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representing pension savers

Investing Post Retirement

IAPF Investment Committee

2014

Investing Post Retirement

Who is this most relevant to:

	Very Relevant	Somewhat Relevant	Not Very Relevant
Large DB Schemes		Yes- members	
Small DB Schemes		Yes- members	
Large DC Schemes	Yes		
Small DC schemes	Yes		

Background

The purpose of this document is to identify / summarise the main aspects of the topic of investing post retirement, with a view to highlighting the need to save more and raising awareness.

- Wider post retirement options mean that individuals now have more choice at retirement as to how to use their DC and AVC balances. DC, AVC Trustees / sponsors will be expected to support members through some of this.
- Pensions Board Guidelines encourage Trustees to take account of post retirement factors when designing the DC fund range and investment default.

Issues to consider

Should be to future proof Irish scheme from the next financial shock, not create it. Retirement – when?

- State pension age is moving out.
- Increased longevity / income inadequacy may lead to more partial retirements? Employer permission likely to be needed for this.

1. Use of benefits at retirement
    - People looking to invest via ARFS have a range of investment objectives at retirement age

2. What is the investment objective at retirement, bearing in mind that accumulated assets are likely to be at their height close to retirement age? This is specific to the individual's overall financial circumstances:

    - How much risk is appropriate at retirement age?

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- How much investment risk is appropriate post retirement?
- What impact should this have on the investment range and investment default of a pension plan?

3. What it the nature of the investment risks that a member faces post retirement and how is the intended decumulation phase different to pre-retirement accumulation (e.g. running out of money etc.)?

4. Use of retirement pots - how illustrate to members?

- Pre-retirement – are you doing enough to get you to retirement?
- State pension age increase may lead to a gap in income between occupational pension scheme's retirement age and the State pension age – do people understand the impact on them?
- Compare cost of an annuity at age 65 compared with an annuity at age 75 to illustrate the longevity risk.
- ARFs – 5% per annum required drawdown – illustrate the risk of using the pot up. People have no concept of how much money they will need.

5. What has the plan's experience been?

6. What is the Irish market experience?
   - No publically available market statistics on this matter yet.
   - Verbally, some insurers indicate that a high proportion of members take cash at retirement age
   - Private clients – most have just enough to take cash. At high end, or self-employed, likely to make fuller use of ARFs to invest post retirement.

Summary

This note aims to give Trustees/Sponsors a starting point for investing post retirement and assessing any impact for their DC/AVC plan and membership.

For Further Information:

Pensions Authority Guidelines 2013