Press Release

How someone who is late to start a pension can make sure not to fall short by the time when they retire?

I recently turned 40 and I never got around to starting a pension as I've been so focussed in my 30s on saving to buy a home. My employer has mentioned that they can contribute to a Personal Retirement Savings Account (PRSA) if I put money into it as well. How do I ensure that I put in enough so that I have enough by the time I retire?

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

As a first step, take a first look at your financial situation and see what's the most you can afford to save into your pension – within the allowable tax relief limits on pension contributions. You may be approaching your maximum earnings capacity in this decade - yet retirement is likely to be only 20 to 25 years away. The more you can put into your pension at this stage, the longer the overall value of your pension pot has time to grow for when you come to retire. The allowable tax relief on annual pension contributions is 25pc of relevant earnings in a year for those aged between 40 and 49, and this may allow you to make substantial contributions to your pension.

If you get pay rises throughout the remainder of your career, consider using some of them to increase the amount you're saving into your pension – if you can afford to do so. Similarly, if you get annual bonuses, consider putting this money towards your pension. Be careful not to contribute more than you can get tax relief on though.

You mention that your employer has offered to contribute to your PRSA. Find out what is the maximum level of contributions that your employer is prepared to make and what you need to do to secure that level of contributions. Not everyone has the benefit of employer contributions being paid into their pension, but those that do are likely to find it much easier to save up a reasonable pension pot by the time they retire.

It's worth noting that from January 1, 2025, your employer can make tax-free employer contributions to your PRSA up to a limit of 100pc of your salary. Any contribution over that amount would result in a Benefit-in-Kind (BIK) charge for you. So, for example, if your salary is €70,000, your employer can make up to €70,000 worth of contributions to your PRSA a year – without triggering a tax liability for you.

It would be worthwhile seeking professional advice from a Financial Broker to help you calculate how much you will need to save in order to build up a sufficient pension pot and to provide you with information on the type of investments available. A broker or financial advisor will also help you put in place a tax-efficient and viable investment strategy which takes account of your own appetite for risk, as well as the investment returns you are hoping to achieve. When the time comes for you to retire, your broker or advisor will also help you to navigate the retirement paperwork and guide you on how best to use your pension savings throughout your retirement.

Once you start saving into your pension, check in on it regularly to make sure it will deliver for you in retirement. Two key things you need to regularly check are the performance of your pension fund, as well as the projected retirement income you can expect from it. This information will be detailed in your annual pension statements. If you find that your retirement income is falling short of your target, you'll need to save more into your pension – if you can afford to.

It's worth noting too that the Government is expected to introduce auto-enrolment (AE) in autumn 2025. Under AE, workers aged between 23 and 60, who earn more than €20,000 a year and don't currently have a company pension, will be automatically signed up to a pension plan co-funded by their employer, the workers and the State. If you contribute to your PRSA through payroll, you won't be eligible for AE but otherwise, you may be. Be mindful that the limits on contributions allowed under the AE scheme could make it difficult for you to save up an adequate retirement income through AE alone.

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Notes to the Editor:

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