



Future proof: mind *pension* *plan* gap before time runs out



Workers should begin saving now, experts tell
Sinead Ryan, as state funds won't stretch to
meet the needs of ageing population by 2050

Normally the mention of pensions is enough to send people looking for a pair of slippers and a cup of cocoa, but in fact, pension planning is far more relevant in your 30s and 40s than when you're about to retire.

The current older generation is far more relevant in your 30s and 40s than when you're about to retire. The current older generation is absolutely the best catered for in the EU. That's not saying the state pension of €233 a week is going to set the heart ablaze, but the truth is that for anyone under 40, even that will simply not be affordable when their time comes. Pensions are paid out of general taxation and at the moment there are five workers for every pensioner. By 2050 there will be just 2:1. That is unsustainable according to experts.

Irish people are living longer, healthier lives. That's great news of course, and we can expect to live well into our 80s. Indeed, those born at the turn of this century are likely to see the next one in too.

But the upshot is that we have made little or no effort to plan financially for those people — traditional pensions were only meant to pay out for 10 to 15 years, not 25 to 30.

"Half of females currently aged 65 years have a 50pc chance of living beyond 91, and as many as 25pc beyond 97. For men, the figures are a little lower. However, financial planning for retirement is not keeping pace with these longer life

expectancies," says David Harney, chief executive at Irish Life Group.

He adds: "A target of one third of salary, plus the state pension, is recommended for a comfortable retirement but 90pc of people in defined contribution schemes will see a salary replacement of just 18pc plus the state pension unless they save more, and start pensions earlier."

The average age at which people first purchase a pension is 44, almost 10 years later than it was in 2000.

Work has changed too.

Instead of spending 40 years in one place, people may have 10 or more jobs across the world. It makes retirement planning very challenging.

Willie O'Leary of Clear Financial Planning says: "Understandably when you're young, retirement seems a world away and not something to concern yourself with just yet, but that is absolutely the wrong approach.

"There simply won't be enough in the state reserves to provide people with a sufficient pension."

Even where provision is made, the old 'defined benefit' (DB) pension is a thing of the past. There are 482 such schemes in existence, down from 1,232 a decade ago.

Traditionally perceived as a guaranteed payout at retirement, over half are insolvent and struggling with poor investment conditions. Says Brendan Kennedy, head

of the Pensions Authority, which collates funding figures from schemes: "All DB



schemes are obliged to report to us annually, showing if the scheme has fallen into deficit and they are obliged to file a proposal to remedy it."

It cannot, however, compel them to follow it which is why schemes get wound up, or benefits get cut.

Those already retired are ring-fenced; it is those nearest retirement who suffer the most.

"When the investment markets crashed in 2008, many schemes had lower assets than they had assumed and had to either put more money in or cut the pensions they were promising. Asset values have recovered but low interest rates mean the cost of providing the pensions has risen significantly," says Jerry Moriarty of the Irish Association of Pension Funds. It has resulted in countrywide closures and cuts, leaving many employees bewildered.

"The simple advice is 'start early', ideally with your very first pay cheque. If you never had it, you'll never miss it," Moriarty adds.

Finding out what you have is the first step.

The Pensions Authority has a great pension calculator on its site (pensionsauthority.ie) to get the ball rolling. Once you put in what you have, and what you expect, it will calculate the 'gap', which at least lets you know if you should be doing something.