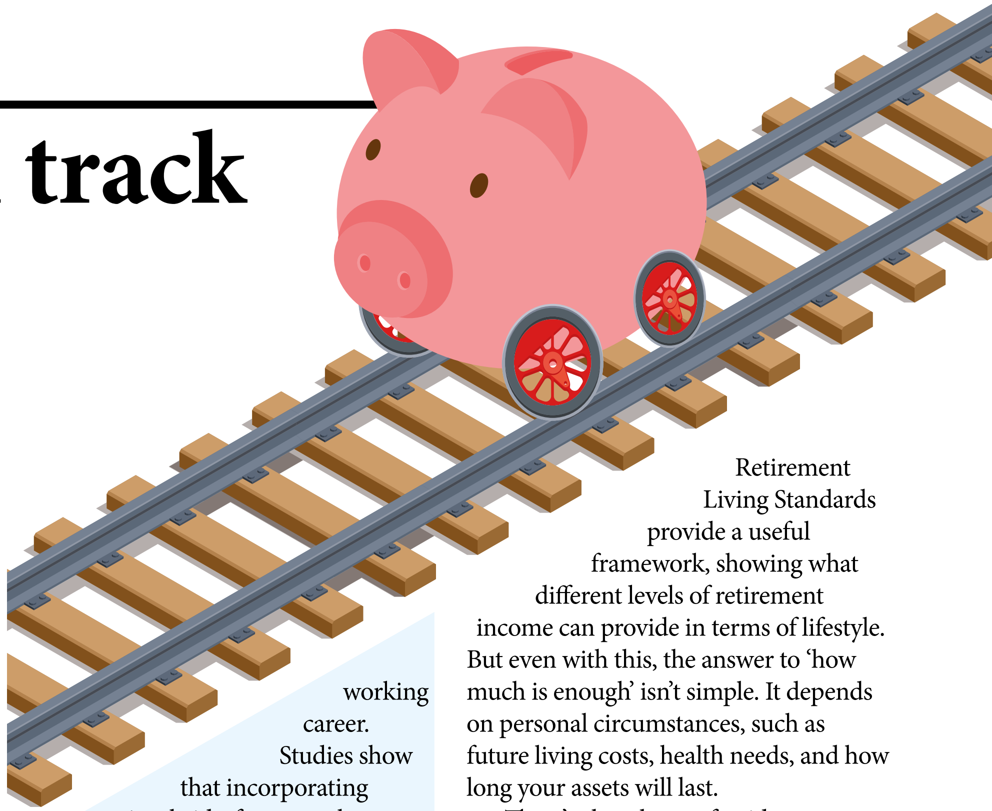
Staying on track



A common query from pension savers is that they do not know whether they are on track to achieve their desired retirement saving amount throughout the accumulation stage (or even what that final amount should ideally be). Therefore, what guidance can the industry provide to help savers monitor and understand if they have the 'correct' amount of savings for them, for their age, throughout their working lives?

With auto-enrolment, the concern is that members think they have a pension so therefore they are sorted for retirement without considering how much their envisaged lifestyle will cost.

However, neither is there such thing as a blanket 'correct amount' of savings at any particular age, or indeed working life stage. A 32 year old with two children and a house may have very little disposable income to save, while a 32 year old who is single and living at their parents home might have a lot. It's all relative, with many variables, and therein lies the challenge for industry. Financial positions outside of a single pension arrangement can't be compared, nor can they be predicted with accuracy. It therefore stems in communication and education, as early as possible, in a working career. Studies show that incorporating visual aids, for example, boosts learning by up to 323 per cent – making it easier to covey complex information in a way that's clear and easy to understand and making abstract concepts concrete. Help people set goals they can see come to fruition, track progress and milestones. Visually showing members whether they are on track to meet their goals and the steps they can take if they are not on track will try to avoid unwanted surprises and enable members to take action whilst they still have time on their side.

Zedra Governance managing director, Kim Nash

One of the most common questions people ask about their pensions is: "Am I saving enough?" While pension schemes and administrators offer a wide range of tools – modellers and projections – what's often missing is a straightforward benchmark. Many people I speak to, from friends to family, find it hard to judge whether they're on track with their savings.

The Pension and Lifetime Savings Association's (PLSA) Retirement Living Standards provide a useful framework, showing what different levels of retirement income can provide in terms of lifestyle. But even with this, the answer to 'how much is enough' isn't simple. It depends on personal circumstances, such as future living costs, health needs, and how long your assets will last.

There's also plenty of guidance and blogs online, which can be really insightful. However, savers need to be cautious, as some of these sources can be quite nuanced, and others might be more focused on selling products or services than offering truly impartial advice.

Many savers, particularly in the DC space, can turn to their schemes for support. There are excellent tools available to help members understand their savings. However, these are sometimes too focused on the individual scheme's benefits, rather than taking a holistic view of a saver's full financial picture. A broader approach would give people more confidence in planning for their future.

Trafalgar House senior client relationship manager, Katie Stone

There are two critical elements that can help savers know if they are on track to achieve their desired retirement lifestyle.

The first is seeing a holistic picture of their pension savings, including their state pension, in a single place. This is crucial as it provides savers with a comprehensive understanding of their current savings, which they can use to assess whether they are on track meet their ultimate goals. Working in partnership with the government, the industry is on track to be able to show savers this holistic view via pensions dashboards. These are long overdue and will be a real help to savers.

The second key element, where the industry has already started to help, is to provide savers with rules of thumb that offer a guide to the cost of retirement. The PLSA's Retirement Living Standards show the cost of maintaining a range of lifestyles in retirement: 'Minimum', 'Moderate', and 'Comfortable'. Rules of thumb like this provide savers with a yardstick to measure their savings trajectory against, enabling them to make timely interventions to improve their expected outcomes if necessary.

LCP DC senior consultant, George Currie

It is hard to put a number on the 'correct' amount of savings that should be in your pension pot. Everyone has different spending habits and expectations of what their retirement looks like, whether it's the standard of living or how soon they hope to stop working. Achieving a specific number also depends on what an individual can afford, what they are invested in and how those investments perform.

A general rule of thumb is the 'Half Your Age' rule. The idea being that you save a percentage of your gross salary equal to half your age when you start contributing to your pension. You then continue to contribute that same percentage for the rest of your working life (you don't need to keep upping it as you grow older).

The PLSA's Retirement Living Standards have calculated what the average retirement income looks like at three different levels: Minimum, Moderate and Comfortable. Its website goes on to explain what this sum translates into for typically spending on things such as house repairs, food bills and holidays.

Charles Stanley Direct financial planner, Alex Webb-Bowen

Many savers budget and pay bills as a household so looking at retirement finances should be no different. Some basics might also be to understand exactly what is due to come into payment, and when, so savers know if they have any gaps (e.g. state pension and private pension are not always aligned). Savers should start with a PensionWise appointment – it's completely free so there is nothing to lose but lots to gain for many.

We would like the industry to encourage the development of a more sophisticated guidance service that can better take account of all pre-retirement saving levels (e.g. allowing savers to understand their saving levels if they go part time as they reach retirement) and holistic financial situation when they reach retirement (e.g. allowing for household savings accumulated and likely other financial incomes/outgoings they will have at retirement) to better support savers in understanding how much they may have saved by the time they retire, and how much they may need in retirement.

Hymans Robertson head of DC corporate consulting, Hannah English

The first step for savers is understanding 'what have I got?' By connecting all their finances through tools like Moneyhub, savers get a clear picture of their financial situation. Next, they need to ask, 'is it enough?' Using the PLSA's Retirement Living Standards helps estimate how much is needed for retirement. It's also a good idea to chat things through with friends and family to account for any other needs. Finally, the question becomes 'am I paying enough?' Auto-enrolment rates are currently 8 per cent, but our recent *Retirement Report* recommends a minimum of 12 per cent, depending on when contributions begin. Arguably the biggest impact on this last question will be whether savers are on track for a full state pension.

Once these steps have been taken, encouraging regular check-ins on pensions is also crucial to keeping savers engaged. Engagement really is the silver bullet for keeping pensions tracking at a positive level.

Scottish Widows pensions expert, Robert Cochran

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