Pennymatters
THE MODERN APPROACH TO FINANCIAL ADVICE

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Don't abandon pension contributions as prices rise

Savers could miss out on thousands of pounds in retirement

As the cost of living continues to soar, with inflation reaching a 40-year high, the impact on household finances is taking its toll. But it is essential to try to maintain a savings habit even in the current climate. The impact of any breaks in pension contributions could mean savers miss out on thousands of pounds in future that will mean less income during retirement.

Research has highlighted that reducing or stopping pension contributions, even for a relatively short period of time, can have a significant impact on the final pot, with savers potentially being thousands of pounds less well off in retirement as a result[1].

HAVING AN EVEN BIGGER IMPACT

For example, someone who began working with a salary of £25,000 per year and paid the standard monthly auto-enrolment contributions (3% employer, 5% employee) from age of 22, would have a total retirement fund of £456,893 at the age of 68.

However, stopping pension contributions at the age of 35 for just one year, would result in a total pot of £444,129 – almost £13,000 less than if they had not stopped paying in. Stopping contributions for a longer period would have an even bigger impact.

RISK OF SACRIFICING SAVINGS TO COVER EVERYDAY EXPENSES

While currently relatively low, the risk of sacrificing savings to cover everyday expenses continues as long as these challenging circumstances go on. Almost all (93%) say that increasing costs and high inflation are going to impact, or are already impacting, their financial situation.

If possible, the first port of call should be to reduce spending, for example, cutting back on unnecessary purchases and shopping around for better value deals. Doing this, rather than making decisions that will affect future finances such as reducing or stopping pension contributions, even if for a short period only, will be beneficial in the long term.

TIPS FOR POTENTIAL SPENDING CUTBACKS IN THE CURRENT ENVIRONMENT

1. Review your expenditure for potential areas of savings – By looking through your monthly outgoings, you may find there are ways to make savings. Do you have any subscriptions or memberships that you no longer use and could cancel or pause? Do you spend a lot of money on things that are a luxury, such as takeaways? Taking some of these small steps could make a difference.

2. Shop around for better deals – You may be able to switch household providers and find cheaper deals, such as for broadband or your mobile phone. Many providers have package deals for new customers so it's worth using a price comparison website to see if there are savings to be had.

3. Set budgets – To help you keep an eye on your outgoings, it is a good idea to set a budget for things like food shopping and socialising so you don't spend more than your means. ■

HELPING YOU ACHIEVE YOUR GOALS

We can help you achieve the financial future you want for you and your family. If you would like to review your current plans, to meet your financial goals now and in later life, please contact us.

Source data:

[1] Research conducted among a sample of c.2,600 contactable Standard Life customers between 9–22 May 2022. Calculations are intended for the sole purpose of providing an illustration regarding the projection of savings and pensions. They should not be used with the intention to give an accurate representation of real world outcomes.