# A Smarter Approach to Retirement Savings

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## Introduction

In recent years, the pensions industry has become distracted by never-ending discussions about pension tax relief. The recent budget brought welcome relief, with no change to the tax relief available on personal contributions. The Minister for Finance also acknowledged that the Pensions sector will make a total contribution of €750 million in 2012, as a result of the pensions levy and the other recent changes to pension tax reliefs. The Minister also commented that the pension tax relief system will have to be reformed to make it more equitable. It is likely that the Government will move towards a regime of providing incentives for pension planning up to a maximum pension of €60,000 per annum. In general, it is encouraging that the Government is committed to maintaining appropriate incentives for private pension provision. Now that we have some more certainty about the future of private pensions, we should take this opportunity to develop a smarter approach to retirement planning for our clients.

## Importance of private pension provision will increase

Whether or not there are incentives for pension planning, there is a clear need for us all to make private provision to provide a sufficient income in retirement. Over the next 20 years, the number of pensioners is projected to double. In these circumstances, it will be very difficult for the state to maintain the state pension at current levels, in real terms. Indeed, there is already speculation that some element of means testing could be introduced on the state pension in the future. Therefore, even to meet our basic needs, we will all need to have some form of private pension planning in place. And, for those who are aiming for a retirement with some level of extra comfort, the need for private planning will be much greater.

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## Developing a smart retirement plan with your client

Too often, we have focused on pension planning primarily as a means of reducing tax bills. I believe that we need to re-focus on the real purpose of retirement planning. By developing a retirement plan with your client, you can give them a clear sense of what their retirement goal is, and how best to go about achieving that goal. A smart retirement plan should follow the following key steps:

### 1 Setting a target

Firstly, we need to identify what income a client will need in retirement. This will depend on a range of factors, such as marital status, expected living costs after retirement (will mortgages be paid off?), and the client's desired lifestyle in retirement. It will require a detailed discussion with the client, and is key to having an appropriate retirement plan in place.

### 2 An optimised retirement plan

With a clear target in mind, we can then examine how the target can be achieved. To do so, we need to take account of any existing retirement funds which the client has in place, and any existing savings they are making towards their retirement. We can then calculate how much the client needs to save to reach their intended target.

To optimise the retirement plan, we need to look at whether the client should save via a pensions or savings vehicle, or a mixture of these. In the past, it was a straightforward matter of advising clients to put as much money into their pension as was possible according to the relevant limits. However, the increasing complexity of the pension regime, with maximum fund thresholds, removal of PRSI relief, and reduced tax free amounts at retirement, makes this decision more difficult, and calculation tools should be used to optimise the mix for each client.

### 3 Setting an appropriate investment strategy

We now have a clear target in mind, and we have advised the client on the most tax efficient means of reaching that target. The next step is to understand the client's risk profile and to work with them to establish an investment profile which fits with the client's investment personality. Understanding a client's attitude to risk is a complex task, and one which requires the considerable skill of an experienced financial advisor. Simple questionnaires can be a useful starting point, but getting a complete picture of a client's investment personality will generally require some in depth discussion.

### 4 Staying on target

We should provide the client with a year-by-year retirement plan which gives a quick and easy way of checking that they are still on target. It will also give them goals to reach at each point on their journey to retirement. In addition, a smart retirement plan must involve an annual review process.

Together with the client, we can look at the client's existing funds, their current salary, and any change to their circumstances; and then assess how much they need to save in the coming year to remain on target.

If the client can't afford to make a large enough contribution this year, we can highlight that they will need to save more in future years to reach their target. We can also use the annual review to discuss any adjustments required to the client's investment strategy and to take account of any change in their personal circumstances which might require a change to their target.

## Looking forward

Like the rest of the economy, the pension industry has suffered in recent years, with declining contributions and fewer people saving for retirement. As the economy begins to recover, there is an opportunity to get people thinking about retirement planning in a more positive way. By providing clients with a smart retirement plan, we can move from pensions being something which no-one wants to talk about to a situation where clients see retirement planning as their personal responsibility.