Getting started on your pension journey

Eoghan Gavigan, a specialist investment adviser and certified financial planner at Highfield Financial Planning, has advice for those looking to start a pension, writes **Siobhán Maguire**

The low rate of pension penetration in Ireland is a common topic when subjects such as auto enrolment and possible changes to pension tax relief are being discussed. That's according to Eoghan Gavigan, a specialist investment adviser and certified financial planner at Highfield Financial Planning.

Gavigan said statistics can make it seem like there is a lack of urgency among consumers in relation to starting a pension, and this in turn can produce a herding effect where people follow what others are doing, or not doing, and put pensions on the long finger.

"Someone once said that deciding to start a pension is like deciding to have a baby, if you wait until you can afford it, you'll probably never do it," he said. "How early you start is critical, and far more important than how much you contribute at the start.

"If a person starts contributing to a pension at a young age, most people find relatively quickly that they have capacity to increase their contributions and the earlier you commence investing, the earlier you start to benefit from the effect of compounding of returns, which is a very powerful driver of investment returns."

To explain his point, Gavigan uses the following statistic as a way of showing the pensions landscape.

"As of Q3 2018, only 16.3 per cent of workers between 20 and 24 years old had a pension, whereas in the 45-to-54 age group almost 71 per cent had a pension," he said. "It is likely that the 29 per cent who haven't funded one by age 45 are primarily low-paid workers.

"When you factor in the fact that low-paid workers may not ever fund a pension due to affordability and because, in theory, they won't need one as the state pension will provide them with over 50 per cent of their pre-retirement income, we can see that although the vast majority of young people eschew pensions, it seems that in time most who can afford pensions change their minds. This is a pity as if you are going to do it, starting early makes the job so much easier."

Eoghan Gavigan, Highfield Financial Planning

Gavigan said a common objection to starting a pension is the fear of investment risk. "However, this argument holds the least weight when the investment of a pension is being discussed," he said.

"Investing, broadly speaking, takes one of two forms, lump-sum investing or instalment investing. Of these, lump-sum investing carries the higher risk as whatever happens in the market happens to your lump sum, whereas with instalment investing, short-term market weakness during the term of your pension will actually enhance your eventual return as you will acquire more units when prices are low. This presumes that you don't crystallise losses before the market recovers, which is why prudent management of the investment, especially in the later years, is important."

Another factor affecting risk is the term of the investment as an investor who has a longer investment timeframe can ride out dips in the market. However, an investor with a short timeframe to a defined maturity date will, to a large extent, be a victim, or a beneficiary, of whatever happens in the market.

"Taken together, we can see that instalment type investing over a long term – which is the form that pension investing normally takes – is a comparatively low-risk endeavour," said Gavigan.

"We regularly see claims by funds of superior performance over a given period, but no fund beats the market over the long term. As well at this, if you believe in reversion to the mean – that deviations from the long-term average price will revert to the average – you would have to conclude that going with last year's best performer is a flawed strategy. Investment advice isn't about guessing which fund will outperform in any given year or timing the next correction in the market."

Gavigan said an adviser cannot reasonably recommend an investment portfolio for a client without a financial plan. The plan determines the rate of return required to achieve the financial objective, and this, and assessment of your risk profile, your capacity for risk and your risk tolerance, informs asset allocation.

"A key thing about this process is to remember that if you manage to achieve your return objective, the additional satisfaction you may get from exceeding it is less than the disappointment you will experience if you take too much risk and fall short," he said. "A comprehensive financial plan will facilitate you in selecting investments which should help you to grow your pension assets with only as much volatility as you can comfortably bear.

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"Advisers often talk of clients being upset because their fund value didn't increase during a 12-month period or fell by, say two per cent, but what this actually means is that the way that investments markets work wasn't adequately explained to the client to begin with. Pensions are a long-term game and history shows that those who stay invested reap the rewards."

For more information on Highfield Financial Planning, see hfp.ie

Pension reform needed sooner rather than later

Environmental, Social and corporate Governance (ESG), the management of Defined Benefit (DB) schemes, the difficulty with death benefits and the pensions gender gap were just some of the issues raised at a pension think-in last week.

The Irish Association of Pension Funds (IAPF), which represents pension savers, drew a packed crowd to its Annual Benefits Conference in Dublin Castle. While the event garnered headlines for its calls for the appointment of a Pensions Minister, there were many more topics up for discussion on the day.

In his speech, Jerry Moriarty, chief executive of the IAPF, said that while progress had yet to be made on so many planned or promised pension reforms, there were some areas where headway was being made.

"One area that has progressed is GDPR and we have published, on our website, guidance and a checklist for schemes and administrators," he said. "We have also been working on the European Central Bank (ECB) and European Insurance and Occupational Pensions Authority (EIOPA) reporting requirements that come into effect in December.

"There is a lot of information on our website including an FAQ document that is regularly updated by the Central Bank as they deal with queries they get. We now have a template that can be used by administrators to obtain the information they need from investment managers to complete the returns.

"While the Pensions Authority has deferred the collection of EIOPA data, the Central Bank still requires the submission of data for the ECB and the first quarterly returns are now due in two months.

"There are some new areas such as anti-money laundering requirements. These now apply to pension schemes, but the extent of the requirements is still unclear. We are looking at this and will update you as we get more clarity.

"We also recently had the signing of the European Union (Supplementary Pension Rights) Regulations 2019. These transpose the requirements of the Portability Directive and give new vesting rights to people moving between EU member states. The provisions are far-reaching but also very confusing and the regulations are completely lacking in clarity. It is incredibly unhelpful that these were introduced without any announcement or consultation."

Jerry Moriarty, chief executive of the IAPF

Moriarty said it was disappointing that there was still no implementation of IORP (Institutions for Occupational Retirement Provision) II, an EU directive which was to make clearer the responsibilities of trustees in the management of their schemes.

"We were somewhat surprised we didn't have detail on the implementation of IORP II for last year's conference," he said. "It is pretty unbelievable that we still don't have any – almost nine months after the directive should have been transposed into Irish law. Not only that, but there has been no consultation on what has been described as a complete game-changer for the Irish pensions sector.

"We do know that the government doesn't intend to apply a derogation for smaller schemes. We have repeatedly said that there must be alternatives in place first with smooth transition arrangements. Otherwise schemes will close due to additional governance requirements and extra costs and that only will worsen pension provision here, at a time when we are meant to be bringing in measures to improve it. The lack of any meaningful engagement or consultation on those issues is very concerning."

Another area of concern is the government's Pension Roadmap, a comprehensive set of proposals promising reform of the pensions sector which has yet to make its impact.

"The lack of visible progress on this is very disappointing and concerning," said Moriarty. "The roadmap sets out 43 actions. Of those, 36 were due to have been completed by now. Of those, there are only eight that appear to have been completed. This is not encouraging."

Auto-enrolment, an ambitious government plan, which would see workers contribute up to 6 per cent of their wages into a pension, with the amount matched by their employers, has also fallen silent as a talking point for change.

"At last year's conference, we looked at the auto-enrolment strawman [a public consultation process]," said Moriarty. "Like many others, we provided input and took part in the public consultations. Since then it has been very quiet.

"We are unsure of the next stages. The Minister said at an event in May that she would be bringing a memo to Cabinet in two weeks, but that still hasn't happened. Likewise, there has been no progress on introducing debt on employer legislation or on simplifying the pensions system."

Moriarty said that pensions were a long-term issue, making it easier for policy-makers to set it to one side if more immediate or short-term matters arise. But he said a pension time bomb is ticking which must be treated as a matter of urgency.

"The scale and urgency of the issue is such that it needs dedicated focus and we therefore believe there should be a Minister for Pensions so it can get that focus," he said. "We are aware that there has been a lot of work done on the roadmap by the various government departments and working groups. It is disappointing that most of this remains unseen and there doesn't seem to be any political direction.

"Having a dedicated minister would strengthen the focus on pensions and give it the importance we believe it deserves, rather than just being a small part of a very big department. We keep talking about the opportunity we have because of our demographics. This is an opportunity we are in danger of squandering unless we start taking action now."

For more information, see iapf.ie