Take control of your financial future

It’s no secret that there is a general lack of enthusiasm when it comes to pensions. As a financial advisor, I can’t get enough of the excitement that goes along with investing for retirement, but for most people, the word “pension” just conjures up thoughts of confusing financial jargon and boring numbers. One of the biggest challenges in getting people engaged in their retirement planning, is a lack of understanding about how they work. Where does that money actually go every month when it disappears out of their bank account or pay packet?

What if I told you that shopping for a dress or pair of shoes could be helping your pension plan? Say you spent €250 on a dress in Reiss. You might wonder how such a purchase could help your pension fund. Well, the building Reiss is situated in, on St Stephen’s Green in Dublin, is one of the buildings owned by the Friends First Irish Property Fund. So, too, are the buildings housing Oasis and Coast next door; The Disney Store on Grafton Street; and Alias Tom on Duke Street.

With returns on this fund being generated through capital growth and rental income yields, buying that dress from Reiss is surely contributing to the profitability and success of this store, increasing its ability to pay its rent and its desire to remain a tenant in that building, and as a result, adding value to a Friends First Irish Property Fund.

What else in your daily life could be having an impact on your pension fund without you realising? If your pension is invested in the Irish Life Indexed Global Equity Fund, you own a little piece of Ryanair. Ryanair is one of the fund’s top ten holdings, so believe it or not, all of those flights you’ve taken are actually benefitting you by increasing the value of your pension fund.

If you’re more concerned about environmental and social responsibility, there are good “ethical” funds out there too. The Dolmen Green Effects Fund invests in 30 ethically-screened stocks from around the world and promises to invest only in stocks that are ethical, ecological and socially sustainable.

Now, you might be thinking, “I simply cannot afford to contribute to a pension – there’s no spare cash in the budget.” Times are tough, there’s no question about that. However, your retirement only gets closer the more you delay starting a pension, and this affects the amount of money waiting for you when that time comes.

So, do you really think you can’t afford it? Let’s consider a few things ... taking the example of a female, aged 28, earning €40,000 a year, paying 5% of her salary (€200 per month) into a pension. This would initially cost her €160 per month when taking account of the tax relief she will receive on the contributions*. Assuming her pension fund produces a return of 6% per annum, she could reasonably expect this to build up a fund of around €275,860** by age of 65. It’s important to note that this fund of €275,860** will actually “cost” her €76,800 (taking into account total contributions and tax relief*).

Remember, there are still generous tax reliefs available when it comes to pensions, based on the marginal rate of tax you pay. If you are a 40% income tax payer, each €100 you pay into your pension will only cost you €60. If you are a 20% income tax payer, each €100 you pay into your pension will cost you €80 when you take into account tax relief. Also, your money will grow tax-free, unlike with a savings or deposit account.

The value of getting started early at a smaller amount, rather than starting later and trying to play catch-up by paying in a bigger amount, is huge. For example, a female, age 25, 40 years to retirement, paying in €200 per month can expect to build up a fund of €275,860**; whereas a female, age 45, 20 years to retirement, paying in double the amount at €400 per month can expect to build up a fund of €153,271**, even though they will have paid in the same value of contributions.

So even though the person playing catch-up with half the amount of time to save for her retirement doubled her contributions to try to make up for this, she still had less than half the fund at retirement versus the person who started earlier with smaller amounts. This is because of “compounding”, which is basically earning interest on top of interest, or in this case, growth on top of growth. Einstein discovered “compounding” and apparently described it as the “greatest mathematical discovery of all time”.

Take control of your future:

- **Getting Started:** We can guide you through the process and find the most suitable solution for you.
- **Already Started:** Time to take stock, we can review your current position and ensure you are on track.
- **Multiple Retirement Income Streams:** We can create a big picture view and help you to plan for your retirement.
- **Career Exit Planning:** What age can you afford to retire? How much money will you need? We can help you review your options.
- **Already Retired:** Will your money last the duration of your retirement? We can provide more clarity around this.

It's certainly relevant when it comes to saving for retirement, and highlights the benefits of starting early, even if it's only with a small amount. With a pension, it's about getting started, and getting into the habit of saving regularly. You can always increase and decrease your contributions over time depending on your life stages (having kids, paying a mortgage, saving for education).

An important fact to remember is that the bad times can also be good for your pension. Yes, it pays to safeguard any fund that you have built up, but in times of turbulence you should, more than ever, continue to make contributions, as this is where you will see your most substantial growth come from. This is also why it's advisable to pay in regular monthly contributions, rather than a large contribution once a year, as you are more likely to benefit from the price fluctuations. On the subject of 2008 and the large losses suffered by many, at this stage most losses are recouped and people's funds have recovered back to pre-crash levels. The important thing to remember is that a pension is a long-term investment and short-term fluctuations are to be expected. You should ensure that you are only investing in funds that suit your own appetite for risk. Some people are very cautious, some like to take a higher risk; this is where a good pension advisor will be able to help steer you in the right direction.

So, now that you know what it costs to live three decades into the future, are you thinking about that pension yet? If so,talk to a retirement planning advisor, who can advise and help you understand where your money goes, what it's invested in, and most importantly, help you feel more engaged and enthusiastic about your retirement planning.

*Tax relief assumed to be at a marginal rate of 20% for the whole duration of the pension

**We've assumed that your investments will grow at 6% per annum and that your annual charges will be 1%.

The effects of inflation haven't been included in these figures Inflation affects your purchasing power in the future.

Take control of your future:

To learn more about how we can create custom solutions for you, please contact:

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Take control of your financial future:

Looking ahead:

79% 67%

I feel I'm in control of my financial future

Approach to savings:

33% 27%

I have a long-term financial plan

(Aon Financial Mindset Study 2015)

Starting early makes a difference:

Scenario 1:

40 years to retirement

Paying in €200 per month

Age 25

Expected fund:
€275,860**

Scenario 2:

20 years to retirement

Paying in €400 per month

Age 45

Expected fund:
€153,271**

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