Ensign

The importance of a pension for different age groups

Most topics come with a variety of assumptions, myths and hearsay attached. Pensions are no different. The most common theme of discussion when it comes to pensions is generally around the age that a person is and whether saving into a pension is worthwhile at that point in their life. For the most part, no matter whether an employee is starting out in their career or starting to think about retirement, the answer, irrespective of age, should be the same: It’s never too soon or too late to start saving, for even aged 70, there are likely to be many years of retirement ahead, with an inadequate state pension and no salary provision. Here we try to answer some of the most frequently asked age-related questions that you may have about pensions.

Retirement is already in my sights, what’s the point of saving for a pension now?

- It’s true, that being within the age range of 45-60 years old, and never having saved for a pension does throw up some challenges. The vast majority of people will already have significant financial commitments, such as a mortgage or putting children through university. Putting money aside for retirement may not feel like as much of a priority, especially if people feel they may have missed the boat in building an adequate retirement pot. And there is no getting away from the fact that the older a person is, the fewer years there are left to build up capital. However, (and it’s a big ‘however’) the adage – ‘it’s never too late’ could never be truer when it comes to saving into a pension.

- **If you are 55:** While you may have fewer years to build up capital, the value of starting a pension now should not be underestimated. This is especially the case if you happen to be considering other savings options over a pension such as ISAs or high interest savings accounts to fund retirement. While they will certainly work well alongside a pension for saving for retirement, only a few cases would warrant them being used instead of one. A workplace pension – the type of pension that is offered by employers to employees has one key benefit over and above all other savings vehicles, and that is the way that contribution into it works – for there are three streams of contributions making their way into the pot: Yours, your employers, and the governments via tax relief. No other savings vehicle (except perhaps a Lifetime ISA) offers what is effectively free money from the government. And depending on when you plan to retire, you could be looking at more than a decade of contributions. Take it and run!

- **If you are 50:** There is a common misconception that a person needs a lifetime of pension contributions to produce enough income in retirement. While the lost ground may be harder to recoup, even at 50 years of age it can still be possible to achieve some level of income in retirement. Do whatever you can to kick start saving now. Take advantage of your employer’s pension scheme, it will be the best route you can take to supplementing your State Pension which currently pays at a level of around £160 per week. Contribute what you can by making changes and difficult choices about how you spend your money. Be realistic about retirement goals and retirement timings. Working two or three years more than you had planned will enable you to contribute more to your pension, and could make all the difference to your overall retirement.

- **If you are 45:** At 45 years of age, you are likely to have at least two more decades of contributing to your pension. When you take into consideration contributions from yourself, your employer and what is effectively free money from the government, saving into a pension is a no brainer. And don't forget the power of compound interest. If you aren't familiar with this term, compound interest is effectively the turbo effect of interest earned on interest over time. In short, if a person pays £100 into their pension, and earns 10% interest in the first year equalling £110, the second year will create something of a snowball effect, where any interest earned will be a percentage of the £110 not the original £100. It can be transformational over a long period of time, and two decades could well be enough to see a really positive acceleration of pension wealth.

I'm only 21 years old. I've got years to save, why can't I put it off?

- Don't delay! The longer you leave saving for a pension, the more expensive it will be to achieve the same level of retirement income. And the sooner you start, the sooner you take advantage of the contributions both your employer and the government will make to your pension. Modest contributions now will make a big difference later as the compounding effect will be dramatic.

- To put this in perspective, if you have recently graduated and begun working life on an average graduate salary of around £22,000 per year, you will now be enjoying a net income of around £350 per week. By contrast the current State Pension only pays around £160 per week, effectively less than half of what you are living on. Somehow you will need to supplement your future.

- There is also another question of whether or not the State Pension will exist in half a decade's time, as governments around the world – not just the UK, put more and more responsibility on individuals to take care of themselves financially.

- The best way to ensure you can take charge of your own destiny is to start saving now. Whether this means you get to retire early, enjoy a luxury lifestyle or simply not have to make sacrifices and live in a different way to how you did in your working life, what better way of reducing the chance of an outcome you don't want than to start saving into your pension now.

Don't delay, it's never too soon or too late to start saving into your workplace pension

No matter what age you are, the benefits of saving into your workplace pension are clear to see. And no other savings option offers the chance to benefit from Government tax breaks and employer contributions in the same way. If you can increase your contributions, many employers will match what you are putting in. A workplace pension is one of our best opportunities to really build towards our retirement in the most effective way possible.