What to do if your pension falls short

The experts share some advice for those who realise too late that their pension may be **too small**

Having a pension is all about providing enough money to live off for your retirement years. But what happens if you don't provide enough, and you realise your pension contributions won't deliver the lifestyle you want at retirement?

According to the Matrix Recruitment 2020 pension survey, of the 52pc of respondents who said they contributed to a pension, 41pc said they were not confident it would be enough to live off in retirement based on their current contributions. While 31pc responded that they didn't know if their pension would be enough for retirement at all.

But what is a typical, satisfactory retirement income?

"For most, retiring on 50pc of their final salary is a good rule of thumb," says David Quinn, Managing Director, Investwise Financial Planning (investwise.ie). "The Revenue Commissioners have actually set contribution limits that are a good guide to achieving this. They increase from 15pc of salary when under 30yrs of age, up to 40pc from 60 onwards."


David Quinn

David says there are other sources of income that should also be taken into account when adding up how much you have in your retirement pot. The State Pension is one of those. It comes in two different formats, contributory or non-contributory. The State Pension (Contributory)'s weekly payment is €248.30 (increasing by €5 from January 2022 to €253.30) , and the Non-Contributory State Pension has a full payment of €237 a week. There is also other income such as rent from an investment property, or income from investments which should be taken into account when looking at how much you have for retirement.

The Pensions Authority (pensionsauthority.ie) provides helpful information for understanding how much you have in your pension and how much you need to save. They also have a pension calculator. This calculator asks for your age, your gross salary, intended retirement age, and the pension amount you hope to have. It will then allow you to estimate the contributions you should be paying to your pension pot to provide your target pension amount.

"With so many variables such as inflation, investment growth, charges, timing and so on, I would always recommend individuals engage with a financial planner to help put together a more accurate bespoke projection, tailored to the individual."

WHY DON'T YOU HAVE ENOUGH IN YOUR PENSION?

But what are some of the reasons a pension could fall short of the desired amount? For many, they might not even realise they don't have enough until a few years before retirement as their investments simply didn't work out. Or, their savings weren't invested in a pension plan, so they didn't receive the benefits of a pension. There may have been gaps in employment over the years, or they didn't receive an inheritance they were counting on. There are many things you might not have factored into your retirement planning.

David says, "There are many reasons for a pension fund to fall short of requirements. One of the key reasons is poor investment portfolio construction. A well-constructed and diverse portfolio of stocks has performed well historically, survived, and recovered from all previous recessions and corrections. But we have all heard horror stories where individuals invested in individual stocks, leveraged property, and lost some, or all of their pension.

"Another cause of retirement shortfall is reduced earnings. This can be due to illness, injury, or lack of employment in certain sectors. If household income is reduced, then the ability to save for retirement will also be reduced. I encourage clients to assess the risk to their

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'human capital', which is their future potential earnings between now and retirement. Some of that can be protected through income protection policies or personal savings."

Another reason for a shortfall is not starting a pension early enough, or simply not paying enough contributions into the fund throughout the years. But David says it's never too late to try to rejuvenate your retirement income. The tax relief alone is an incentive for people to have a dedicated pension fund, even if it is not going to be sufficient to cover retirement needs.

James Waldron, Head of Retirement Solutions at Irish Life (irishlife.ie), says, "It's probably not surprising that the further away people are from retirement, the less they think about planning and saving for their own pensions. So, it's great that the current media focus has started to get a lot more people interested. The most common questions we get at Irish Life about pensions come down to understanding the benefits of starting to save into a pension, and the flexibility and options as you come to retire.

"There are several misconceptions around pensions that can get in the way of people taking action to help achieve better retirement outcomes. One example is the view that you only need to start a pension when you are in your 30s. People in their 20s often feel they are too young to have to think about pensions. However, while retirement is indeed far away for younger people, there are many reasons why getting started saving, no matter how small the amount, really pays off."

James says starting a pension as early as possible gives more time for the fund to build up and you also benefit from the compounding of investment returns. Even just a few years can make a difference.

"For example, starting a pension at 30 instead of 35 could lead to a retirement fund that is over 20pc higher. In addition, workers that delay joining their company's pension scheme can miss out on pension contributions from their employers. So, start saving as early as possible. You'll definitely thank yourself for it."

CATCHING UP ON YOUR SAVINGS

Readiness to retire will always depend on your individual needs and circumstances. But if you find you don't have enough for your desired retirement fund, there are ways you can catch up on your savings.

David Quinn of Investwise says he would encourage everyone to try to plan for an active life post 'retirement'.

"These days, it is very unusual for anyone to retire at age 60 and just hit the golf course. In our experience, a successful retirement includes a balance between volunteering, family time, some work and travel. Directorships, part-time work, and consultancy work can all give a supplementary income in retirement without a large time commitment.

"We like to see our retirees enjoy the active early part of the retirement journey, while staying engaged with the community. This is essential to maintaining a sharp mind and a sense of purpose. I believe it was Mitch Anthony who coined the phrase, 'You need enough money to sleep at night, and enough purpose to get up in the morning'."

There are also some benefits near retirement that people can avail of.

"A generous employer may be willing to make additional contributions into a company pension scheme close to retirement to cover some shortfalls. This is an extremely tax-efficient way to be rewarded for long service. The personal contribution limits are also higher close to retirement, and with such a short time commitment, it can make sense for individuals to make the maximum contribution, knowing they will get a portion of that contribution back at retirement."

But before you decide to start working again, or trying to earn extra money elsewhere, James Waldron of Irish Life advises, "We would strongly encourage everybody approaching retirement to meet with a Financial Broker or Advisor, ideally up to a year beforehand. This is an opportunity to discuss your specific plans, the options available to you, and the decisions that need to be made. An advisor will be able to guide you on how to optimise the benefits from your pension. Working with an expert will give you the comfort in knowing that you are not missing out on any actions that would help secure a better retirement.


James Waldron

"Interestingly, at Irish Life we carried out research in 2020 on the impact of the pandemic on people's intentions to retire. It was encouraging that most people still intended to retire on the date they had planned."

ISSUES TO BE AWARE OF

With new changes in the last year coming into effect for occupational pension schemes, you may now have better protection in your pension through enhanced governance, risk management and greater communications. The IORP II Directive is an EU Directive affecting occupational pension schemes that was transposed into Irish law earlier this year. It is the biggest change in the occupational pensions regulatory landscape in Ireland for a generation. The Directive sets minimum standards for the management and supervision of pension schemes.

"The Authority recognises that for both the market and the Authority, these changes will take time," says Brendan Kennedy, The Pensions Regulator for the Pensions Authority. "In May, we set out where we would focus our supervision efforts and by when we expect to see full compliance.

"Our long-term goal is this: that we can take for granted trustees' compliance with all their obligations, and our engagement with trustees will be a dialogue about how they intend to

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achieve the best outcomes for their members. Our short-term goal is to get to that position as quickly as possible."

But if you do find yourself with issues close to retirement and a shortfall, there are issues to be aware of when trying to make it up. By making additional contributions, working part-time in retirement, or investing, it is very important that you know what you are paying in charges, or what fund you are invested in.

David Quinn says this is a simple question to ask your pension advisor or consultant. "Historically, the best performing investments have been low-cost index funds," says David. "They start from as low as 0.15pc for some large company group schemes, but I have seen clients come to us paying over 2pc for poorly managed and complex investment options. Costs really matter, so try to reduce them where possible. Then take the time to understand exactly what you are invested in, and how it has been performing relative to a simple index."

But there are also tax issues you need to be aware of. When coming close to retirement age, your tax bill will thankfully shrink, and a lower tax liability can help cushion the impact of falling income. As of the time going to print, once you turn 66, no PRSI applies, which means savings on income, rents, dividends, or investments.

"40pc of every contribution is refunded for top-rate taxpayers, and all growth is tax-free while invested within the pension. When this is factored in, along with a tax-free lump sum at retirement, pension accounts are the most tax-efficient form of savings / investment in Ireland anyway. Providing an income in retirement is a bonus!

"But for PAYE employees, they must stick to Revenue limits, as tax relief will not be available for any contributions above these limits. For company directors, it is important to go through a process to assess the optimum mix of salary and pensions as the company contribution limits are complicated.

"This can have personal tax implications, but also implications for Corporation Tax. We see some company directors falling foul of salary sacrifice rules, which are strictly enforced by Revenue. Individuals are not permitted to reduce or waive salary in lieu of a company pension contribution."

So, when investing to catch up on pension savings, or trying to catch up in some quick-fire way, make sure to speak to a reputable financial planner, bank, or life insurance provider.

James Waldron adds, "At Irish Life, we provide the supports and guidance to help people take care of their financial and health wellbeing. We know that retirement is a very individual experience, and we would encourage everybody to get financial advice to help plan their best retirement. There are significant opportunities in the years leading up to retirement to build up pension savings to help provide for a more comfortable retirement. So, while it is always advisable to start saving as early as possible, it is never too late to make a positive difference."