



**Primrose Hill (London):** 0207 483 4488  
**Newcastle upon Tyne:** 0191 468 2500  
**Northallerton:** 01609 760960

**Richmond (N.Yorkshire):** 01748 825971  
**West Wickham (London):** 020 8777 5993  
**Swanley (Kent):** 01322 666000

**Borehamwood (Herts):** 020 8238 6363  
**Camberley (Surrey):** 01276 23333  
**Email:** enquiries@galeandphillipson.co.uk

# Averting a later-life financial crisis

More retirees drawing pensions without LPAs

People are generally living longer these days. Increasingly, more people are living well into their 80s and 90s – and some even longer. This may mean you have a long time to budget for. That's why it is very important to consider all of your options carefully and think about what will matter to you in retirement.

You can now access your pension in more ways than ever before, after the Government introduced wide-ranging changes in April 2015. These changes give you more options, so it's important that you take time to think carefully before you decide what to do with your money.

## LATER-LIFE FINANCIAL CRISIS

Nearly 80% of retirees using the UK's pension freedoms to manage their retirement savings face a potential 'later-life financial crisis' as they have not set up a Lasting Power of Attorney (LPA), a recently published report<sup>[1]</sup> has warned. There are two types of LPA. These are the Health and Welfare Lasting Power of Attorney, and the Property and Financial Affairs Lasting Power of Attorney.

It is very important for pensioners that are accessing their pensions pots in this way to give the legal authority to a family member or friend to make financial decisions on their behalf in case they were no longer able to do so.

## RESPONSIBILITY OF MANAGING INCOME

The analysis underscores the scale of an issue that has emerged since the Government abandoned the requirement to buy an annuity at retirement. It has come to light that twice as many people are now opting for drawdown over annuities. In effect, this puts the responsibility of managing income in retirement on the individual.

Registering an LPA has become even more important since the pension reforms. Thousands of people are now making complex decisions on their pension into old age, when the risk of developing a sudden illness or condition such as dementia increases. Despite this, many are unprepared for a sudden health shock or a decline

in their mental abilities. The time to set up an LPA is well before you need it.

## POTENTIALLY CREATING PROBLEMS

With more and more people moving into drawdown, this is potentially creating problems that could leave thousands of people facing a possible later-life financial crisis. It is vital to plan for a time when managing your pension might become hard, or even impossible, and obtaining professional financial advice is one of the best ways to do this.

The Alzheimer's Society has discovered that there are currently 850,000 people in the UK living with dementia, which could increase to over 1 million by 2025. Yet the report revealed that only 21% of retirees who have accessed funds under the new freedoms have registered an LPA.

## DISCUSSIONS WITH YOUR FAMILY OR OTHERS

An LPA can be a very important part of advance planning for a time when a person will not be able to make certain decisions for themselves.

It allows you to choose someone you trust to make those decisions in your best interests. This can be reassuring, and making an LPA can start discussions with your family or others about what you want to happen in the future.

The stigma around the LPA, as with dementia, is compounded by its links to mental capacity. Some people are reluctant to consider a future where they may not be able to make their own decisions due to the connotations they associate with this. In cases where LPAs are not in place, assets and equity may be lost, or those in a vulnerable position may be forced to make decisions they are no longer able to make. n

## DO YOU NEED HELP? GIVE US A CALL

Whatever your plans for the future, we are here to help you take the next step. Please contact us to discuss your requirements or to answer any questions you may have.

### Source data:

[1] The study for Zurich UK is based on a YouGov survey of a UK sample of 742 people who have moved into drawdown since the pension freedoms were introduced in April 2015. The survey was carried out between 14 December 2017 and 24 January 2018. FCA Data Bulletin (issue 12) shows 345,265 pots moved into income drawdown between October 2015 and October 2017. Assuming the number of people moving into drawdown continued at a similar rate from November 2017 to April 2018, this would equate to a further 86,316 people in drawdown.  $345,265 + 86,316 = 431,581$  people.  $345,265 / 2 \text{ years of drawdown data} = 172,632 \times 10 \text{ years} = 1,726,325$  people.

**The content of this factsheet is for general information only and should not be considered advice. Pensions are not normally accessible until age 55. The value of investments can go down as well as up in value and you may get back less than you invested. Your pension income could also be affected by interest rates at the time you take your benefits. 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. Accessing pension benefits early may impact on levels of retirement income and is not suitable for everyone.**

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