

Pensions

A SPECIAL 4-PAGE REPORT

It's time to put pensions back on the table

No matter how far away you are from retirement, it is always a good time to start a pension or to build up your contributions. And the tax benefits are considerable, writes **Siobhán Maguire**

It wasn't so long ago when the government's ambitious Pensions Roadmap was a talking point for employers and the pension sector. Hopes of tackling Ireland's pensions time bomb prompted proposals which included the introduction of an auto enrolment scheme – an effective way to get all Irish workers saving into a pension. But then a global pandemic took hold and pension reform was paused.

However, with Budget 2021 just over a week away, there have been calls from the sector to put pensions back on the

table with immediate effect. Brokers Ireland, the representative body for insurers and financial brokers, has called for assurances that pensions tax relief for Irish workers will not face cuts in the forthcoming budget.

The organisation, which represents 1,225 broker firms, said pension tax relief could be an easy target to help cope with the financial fallout of Covid-19, but that any such move would have devastating consequences for middle-income workers.

"The temptation will be immense because in a tight

budgetary situation it could be viewed as an easy option because those impacted, primarily middle-income earners, will not feel the hit immediately," said Rachel McGovern, director of financial services at Brokers Ireland.

"It is an unfortunate reality that many workers, arising from the pressures and uncertainty around their jobs, have stalled or cut back on their pension contributions. In addition, we have over 1,100,000 workers in the private sector who are not making any contribution towards a private pension."

McGovern said big questions remain around the auto enrolment pension scheme which was intended to address some of this deficit.

"Due to begin in 2022, with a ten-year build-up to full contributions of 6 per cent, this will still leave most with insufficient savings. It is also highly questionable if this timeline will now be



Eoghan Gavigan,
BestPensionAdvice.ie.

met, given concern around affordability by some employer groups, especially in light of the pandemic," she said.

She said Brokers Ireland would be seeking a "positive commitment" from the government on retaining the current level of pensions tax



Rachel McGovern, director of financial services at Brokers Ireland

relief. "Since pensions are liable for tax, what is often forgotten in the debate about pensions is that the exchequer gets a decent contribution from pensions savings when workers retire."

Currently, pensions tax relief means workers on

€35,300 or more get €40 back from every €100 they contribute towards a pension.

Eoghan Gavigan, a certified financial planner and owner of BestPensionAdvice.ie, said this relief is something taxpayers should be making the most of.

"Pensions represent a great tax planning opportunity and too many taxpayers don't take advantage of this," he said. "In your younger years it might be as simple as maximising your tax relievable contributions, but there are certain times, especially in the lead up to, and at retirement, where excellent opportunities are often missed for lack of proper tax planning."

Gavigan said an essential part in building a pension pot is getting one started as early as you can in your working life.

"How early you start is critical, it's far more important than how much you contribute at the start," he said. "You're unlikely to be pursued

by a financial adviser to start a pension, as the way that advisers are paid in Ireland means that the real money is earned from taking over already accumulated pensions. Nevertheless, you should make a point of commencing your pension as soon as you can.

"If a person starts contributing to a pension at a young age most people find relatively soon that they have capacity to increase their contributions fairly painlessly as it becomes a natural part of your cashflow 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."

Getting the right advice is also important, said Gavigan: "Sound investment advice isn't about guessing which fund will outperform in a given year or timing the next fall in the market. Trying to do either of these two things really is not a good approach.

If you come at pension investing from the point of view of how much return you need to achieve your objectives, what your attitude to risk is, and what your capacity for loss is, you can choose investments which should help you to grow your pension assets with only as much volatility as you can comfortably bear allowing you to sleep soundly, regardless of what is happening in investment markets.

"No adviser can advise on a pension or investment plan properly, without a financial plan. The plan determines the rate of return needed to drive the plan to a successful conclusion. This in turn 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 get from exceeding it is less than the disappointment you will experience if you take too much risk and fall short."

Coronavirus caution sees a close eye being kept on pensions

A new global report on the pensions landscape finds Irish savers are keeping tabs on their pensions even more as the pandemic rumbles on, writes **Siobhán Maguire**

Covid-19 has impacted almost every aspect of people's lives globally, including their attitudes to pensions. A new report from State Street Global Advisors shows almost a third of Irish pension savers – 50 per cent higher than the global average – are keeping a close eye on their retirement funds.

In State Street Global Advisors' latest Global Retirement Reality Report, the pandemic is cited among the top three reasons why confidence in pensions is falling among Irish pension savers.

Ann Prendergast, Head of State Street Global Advisors in Ireland, said Irish respondents were already showing a degree of reaction to the crisis in their retirement savings, with 41 per cent not feeling optimistic about their retirement.

"Given that a significant number of savers have seen an impact to their jobs and the income they receive, it is not surprising that almost 40 per cent of our sample felt they are worse off financially in comparison to before the outbreak," she said.

"We asked our savers how optimistic they are that they will be financially prepared for retirement by the time they plan to stop working and 41 per cent said they were not optimistic. However, when



Ann Prendergast, Head of State Street Global Advisors in Ireland

we asked members the same question in 2018, we found similar results, suggesting that this lack of confidence may not be solely attributable to the Covid-19 pandemic.

"What is interesting when compared with the global findings, Irish pension savers had taken more action than their global equivalents, particularly when it came to checking balances. Among Irish respondents, 28 per cent of pension savers surveyed had checked their pension balance more regularly. This brings us back to the first point where more than 40 per cent of people felt financially impacted by Covid-19 in Ire-

land and it compelled them to do something about it.

"When we looked at the actions of Irish pension savers, we discovered that 22 per cent of Irish savers stopped or reduced their contribution, but they didn't switch out of their pensions, which is important. The equivalent findings in Britain found that only 7 per cent reduced or stopped their savings. One of the key differentiators with the British pension system, is the fact it is more automatic with auto-enrolment in place. This once again raises the need for auto-enrolment in Ireland."

The Irish survey results also found that 38 per cent of the Irish sample felt the pandemic was having a high impact on their retirement confidence levels. In addition to this, four in ten said their current financial situation was worse because of the global virus.

However, other key factors included concerns over job security, having no spare money to save for retirement, and uncertainty about retirement plans.

"The majority of Irish savers felt that the impact that Covid-19 would have on their finances would most likely last a year or less," said Prendergast. "This was something shared among members in other countries surveyed."

Despite the uncertainty



and difficulties posed by the pandemic, savers would not wish to see any disruption to pension contributions from employers with 41 per cent of Irish people surveyed against any such pause.

"Given the difficulties that thousands of businesses in Ireland have faced during the pandemic, we asked savers whether they would be comfortable with their employer stopping contributions temporarily if the employer were struggling to survive in the current climate," said Prendergast.

"Across all the countries surveyed, 50 per cent of members said they would disagree with the idea of their employer stopping contributions. Irish respondents, while not in favour, showed a lower level of disagreement."

One interesting finding from the survey is the in-

creased interest among Irish savers in "responsible investments". This is where retirement savings are invested in companies that have a strong moral compass, whether that is in the protection of their staff, the environment or making a difference. Close to one-third of respondents said they would want their retirement savings invested in companies that treated their workers well during the crisis.

"The pandemic has shone a light on the way that companies are managed with regard to environmental, social and corporate governance [ESG] principles," said Prendergast. "People are purposefully allocating money either to assets that have some ESG consideration, or where they know an invest-

ment manager has a strong ESG focus.

"Covid actually brings out

“The goal should be getting more Irish people saving more money into good default funds”

the social element of ESG, which is one of the parts that hasn't had as much focus in the past because people could better understand the other

two principles. Governance is the bedrock of doing good business and we can easily understand the environmental components, but the 'S' or social aspect was always a little bit ambiguous. This crisis has brought it to the fore because people are considering how companies operate – what are their labour practices, supply chain management or employee health and safety? Most importantly, what is their ability to deal with a crisis in a crisis?"

The Global Retirement Reality Report concludes that a lack of retirement confidence among Irish savers is not solely the result of the global pandemic, but long-standing issues such as having no spare money as well as uncertainty around retirement plans. For

Prendergast, this spells an opportunity for the government to bring auto-enrolment back to the table to help people find momentum with their pension savings.

"This reinforces the need for automatic enrolment to get members saving regular amounts and for clear communications to help navigate uncertainty," she said. "Comparing the behaviour of Irish members and members in other countries surveyed, particularly Britain, also strengthens the case for moving auto-enrolment forward in Ireland. Under such a system, inertia could reduce the likelihood of members reviewing and reducing savings levels on a regular basis. The goal should be getting more Irish people saving more money into good default funds – removing the need for members to take action."

I've got to take responsibility for my pension

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Get the facts on pensions at www.pensionsauthority.ie



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