ACTUARIES ADVOCATE TARGETING LUMP SUM FOR RETIREMENT PLANNING

News Release, Monday, November 7, 2005 - The Society of Actuaries in Ireland (SAI) today issued a report advocating a simple way for people to set targets when planning for their retirement - aim for a specific retirement fund (or lump sum amount) rather than a specific annual pension. The authors make the case that a natural lump sum to be targeted is 10 times' salary, which would enable an individual to live on half salary for 20 years. The report recommends that the pensions industry, employers and regulators should consider the lump sum target approach when providing information to consumers and advising them on retirement planning.

If this method were adopted, pension plans and schemes would annually disclose fund values and prospective benefits as a lump sum multiple of salary. This approach is more intuitive, it is easier to monitor progress versus target, and it gives a clear signal as to the savings required, even if people are ultimately going to convert their retirement fund into an annual pension. As a rule of thumb, 10 times' salary should provide most people with an adequate retirement fund. However, it is well below the value of a full public service pension and is less than half the value of the maximum pension approvable for tax relief purposes.

The report also recommends that individuals should be cautious in anticipating investment returns. *"There is a very practical reason for retirement savers to be cautious: each individual has only one shot at retirement and it becomes increasingly difficult to correct under-provision as one gets older",* Aisling Kennedy, the Society's Director of Professional Affairs, added.

The report also recognises that there is a growing number of people with assets held outside pension schemes, in shares or property. Targeting a specific retirement fund makes it easier to take account of the value of these assets. However, the Society recommends that the value of family homes should not be included, as there is usually limited scope or desire to generate additional retirement income from this source.

In issuing the paper, the Society of Actuaries reiterates that the majority of people in defined contribution plans are not saving enough for a pension of two thirds final salary, inclusive of state benefits. *"We believe that the approach suggested will help to give people a better understanding of their position and what they need to do to improve it",* Aisling Kennedy concluded.

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The full report is available at:
http://www.actuaries.ie/Resources/events_papers/Events%202005/051004_Defined_Contribution_paper.pdf
A summary is also available at:http://www.actuaries.ie/Resources/events_papers/Events%202005/051101_%20DC_Report_Summary.pdf

Issued on behalf of Society of Actuaries in Ireland by Setanta Communications Ltd.
Contact: Michael Moloney 087 2587264/01 6762429