✻ Adjusting to a new reality

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Brian McGarry explains how the landscape for pension scheme members has changed out of all recognition over the past decade.

Members have had to contend with the global financial crisis, the Government Pensions Levy, extreme market volatility and a near collapse in bond yields. They have also seen the retirement age for the State pension extended to up to 68 for those born after 1st January 1961.

The challenges created by this new environment are by no means insurmountable but they do require a fairly radical change in approach on the part of scheme members. Members have to become much more actively engaged with their pension investments if they are to achieve their retirement income objectives.

This means adopting a strategy tailored to meet individual lifestyle needs in retirement. In some ways this could be described as a "pensions by objective" approach.

This will require significant changes on the part of scheme members, many of whom have grown accustomed to taking a hands-off approach to their pension. A low risk investment profile would have been seen as quite acceptable when returns from relatively low risk asset classes such as cash and bonds were at reasonable levels.

In the current era of negative interest rates and low bond yields that is no longer the case and unfortunately it doesn't look like this will change in the foreseeable future. This means that an investment strategy which might have delivered your pension goals even five years ago will not be fit for purpose in today's climate.

Furthermore, members' pension goals have also shifted. The increase in the State retirement age means that those retiring from 2026 will have to factor in the loss of more than €36,000 in income over three years; and double that for a married couple.

One of the main difficulties in this regard is the low level of pension and retirement awareness amongst employees. Recent research has shown that less than a third of Irish people know how much they will need to live on in retirement. Many are not even aware of how much they will receive from the State pension and less than 1 in 2 have made any provision for income in retirement to supplement this shortfall.

This presents a challenge to employers, as well as scheme members. Companies want their employees to have an adequate income in retirement and to get the best outcome possible from their pension investments.

This requires a redoubling of efforts on the part of pension providers in order to maximise member engagement from the earliest stage possible. This starts with personalised communications to members to make them aware of their current position and what their current arrangements may offer them in retirement. But it must go further than that.

Members need to be educated in relation to their investment choices, how they relate to the achievement of their pension objectives and the risks involved.

At Invesco we offer all of this as well as a suite of multi-asset investment funds which are designed to deal with market volatility yet deliver reasonable returns for almost every risk appetite.

The crucial issue for scheme members is to make the right choices for their individual circumstances. These choices change over time as circumstances change and so should be revisited intermittently. If there is one thing we have learned over the past decade it is that change is the only thing we can be certain of. Scheme members should therefore take independent financial advice on an ongoing basis to ensure that their pension investments are properly aligned to their retirement goals.