Media Q&A

How will my time out from the workforce affect my pension?

My husband and I have four young children – all aged under the age of 8. Shortly after our second child was born, I gave up work to look after my children. While I had been saving into my work pension up until then, that all stopped once I gave up my job. I plan to return to the workforce in the future but it will likely be some time before I do so as our youngest is only nine months old. I'm worried however about the impact that my time out of the workforce could have on my pension. I'd rather not rely on my husband's pension, even though it will be a substantial pension, which should afford us a comfortable retirement. What can I do to ensure I don't fall too far behind on my pension because of my time out of the workforce? I'm currently in my early 40s.

Answer: Mark Reilly, Pensions Proposition Lead, Royal London Ireland

Women generally live longer than men - so saving for your own retirement rather than relying solely on your partner's pension is generally advisable.

Saving into a pension is difficult if you have no income of your own – as is currently your case. Furthermore, from a tax perspective, it doesn't make much financial sense to save into a pension if you are not earning an income of your own. Anyone can open a Personal Retirement Savings Account (PRSA - a type of personal pension), but even if you were in a position to contribute to one because you have savings at hand, or are receiving an allowance from your husband, you're not entitled to tax relief on your pension contributions because you need to be earning an income, and paying tax on it.

Once you return to work in the future as you plan, this will help reduce losing out too much on your pension, career and salary prospects.

Options such as part-time work, job sharing, working from home or hybrid working could allow you to return to the workplace. You may be able to secure a work arrangement which will allow you to balance the demands of parenthood with that of a job.

If you return to work, part-time or full-time, you may be eligible to join a company pension plan. In some cases, employers will match your contribution into the pension scheme, so the more you save into your pension pot, the more the employer puts in. If that is the case, and if it is financially possible, it's recommended you aim to maximise the contribution you can get from your employer.

Regardless of your employer's contribution, you may want to save as much as you can into your pension to make up for the time you have lost paying into it. If in a company pension scheme, you could make Additional Voluntary Contributions if you can afford to do so. Furthermore, when you receive a salary increase, it can be prudent to use part of the increase to save for your pension.

It's worth knowing that, if you return to work part-time, a part-time worker must get the same access to a pension as a comparable full-time employee, unless the part-timer is working less than a fifth of the normal working hours of the full-timer. If this is the case, there is nothing to stop your employer from agreeing to give you the same pension benefits as a comparable full-time worker. As a pro-rata principle normally applies to part-time workers, pension benefits and contributions are paid at the same rate, based on your reduced pro-rata salary. If you can afford to, consider increasing the proportion of your earnings that are being saved into your pension while working part-time – bearing in mind the tax relief limits on pension contributions. This will help limit the impact of the shorter working week on their pension.

The salary you receive, and the tax bracket you are in, will dictate whether you'll qualify for 20 pc or 40pc tax break on pension contributions.

If you return to work on a self-employed basis, you can save into a PRSA or personal pension.

If you are planning to rely on your partner's pension in retirement, understand what you can expect from it. For example, if your spouse is planning to buy an annuity (an annual pension) at retirement, it is important you both discuss and agree what pension income will remain for you in the event of his death. If your spouse works in the public service, find out what, if any, pension benefits you are entitled to as most public service pension schemes make provision for survivor's benefits in the event of the member's death.

For more tailored financial advice, it may be useful to discuss your situation further with a Financial Broker.

ENDS

Notes to the Editor:

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