

# Planning for retirement is twice as expensive as you might think

JIM AUGHNEY finds the outlook for those planning for their retirement years has worsened in recent years and shows no immediate sign of improving

**I**T is now twice as expensive today to retire as it was 24 years ago – even before the impact of inflation is taken into account.

This is primarily because of the massive increase in life expectancy and the persistently low levels of interest rates.

According to figures recently released by the Central Statistics Office, life expectancy for the average male on retiring was 15.4 years in 2002, compared with 13.4 years in 1990 and 12.6 years in 1980.

That's almost three years longer for the average retired male in 22 years.

The increase in expectancy is even starker for women. In 1980, the average woman could expect to live for another 15.7 years.

In 2002, that had increased to 18.7 years, or exactly three years longer.

Improved medical procedures and greater health awareness are the main factors in the trend.

And while it's nice to know that those retiring this year have a good chance of having a "ripe old age", there is no certainty that they will have the funds to enjoy the extended expectancy.

Back in 1980, the equivalent of €278,500 (or £219,291) was required to purchase an annuity to give an income of €50,000 per annum.

To buy the same pension in 1990 required €368,000. According to Meritas Financial Advisers, you would need a staggering €645,000

to buy a €50,000-a-year pension today. Interest rates have fallen from 15.7pc in 1980 to 4.4pc today, which means that more money needs to be invested in one's pension fund to generate the same income in retirement.

What this will mean for those approaching pension age is either greater investment in the pension fund and/or working longer or taking part-time work to generate another source of income in retirement.

Meanwhile, investors who are depending on increasing

property values to provide for their retirement years could be in for severe disappointment, actuarial consultant Martin Haugh has warned.

He argues that only the very wealthy can rely on property to provide an income in retirement, while the Irish tax regime also discriminates against property for pension purposes.

Using your own home to provide a fund for retirement has its limitations, he warned, as the full value of the home cannot be released

as a new house will have to be purchased.

"Use of so-called 'equity release' products is also restricted as they place limits on the amount of equity which can be released at each age," he warned.

In recent years, many people have acquired 'buy-to-let' properties with the intention of providing for retirement and they are now facing falling rental incomes.

"Many buy-to-let properties are purchased using interest-only mortgages,

which means that the full loan must be repaid when the house is sold," Mr Haugh said.

When rental yields fall, the investor must make up the shortfall – effectively funding their own retirement without the tax reliefs that pension schemes offer.

A fund of €600,000 is required to provide a modest income of €20,000 a year from age 60.

"The tax advantages of pension schemes allow the acceleration of the build-up of retirement funds by providing full tax relief on contributions and by allowing all income and gains to be tax-free within pension schemes," Mr Haugh said.

Another advantage of pension schemes is that 25pc of the pension fund can be taken tax-free at retirement. Property investments do not carry such tax efficiencies.

"Property investment should be viewed as an accompaniment rather than as a substitute for pensions in retirement, while the tax advantages of pension plans should not be overlooked," Mr Haugh said.

Recent changes to the pensions legislation allow some individuals to borrow within their pension scheme, which allows the use of the pension scheme to fund and leverage property purchases. "The rate of return achieved by using the tax advantages of pension schemes in this way can increase the returns from property by up to 50pc, depending on the investor's term to retirement," he added.





**If you are planning your pension, you may need to think about greater investment in your pension fund and/or working longer or taking part-time work to generate another source of income in retirement**