

Are You On Track For A Comfortable Retirement?



A comfortable retirement is the end goal for most of us, as we build up our pensions. However, it can be hard to know how much you will need to see you through your later years.

It is a discussion I always have when retirement planning, but for many, the default thinking is ‘How much do I need to just exist?’ or ‘How much do I need to save to live an oligarch’s life of superyachts and constant international travel?’

A more balanced idea of realistic needs is what is required in real life, but how do we make the cold hard numbers realistic?

Well now, British consumer group ‘Which?’ have recently suggested the price tag of retirement in the UK, is £305,700 (US\$402,000).



This assumes the benefit of a full UK state pension at currently £9,339 per year.

Someone who wants a “comfortable” retirement would need at least £19,000 (US\$25,000) net of any tax, per year or £26,000 (US\$34,200) for a couple.

This annual income would be enough to cover the essentials and regular short-haul holidays, leisure, tobacco, and alcohol, according to Which?

The £305,700 mentioned is the value of savings or pension plan required to generate retirement income of £9,661, assuming it will augment the state pension of £9,339pa, and we know, of course, that many life-long expats fall wildly short of a full state-provided pension, British or otherwise!

With no state pension to fall back on, the amount needed at retirement would be £601,000.

‘Which?’ go on to suggest that a ‘life of luxury’ would cost a single person £31,000 (\$40,800) every year or £41,000 (\$54,000) for a two-person household.



Someone who could take that income would be able to afford both the ‘essential’ and ‘comfortable’ standards of living.

In addition you would be able to afford extended or long-haul holidays, health club memberships, expensive meals out and a new car every five years.

The ‘luxury lifestyle’ is achievable for anyone with no state pension, who has saved up £981,000 (\$1,290,000) by age 65 for drawdown.

Is my pension pot on track?

To save £601,000, the pot needed to fund a comfortable retirement via drawdown, a 25-year-old would need to put aside £414.60 per month, assuming investment returns of 5% per year, the long-term average. At yearly 8% returns, the figure is £193.33 per month.

The later people start, the more they will have to save as investments have less time to grow. Someone starting 10 years later at age 35 would need to pay nearly double, £753.83 per month, to reach the same figure by 65.

Turning things around and looking at what amount might realistically be saved on a monthly basis, this table gives an idea of the potential retirement pot.

Retirement account balances at 65 based on starting age and monthly savings amount with 5% per annum growth

	Starting at Age 25	Starting at Age 35	Starting at Age 45	Starting at Age 55
Saving £100/month	£144,959	£79,726	£39,679	£15,093
Saving £250/month	£362,399	£199,316	£99,197	£37,733
Saving £500/month	£724,798	£398,633	£198,395	£75,467
Saving £1,000/month	£1,449,597	£797,266	£396,791	£150,934

The table clearly illustrates that the earlier you begin saving, the more your savings will be worth in the end.

The person who begins saving £100 per month at 25 will end up putting \$12,000 more of their own money toward retirement than the person who began saving £100 per month at 35, but they will end up with over £65,000 more in the end.

This assumes a return of 5% per annum. But a slightly higher annual return makes a dramatic difference, especially if you start saving early. The 25-year-old, saving £100/month at 7% return would see his pot worth £239,562 at age 65, some £94,600 more than at 5% return.



In a blog article last year about starting retirement planning late I made the point that many of us leave retirement planning until later in our careers, and that this does not necessarily mean disaster.

However, the numbers really are stark!

The sooner you start to plan, the more likely you are to have a comfortable retirement, so if you are waiting for 'the right time' to start your pension planning, today is probably the day!