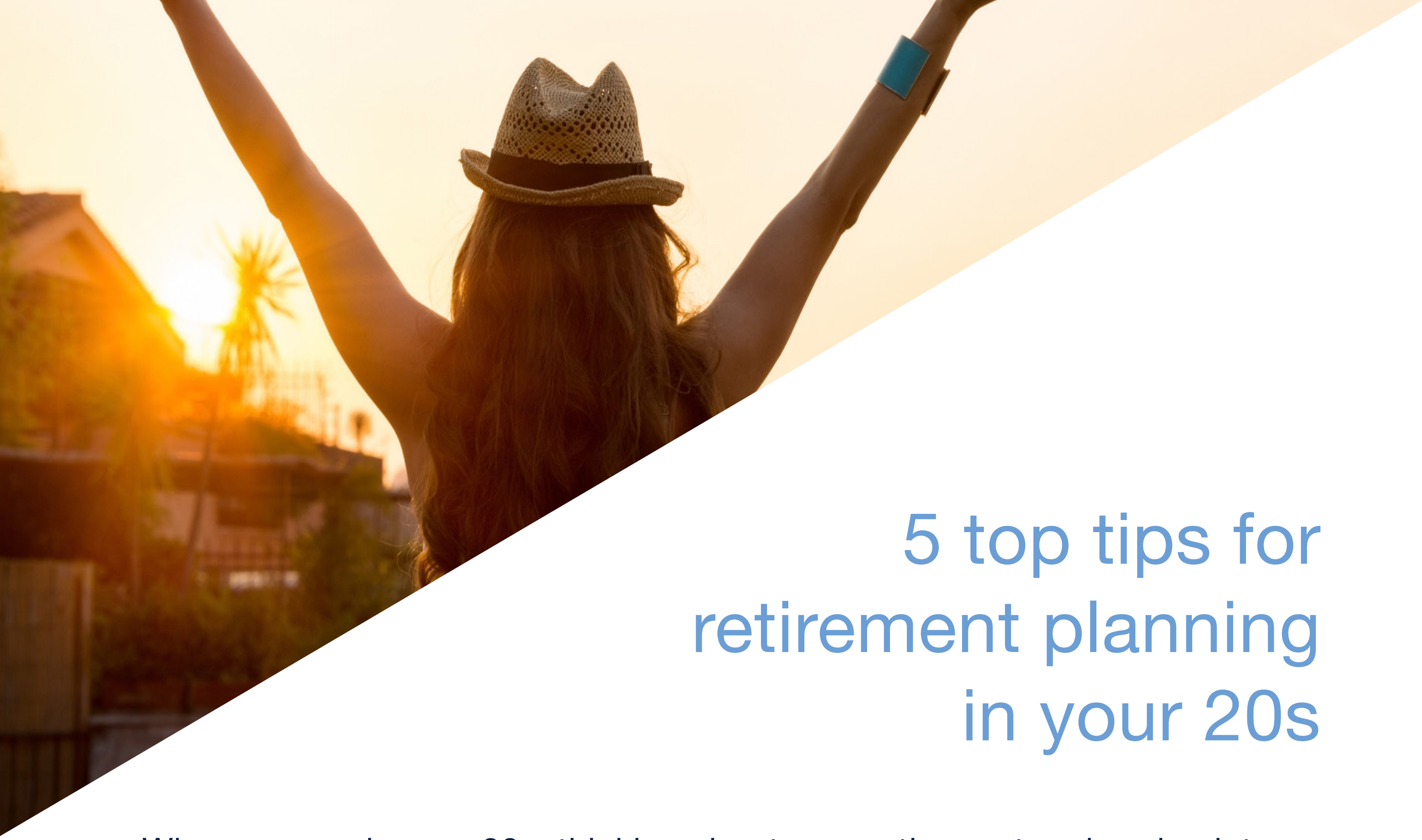

5 top tips for retirement planning in your 20s

When you are in your 20s, thinking about your retirement and saving into a pension might be the last thing on your mind.

But there are steps you should consider taking now to improve your future financial security and fund the retirement you want when the time eventually comes. To help you understand where to start, here are our top 5 tips for retirement planning in your 20s.

1. Contribute to a workplace pension
2. Make a commitment to keep track of your pension
3. Balance short and long-term savings
4. Consider investing
5. Set a realistic pension goal

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1 Contribute to a workplace pension

Because of auto-enrolment, it's likely you will have a workplace pension which both you and your employer pay into. Whilst it may be tempting to opt out and save yourself some money now, it could cost you in the long-term. It is important to remember that as your contributions are supported by your employers' contributions it can provide tax relief and offer the possibility for earning interest not only on your savings, but also on the interest itself, also known as compound interest. 59% of people in their twenties are already saving into a pension. However, if you're not one of them, or you would like to increase your pension contributions, you should speak with your employer to find out more.

59% of people in their 20s are saving into a pension

2 Make a commitment to keep track of your pension

Just paying into your pension isn't enough. To stay on track, you'll need to frequently review how it's growing and its investment performance. 20% of people in their 20s don't know how much their pension is currently worth and more than half don't know its projected value at retirement. Make a commitment to review your pension annually. This will give you an opportunity to consider if the current investment fund is still right for you, help you to understand what income it might deliver in retirement, and check the investment performance.

20% of those in their 20s don't know how much their pension is worth

3 Balance short and long-term savings

Almost 40% of those in their twenties prioritise short-term saving over long-term. This is understandable as many may be saving for a house, planning a wedding, or starting a family. However, it's crucial to strike a balance between both. You shouldn't stop saving to improve your lifestyle now, but it's worth considering diverting a portion of your disposable income to savings or investments that will support you in the long-term. The sooner you start, the more manageable it is to save for retirement. And just putting a small amount of your earnings into your pension each month in your 20s, can have a significant impact on the size of your pension pot by the time you retire.

40% of people in their 20s prioritise short-term saving over long-term.

4 Consider investing

The good news is that of those in their twenties saving for the long-term 56% are saving for retirement outside of a workplace pension. However, they may not be doing it as effectively as they could. Almost half are holding retirement savings in a cash bank account, 67% in a savings bank account and a further 39% are using a cash ISA (Individual Savings Account). Low interest rates and the effect of inflation mean money held in cash is likely to be losing value in real terms. With your retirement several decades away, investing could be a better option as you may be able to ride out market volatility and potentially generate larger returns. On a positive note, 46% of those in their twenties already have some of their money invested.

5 Set a realistic pension goal

How much do you think you will need to retire? 29% of those in their twenties do not know. Of those who do have a figure in mind, almost half believe they will need less than £50,000; a significant underestimation considering Which? recommend your total pension pot should have more than £215,450 at retirement. Setting a target for your pension that can realistically deliver a comfortable retirement, can help keep you focused and on track. With 46% of people in their twenties scared at the thought of retirement and 66% worried about the prospect of running out of money, setting a realistic goal now is a step that can help ease concerns and give you confidence too.

66%

of people in their 20s are worried about running out of money in retirement.

Our advisers can help you gain a better understanding of your finances and create a personalised plan:

call 0330 332 7866; or

email advise-me@fosterdenovo.com.

Calls are charged at your standard landline rate.

An online survey was conducted by Atomik Research among 2,001 20-55 year olds in full or part-time employment in the UK. The research fieldwork took place between 20th January and 27th January 2020. All statistics quoted are from this research.

Which?, How much will you need to retire?, July 2019, found that the average retired couple spends around £27,000 a year. This covers all basic expenditure with a few treats like the odd holiday thrown in. Which? estimates that for a comfortable lifestyle in retirement https://www.which.co.uk/money/pensions-and-retirement/starting-to-plan-your-retirement/how-much-will-you-need-to-retire-atu0z9k0lw3p

The value of your investment can go down as well as up and you may not get back the full amount invested. Accessing pension benefits early may impact on levels of retirement income and your entitlement to certain means tested benefits and is not suitable for everyone. You should seek to understand your options at retirement.