How do I know if I am saving enough for retirement?

If you have read the previous article on cash and savings (and touching on investing) then this is an area that can be considered simultaneously with investing, or you can choose one or the other depending on your goals and budget.

With pension savings, don’t forget that you will receive tax relief on top of any payments you make. You can also ask your employer if they will make payments into your pension by using ‘salary sacrifice’ which deducts the pension payments from your gross salary rather than your net pay. This saves the employer money and he may be willing to add the NI savings on to your pension payment; your take home pay is the same but more is paid into your pension plan.

Secondly, what sort of pension scheme will you be paying into? Your company may provide one as part of your benefits package and if you haven’t joined then it is worth checking out. You may have to contribute a set percentage of your salary per year and your employer will match this. Additionally they may be starting a ‘NEST’ (National Employment Savings Trust) pension scheme as part of the new workplace pension savings legislation introduced in 2012 so you may be automatically enrolled into a scheme.

You may prefer to use a personal pension plan for your payments which will allow you to control how much you pay in. These plans are fully portable so if you change employers you can continue to pay into the same plan (if you take out a personal pension you can elect to use this instead of starting a new NEST pension but your employer must obtain clarification from the pension provider that it is a registered scheme – ask me if you have queries on this).

Finally – keep making payments! If you can maintain them and increase them when possible, then they soon start to mount up as well as accruing investment growth over the term.

When you have been contributing for some years and your fund is building up, you will likely want to know what benefits you can expect at retirement – we can provide you with projections which will give you an idea, and you can compare this with the equivalent pension based on current terms to check if you are on track with your retirement plans.

As an example, a pension fund estimated at £1.3m in 2031 would actually be worth an equivalent £900,000 when taking inflation into account. The ‘buying power’ reduces over time as the cost of living increases.

This amount of pension fund could provide a pension of £68,000 per year which is the equivalent of £45,000 in today’s terms. This may sound like a lot, or not very much, depending on your income levels when you are working.

When planning your retirement income it is helpful to bear in mind that your expenditure is likely to be lower at later stages in life therefore it is not strictly necessary to try to match your highest levels of earned income. Mortgages will hopefully have been paid off, education costs will have ceased, and you may have downsized your family home if the children have flown the nest (thereby freeing up equity).

If you make a list of all your expenditure currently, then cross off the items you know will not have to pay for in future, this will help to give you an idea of the level of income you would like, or if you have a sum in mind this is a good start.

The bottom line is, save as much as you can afford to and this will likely increase over the years as your outgoings decrease. Regular reviews and rebalancing of funds will help to show if you are on track for your savings goals.