Seven pension mistakes to avoid in the run-up to retirement



The final few years before retirement can make a big difference to your finances. Avoid these seven common mistakes, and you'll give yourself a much better chance of starting retirement on the right foot

You've spent decades paying into pensions, saving what you can and trying to be sensible with money. But then retirement appears on the horizon, and suddenly there are an awful lot of questions.

According to Paddy Delaney, Financial Planner and Director of Informed Decisions Financial Planning, one of the biggest problems is that many people reach retirement with plenty of financial products, but no actual financial plan.

Paddy runs one of Ireland's few independent, fee-only financial advice firms, working with people approaching or already in retirement to make sense of the pensions, investments and savings they've spent years building up, and turn them into an income that can support the life they want.

Paddy says, "People can arrive in their late 50s with several pensions, investments, properties, company shares and cash, all individually reasonable, but with no clear idea how they fit together or how they can be used to enjoy their lives."

And if you're five or 10 years from retirement, now is a very good time to start putting the puzzle together.

Here are seven mistakes worth avoiding:

1. Forgetting about old pensions

It can be easy to lose track of old workplace pensions, particularly if you've changed jobs several times, moved house or switched email addresses along the way.

Paddy says the solution is to do a little pension detective work.

"Start with old paperwork and former employers and establish the administrator or pension providers," says Paddy. "Contact each of them and seek clarity on current value, pension type, benefits and investment strategy for each pension."

Once you've tracked them down, you might decide to leave them where they are or explore bringing some together. But don't automatically assume combining everything is best.



Paddy Delaney, Financial Planner and Director of Informed Decisions Financial Planning

"While many firms might encourage you to consolidate old pensions into what is called a Buy-Out-Bond (aka Personal Retirement Bond), don't automatically do this," Paddy says.

"First, understand exactly what you have, what you pay, how it performs and whether you would give up any valuable features by moving it."

A pension you haven't thought about for 15 years hasn't stopped being yours.

2. Missing your last big chance to save

There can be an interesting financial sweet spot in the final years of work. The mortgage might be smaller or completely paid off, and children might finally have stopped treating you like the Bank of Mum and Dad.

That can make your 50s and early 60s an opportunity to give retirement savings a final push. The amount of pension contributions eligible for income-tax relief increases with age, subject to Revenue rules and limits.

"But the question isn't 'What's the maximum I can put into my pension?' It is, 'What's the sensible amount for me, to get where I need to get to?'"

Tax relief can make pension contributions attractive. But putting every spare euro into a pension isn't necessarily sensible if it leaves you without enough accessible cash.

As Paddy says: "Tax relief is valuable, but I wouldn't contribute simply to save tax, if doing so leaves someone short of accessible money elsewhere, or enjoying a major holiday!"

3. Getting too cautious, or not cautious enough

You're approaching retirement, so surely, it's time to move everything somewhere extremely safe and never take another investment risk again?

Not necessarily.

"Going excessively cautious simply because you're turning 60 can create a different risk: your money may need to support you for another 30 years or more," says Paddy.

Move too much into low-growth investments too early, and inflation can become a problem. Stay too heavily invested in volatile assets when you're about to start withdrawing money and a sudden market fall could cause a different kind of headache.

"Instead ask: what money might I need during the next few years, and what money am I unlikely to touch for 10, 20 or even 30 years? Those are different 'pots', as we call them, with different jobs, strategies and features.

"The key is to stop thinking of retirement as the day all investing ends."

4. Waiting until the retirement party to learn your options

Retirement sounds simple from a distance, but there's a little more paperwork involved.

"I believe that retirement is less an event and more a series of decisions," says Paddy.

"You may need to decide when to finish work, whether to take a lump sum, how to structure the balance, what to do with different pension and savings pots, where your monthly income should come from, what investment



strategy or deposit allocations to make, what to retain and what assets to spend first."

That's quite a lot to figure out between the farewell speech and cutting the retirement cake. And some of those choices can also affect your income and tax position for years.

"This is why I'd much rather somebody started exploring them a few years before retirement than a few weeks beforehand."

5. Forgetting that your partner is retiring too

You might have separate pensions, separate savings and very different ideas about what constitutes an acceptable holiday budget.

But if you're a couple, retirement is usually a team event.

"We always approach retirement planning at a household level, as these are household decisions, strategies, taxes, incomes and legacy.

One person could have a bigger private pension. The other might have more savings or different State Pension entitlements. You might not even want to retire at the same time.

And that's before you get to the really important questions.

"What do we want our life to look like when work becomes optional? What will we spend? Where will that money come from? What tax considerations are there? And what happens financially when eventually one, and then neither of us, are here?"

That might not sound like the most romantic conversation you'll ever have over dinner.

But it could be one of the most useful because individual pensions, investments, incomes, assets and individual wishes should form part of one family plan.

6. Budgeting for bills, but forgetting the fun

Here's a retirement expense people don't always budget for: enjoying themselves!

"People carefully budget electricity and groceries, then can underestimate travel, hobbies, helping children, cars, home improvements and all the things they will have time to enjoy."

It's easy to build a retirement budget containing bins, insurance, heating and groceries.

But what about the trip to Italy or your golf membership? After decades of working, you likely have far more time to spend money as well as enjoy it.

"Spending usually isn't flat either," adds Paddy. "Many retirees may spend more during the active early years (aka the Go-Go years!) and less later (aka the No-Go years!), while healthcare or care costs can potentially increase much later."

That's why Paddy suggests starting with the life you actually want rather than deciding you'll need a certain percentage of your old salary.

"Rather than asking, 'What percentage of my salary will I need?' I'd start with, 'What do we actually want our retirement to look like?'"

7. Leaving it all until the last minute

'We'll sort it next year.' That is possibly the most dangerous sentence in retirement planning.

Five years before retirement, you still have room to make changes. You might increase pension contributions, rethink investments, build up cash savings, deal with debt or even change your planned retirement date.

But five weeks before retirement, your options are going to be much narrower, and some decisions that might seem small at the time can have consequences for years afterwards.

"Triggering pension benefits without understanding the tax consequences and future implications" is one mistake Paddy warns about.

Then there's the question of how much money you keep available. He says "holding too much or too little cash for too long" can also cause problems, as can "carrying an unsuitable investment strategy into retirement or ignoring fees."

Even the order in which you start using your different savings and investments is important because drawing from assets in the wrong sequence can matter significantly over a 20 or 30-year retirement.

There's also another danger once you've successfully spent decades saving your money: being afraid to spend any of it.

"People spend 30 or 40 years learning to accumulate money and are suddenly expected to become comfortable spending it. That's a bigger psychological transition than many anticipate."

After years of being told to save for retirement, it can feel very strange when retirement arrives and somebody effectively tells you: you can spend it now.

So, where do you start?

If retirement is five years away and your grand financial plan consists of a drawer full of pension statements, Paddy has a suggestion.

"Don't start with the pension. Start with the life you want.

"Pick an approximate retirement date and realistic lifestyle and work out what you think you'd like to spend each year. Then put everything on one page: pensions, investments, cash, debts, expected State Pension and any other future incomes."

Once you've done that, you can ask the question that really matters:

'If I stopped working when I want to, can what I've accumulated reasonably support the life I want?'

And if you don't love the answer just yet, remember: five years still gives you time.

"Five years out certainly isn't too late," Paddy says. "In fact, it is a useful point to start because there is still time to get some clarity and make deliberate changes rather than discovering your options at the retirement party."

For more information on Informed Decisions Independent Financial Planning and the award-winning Informed Decisions podcast and YouTube channel, visit informeddecisions.ie

