Prudential reports strife begins at 40 for pensions late starters

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Prudential has revealed that workers who don't pay a penny into a pension until they reach the age of 40 may need to set aside upwards of 33 per cent of their salary until age 65 if they want to retire on the holy grail pension of two-thirds annual salary.

But for someone starting their pension (http://www.pru.co.uk/pensions_annuities/prudential_pensions/) at 30 the amount drops to 20.5 per cent of salary and at age 18 it falls to 12.9 per cent - just over a third of the amount a 40-year-old would be required to pay into a pension for the first time.

Based on the current average salary of £26,020* a 40-year-old worker starting their pension plan (http://www.pru.co.uk/pensions_annuities/prudential_pensions/money_purchase_plan/) today and aiming to retire at 65 would need to put aside the equivalent of £728.06 a month, or £23.94 a day, from combined employee and employer contributions.

A 30-year-old worker's pension savings would need to total £443.59 a month or £14.58 a day, while an 18-year-old starting work today would need to save an amount equivalent to £9.19** into a pension every day of their life until the age of 65 in order to achieve the optimum pension of two-thirds the current average annual salary of £26,020.

Martyn Bogira, Prudential's Director of Defined Contribution Solutions, said: "The findings show very clearly that anyone earning an income should try to begin putting money into a pension fund (http://www.pru.co.uk/pensions_annuities/our_annuities/income_drawdown/) as soon as possible as the cost of delay is considerable; for someone aged 40 who's contributing to a pension for the first time, the optimum pension contributions are three times higher than for someone aged 18.

"Understandably, making payments into a pension at age 18 may be a struggle and seem insignificant but even the smallest of contributions has the potential to make a massive difference. Arguably, the simplest and most beneficial way to do this is to pay into an employer's defined contribution scheme and take advantage of any contributions an employer will also make to help make up the optimum amount needed to retire on two-thirds salary."

In reality, the average amount which workers pay into their pensions is just £3.56 a day*** - this amount includes any employer's contributions which is £5.63 less than the optimum daily amount of £9.19.

Martyn Bogira added: "With the basic state pension currently paying out less than £5,000 a year it is critical that people get themselves out of the mindset that they will be able to rely solely on the state to look after them financially in their retirement (http://www.pru.co.uk/). There is a shifting onus on workers to begin budgeting a more realistic amount which can be paid into a pension especially if they want to improve their chance of being able to enjoy a reasonable quality of life when they do come to retire."

ENDS

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Notes to editors
* Office of National Statistics ASHE 2008: mean average gross annual wage is £26,020
** £9.19, £14.58 and £23.94 gross – this figure includes the tax relief received on pension contributions
*** Survey conducted by Research Plus among 2008 UK males and females aged 18+ between 2–7 July 2009 using an online methodology

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