



5 essential steps to plan for a pension shortfall if you want to retire early





Getting the most out of your retirement and reaching your goals requires careful planning.

But as we all know, life doesn't always go to plan.

If you decide you want to retire sooner than originally planned - whether due to circumstances beyond your control, a health crisis, or a simple change of heart - a pension shortfall may require a rethink.

This guide shares five steps you can take to help you plan for a pension shortfall, build a strong financial foundation, and start enjoying your retirement sooner.



To understand how much is "enough", you first need to clarify how you'd like to spend your retirement years.



Step 1: Calculate how much you'll need for retirement

Setting out what you want your retirement to look like is crucial. Without knowing what you'd like your future lifestyle to look like, it's difficult to know if your finances are on track.

When you think about retirement, what is it you're most looking forward to?

Travelling has always been among the top things people look forward to most when they retire. While travel may form part of your retirement dream, it's equally important to think about how you'll fill day-to-day life.

Whether you hope to commit more time to hobbies, socialise with friends, or spend quality time with your grandchildren, firm ideas about how you plan to spend your retirement will help you calculate how much you need to fund it.

Don't delay this crucial step.

Fear could lead you to bury your head in the sand and avoid confronting the reality of your situation, but the sooner you understand your position, the sooner you can start to address any potential shortfall.

Average cost of retirement

[Retirement Living Standards](#) (3 June 2025) figures from Pensions UK can help clarify how much income you may need once you've retired. Of course, while these figures could be a useful guide, the amount you need will depend on your circumstances, goals, and other financial responsibilities.

MINIMUM

Single: £13,400

Couple: £21,600

Meets basic needs, with a little leftover for fun.



MODERATE

Single: £31,700

Couple: £43,900

Offers more financial security and flexibility.



COMFORTABLE

Single: £43,900

Couple: £60,600

More financial freedom and some luxuries.



HOW WE CAN HELP

You may think you have all the answers, yet many people have only vague notions of what they're looking to achieve.



As well as helping you to understand how to balance saving and spending throughout your lifetime, we can also provide support when you're facing life's biggest questions.

Step 2: Work out how to use all your assets to structure a tax-efficient, sustainable income

With increasing life expectancy, your retirement could last 30 years or longer.

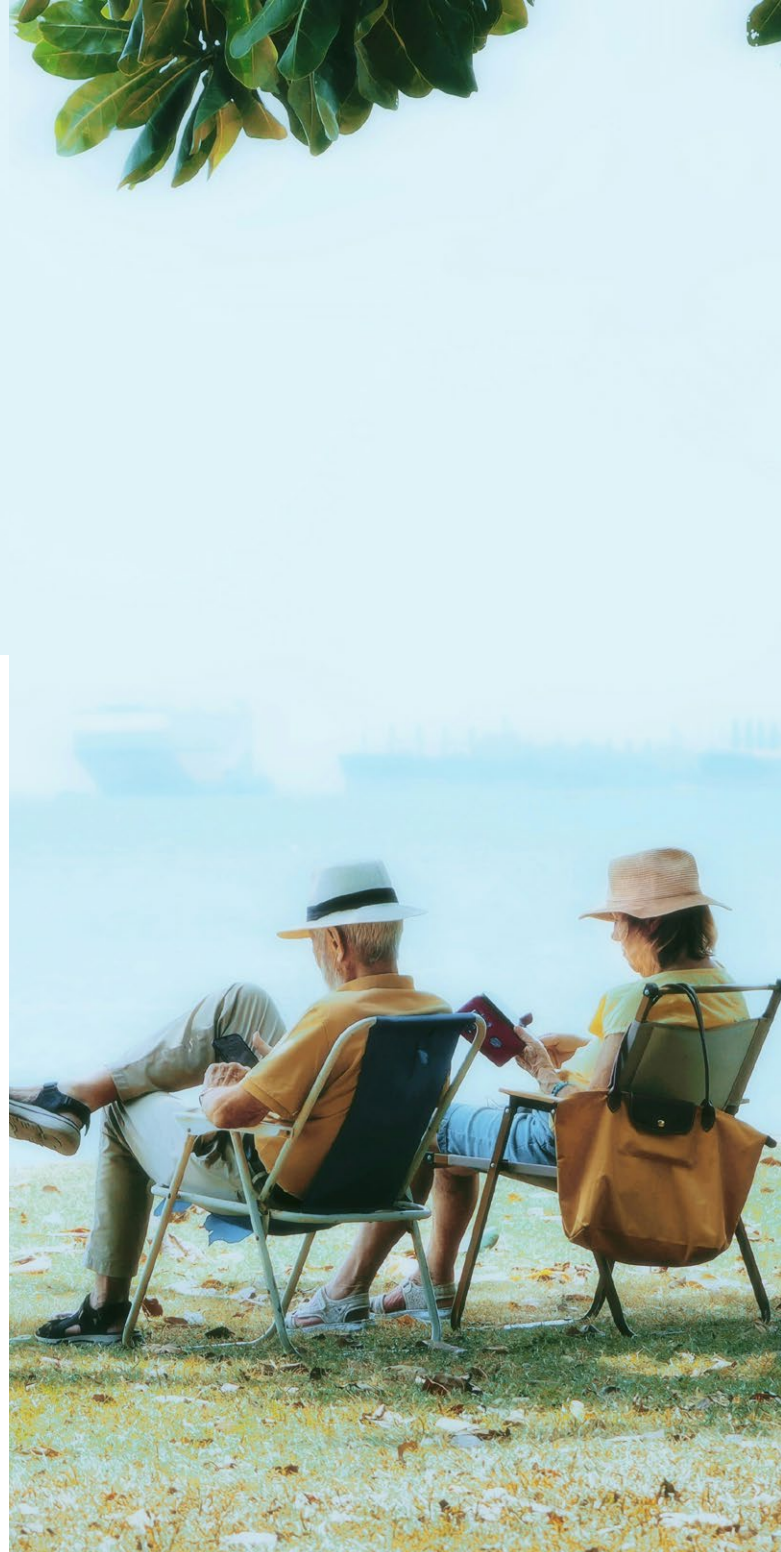
Data from the [Office for National Statistics](#) (ONS) (14 February 2025) shows that the average 60-year-old male will live to age 84, with a 1 in 10 chance of living until age 97. The average 60-year-old female will live until age 87, with a 1 in 10 chance of reaching 99.

Therefore, it's important to create a sustainable income to ensure you're able to maintain your lifestyle for many years to come.

If you're taking early retirement, you won't start receiving your State Pension right away. So, you'll need to work out where your income will come from and how you'll "bridge" the gap until you reach your State Pension Age. (You can read more about this in step 4, on page 12.)

An efficient retirement income strategy should be planned well in advance to ensure that, where appropriate:

- Allowances and exemptions are used to their full capacity
- Married couples or those in a civil partnership plan together so that income and assets are allocated effectively.



However, keep in mind that allowances and tax treatment will be dependent on your personal circumstances, and could be subject to change in the future.

When calculating your retirement income, remember to think beyond your pension savings

Cash, ISAs, investment accounts, property, or business interests could all play a role in providing the income you need.

YOUR RETIREMENT INCOME SOURCES CHECKLIST



Pension pots:

- PRIVATE OR WORKPLACE PENSIONS
- ANY FINAL SALARY PENSIONS YOU MIGHT HAVE

Find lost pensions:

- TRACE THEM
- CONTACT THE PROVIDER FOR AN UP-TO-DATE STATEMENT
- CONSIDER IF IT MAKES SENSE TO CONSOLIDATE THEM

Helpfully, the government provide a [pension tracing service](#), which may be a good place to start.

Check your [State Pension forecast](#) to find out how much you'll get and when you can claim it.

Savings and investments:

- CASH SAVINGS
- ISAs
- GENERAL INVESTMENT ACCOUNTS
- ANY PROPERTY YOU OWN



Think twice before drawing on your pension

While you may consider your pension as the foundation of your retirement plan, if you have other income that uses your tax allowances, it may be prudent to defer drawing on your pension or use other sources to supplement the income you withdraw from your pension.

As pension funds benefit from tax-free growth, interest, and dividends, it may be better to leave your pension invested to maintain your capital value and potentially profit from further investment growth.

In many cases, using a combination of assets to create an income is a tax-efficient option. So, alongside your pension, you might also use:

1. Cash savings
2. Taxable investments
3. ISAs
4. Pensions

What combination works for you will depend on your needs, assets, and tax position, which tailored financial advice could help you assess.

Remember to retain an emergency cash fund. Typically, in retirement, it's advisable to keep enough money to cover at least six months of expenditure in an easy access savings account.





Enjoy flexibility from ISA savings

ISAs are considerably more flexible than pensions. Growth, interest, and dividends are all free of tax and you can withdraw money tax-free without restriction.

As for Inheritance Tax (IHT), ISAs can be passed between spouses on death, preserving the tax-efficient treatment.

Useful in reducing tax in retirement, you can use your ISA to:

- Fund large, one-off purchases
- Top up your income – especially useful if your pension exceeds your Personal Allowance
- Make your portfolio more efficient over time by gradually moving taxable funds across.

TAX EFFICIENCY IS KEY



While tax-efficient accumulation helps enhance your wealth for the retirement you desire, tax-efficient decumulation in retirement helps preserve your capital. In turn, helping increase the chance of having money to leave to your loved ones.

You may benefit from maximising your tax allowances, including:

- Income Tax allowances
- Dividend Tax allowance
- Capital Gains Tax Annual Exempt Amount
- Personal Savings Allowance.

By planning together, couples can use tax allowances to maximise the amount of tax-free income available.

Your personal circumstances will affect which tax allowances are applicable and appropriate for you. 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. Your financial planner could help you assess which allowances might improve your tax-efficiency.

You should also note that money held in a pension will usually remain invested, even after you've retired. As a result, it will still be exposed to investment risk, and you should consider what level of risk is appropriate for you. Market volatility may also affect the impact of your withdrawals on the value of your pension, and could deplete your savings faster than you expect.



Take a savvy approach to investment accounts

A basic and flexible wrapper, investment accounts can hold funds, shares, and investment trusts. Interest and dividends are taxable at your marginal rate and selling assets can incur Capital Gains Tax (CGT) if your profit exceeds your Annual Exempt Amount (£3,000 for 2026/2027).

The following strategies can help reduce tax:

- Phase your taxable investment accounts into ISAs.
- Use your annual CGT exemption to avoid large gains rolling up.
- Structure your investments depending on the type of income they generate.

Couples can divide investments to use both Personal Allowances and CGT exemptions efficiently. Helpfully, transfers between spouses are ignored for CGT purposes and there is no minimum holding period.

Please note: the Financial Conduct Authority does not regulate tax advice.



HOW WE CAN HELP

From planning a tax-efficient, sustainable income to ensuring you've taken appropriate steps to pass your wealth to the next generation, we're here to help you understand your options and make the right choices for your long-term financial wellbeing.





Step 3: Stress-test your finances so you're aware of potential issues

With more clarity about how much you'll need to fund your retirement and ways you may be able to create a tax-efficient income stream, you may wish to understand where you're at now and how your financial situation may change over time.

This is where cashflow planning may prove useful. Cashflow modelling tools work on the data you provide. We can input all your information and create a series of bespoke cashflow models that illustrate how different scenarios may affect your wealth.

For example, you might wish to alter the date of your retirement, adjust the expected return on your investments, or simulate a fall in the market.

You can also see how taking income from different sources could affect your overall finances and your potential tax situation over time.

The ability to visualise your financial future can be invaluable, guiding you to make wise decisions and take control of your financial journey.

It can be especially useful to help you understand if your aspirations are within reach. If they're not, we can then advise on how you could adjust your plan, showing you when and how you might achieve your goals.

Please note: The Financial Conduct Authority does not regulate cashflow modelling.

HOW WE CAN HELP

Cashflow modelling could show you what is possible, what isn't, and highlight where you may need to take action to get to where you want to be.



While cashflow planning is only as good as the data you provide, regular reviews can ensure your plans remain current and that your cashflow model continues to reflect your circumstances.

We'll use cashflow modelling to give you confidence in your financial plan, a sense of control over your future, and peace of mind that you'll maintain your financial security whatever the future throws at you.

Step 4: Work out how to bridge a gap if you want to retire extra early

For most people, the earliest age you can access your private pension pot is currently 55. However, this is rising to 57 in 2028, and it could increase to 58 in the future.

So, if you're aiming to retire before your 55th birthday, you may need to think about how you'll bridge the gap between your retirement date and when you can access your pension.

Likewise, if you retire before your State Pension Age, you'll also want to consider how you'll cover the gap before you start receiving State Pension payments.

Bridging a personal pension gap

As discussed in step 2, you may already have a plan for how best to use all your available assets to secure your income when you're no longer working. If so, great stuff!

But if not, now's the time to plan ahead so you don't create an unexpected problem later.

To determine how much you may need, work out:

- How many years are there between your retirement and being able to access your pension?
- How much do you expect to spend each year?

With a good idea of these figures, you can calculate the difference you'll need to bridge the gap.





Bridging a State Pension gap

The current State Pension Age is 66. However, the government plans to increase it to 67 between 2026 and 2028.

From April 2026, the new State Pension pays up to £12,547 a year. This is the full amount, which you'll receive if you have 35 years of National Insurance contributions (NICs). You can [check how much you might receive](#) on the government website.

Pensions UK's [Retirement Living Standards](#) (3 June 2025) suggest that a single person needs £13,400 for a minimum standard of living, so your State Pension could provide a healthy chunk towards your income.

The savings you'll need to cover the income shortfall before you can claim the State Pension depend on how much earlier you want to retire. Assuming you're eligible for the full State Pension, you'll need approximately:

- £25,000 to retire two years early
- £63,000 to retire five years early
- £125,500 to retire 10 years early.

HOW WE CAN HELP

From discussing your retirement goals and suitable ways to create a tax-efficient and sustainable income using all your available resources to helping you calculate how much income you'll need, we're here to help ensure you're financially prepared to enjoy the retirement you deserve - no matter when you want to finish work.

If you'd like some reassurance to understand how you might be able to bridge a gap between your ideal retirement date and pension payments kicking in, please get in touch.





Step 5: Consider phasing into retirement

Phased retirement could help you continue to work and save towards your pension for longer.

A phased or "flexi" retirement allows you to gradually reduce your working hours as you approach retirement, while continuing to save into your pension.

There's no hard rule on how to structure your phased retirement. It could mean you work shorter days, fewer days, move to a less demanding position, or consider a flexible working arrangement like job sharing.

Ultimately, retiring gradually could provide valuable time to boost your pension savings as you continue to earn.

Financial benefits of working

- Your retirement savings may last longer.
- You'll receive an ongoing income.
- You can continue making tax-efficient contributions to your pension.



As well as helping to boost your financial situation, retiring gradually could give you more free time while allowing you to enjoy the emotional benefits of continuing to work.

Emotional benefits of working

- A sense of routine and purpose.
- Keeping mentally and physically active.
- Opportunities to socialise and maintain long-held relationships.



Planning how to maintain the income you desire during your phased retirement and beyond can be complicated.

For example, if you continue contributing to your pension, it's vital to be aware of the Money Purchase Annual Allowance (MPAA).

As of 2026/27, you can normally benefit from tax relief on contributions up to the value of the Annual Allowance, which stands at £60,000 or your annual earnings, whichever is lower, for most earners.

However, if you've already started drawing a flexible income from your pension, you might have triggered the MPAA, reducing your tax-efficient contributions to £10,000 each tax year.

The MPAA is just one aspect you need to consider.

Working less is likely to mean you also earn less. If you need to boost your income, you may decide to draw on your savings and investments so that you can preserve your pension. Alternatively, it may suit you better to supplement your income with funds from all of these sources.

HOW WE CAN HELP

We can review your unique financial situation and help you create a tax-efficient, sustainable income that affords you the lifestyle you desire.



If you'd like to know more about how a phased retirement could work for you, please get in touch.

Financial advice can help you relax and enjoy the retirement you deserve

We can help you with all aspects of your retirement plan – from understanding how much you need to helping you structure a sustainable, tax-efficient income from your pensions and investments.

We'll also review your plans regularly, adjusting your income and ensuring you're maximising any opportunities that may arise if legislation changes.

If you want to retire early and would benefit from experienced advice and support to ensure you can generate a sustainable income for the duration of your retirement, please get in touch.



☎ 01253 532390 (Thornton) | 01539 234177 (Kendal)

✉ info@chameleonfp.co.uk

Please note: This guide is for general information only and does not constitute advice.

The information is aimed at retail clients only.

All information is correct at the time of writing (April 2026) and is subject to change in the future.