirement
- Help children with deposits
- Never be a financial burden



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Planning for Care Costs

One of the most significant financial risks is the cost of care. It is important to understand what you might pay for the costs of care.

Understanding the Costs

The average cost of residential care in the UK is around £67,600 per year, rising to £78,600 for nursing care. These figures vary significantly by region, with costs in the South East often exceeding £80,000 per year.

The Means Test

If your assets exceed £23,850, you may be liable for the cost of care. Below this limit, the local authority covers your costs. This limit is usually reduced if you own a home, and the planned care cost can be taken into account.

- Personal income counts towards your assessed needs
- We can help you explore alternative care options and subsidised care costs

Key Figures

£67,600

Average annual cost of residential care

£78,600

Average annual cost of nursing care

£23,850

Upper limit for assets for local authority care

Your Home as a Safety Net

The early 2020s have seen a significant increase in the number of people who are unable to pay their mortgage, with the number of people in arrears rising from 1.1 million in 2019 to 1.5 million in 2022. This is a worrying trend, as it indicates that many people are struggling to meet their financial obligations. This is a worrying trend, as it indicates that many people are struggling to meet their financial obligations.

1	<p>1. Understand the risks</p> <p>Identify the risks associated with your home, such as the risk of falling into mortgage arrears, the risk of losing your home, and the risk of being unable to meet your financial obligations.</p>	2	<p>2. Assess the risks</p> <p>Assess the likelihood and potential impact of each risk. Consider factors such as your income, expenses, and the value of your home.</p>
3	<p>3. Develop a plan</p> <p>Develop a plan to manage the risks, such as creating a budget, seeking financial advice, and exploring options for mortgage relief.</p>	4	<p>4. Implement the plan</p> <p>Put your plan into action, such as by contacting your lender, seeking financial advice, and creating a budget.</p>
5	<p>5. Monitor the situation</p> <p>Monitor your financial situation and the risks associated with your home, and be prepared to adjust your plan if necessary.</p>	6	<p>6. Seek support</p> <p>Seek support from family, friends, and professional advisors, such as financial counselors and housing charities.</p>
7	<p>7. Review the plan</p> <p>Review your plan regularly, and make adjustments as needed to ensure it remains effective.</p>	8	<p>8. Stay informed</p> <p>Stay informed about changes in mortgage rates, government policies, and other factors that may affect your home.</p>

Protecting Your Estate While You Live Longer

Living longer can have a significant impact on your estate planning. A longer retirement means more years of spending, potentially reducing the inheritance you leave behind. At the same time, the tax and financial markets are changing.

Current Inheritance Tax Allowances

The nil rate band stands at £1,000,000, and the residence nil rate band adds a further £175,000 when you pass your home to direct descendants. Both thresholds are frozen until at least 2026/27. For a married couple, the combined allowance can be up to £1.175 million.

- The nil rate band has not increased since 2017, meaning more estates are being caught by IHT each year
- The residence nil rate band is only being used for estates over £1 million
- IHT is charged at 40% on the value of your estate above the available thresholds

Pensions and IHT from April 2027

From 2027, uncrystallised pension funds will be included in your estate for inheritance tax purposes. Currently, pensions do not form part of your estate and can be passed to beneficiaries tax-efficiently. After 2027, large pension pots could trigger an IHT liability. We can help you explore strategies such as drawing down funds strategically or restructuring your retirement income before the change takes effect.

Your Action Plan

Take these steps to start managing your longevity risk today

1 Check your State Pension forecast 10 MINS

Visit gov.uk to check your National Insurance record and see what State Pension you are or may be entitled to receive. Look for any gaps you could fill with voluntary contributions.

2 Gather your pension statements 30 MINS

Collect pension statements from all your pension providers, including any workplace pensions, or SIP providers. Note the current value and any projected retirement costs.

3 Calculate your retirement income gap 15 MINS

Compare your expected income against the Full Retirement Living Standards. What is the gap between your target and your current expected?

4 Book a longevity planning review 5 MINS

Contact us to arrange a complimentary review. We will discuss how you can fill the different stages and help you build a strategy that works.

<https://www.adviser.com/longevity-planning>



Your Financial Adviser

Expert Guidance for Your Financial Future

Our team of experienced financial advisers is here to help you make the most of your financial planning opportunities. Whether you are approaching retirement or already enjoying it, we can help you build a plan that lasts as long as you do.

Ready to take the next step?

Call us on [redacted] or email [redacted] to book your consultation. Visit [redacted] for more information.