Media Q&A

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Advice for long-term renters planning retirement?

My husband and I are both in our late forties and unfortunately have not yet been able to afford to buy a home. I'm becoming increasingly worried about where we might stand financially in retirement if we have not managed to buy a home by then. We're both in steady and relatively well-paid jobs but rental costs and the costs of raising children have reduced our ability to get the deposit together for a home. These costs have also restricted the extent to which we have been able to save into our company pension plans, with each of us only recently joining our company pensions and only saving the minimum contribution (5% of salary). While buying a home is currently our main priority, we also want to take whatever steps we can now to prepare for our retirement – before it's too late to do so. Would you have any advice around how we can do this?

Mark Reilly, Pension Proposition Lead, Royal London Ireland

You are not alone in your predicament. Rising house prices and a chronic housing shortage mean many now rent well into their 30s, 40s and beyond.

While the high cost of renting and raising your children has restricted the extent to which you can save into your company pension, it's positive that you and your husband have joined, and are saving, into one. Maintain these pensions savings if you can.

Even if you're only saving the minimum contribution into your company pension, you may have the benefit of employer contributions being paid into your pension as well, which will make it much easier for you to save up a reasonable pension pot by the time you retire. 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. So, find out what the maximum level of contributions your employer is prepared to make and what you need to do to secure that level of contributions. If it is the case that you would secure higher employer contributions by increasing your own, consider doing so when you can afford to.

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If you get pay rises or annual bonuses 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.

Remember that pensions tax relief substantially reduces the cost to you of making a pension contribution. Simply put, every €100 you pay into a pension will only cost you €60 if you're a higher-rate taxpayer - or €80 if you pay tax at the standard 20pc rate. 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.

You are right to have home ownership as a key priority. As long as you borrow prudently, home ownership will put you in a much stronger long-term financial position as it will provide you and your family with stability and, usually, will help you to build wealth. Furthermore, while new rules recently came into force which seek to boost security of tenure for renters, ultimately, you will have greater security of tenure if you own your own home rather than rent it.

Be mindful though that buying a home late in life can eat into your retirement income and could even mean having to work into retirement. To avoid your mortgage having an impact on your retirement income – or indeed the age that you can retire at, ideally if you can, clear your mortgage before you reach the age of 65, or earlier if possible.

While your disposable income may be tight, it would be worthwhile reviewing your household finances as this might help you identify areas where you could cut back on expenses and in turn have more income to save up for your house – and into a pension. Finally, seek professional advice from a Financial Broker to help you improve your chances of both buying a home and preparing adequately for retirement.

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