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When are you going to retire?

It is nearly three decades since a modest bespectacled rocket scientist from California told us how to launch into retirement safely.

Bill Bengen, who switched careers from aeronautics to financial planning via a 17-year spell bottling soft drinks, spent thousands of hours doing complex calculations and projections to conclude that you could safely draw 4% a year from your retirement pot. He later revised it to 4.5%.

It is not widely known, but in 2006 he reviewed the data again and found something quite startling. Someone who retired in April 1968 drawing 4.5% a year could expect their retirement pot to last 50 years. Someone who retired six months later on the same terms would run out at 30 years.

It is a stark reminder that when you retire is important. If it is when markets have just gone pop, or when inflation is raging, then you may be in trouble.

At the moment, it is not only equity markets that are rattling the nerves again. Low gilt yields mean that annuity rates are close to an all-time low. A 65-year-old man retiring 12 years ago wanting to buy himself a level £25,000 annual income would have had to spend just £316,000. Two years ago it was £443,300. Today it is over £508,000. Ouch!

Not surprisingly, when to retire is therefore a question that I find myself discussing with clients a lot at the moment. As Bengen demonstrated, there are good arguments for deferring retirement if the timing is wrong.

Start with the sums. Base any calculations on drawing 3.25%. Bengen acknowledged that his "safe" withdrawal rate was not set in stone and had shrunk over the decades. Traditionally, when equities have plummeted, bonds have gone up. Quantitative easing means that correlation can no longer be assumed. And dividend payouts have dropped. You need a bigger margin of safety.

Do a budget. Calculate your projected fixed and state pensions. If there are two of you, this will be your combined pensions. Subtract your expenses – unavoidable and discretionary spending (the bit that makes life worth living and comfortable). Multiply the shortfall by 30 and you will have a rough idea of how much you need in your pension and savings pot to fund any gap.

If you want £50,000 in retirement and you and your spouse have £18,000 of state pension between you, you will need to fund £32,000 – so that's nearly £1 million, ignoring any adjustment for tax.

Your state pension should remain relatively unaffected by markets, so if your portfolio has just fallen 20% you

will have to review that discretionary spend and decide if you could live happily on £43,600 instead. The alternative may be to work longer.

For every year extra you work you, have one year less in retirement to fund, one more year to save and one more year for your existing savings pot to recover and grow.

If you are at state retirement age when making this decision you can defer your state pension. Your state pension will increase by just under 5.8% for every year you defer it. That sounds a lot, but take advice. You might find you are better taking the state pension now, while you are working and adding the money to your savings pot.

Be careful about drawing on any other personal pensions if you envisage making future contributions. Once you have flexibly accessed a personal pension the amount you can then save into any pension again, with tax relief, is cut to just £4,000 thereafter.

This brings us to an important advantage of carrying on work for many people – you cannot go back to it easily. You invest significantly in your intellectual capital over a career. All that experience makes you good at your job but, once you stop, that capital value can seep away very quickly. I have a medical consultant friend who knows that if he took six months off he would have to commit to a lot of retraining.

It is also very easy if you are in your 50s or older to have an unrealistically high assessment of your worth. It is a dreadful thought, but your employer may not miss you that much (and welcome the saving on the wage bill). Finding another job as well paid may be a lot harder than you imagine – stacking supermarket shelves for £10 an hour may not appeal. A 65-year-old man retiring today will have 20 years in retirement – seven years longer than retirees in 1980. A woman can expect nine years. You might hope for a healthier as well as longer retirement, too. So is there any need to start it so soon?

The solution, where possible, may be to negotiate a phased retirement. You may not be the only one to embrace that idea.

I was speaking to a couple recently and the wife turned to me, pointing to the husband, and implored: “Please don’t let him retire!” At retirement age many couples have been empty-nesters for a decade and each partner has their own life, which may incorporate grandchildren too. Being thrown together full-time can be difficult – no matter how much you love each other.

Giving up a demanding job suddenly can be detrimental in other ways. There is a blip on the male mortality curve at retirement as the sudden move from stress-on to stress-off takes its toll. Many of my clients, some still working part-time in their 70s and beyond, will testify that gliding into retirement is a great solution.

As Bengen would surely recognise, working out your retirement date is not rocket science. It should be a family decision and the considerations should be physical and emotional as well as financial.

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