

Eoghan Gavigan

Use your seed money wisely for pensions or you'll come a-cropper



I recently visited the National Museum of Ireland – Country Life in Castlebar, Co Mayo, which features exhibits about life in rural Ireland between 1850 and 1950.

People of that era didn't have very much wealth – or, as we say in the industry, financial capital.

Because of this, a lack of retail credit and fewer options for food storage, they had to manage their affairs in a way that ensured that production and consumption were largely matched. Not an easy task.

One of the museum exhibits that resonated with me illustrated that if the person responsible for putting food on the table in a household miscalculated during the year, the family could end up enduring what was referred to as “a hungry July” as they had to wait for that year's crop to ripen before it could be harvested.

The parallels with financial planning, which similarly deals with the management of human

and financial capital, are many – so much so that I would need a longer column to expound upon it fully.

In modern Ireland, most people, aided by the ability to save and borrow, have enough to eat all year round. Saving, at a very basic level, shifts consumption to the future while borrowing shifts what would otherwise be future consumption to the present.

In the short term, most people generally make out OK, but the long-term management of financial capital tends to be lacking. The need for effective retirement planning is greater than ever, given the considerable increase in life expectancies over the past century.

Despite the generous tax reliefs on offer, pension penetration is nowhere near the level we need to achieve, so much so that the state is going to take over the management of this aspect of your finances through the introduction of automatic enrolment.

After much delay with progressing the

scheme, which will be known as My Future Fund, Irish Life, Amundi and Blackrock have been selected to manage its assets. The Department of Social Protection has also finally advertised for a chief executive and chairman to run the National Automatic Enrolment Retirement Savings Authority. So things are beginning to move forward.

Due to its almost compulsory nature, the new scheme is certain to increase the number of people who are saving, but delays in getting it off the ground and the way it will be phased in over time mean that it will do very little for older workers.

Let's say that, like me, if you're old enough to remember listening to Dire Straits singing *Money for Nothing* back in the day, then you probably shouldn't rely on automatic enrolment to fund your retirement, as it won't arrive in time.

Automatic enrolment seeks to harness inertia in a positive way. In the same way that insufficient numbers of workers

made an active decision to start a pension, the hope is that they will be less likely to opt out after being automatically enrolled. Of course, many people would say that their failure to start a pension was due to affordability – an issue which has become even more acute in recent years.

Younger people in particular, who are trying to achieve more immediate objectives such as buying their first home, will surely resent this interference in their finances.

It also comes at an inopportune time for employers, many of whom have been hit by inflation, increases in the minimum wage and PRSI and mandatory sick-pay legislation. With so few stakeholders in favour, few tears are being shed over repeated delays in the introduction of the scheme.

There are many potential issues with the current design of automatic enrolment. As I see it, the most significant issues are the apartheid between the scheme and conventional

pensions in terms of the government contribution, which will mean that the optimum scheme for employees will differ according to their income level. This could result in some employers having to run two schemes.

I also feel that automatic enrolment is likely to result in minimal compliance – that is, a larger number of people having a pension, but very few of the additional pension savers having a fund that is going to make a meaningful difference to their retirement, especially if, as expected, opt-out rates are high.

So what would I advise? As life expectancies continue to increase, retirement is fast becoming a bigger part of our lives. Rather than waiting to be forced into a suboptimal arrangement, you need to take charge of your future.

Starting now might help prevent a hungry winter in later life.

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