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Investment advice for your pension

The area of pension guidance can be a minefield, but it's one which Highfield Financial Planning is happy to negotiate for its clients

BY SIOBHÁN MAGUIRE

Finding the right fit when it comes to investment advice and pension guidance can be difficult. The very topic of pensions can give rise to confusion and a lack of clear understanding of what this lifelong investment can deliver.

For Eoghan Gavigan, a specialist investment adviser and a certified financial planner at Highfield Financial Planning, the task at hand is far greater than dutifully dishing out advice. Rather, it is a calling to impart the right information in a way that is easy to understand, so there is no ambiguity about the pension products on offer.

"A significant number of pension savers admit that they don't know what their pension is invested in," said Gavigan. "While we wouldn't expect everyone to remember precisely what funds they are invested in, your fund choice should make sense in terms of your return objectives and your risk profile, and your adviser should have talked to you about the likely range of probable outcomes that might result.

"Advisers often talk of clients being upset because their fund value didn't increase during a 12-month period or fell by, say 2 per cent, but what this actually means is that the way that investments markets work wasn't adequately explained to the client to begin with. Pensions are a long-term game, and history shows that those who stay invested reap the rewards."

Highfield Financial Planning, a firm that operates in the midlands and Dublin, knows a thing or two about pensions. Gavigan, the brains behind the operation, worked in banking for 19 years before pivoting his second career into pensions and investments in 2015.

For him, the result is transparency, where clients feel satisfied and informed with how they choose to invest their pension.

"Investment advice isn't about guessing which fund will outperform in a given year, or timing the next correction in the market," he said. "Trying to do either of these two things really isn't a good approach.

"If your adviser comes at the process by quantifying your return objective, and then assesses what your attitude to risk is, what your tolerance for risk is, and what your capacity for loss is, he or she can guide you in the selection of investments which should help you to grow your pension assets with only as much volatility as you can comfortably bear.

"A key thing about this process is to remember that, if you manage to achieve your return objective, the additional satisfaction you may get from exceeding it is less than the disappointment you will experience if you take too much risk and fall short."

Eoghan Gavigan, a specialist investment adviser and a certified financial planner at Highfield Financial Planning MAURA HICKEY

The firm provides specialised financial advice to business owners and professionals who require an alternative to the mass market offering generally made available by the industry via tied agents and the traditional broker model, both of which are driven largely by product sales. The firm caters for clients who want quality advice, tailored to their needs. It can provide the service for a fee or alternatively, if the client prefers, using the traditional commission-based model.

A self-confessed "pensions nerd", Gavigan likens his vocation to that of a mechanic getting under the bonnet of an old car.

"I get a fair bit of slagging from my wife and kids about my enthusiasm for talking about pensions, which they don't share," he said. "But I do love what I do and imparting sound advice to my clients."

Gavigan said there were simple facts about pensions that everyone needs to know. The first is that the earlier you start a pension pot, the better the outcome.

"How early you start is critical, it's far more important than how much you contribute at the start," he said. "If a person starts contributing to a pension at a young age most people find relatively soon that they have capacity to increase their contributions and the earlier you commence investing, the earlier you start to benefit from the effect of compounding of returns, which is a very powerful driver of investment returns."

Charges are another area that can cause confusion among those saving into a pension.

Gavigan said the need for clarity and understanding in this area should be a top priority for advisers to ensure clients are comfortable with the product they hold.

"There are a lot of financial products in the market which have heavy charges," he said. "If you have an existing pension product and you don't know what the charges on it are, get a financial adviser who you trust to advise on this and what's available.

"Like many consumer products which you can buy, cheapest isn't often the best, but if your pension has heavier charges than comparable products, then you should be getting a service which reflects this, from an adviser who has the credentials to back it up."

Gavigan said a key bonus of having a pension – not least for comfort when you retire – was the tax relief aspect of the saving.

"Few people seem to appreciate just how valuable tax relief on pension saving is," he said. "Special Saving Incentive Accounts [SSIAs], which were introduced by the government in 2001, provided a top-up of 25 per cent of the amount saved or invested, and uptake was extremely high.

"Tax relief available for contributions to a pension equates to a top-up of 25 per cent for lower rate taxpayers and a whopping 66.6 per cent for top rate tax payers [when the top-up is viewed in terms of net income forgone], within certain limits linked to your age, yet pension uptake is running at less than 50 per cent.

"It's true that apart from the tax-free lump sum, withdrawals from a pension are subject to tax, but unless you have a substantial pension, or you have other income in retirement, the reality is that you are probably not going to pay a huge amount of tax on your retirement income.

"You can ask your adviser to show you how much tax you would pay on different levels of income in retirement – although this will be based on current legislation. The tax treatment shouldn't, in my view, stop anyone from at least funding for a modest pension, yet many people don't do even that."

For more information on Highfield Financial Planning and the services they offer, see highfieldfinancialplanning.ie

Trustees beware: new EU directive will get tough

As the government presses on with plans to overhaul pensions, it is clear that trustees can expect more pro-active engagement from the Regulator. **Siobhán Maguire** reports

As details of a new EU directive are being ironed out, trustees of existing Occupational Pension Schemes (OPSs) need to consider what will be required of them going forward. That's according to James Kavanagh, managing director of Trustee Decisions, a specialist company providing impartial and independent trusteeship to private and public pension schemes as well as share schemes established under trust.

Details of the impending directive were flagged in the Institutions for Occupational Retirement Provision directive (IORPs II) when adopted by the Pensions Authority in 2016, giving an insight into the strict regulation where governance and trustees are concerned. While the directive will not be transposed into Irish law until January 2019, efforts are already under way to get trustees ready for the impending changes.

"The directive introduces pension scheme standards around an effective system of governance," said Kavanagh. "That includes: fitness and probity; written policies on risk management and internal controls; administrative and accountancy procedures; contingency plans; and communications."

> **If trustees fail to meet the challenges posed, they may be exposed to litigation**

However, Kavanagh warned that trustees note that this prudential supervision will mean a forward-looking and risk-based approach. He said trustees needed to be familiar with the stipulations to ensure compliance.

"In short, the Pensions Authority as Regulator will have greater interventionist powers," he said. "Trustees need to get their aims and objectives as well as terms of reference in order and understand the difference between basic governance and good pension scheme governance. Fitness and probity requirements as well as pro-active governance will, and should, be the order of the day."

Kavanagh is well placed to cast an expert eye on the new directive. With over 25 years of experience in advising trustee boards across a broad range of schemes including private sector-funded defined contribution and defined benefit pension plans, he has a wide range of expertise across industries that include construction, energy, financial services, HR, legal and IT.

James Kavanagh, managing director of Trustee Decisions

He is the current chairman of the Corporate Governance Association of Ireland (CGAI) and a member of the European Corporate Governance Institute (ECGI), the International Corporate Governance Network (ICGN), as well as having membership in the Centre for Economic Policy Research (CEPR), the Association of Pension Lawyers in Ireland (APLI), the Institute of Directors (IOD) and the Institute of International and European Affairs (IIEA).

Trustees of occupational pension schemes have common law fiduciary obligations with reference to the Trust Deeds that govern their schemes. This means protecting the rights of beneficial members; knowing your responsibilities as a trustee; and ensuring pro-active monitoring of all agents.

Kavanagh said transparency was key when documenting and disclosing all matters relating to a pensions scheme. He said having charge of a pension on another's behalf brought great responsibility which must be respected and adhered to.

"By this, we mean all stakeholders and service providers with pro-active and transparent reporting and disclosure," said Kavanagh. "Therefore, trustees have substantial responsibilities and if trustees fail to meet the challenges posed, they may be exposed to litigation in the way they discharge these."

Pension scheme governance refers to the system of decision-making and oversight used by trustees to invest pension assets and generally achieve desired retirement outcomes for scheme members.

Good pension scheme governance is a robust, process-oriented, decision-making framework which in times of crisis protects the welfare of stakeholders and withstands extreme stress tests.

Kavanagh added that the task of the trustee is not just about being compliant with the demands of the regulator, but about having an understanding of the importance of the work and the responsibilities associated with the duty.

"It does not just refer to trustees being compliant with the pension's regulator and pension's legislation – it means problem-solving, having effective internal and external controls, excelling to high standard formal mechanisms by which trustees make decisions, are held accountable to its beneficiaries and act in accordance with the highest public and private standards," said Kavanagh.

Being a trustee of a pension scheme is a significant responsibility, which requires expertise and industry-wide experience. Trustees are often faced with challenging decisions as they attempt to balance the interests of sponsoring employers and beneficiaries while running their scheme in an ever-changing legislative environment.

"These trustees are responsible for ensuring that their scheme is adequately funded and for investing vast sums of money," he said. "Therefore, it is vital that they are cognisant of regulatory requirements and investment markets while understanding how to balance risk with expected returns. Trustees need to mandate their advisers with clear unambiguous objectives and ensure they operate unhindered by any conflict of interest."

For more information on Trustee Decisions and its wide array of services and expert advice, see trusteedecisions.com