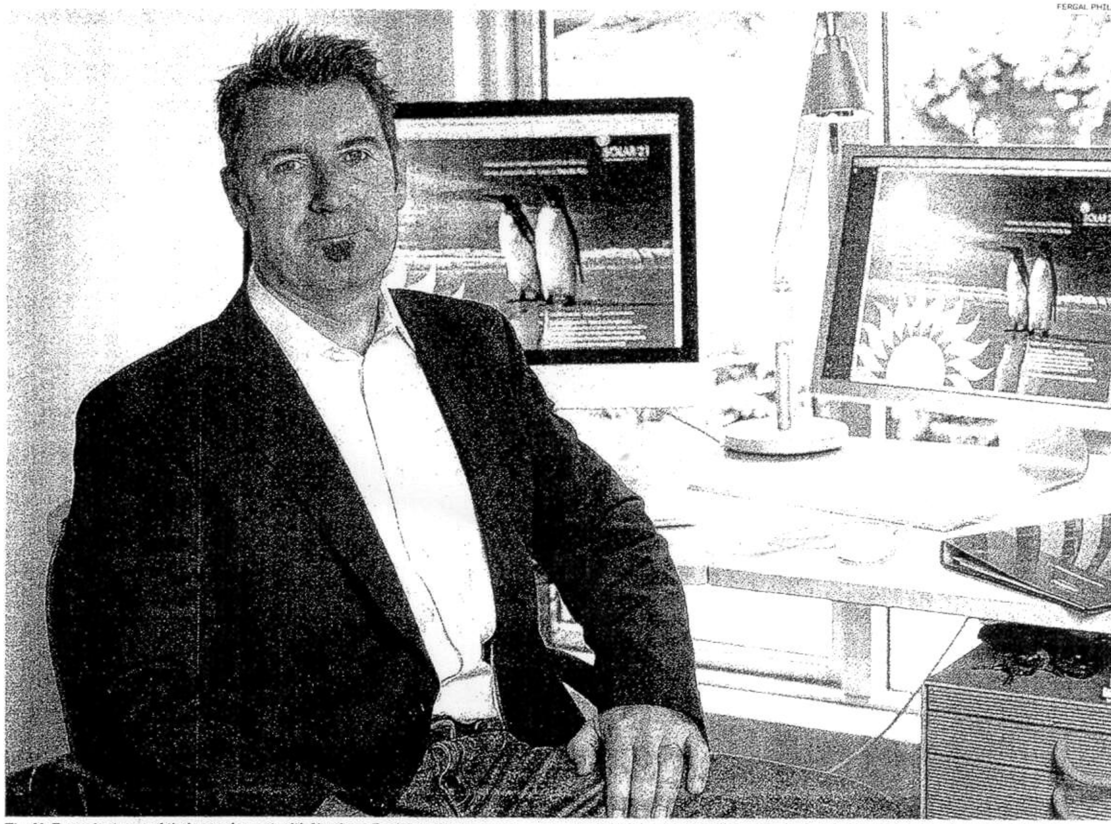
How to avoid old-age poverty

Saving for your retirement can be littered with pitfalls — but there are simple ways to dodge them, writes **Linda Daly**

FERGAL PHILLIP



The McEvoys lost part of their pension pot with Northern Rock but aim to recover some of their money by investing in Solar 21, an Irish-based sustainable energy fund

The Irish Life ads that are airing at the moment take a humorous view of how some people expect to fund their retirement: relying on their children's future successes, an inheritance from the in-laws, and any spare cash they may have under the mattress.

This gallows humour includes a hint of truth. Too many of us are relying on a windfall to help guide us comfortably into our so-called "leisure years".

The more realistic among us have been contributing into pension funds, often through automatic employment-scheme deductions. Being part of a well-funded and well-run occupational pension scheme is one of the best decisions you can make.

When it comes to retirement planning and funding, mistakes, misdirection and misunderstanding are all too commonplace. Overall pension funding has been reduced as a result of the recession, costs and charges are still too high and lack transparency, and apart from dipping into your fund to support temporary job initiatives, the government is leaving us uncertain as to the future of funding rules.

The best advice is to take matters into your own hands and, more particularly, to avoid the pitfalls that result from poor pension planning.

Here we list our top 10 pension mistakes.

FAILING TO START

The Organisation for Economic Co-operation and Development recently reported life expectancy at birth reached 80 years in 2010, a gain of more than 10 years since 1960. Women live almost six years longer than men, averaging 83 years compared with 77 years for men in 2010, so you can expect to enjoy at least 15 years in retirement.

Aidan McLoughlin, managing director of the Independent Trustee Company, said failing to start your pension fund early enough is the biggest mistake.

"Simply put, the longer you spend saving, the greater your pension fund will be at retirement," he said.

FREEZING WITH FEAR

A study by Weafer and Associates in June found a quarter of those who did not have pensions were afraid of losing some or all of their money.

Marc Westlake, a financial planner with Goldcore Wealth Management, said reckless conservatism has become an omnipresent feature of the pensions industry in recent years.

"Many people are looking at the past couple of years and the

the Irish property market," he said. "They are putting too much emphasis on what has happened recently, which is out of context."

It is more important to concentrate on the signals that investment markets are giving now and not to be tempted to base your decision-making on what happened in the past.

A SHORT-TERM VIEW

Jerry Moriarty, chief executive and director of policy at the Irish Association of Pension Funds (IAPF), said people tend to react to market movements when it is too late.

"They sit on cash and deposit-type funds with the intention of getting back into the market when it recovers," he said. "That doesn't make sense because what you've really done is crystallise your loss."

McLoughlin of the Independent Trustee Company warned that people with 10 years or more to go before they reach pensionable age should not be overly concerned with market volatility.

"Your investment strategy should be long term," he said. "If you exit the market when stocks fall, by the time you get back into the market you've lost the upside because nobody can predict when the market will rise again."

NOT MANAGING RISK

As you age, your investment profile should alter.

A mistake people often make is mismatching the relationship between their stage in the lifecycle and what they should be doing with their money, said Westlake of Goldcore.

"You should become more conservative as you get older, but somebody in their twenties or thirties can afford to take risks," he said.

Diversifying your pension can help manage that risk.

"Diversification is the only thing that can protect you from uncertainty," said Westlake, pointing out that there is a difference between risk and uncertainty. "It's important that you distinguish those two things. Uncertainty affects us in different ways - it makes us uncomfortable."

IGNORING CHARGES

Fionán O'Sullivan, director of corporate pensions at IFG, said failing to understand your pension charges could be a mistake. Pension holders should examine their statements to see where their money is being invested, he said.

"Is all of your money actually being invested for pension purposes? A lot of historic schemes were set up with death-in-service cover," he said.

"Your contributions will also

sions and administrative charges, which can have a huge impact on your returns.

"Ensure that you have clarity of all of the costs associated with your pensions."

GOING IT ALONE

If you are employed then your company's pension scheme should be your first option, according to Maureen Shelley, director at Mount Street Group financial advisers.

"Some people prefer to do their own thing, but usually a company scheme will have lower administrative charges, and your employer may even pay those charges," she said.

"There might also be ancillary benefits such as life assurance and health insurance. Pensions are very portable now, so you can often take them with you if you leave."

MISGUIDED EXPECTATIONS

A recent survey by the IAPF found that workers are consistently underestimating their pension savings level.

"There's a disconnect between how much people feel

comfortable life in retirement and what action they have to take in relation to retirement provision to achieve that goal," said Moriarty.

The survey found that 35% of adults aged under 34 believed they could survive on 50% or less of their working income when they reached retirement. Only 17% at retirement age held that view.

O'Sullivan of IFG said projections and forecasting tools can help give you an outline of what you should expect, but pension holders should be wary of them.

"Many tools just take straight-line projections, so you should make projections based on whether you will lower or raise your contributions," he said.

FAILING TO REVIEW

The Pensions Board recommends that you keep an up-to-date pensions file with annual reports and pension information, and that you read the information inside it.

David Malone, head of information at the board, said: "You should ask that the pension information be explained to

asking until you are happy and understand the information you're being given."

While it is important that employees take out pensions as soon as possible, they should also look at adjusting the amount they save as their income increases.

Likewise, they should make provision for dependants, whether they are their partners or children.

DISMISSING TAX RELIEF

Many people don't fully grasp the tax relief they can get on their contributions. The government allows tax relief on pension contributions at your highest rate of tax.

"There is a paring back of tax relief, and we'll appreciate it only when it's gone," said Shelley of Mount Street. "Try to get the benefit out of tax relief while it is still here.

Malone said: "It is important that you understand the tax relief benefits and that you make sure that you are receiving your full entitlement, given the tax band and salary you're on."

The pensions calculator at pensionsboard.ie can help you

NOT KNOWING YOUR RIGHTS

Knowing your rights can help safeguard against misappropriation of your pension fund.

Paul Kenny, the pensions ombudsman, said all pension holders -- particularly those on employer schemes -- should ensure they get a benefit statement each year. You are entitled to this by law.

"Check it against what you should have been paid. Your final payslip for the year should give a cumulative deduction," he said. "If you read your pension scheme booklet, you will discover what your employer should have paid."

Kenny recommends putting all requests in writing.

Finally, not using the services of an independent, experienced and fee-based adviser when you set up a pension fund, and when you have periodic reviews, is probably one of the most common mistakes.

Most people making contributions to their pensions are still relying on product salesmen, who are in receipt of not-very transparent but generous commissions from the

Sustaining their savings

WHEN husband and wife John and Dara McEvoy started their pension 20 years ago, they took a relaxed approach, allowing the provider to manage the fund while they glanced at annual statements.

For 15 years, they made contributions to the same monthly fund investment but five years ago discovered they could make independent choices.

At that time, the couple, who had benefited from the rising property wave, took a lump sum out of their pension to experiment with a leveraged purchase of a property in England.

"It seemed like a very good idea, as it was a big retail store in the UK but the loan was taken on by Northern Rock, and the project went belly up," said John McEvoy.

The entire investment -- which comprised 20% of the couple's pension fund — was lost.

McEvoy said the initial temptation was to turn their remaining pension into cash but they decided to take the long-term view.

"We run our own graphic design company [Design Image in Stepaside, Co Dublin], so it's important we cater for our future and get a return on investments."

The couple divided their pension in two, placing one half in equity-based investments and taking a more experimental approach with the other. It is invested in Solar 21, an Irish-based sustainable energy fund.

McEvoy sees it as a relatively stable choice, with the promise of a return of 10%.

"The loan is taken on by a German state bank, and the returns are based on agreement with the Italian government, as the projects are based in Italy."

He will look to lessen risk further in future years as their retirement approaches, he said.