Irish Life

In your thirties…then its time to start planning for your retirement today

Pension planning with Irish Life

Start planning for a longer life

First the good news – as a nation, we're living longer! And not just by a little. According to the 2011 Census, there are 58,416 people aged 85 or over – that's 10,000 more than the previous 5 years.

Of course, as life expectancy increases so does our need for a realistic retirement plan. For most of us that will include a well-funded pension. A pension will help you ensure that your retirement years are spent doing the things you always wanted to, not regretting the opportunities you missed.

Introduction

Have you made a realistic plan for your retirement yet?

That's the question we all need to ask ourselves.

In recent years there has been extensive media debate about the challenges around retirement. Challenges like whether the Government can afford to maintain the State Pension at the present level. Concerns about changes in Government policy, such as the pensions levy and a possible change in income tax allowances. The difficulties we face because of a rise in the official State retirement age. And, of course, stress caused by the general economic crisis.

We can't solve every problem in one go. But we can make a good start, with realistic retirement planning with Irish Life.

PENSION CALCULATOR CLICK HERE

Take advantage of income tax relief

Even if you're sure you have all the savings you'll ever need, a pension may still be worth it for the income tax relief alone. The Government actively encourages you to put your money into a pension, as a good way to keep your own taxes working for your own benefit.

€100 invested	Tax rate 20%
	Tax relief €20
	You pay €80

€100 invested	Tax rate 41%
	Tax relief €41
	You pay €59

For lower rate taxpayers it means that every €100 invested in a pension saves €20 off your tax bill. For higher rate taxpayers the benefit is even greater, saving €41 for every €100 you invest. And at the end of the day, when you come to cash in your pension, you can take up to 25% of it as a tax-free lump sum (up to a limit of €200,000). For a company pension your lump sum may be based on your salary and service (up to a maximum of one and a half times of your annual salary but up to a limit of €200,000).

Warning: The value of your investment may go down as well as up.

Warning: If you invest in this product you will not have access to your money until age 60 and/or you retire.

Warning: If you invest in this product you may lose some or all of the money you invest.

Income tax relief is not guaranteed.
To be eligible to claim income tax relief, your income must be taxable either Schedule E or Schedule D (case I or II). To claim income tax relief, you can apply to your Inspector of Taxes to adjust your tax credits. Contributions deducted from salary will receive immediate tax relief. If you are self-employed, you must include your pension contributions in your self assessment tax returns in order to obtain income tax relief.

Pension income in retirement is subject to income tax at your highest rate on withdrawal, Universal Social Charge, PRSI (if applicable) and any other taxes or government levies due at that time.

Life on the State Pension

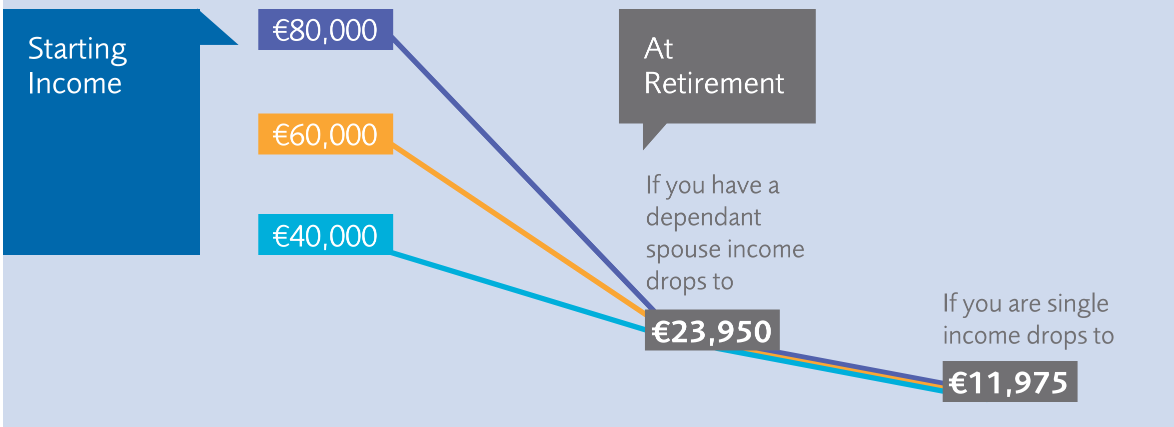
The fall-back retirement option is of course to make do with the State Pension, assuming you are eligible. Sounds like a good idea until you hear what you actually get. Currently the State Pension (Contributory) for a single person is just €230.30 a week, which adds up to a grand total of €11,975 a year. That's even lower than the minimum wage.

That might seem hard enough, but in view of our aging population it will probably get worse. Today there are six workers paying taxes to support every one pensioner (Source: Census 2011). By 2050 it's estimated there will be just two workers supporting each pensioner. That just doesn't add up. Already, everyone under 50 will have to wait an extra three years till they're 68 to claim the State Pension.

How can you tell how much you'll need?

Most of us find it hard to look so many years into the future and imagine what it takes to provide a comfortable retirement. For example you might have little or no mortgage but you might have higher medical or leisure expenses. To give you an idea it is worth comparing with the lifestyle and income level you have now. The difference between the State Pension and your income could be the gap you need to fill with a pension. The more you earn now, the bigger the drop in lifestyle you may face as you can see in the graph below.

Income Drop at Retirement



So, in the example above, if you earned an annual income of €60,000 and were planning to rely solely on the single State Pension (Contributory), you would be taking a drop in income of 80% of your current salary, or a yearly drop of €48,025.

FACT: Eight out of ten people say that the State Pension would not meet all their needs in retirement.

(Source: Pensions Board, August 2012)

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What to do if you're 30-something

Although you've got the mortgage or rent to pay, and you may be thinking about the future cost of your children's education, this is the time to start planning for your retirement years.

It's true to say that the sooner you start a pension, the longer it has the potential to grow and the easier it is to reach your target. Even a small regular investment could deliver big results if you start early enough.

The strange thing about your thirties is that, although you're probably getting paid more than when you were younger, you seem to have less in your pocket at the end of the month. So how do you fit a pension into all of this?

As a rule of thumb, the tax relief limits on your pension contributions are around half of your age. If you're thirty now, that would mean setting aside 15% of your income for a pension. It may seem a lot but with the income tax relief it's not so hard.

So, someone earning €40,000 should be aiming to save €500 a month – but with income tax relief at 41% it would cost them just €295 from their take-home pay, or €400 with 20% relief. The important thing is to start now, even if you put just €50 a month away.

Take a look into your own future with the easy-to-use online Pension Calculator at www.irishlife.ie. You can set your own lifestyle target, then adjust the figures up and down. You can see for yourself the actual result of investing more or less.

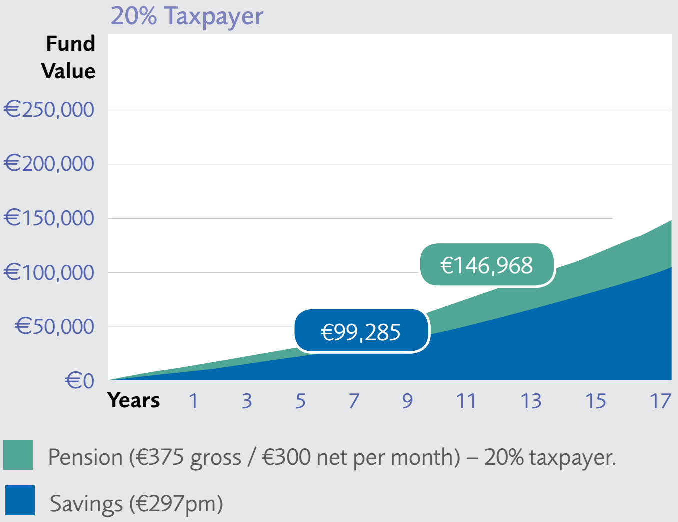
PENSION CALCULATOR CLICK HERE

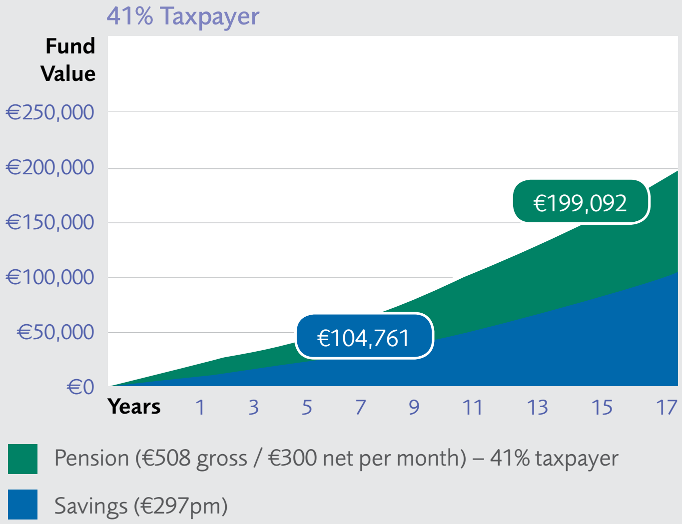
Q&A

A pension versus an ordinary savings plan – who wins?

The simple answer is that the income tax relief on a pension gives it a head-start. For example, supposing you saved €300 into a savings plan. If you put that into a pension instead it would be equivalent to investing €375 per month with 20% income tax relief) or €508 per month (with higher 41% rate income tax relief). By the time you retire that could give you twice the return compared to the average savings plan:

Twice as much from a Pension Plan as a Saving Plan





Warning: These figures are estimates only. They are not a reliable guide to the future performance of your investment.

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For both the savings and pension plan we assume:

- 100% of the contributions are invested
- The fund will grow by 6% per year
- There is a 1% fund charge
- Contributions will increase by 3% a year
- There are no plan fees

For the savings plan we have assumed a 41% exit tax rate is payable and the 1% Government levy is deducted before the contribution is invested, so €297 is invested. For the pension plan we have deducted the Pension levy.

Pension income in retirement is subject to income tax at your highest rate on withdrawal, Universal Social Charge (USC), PRSI (if applicable) and any other taxes or government levies due at that time.

“I'm still young, I'll worry about it later.”

Retirement seems a long way off when you're in your thirties. Whereas paying a mortgage, raising kids and buying a new car all seem very close and urgent. It's something you can afford to put off, isn't it?

Well, no. The person that will lose most is your future self. The sooner you start, the easier it will be and the less it will cost you in the long run.

“I don't want to commit to a pension. I'll use a savings plan instead.”

A savings plan is another way to put money aside and of course you can usually get at it any time you need it. But for long term needs like retirement, easy access is a drawback, not an advantage. It's all too tempting to dip in. More significantly, the tax benefits that come with a pension means that it is likely to out-perform most savings plans

Checklist for 30-something:

- [ ] See for yourself what you can afford with the easy-to-use Pension Calculator at www.irishlife.ie
- [ ] Get to know a little bit more about your options.
- [ ] If you haven't started a pension yet talk to a Pension Adviser today.
- [ ] If you have started a pension, check your most recent Pension Benefit Statement or go online to see how your pension is doing.
- [ ] If you haven't reviewed your pension in the last year or so, set up an appointment with your Pension Adviser. It's important to keep track of your pension.

Irish Life – strength and experience

Established in Ireland in 1939, Irish Life is now part of the Great-West Lifeco group of companies, one of the world's leading life assurance organizations.

Irish Life has over 1 million customers and is Ireland's leading pension provider.
We provide pensions to the Irish employees of over 3,000 companies, state bodies and unions.

Irish Life Investment Managers (ILIM) is a separate company within the Great-West Lifeco Group and provides asset management services to Irish Life.

Irish Life Investment Managers (ILIM) is Ireland's biggest and most successful fund manager. ILIM currently manages €38 billion for private investors and leading Irish and international companies.

Information correct as of June 2014.

For the latest information, please see www.irishlife.ie.

To discuss your retirement plan contact your Financial Broker or Adviser today.

We advise that you seek specialist pension advice as the information given is a guideline only and does not take into account your personal circumstances.

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