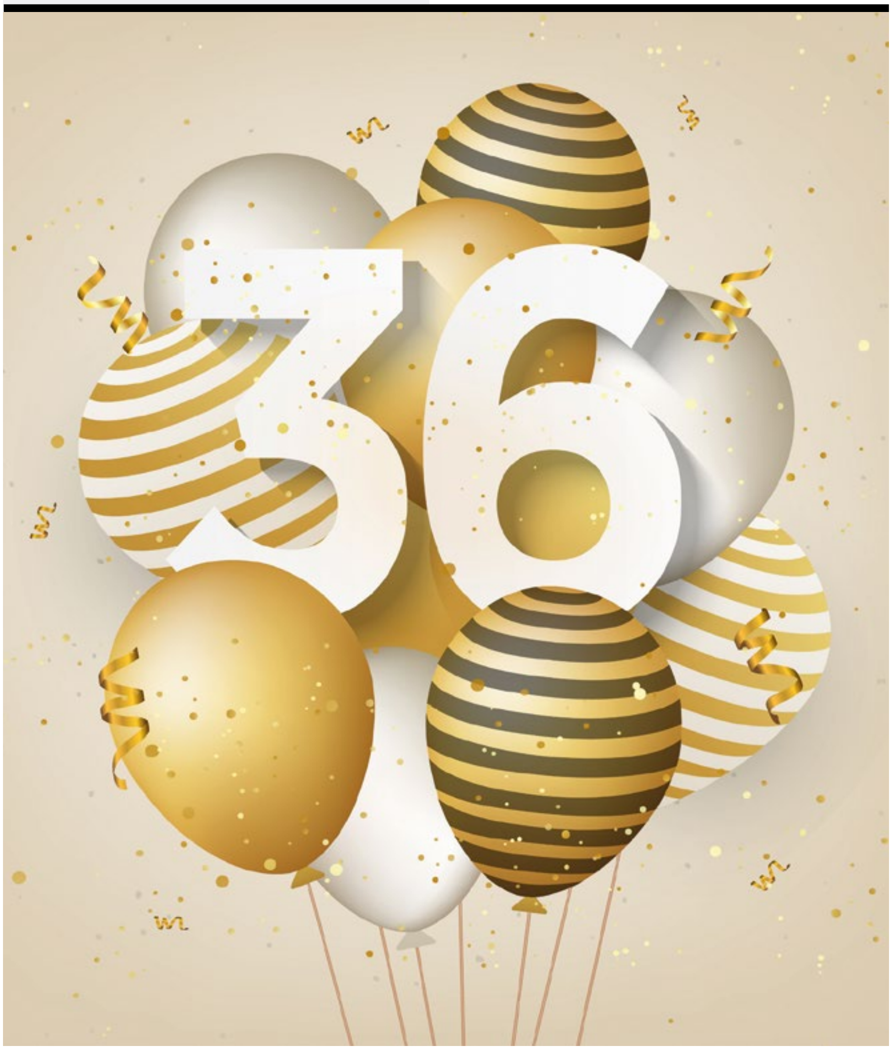
36: The magic age for retirement saving?

Summary
- The number of people making plans for retirement soars after they reach the age of 36, research from Standard Life reveals.
- Auto-enrolment has increased the number of members of occupational pension schemes to more than 20 million – but there is more work to be done.
- Starting to save in your 20s could mean you have to make lower contributions in the future because of the effect of compounding.
- Women must be particularly careful, experts say, as they are more likely than men to take career breaks or have disrupted earnings.

Sam Meadows highlights the importance of starting retirement saving as early as possible

Do you pay in more than the minimum auto-enrolment amount into your pension pot? Unless you are 36 or older, the chances are the answer to that question is no.

Or at least that is the conclusion of research by retirement firm Standard Life, which found that after workers hit this milestone the proportion of people paying in more than 5 per cent jumps by half.



In the company's research, of those aged under 36, just under a quarter said they paid in more than the usual minimum. After 36, that figure jumped by more than 50 per cent – to 35 per cent.

It is understandable that young people would leave retirement saving far down their priority list. Retirement is 40 or 45 years away – it feels like a problem for tomorrow.

Besides, there are things to pay for today. Weddings, house deposits, children and all the costs that come with them.

But this could be a mistake, costing them thousands of pounds in later-life contributions just to meet a comfortable retirement income.

Standard Life managing director, Sangita Chawla, says: "Our 30s is the decade that for many people things start to fall into place professionally and personally, and that you start to achieve those life milestones such as buying property, having a child or settling with a partner.

"Financially it's also the time many of us start to feel a bit better off and it's this combination of a motivation to save and the ability to do so that start to come together."

Auto-enrolment revolution

Young people's retirement savings were given a boost in 2012 by the introduction by the government of auto-enrolment.

Today, workers over the age of 22 are required to be enrolled into a pension with minimum contributions of 8 per cent – 3 per cent from the employer and 5 per cent from the employee.

Highlighting the impact of auto-enrolment, according to the Office for National Statistics, workplace pensions saving participation levels were at 47 per cent in 2012, compared with 79 per cent in April 2021.

However, problems remain. In September, the government announced plans to lower the enrolment age from 22 to 18 – which would bring many more workers into its scope – and some critics argue that the contributions are too low.

Hargreaves Lansdown head of retirement analysis, Helen Morrissey, says: "The beauty of auto-enrolment is that it gets people contributing into a pension early.

"However, current auto-enrolment minimums are still too low and if you want a decent level of income in retirement then you will need to save over and above this amount."

She adds: "The challenge is that when you are in your 20s and 30s retirement can still feel like a very long way away and when you are balancing other obligations such as buying your first home or starting a family it is difficult to boost pension contributions."

How much is needed for retirement?

How much you will need to be earning in retirement will depend on your personal circumstances, making it a fairly difficult question to answer.

However, the Pensions and Lifetime Savings Association (PLSA) has drawn up a range of different assumptions for those wishing to plan ahead, called its retirement living standards.

The minimum needed for a basic retirement is £12,800 a year for a single person or £19,900 for a couple. This would cover all basic needs with a few luxuries, such as a holiday in the UK or eating out occasionally.

A moderate standard of living would require £23,300 for a single person and £34,000 for a couple, and offer more financial security, a foreign holiday and regular leisure activities.

With £37,300 for a single person and £54,500 for a couple then a 'comfortable' retirement is possible, with subscriptions to streaming services, beauty treatments and two foreign holidays year.

The full state pension is currently £10,600 a year, so for someone without a final salary pension, a workplace scheme is essential, and likely to do a lot of heavy lifting.

Is 36 too little too late?

Analysis by AJ Bell suggests that a pension worth £750,000 at retirement would be enough to achieve the 'comfortable' standard of living suggested by the PLSA.

Someone who started saving at age 36 would need to contribute an average of £11,000 a year to reach that target by 68, the firm says. Starting 10 years earlier, at age 26, would cut those annual contributions by nearly £5,000, to £6,600 a year.

AJ Bell head of retirement policy, Tom Selby, says: "There is no 'right' or 'wrong' time to start saving for retirement, but the earlier you do it, the easier it will be.

"This is partly because you are able to spread out your contributions over extra years, and partly because your earlier contributions will have more time to benefit from compound growth."

He recommended setting up regular payments to build a savings habit and to put a sensible budget in place, setting short-, medium-, and long-term priorities, to help make sure you can afford contributions.

Morrissey says: "It's really important not to panic – it's never too late to make a difference to your pension so even if you get well into your 40s or even your 50s, increasing your contributions will still help."

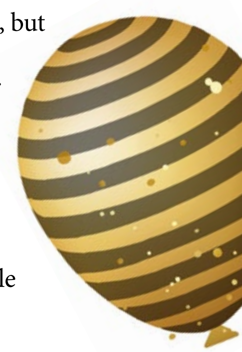
However, women need to be particularly aware of when they start saving, some experts say.

Aegon head of pensions, Kate Smith, says: "Many people, especially women, are likely to have disrupted working patterns, taking time out to care for loved ones, or periods of not working, so it's a good idea to start saving as early as possible to try to mitigate any future 'lost' earnings and savings years."

And there is certainly more that pension firms can do to encourage people to save. Standard Life managing director, Gail Izat, says: "Many people find the age of responsibility really begins when they reach their mid-30s, as they often start to buy property or consider starting a family. With responsibility comes more of a need for financial security now and in the future, and so this tends to be the age people tend to start thinking about their long-term as well as day-to-day financial goals.

"The recent pressures of the cost-of-living crisis, high housing costs and other challenges like tuition fee repayments mean people starting to save now face considerable trade-offs when it comes to deciding what to prioritise financially, and so it's more important than ever that employers and pension providers help people to engage with their long-term savings.

"Pension saving is vital, but it should be viewed in the context of people's broader financial priorities – for employers and pension providers, taking a holistic approach to people's financial wellbeing is vital to securing the best possible long-term outcomes."



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