Activity One – State Pension or Private Pension

Definition: A pension is a fund into which a sum of money is added during an employee's employment years and from which payments are drawn to support the person's retirement from work in the form of periodic payments.

The money that pays the state pension comes from tax which individuals pay on their salary during their period of employment. Individuals have the option to make contributions to a private pension fund which we will explore in more detail in the following pages.

Budget:

In the **Keeping Your Balance** worksheets we learned about the importance of good budgeting decisions. When a person designs a budget, they must make decisions about how it will pay for the goods and services they need and want.

The term 'budget' is defined as an itemised summary of estimated or intended expenditures for a given period along with proposals for financing them.

What things might affect your ability to budget?

EXERCISE

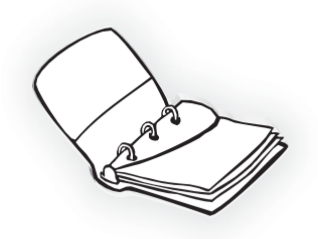
Pensions are very important in terms of planning your budget for the future.

Compare your budget from the last worksheet with the State Pension of €12,651.60 per annum, €1,054.30 per month.

Outgoings	Suggested %	Suggested Budget	Budgeted Amount (Last Worksheet)	Difference
Savings	10%	€105.43		
Housing	25%	€263.58		
Transportation	15%	€158.15		
Food	15%	€158.15		
Entertainment	10%	€105.43		
Clothing	5%	€52.72		
Lifestyle	10%	€105.43		
Other Expenses e.g. Phone Bills General Utility Bills. T.V. and Internet Access	10%	€105.43		
TOTAL	100%	€1,054.30		

How does the retired state pension compare with your employed monthly salary?

Activity Two – Pension Funds



A pension fund, like all investment options, have the potential to rise in value or fall in value. Funds are made up of property and shares on the stock exchange.

If the price of one property or shares on the stock exchange owned by the fund falls, the overall value of the fund may fall depending on how the other shares/ property in the fund perform.

Everybody has different levels of risk that they are prepared to accept.

As a result there are different types of pension funds available for different people, these are broadly categorised as low risk, medium risk and high risk.

Pension Type	Explanation
Low Risk	These funds tend to invest in low risk assets which generally do not fall or gain in value very rapidly. The focus is to minimise the risk of losing the money in the pension fund.
Medium Risk	These funds invest in a mixture of low risk assets and medium risks assets. These funds are generally more exposed to the potential of realising gains and losses than low risk funds.
High Risk	A high risk fund's focus is on maximising the return for the investor as opposed to minimising the risk of losing the money in the fund. These funds can gain/lose money rapidly depending on market fluctuations.

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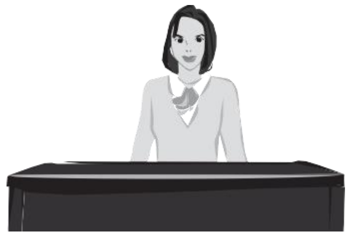
SCENARIO:

You have decided to return to full time education.



- You have worked with ABC LTD for five years and accumulated €10,000 in your pension fund which was organised through your employer.
- As your disposable income will be low over the next few years you decide to take a break from paying pension contributions for the next five years.

You are very interested in having a pension fund for your retirement so you decide to review your pension and how it's invested.

Would you keep the €10,000 invested in a low, medium or high risk fund? Why?

On the next page you can view how your €10,000 pension fund would perform under low, medium and high risk plans.

PENSION PERFORMANCE:

Year	Low Risk	Medium Risk	High Risk
1	10,100	10,500	11,000

Year 1: Economy is doing well – all funds gain

Year	Low Risk	Medium Risk	High Risk
1	10,100	10,500	11,000
2	10,250	10,600	11,500

Year 2: Economy is still doing well.

Year 3: Downturn in the economy - all funds fall in price.

Year	Low Risk	Medium Risk	High Risk
1	10,100	10,500	11,000
2	10,250	10,600	11,500
3	10,200	10,200	10,300

Year 4: The recession continues.

Year	Low Risk	Medium Risk	High Risk
1	10,100	10,500	11,000
2	10,250	10,600	11,500
3	10,200	10,200	10,300
4	10,180	10,150	9,500

Year 5: The economy is performing again.

Year	Low Risk	Medium Risk	High Risk
1	10,100	10,500	11,000
2	10,250	10,600	11,500
3	10,200	10,200	10,300
4	10,180	10,150	9,500
5	10,200	10,250	10,150

Remember: Individuals should check the performance of their pension fund as the level of risk they might accept may change as their personal circumstances change.

Do you think it would be a good idea to have a high risk pension when you are due to retire? Why?

Do you think it is important to look at how your fund is doing when you receive your annual statement each year? Why?

Remember: There is always going to be something that you could spend your money on instead of starting a pension!

For example; in your 20's buying a home, in your 30's paying for childcare, and in your 40's paying for house renovations or college fees.

So remember; it's important to start early to avoid having to pay large amounts in your 40's and 50's and 60's.