Retirement can be start of something new

My job: Ralph Benson

In conversation with
John Daly

Ralph Benson, co-founder of Moneycube with Feargal McKenna. He says Irish people were missing out on new ways to build their savings.

Name: Ralph Benson

Occupation: Co-founder and head of financial advice at Moneycube.ie

Background: He is also co-founder of Pensions Awareness Week, which takes place September 25 to 29

PLANNING a retirement can be a complicated event, one that Ralph Benson gathers under an encompassing three-step plan: 'Phone, wallet, keys.' When retirement is coming into sight, people want a roadmap to financial freedom and security, he explains.

"Rather than trying to create the ultimate plan (spoiler: It doesn't exist), what's needed is some kind of structure — however imperfect — to deal with the change."

Moneycube was founded by Benson and Feargal McKenna "to make investments and pensions easy, transparent, and profitable for people in Ireland". Working in finance overseas, they saw that Irish people were missing out on new ways to build their savings, and the idea for Moneycube was born.

The Moneycube approach to retirement has three distinct phases: "We've called them phone, wallet, keys because you'll need all three before you leave the house."

The first phase should start at least 10 years before retirement, a time when it's wise to make a few phone calls. "Up to now, it might have been fine to match your employer's pension contribution, tick a box now and again, and generally go with the flow when it came to your pension.

"No longer. Lift the phone and get hold of any pensions from your old jobs, as well as the facts about your current one. What does it all add up to? Is that enough?"

He adds the need to have a conversation with a trusted adviser who can run the numbers.

"You might decide to pay more in, or drive down your pension costs, or consolidate your pension accounts in a single place, for example. The benefit of engaging now is that actions you take still have the potential to make a major impact on your wealth in retirement."

For those five years from retirement, the variables are reducing, and a clearer picture of what income in retirement could look like is emerging. "What's in your retirement wallet? Consider a few key decisions. Where is your money invested? Should you de-risk your portfolio to minimise the chance of a sudden fall in fund value where your pension pot has little time to recover? Is retiring in five years feasible? Could you go sooner? Or should you hang on longer - perhaps with reduced hours?"

Alongside the financial questions, there is increasing emphasis on the psychological aspects of preparing for retirement, underlined by Standard Life research showing that almost four in ten non-retired people view retirement as a change of pace to traditional working hours, rather than a complete end to work.

Compared to 20 years ago, retirement is now viewed as the start of something new, rather than the end.

The third part of the plan — grab your keys — comes into play if you are a matter of months away from retirement, and the change is almost upon you. Paul Kenny, the former pensions ombudsman who now coaches people approaching retirement at the Retirement Planning Council, tells impending retirees that change is constant in life, and reminds them that they have dealt with change many times before — moving house, having children, and changing jobs — all big changes that they took in their stride.

"You'll also be handed the keys to your pension money," says Benson. "People drawing down pension money today have three main options.

Typically a lump sum, potentially tax-free, is available for up to a 25% of your retirement funds. For the rest, opening an approved retirement fund, where your money is invested for growth, and withdrawals can be taken from time to time, or purchasing an annuity, or income for life, are the main choices."

When it comes to retirement, there are many variables, from financial to family, to health and career. "A rigid plan is no use: It's more important to be broadly right. By checking in on your pension position ten, five, and one year out from retirement, you'll be well on the way to navigating the change."

If there is a silver lining to the rise in inflation seen over the last 18 months, it is in the world of annuities, he says. "Not long ago, the annuity — an agreement with an insurance company to pay you an income for life — was the mainstay of income in retirement for people in Ireland. But the rise of the approved retirement fund, where you could invest your pension fund yourself, and draw an income from it, as well as over a decade of low interest rates, made annuities unattractive.

The cost of an annuity is directly related to the returns on government bonds. And in an era of low-interest rates, bond rates were close to zero. Put simply, you had to hand over a huge pension pot at retirement in order to receive a half-decent annuity income."

Five years ago, for example, a 66-year-old non-smoker with €400,000 to invest in an annuity might be offered an annuity rate of something like 4.2%, or €16,800 per year, for life, he points out, adding that that looks very different in late 2023. "Now, that same 66-year-old might be offered an annuity rate of something like 5.4%, or €21,500 per year, for life — a 28% increase. So why might you choose an annuity today? Annuities are attractive to many people because they offer a guaranteed regular income — a clean deal.

"There is no need to worry about the ups and downs of the stock market, or to manage your pension investments. Because an annuity is an income for life, you don't need to worry that your pension fund will reduce to zero."

On the other hand, he cautions, there is no going back when you buy an annuity. One reason the main alternative, an approved retirement fund, was popular is that it left scope for investment growth, and the ability to leave assets behind as inheritance.

"Annuities also come in many shapes and sizes. For example, annuities can be based on the joint lives of you and your partner. They can be designed to provide an increasing income which keeps pace with inflation. And they can be designed to return some of your pension fund to your estate if you die in the early years of retirement.

"What's more, investing in an annuity or an approved retirement fund is not an either/or decision; It's possible to use both.

"In a world where inflation seems likely to be with us some time, an annuity is worth a second look."