Saving for a comfortable **retirement**

Worried about having enough to live on when you retire? We explore your options and help you work out how much to save

WORRIED ABOUT FUTURE FINANCES

Almost a third (31%) of people in a new Which? survey said they don't have any savings in place for their retirement.

According to the survey, people think they will need an average of £324 each week after tax to live on. In reality, according to the Office of National Statistics, the average retired person spends approximately £185 a week on household expenditure, or around £360 a week for a couple. Even at these lower rates, a single pensioner will need almost £10,000 a year after tax to live on, and a couple around £19,000.

How much for retirement?

Around half (52%) of those surveyed think that they will have enough to live on in retirement. However, the number of people who aren't confident they will have enough has risen to 42%, up from 36% in 2006. This isn't surprising, as billions of pounds have been wiped off the value of pension funds because of falling stock markets in the last couple of years.

In our survey, around half of people (51%) are saving for their retirement using a pension (company, personal or stakeholder), 21% have a property that they expect to use and 15% are saving using bank or building society accounts. Some are using more than one of these.

Before you start saving for your retirement, you need to have life insurance in place if you have dependants (visit www.which.co.uk/lifeinsurance), some emergency savings and insurance to protect your income (visit www.which.co.uk/incomeprotection).

What you get from the state

Whether or not you've started to save, you should get a pension forecast to see how much you'll get from your state pension. Men can claim this from 65 and women from 60 but, from next April, this will rise in stages to 65 for women by 2020. By 2046 the state pension age for both sexes will increase to 68.

The full basic pension for a single person is currently £95.25 a week. To qualify you must have paid, or been credited with, enough years of National Insurance Contributions (NICs). Anyone retiring after April next year will need 30 qualifying years of NICs.

The State Second Pension (S2P) 'tops up' the state pension. To be eligible you need to be an employee, caring for young children or unable to work because of sickness or disability. But you won't get it if you, or your employer's pension scheme, has 'contracted out' or if you're self-employed. For more details, see www.which.co.uk/statepension.

If your employer offers a company pension scheme and contributes on your behalf, it's well worth considering joining. If you're self-employed or your employer doesn't offer a scheme, or doesn't contribute, consider a personal or stakeholder pension. Visit www.which.co.uk/planning-your-retirement for more information.

How much to save

Once you have your state pension forecast and know how much you'll get from private pensions, think about which bills you'll still be paying when you retire. The difference between the two figures is what you will need to fund yourself.

IN BRIEF

In this report we help you to:

- work out how much you need for retirement
- find out what the state provides
- understand how to fill the savings gap and what your options are.

OUR RESEARCH

We surveyed 516 people who were working or seeking work about their retirement plans, face-to-face in their homes between 29 April and 3 May 2009.

PHOTOGRAPHY PHILLIP REESEN

Sophie Wilson, *52, Cambridge*

Sophie Wilson has been saving for her retirement since 1984, when she joined her previous employer's company pension scheme. She plans to retire at 65. However, despite having a higher than average income and contributing £1,000 a month to her company pension (to which her employer contributes 10% of her salary), as well as a full state pension and money from her previous pension, Sophie isn't confident that she will have enough to live on in retirement. She is worried that she will need a higher pension income to cover the costs of medical treatment for her bad back – to pay for hydrotherapy and osteopath sessions, for example.

As a result of the recent downturn in stock markets, Sophie has recently increased her contributions to her pension. We think her next step should be to see an independent financial adviser to review her pension provisions and try to help ensure she has enough to live on when she retires.

See the table to find out how much you'll need to save each month at different ages for a pension income of £5,000 or £10,000 a year plus the state pension.

If you have a pension

It's vital to keep an eye on your pension and make sure your funds work as hard as possible. Over the medium to long term (10 years plus), stock markets tend to outperform other investments. So if you have a while until you retire, stocks and shares (known as equities) may be your best option, but get advice on where to invest if you are unsure.

If you're due to retire in the next 10 years or less, start thinking about moving away from equities and considering 'less risky' investments such as gilts and bonds (see www.which.co.uk/guidetoinvesting). However, if you're thinking of switching out of equities now – after two years of falling markets – you will be locking in any losses you have sustained. It may make sense to wait for the markets to recover, but see an independent financial adviser before you decide.

Is my pension safe?

If you have a personal pension, or defined contribution (money purchase) company pension, in most cases your savings won't be at risk if the provider goes bust.

If you have a final salary pension and your employer goes bust, your pension will be protected by the Pension Protection Fund (PPF). If you've already reached your scheme's normal pension age, you will generally get 100% compensation. If you haven't yet retired, the PPF will pay you up to 90% compensation when you reach retirement. The total level of compensation is subject to an overall cap which is recalculated each year. This year's cap is £28,742.69 at age 65. For more information, see Contacts.

Which? says

Though it might be tempting to cut back on your pension saving during a recession, most people are not putting away enough to provide them with a decent income in retirement. So don't stop saving unless you have to – and make sure your money is sensibly invested.

How much do I need to save?

At a glance: monthly savings for different ages

Below, we give you an idea of how much you may have to save each month to provide an income of £5,000 or £10,000 a year when you retire. You will probably also receive the state pension – £4,953 a year for a single person in 2009-2010. For example, a 40-year-old man who wants a retirement income of £10,000 plus the state pension needs to save £290 a month – nearly £3,500 per year.

MONTHLY PAYMENTS

	RETIREMENT AGE	MEN (£)	WOMEN (£)
£5,000 PENSION INCOME			
Aged 30	68	74	85
Aged 40	67	145	162
Aged 50	66	330	371
£10,000 PENSION INCOME			
Aged 30	68	149	170
Aged 40	67	290	324
Aged 50	66	661	741

TABLE NOTES
Figures are a guideline. Assumes investment growth of 4.5% a year above inflation at 2.5%, less charges of 1.5% for first 10 years and 1% thereafter. Pension contributions increase by 4% a year based on average yearly earnings increase of 1.5% above RPI. Figures assume 20% tax relief on contributions. Income is a single-life pension, which increases annually in line with price inflation.

WHICH? PENSION CAMPAIGN

From 2012, anyone eligible to join their employer's scheme will be enrolled automatically. If there's no company scheme, you'll be enrolled in a new scheme known as a personal account. You will contribute 4% of your earnings above £5,035 up to £33,540, and your employer and the government will match this. Which? campaigned for the introduction of personal accounts, which will be run in the best interests of members and have simpler investment choices and low charges.

Contacts

Financial Services Authority
0300 500 5000 www.moneymadeclear.fsa.gov.uk

Financial Services Compensation Scheme
020 7892 7300
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Find an independent financial adviser
020 7833 3131
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Pensions Advisory Service
0845 601 2923
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Pension Tracing Service
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