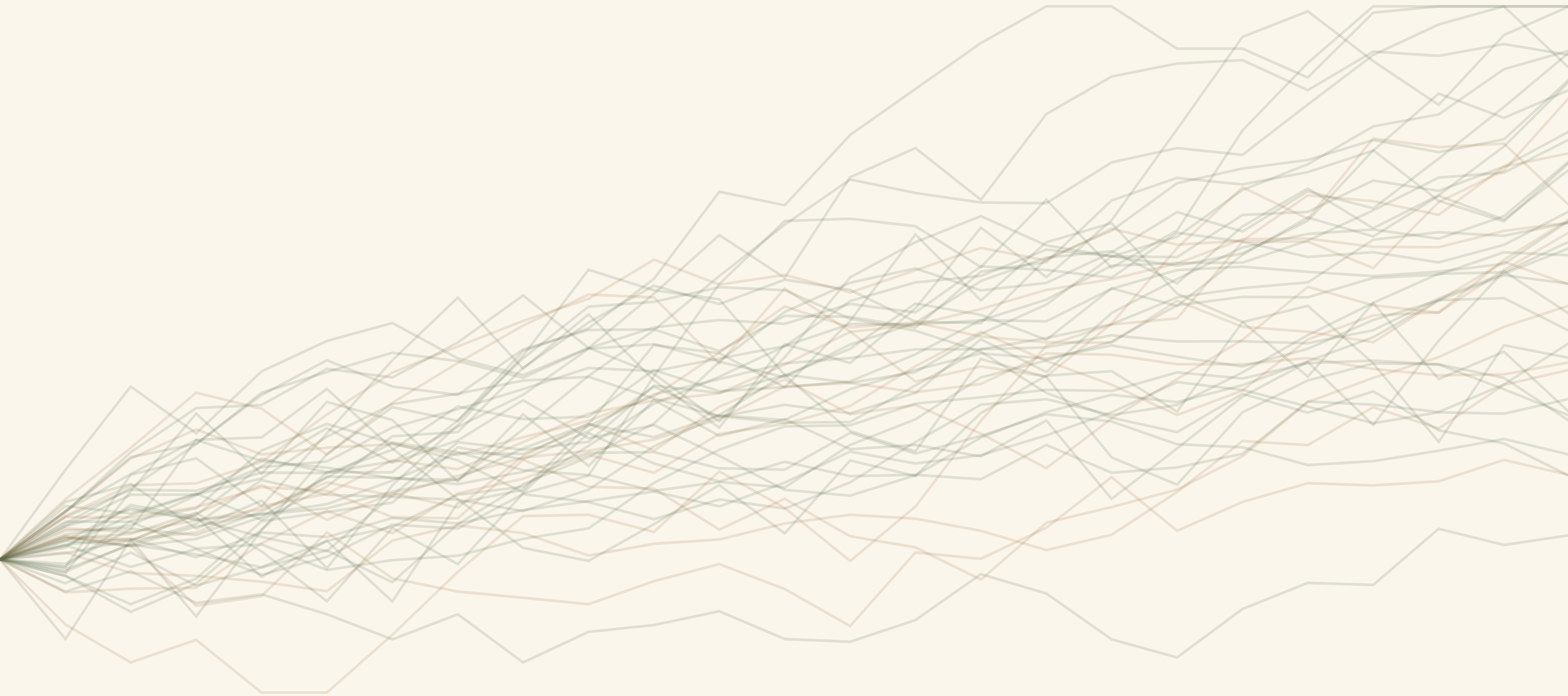
Your Future Compass

RETIREMENT GUIDE

Planning your retirement: a plain-English guide

A free, jargon-free guide to UK retirement planning: start from the life you want, build on your guaranteed income, choose how to turn a pot into income, manage the big risks, and pressure-test the plan.



UPDATED 2026-06-20
UK TAX YEAR 2026/27

Planning your retirement: a plain-English guide

Guidance and illustrations only, not regulated financial advice. This guide explains how retirement planning works in general terms. It isn't a recommendation about what *you* should do. Your situation is personal, so for decisions about your own money, consider speaking to a qualified, regulated financial adviser.

Retirement planning can feel like a wall of jargon: annuities, drawdown, deferral, sequence risk. Strip it back, though, and it's really one question asked in stages: **what kind of life do you want, and could your money pay for it for as long as you live?** This guide walks through that question step by step, in plain English, without pushing any particular product.

Step 1: Start with the life you want, not a magic number

There's no universal "number" you need to retire. The most useful place to start isn't a headline pot figure. It's **the annual income you'd want to live on**, in today's money.

A handy reference is the **PLSA Retirement Living Standards**, published by the Pensions and Lifetime Savings Association (PLSA), which sketch three lifestyles and roughly what each costs per year, for a single person and for a couple:

- **Minimum** (~£14,400 single / ~£22,400 a couple) covers the essentials with a little left over for fun.
- **Moderate** (~£31,300 single / ~£43,100 a couple) means more financial security and flexibility, plus the odd holiday.
- **Comfortable** (~£43,100 single / ~£59,000 a couple) brings more luxuries, a newer car and more generous spending.

These are illustrative and the **PLSA updates them every year**, so check the latest figures rather than treating them as fixed. Pick the tier that matches the life you picture, and you've got a target income to plan around.

Step 2: Build on the income you'll get whatever happens

You don't need to fund that whole target from your savings. First, add up the income that arrives **regardless of how markets behave**:

- **Your State Pension.** The full new State Pension is around **£12,500 a year** (£12,548 for the 2026/27 tax year, or £241.30 a week) and rises most years. You currently claim it at **66**, but the State Pension age is rising to **67** later this decade (and is legislated to reach 68 in future). Check your State Pension forecast and your State Pension age on GOV.UK, since many people have gaps in their record that are worth filling. For qualifying years, topping up, the triple lock and deferring, see the State Pension explained.
- **Any defined-benefit (DB, or "final salary") pensions**, which pay a set income for life.
- **Other reliable income**, such as rental income or an annuity you've bought.

Deferring your State Pension (putting off claiming it) increases the amount you eventually get. That can be worth it for some people, but the extra income is taxable and you give up payments in the meantime, so it's a genuine trade-off rather than a free win.

Whatever's left between this guaranteed income and your target lifestyle is the gap your **pensions and savings** need to fill.

Step 3: Turning a pension pot into income

Once you reach **55 (rising to 57 in April 2028)**, you can normally start drawing a private pension (defined-contribution: a pot you build up, rather than a promised income). You usually can take up to **25% tax-free**, within limits, and there are three broad ways to use the rest. None is "best", because each trades certainty against flexibility.

- **Buying an annuity.** You exchange some or all of your pot for a **guaranteed income**, for life or a fixed term. The certainty is the appeal; the trade-off is less flexibility and, typically, nothing left to pass on (unless you add features that do).
- **Income drawdown.** You **keep the pot invested** and take money out as you need it. The remaining funds can still grow, but they can also fall, and the risk of drawing too much and running out is yours to manage.
- **Taking cash lump sums.** You can take money out as cash. Be careful: withdrawing large amounts (or the whole pot) in one go can land you with a **big tax bill**, because anything above your tax-free portion is taxed as income, and it removes money that could have lasted you for decades.

Plenty of people **mix these**: covering essential bills with guaranteed income while keeping a drawdown pot for flexibility. Which blend suits you depends on your circumstances and how much certainty you want, which is exactly the kind of decision where regulated advice can be worth it.

Each of those three has a guide of its own if you want the detail: annuity versus drawdown weighs the first two against each other, pension drawdown explained covers running a drawdown pot, and the 25% tax-free lump sum covers the cap and the tax traps on taking cash.

Step 4: Blend your income, and understand the tax

Most retirees aren't living off a single pot. You might have **workplace and personal pensions, ISAs (Individual Savings Accounts: tax-free savings and investment accounts), and savings or investments outside a tax wrapper (a tax-sheltered account such as a pension or ISA)**, and they're taxed differently. The **order** you draw from them affects how much tax you pay and how long everything lasts.

The general idea is to combine sources so you cover your needs while keeping your tax bill down and your options open: using tax-free or already-taxed money in some years, and taxable pension income in others, to stay within lower tax bands. The right pattern is personal, but the principle is simple: **a little planning about *where* your income comes from can leave you with more of it.**

Step 5: Plan for the risks that quietly erode a plan

A retirement plan that looks fine on paper can still be knocked off course. Three risks matter most:

- **Inflation.** Rising prices chip away at what your money buys. An income that feels generous today can feel tight in twenty years, so a plan has to assume your costs keep climbing. (Planning in *today's money*, using inflation-adjusted figures, keeps this honest.)
- **Longevity.** People are living longer, and many will need their money to stretch across a 30-year retirement or more. Planning to a realistic older age, not an average one, stops you running short.
- **Bad timing (sequence risk).** A poor run of markets *just after* you start drawing income does far more damage than the same fall later on, because you're selling investments while they're down. Retiring right before a downturn is a real risk worth stress-testing, and the least intuitive of the three: why the order of returns matters shows identical average returns producing very different outcomes.

If you are planning with a partner, add a fourth. Guaranteed income can halve on a first death while spending falls by far less, so a plan that's comfortable for two can be tight for one: retirement planning as a couple.

Step 6: Pressure-test it before you commit

A single "you'll have £X" projection is almost always wrong, because it assumes one smooth return that real markets never deliver. The more useful question is *"across lots of possible futures (good runs, bad runs, crashes), in how many does my money last?"*

That's what **cashflow and scenario modelling** does. It maps your likely spending year by year and tests your plan against many different market paths, so you can see how much headroom you really have and what changes (saving a bit more, retiring a year later, spending a little less) actually move the needle. You can explore this yourself with a planning tool; our free retirement calculator does exactly this. And for decisions about your own money, a regulated adviser can model it with you too.

A simple starting checklist

Before you start, it helps to have the paperwork to hand: what to gather before you plan lists the statements and figures worth digging out first, so you are not stopping halfway to look something up.

1. **Estimate your target income** from the lifestyle you want (use the PLSA tiers as a guide).
2. **Add up your guaranteed income**: State Pension forecast, any DB pensions, other reliable income.
3. **Total your pensions and savings** that need to fill the remaining gap.
4. **Learn the three ways to use a pension pot** (annuity, drawdown, lump sum) and how they're taxed.
5. **Think about the risks** (inflation, longevity, and bad timing), not just the average case.
6. **Pressure-test the plan** across many scenarios, and revisit it as life changes.

Retirement planning isn't about predicting the future. It's about building a plan with enough headroom to survive a range of futures. Start from the life you want, work back to the income you need, and test it honestly.

This guide is general information, not regulated financial or tax advice. Tax rules and allowances change, and the right choices depend on your personal circumstances. For free, impartial guidance, MoneyHelper covers pensions and retirement, and Pension Wise offers a free appointment if you are 50 or over. Consider regulated advice before acting.