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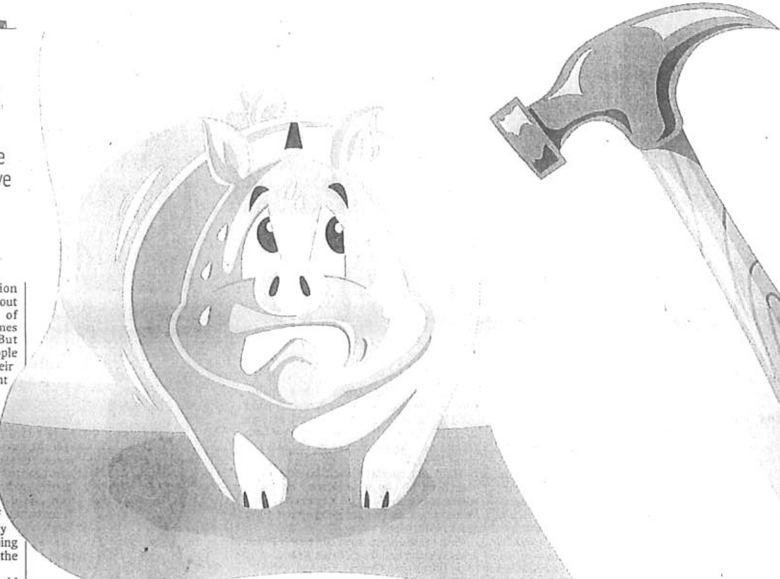

Time to crack open your pension?

THE STATE pension slush fund is running out and 80 per cent of defined benefit schemes are in default. But despite such uncertainty, people are nonetheless turning their backs on saving for retirement in their droves.

And now calls are growing for the Government to allow people to access what money they have saved in their pension funds early. Mad? Or a necessary solution to a difficult problem?

We all know the advantages of saving for that far-off day in the future, especially given the tax incentives of doing so – but it can be hard to find the money to do so.

"In an ideal world we all should be putting in the maximum into our pensions, but it is a balancing act," says financial adviser Simon Shirley, pointing to the fact that people's budgets are constrained at present.

Indeed according to a recent survey from Friends First, while two-thirds of Irish people have a pension – 20 per cent of those have reduced or stopped contributing to it.

And among the self-employed and small business owners, that rate is probably a lot higher.

"Our experience this year is that very few contributions are being made. People don't have enough money to pay their tax bill, let alone make a pension contribution," says financial adviser Brendan Allen.

As Shirley notes: "You have to write the cheque – and you might also be writing a cheque to the Revenue."

With a property tax on the way, a water charge and possible hikes in the tax burden, people simply don't have the spare cash to put into a pension.

"Financial pressures on Irish families continue to hamper people's ability to save and meet their monthly commitments," says Simon Hoffman, business development director of Friends First, adding that "as a result, more and more people will become reliant on the State pension for their retirement income".

But we all know this is running out – and fast. On top of this, support is now growing for the Government to legislate to allow people withdraw some of the money they have locked away in their pension, which will deplete these funds for retirement even faster.

For many small business owners however, who may have invested heavily in their pension in the boom years, the illiquidity of this investment is causing them some serious problems.

Allen cites the example of a client, who employs 56 people but his company has run out of money. He has €500,000 in a pension fund, but can't use this money to help keep his company viable.

"He's prepared to forego whatever tax relief he benefited from to use that money to help save his company," says Allen, adding that he would like to see something introduced that is similar to the system in the US, whereby you can temporarily borrow from your pension fund. "That is certainly something that really needs to be looked at here," he says.

However, there are obvious reasons to oppose such a change in legislation – if you allow people to use this money today, will they sacrifice their future financial stability? And will it change people's perception to pensions if they believe that they can access it if they want to?

On the other hand, such flexibility might encourage younger savers into pensions. For many in the current environment, locking your money away for up to 40 years might seem mad when you don't know how secure your job is.

Irish Life recently added its voice to support efforts led by the main broker representative bodies, Irish Brokers Association and Professional Brokers Association (PIBA), to allow customers limited early access to some of their pension savings.

Its chief executive, Gerry Hassett said that early access to some pension savings would make retirement planning more attractive to younger workers in particular.

For its part, business and employers group IBEC is pointing to the success of similar schemes in countries such as Denmark and Iceland which have allowed people access to their funds.

As a "once-off crisis response" measure, IBEC would like to see individuals able to access additional voluntary contribution (AVC) schemes and personal pensions during a three-year window. Any funds withdrawn would be subject to tax at the standard rate, while it also proposes a cap of 25 per cent on the amount of the draw-down that could be used for debt repayment.

However, while such an approach would offer relief to business owners and the self-employed, as well as those who have built up AVCs, for your average PAYE worker it won't be of much use. According to the business association, defined benefit and defined contribution occupational schemes shouldn't be included in the scheme, as to do so would "weaken future pension provision and exacerbate existing adequacy issues".

This means that cash-strapped employees, who may have over-extended themselves through dubious property investments, shouldn't expect any relief should the Government – and it remains unlikely that it will – take on board the proposals.

But while there might be some merit in making pensions more liquid for a targeted audience, the decline in pension contributions due to cash-flow problems does mask a more systemic problem.

Pension products have largely failed investors. They have overcharged and under-delivered, and until such time as savers can find themselves trusting the companies behind them, contributions – and therefore adequate savings for retirement – are unlikely to increase to the level required.