Retire at 72

Investment returns were higher in the last 40 years than they are expected to be in future. An average pension fund may only grow in future at 3 percentage points above growth in prices, compared to the 6 points experienced since 1970.

Someone who had a pension building up over that time, contributing at an average rate, and now aged 65, probably could have retired comfortably **at age 60** with a pension of two-thirds of final salary.

But today's younger people face a longer working life for the same level of pension.

Even if past investment returns continue, the expectation that we will continue to live to older ages means that we need to save more. A thirty-year old who started a pension 5 years ago might have expected to retire **at age 65** on the benchmark of two-thirds of final salary.

But now if we add the expectation that investment returns will fall, he or she may only reach that level of pension **at age 72**.

And of course, people who don't have private or occupational pensions, or who are contributing at a low rate, will have to keep saving for even longer to build up the same level of pension in retirement.

Source: Projections from William M. Mercer
February 2002

See notes below

Notes
1. The examples are earning median earnings - currently £20,000 a year
2. The model illustrates the benefits that might be available from a private pension or occupational scheme.
3. The assumption has been taken that pension contributions of 11% of salary are made, throughout the working life. This is around the average for people in occupational money-purchase type schemes. The contributions could come from the employer and/or the employee.
4. The contributions are assumed to be invested in a portfolio made up of half equities and half bonds.
5. The investment returns are actual for the last 40 years, and projected for the future, as follows:
· Actual: 6% in excess of growth in prices
· Future: 3% in excess of growth in prices
6. To illustrate how much life expectations are changing: male 35 year olds are now expected to live five years longer than predicted twenty years ago.
7. A pension of two-thirds of final salary is a common benchmark for occupational (defined benefit) schemes. Here it is taken as a goal for a "comfortable" retirement income. Our examples reach this goal when their accumulated pension contributions plus the Basic State Pension reaches two-thirds of their final salary.
8. The pension paid in retirement is assumed to be indexed to prices

Publication list