

YOUR QUESTIONS ANSWERED

How can I combine old pensions into one?

David Quinn

Managing director of Investwise

IHAVE two old pensions from previous employers, one of which I was gently reminded about recently, which in turn prompted me to check another scheme I had nearly forgotten about. I served a reasonable length of time with both employers and I'm not set to retire for another 15 years, but I've no idea where to begin in terms of making sure I can still get the benefits of them when the time comes. So how can I liberate these pensions and what are my rights?

Jacob, New Ross, Co Wexford

WORK practices have changed a lot over the years, but pension rules remain stubbornly rigid, and the introduction of PRSAs did very little to alleviate this lack of flexibility. I routinely come across clients with four or more old pensions, either from old employments or their own personal pensions, and it is a major headache to consolidate them into one single pension.

There are a few key 'rules of thumb' when approaching this issue. Firstly, if any of your old pensions are 'defined benefit' schemes (ie they promise a defined percentage of your final salary each year at retirement), then I would be very cautious about moving them. In many cases, the transfer value will not be as attractive as the promised future pension income.

If the old schemes are 'defined contribution', I would recommend looking at consolidating these old pensions into your new company scheme in many cases (that is, if there is one). This would be my first preference in most cases as it is likely to be the most cost-effective.

The alternative is to move them to what is called a 'retirement bond', but in many cases these can be expensive, particularly if the financial adviser is earning a commission on the transaction. There may not be any charge or commission to transfer to a large company scheme, and the management fees can be significantly lower.

If there are additional voluntary contributions (AVCs) in your previous pensions, you used to be able to access up to 30pc of your AVC pot before retirement until quite recently, but now you can only access your pension from age 55 in most cases.

When considering personal pensions, the rules are slightly different. Unfortunately, personal pensions cannot be consolidated directly into a company pension scheme. They can be transferred into a PRSA, and then onto a company pension.

Finances for new mortgage

MYSELF and my fiancé are moving in together and hope to save enough in the next few years to buy our own apartment, but we're wondering if we're



setting ourselves up for wild goose chase with mortgage providers, never mind the situation with property prices. We've decided that it's a case of let's see how far we get, so what I'd love advice on is what is the best way to start getting our finances looking right and start saving for a deposit. Can you help?

Alan, Clontarf

WHEN I meet clients in this position I almost always give two simple pieces of advice. Firstly, I recommend setting up the best regular savings account possible and maximising monthly savings into that one account. Banks generally have quite generous rates on offer for monthly savings, and these accounts are designed specifically for the purpose of attracting young savers.

The best rates on the market as I write this are with KBC and EBS. With interest, a combined monthly savings direct debit of €1,000 will reach the deposit target in just over two years.

Secondly, I urge young married couples to combine their finances into one single joint account. Almost all newly married couples still maintain their own current account, with a new

joint account set up for bills. I prefer to see all salaries, bills, savings and spending combined into one household account. This is good practice anyway for sound financial planning, but also allows the couple to really understand their spending habits.

It may also help a future mortgage application to see a healthy joint account, with good savings habit and prudent household spending.

I do get some initial resistance to this suggestion, as the individuals give up some of their independence (no more sneaky new bike purchases), but it does work very well as part of a long-term savings plan.

Transparency around spending, and a clear understanding of monthly outgoings are the two cornerstones of a good financial plan, and allow couples to maximise their savings.

ARF drawdowns

I'M retiring in June and taking the ARF option. However, since I made that decision, which seemed to make sense at the time, several people I've spoken to have

warned me that I could run out of money too quickly, which has unsettled me. Can you tell me how much I could safely draw from my pension and not run out of money? Breda, Templeogue, Dublin 6

SINCE the introduction of flexible retirement drawdown through approved retirement funds (ARFs), this issue has been a constant source of concern for retirees. In the past, annuities have taken this worry away by guaranteeing a fixed income for life, but annuities are not as attractive as they once were in this low-interest-rate environment, so the majority of retirees are choosing the control and flexibility of an ARF.

ARFs come with their own risks though, and the biggest of these is outliving your fund. The industry like to term this as 'bomb-out' risk. As you suggest in your query, if you draw too much from your ARF, the fund may run out too soon. There is a minimum income you must take from an ARF, which is 4pc per annum (for funds under €2m). This seems to reconcile with an international consensus that the 'prudent' drawdown rate from savings is around 4pc.

Ideally you would like to achieve an investment return that matches or even beats your drawdown rate — after fees. Over the past nine years that has been relatively easy, as all markets were rising. Bonds were offering very strong stable returns, cash deposits were paying up to 5pc per annum and equities were recovering very strongly.

However, achieving 4pc or 5pc per annum over the next 10 years may not be quite as easy. Bond markets are passed their peak, and prices have been falling steadily since the middle of 2016.

Equity markets are now at high levels, and while they might continue to rise, future returns at this level of stock market price tend to be lower than average. Cash deposit returns, particularly within pensions, are actually negative now after taking fees into account. So, what can you do to ensure your ARF outlives you?

Firstly, I would strongly advise clients not to go above the 4pc minimum drawdown unless they badly need the funds, or they are at an age where they can confidently expect the fund to outlive them.

The only asset class that will provide long term returns above 5pc per annum is equities, so that is realistically where ARFs should be invested.

However, most investors don't have the appetite for equity volatility, so there has to be some compromise between growth and stability. This may mean keeping a couple of years income secure in your ARF, in a cash fund, with the balance invested for the long term.



Email your questions to lmcbride@independent.ie or write to 'Your Questions, Sunday Independent Business, 27-32 Talbot Street, Dublin 1'.

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