# Your Client's Income in Retirement: Where will it come from?

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People are living longer and healthier lives, and it is not a desirable proposition to have to work until you drop. So, one of the most important questions you can ask a client is: "Where will your income in retirement come from?"

In the nineties, the Pensions Board (now the Pensions Authority), as part of the National Pensions Policy Initiative, categorised all retirement income into four distinct categories (pillars). The 'four pillars of retirement income' concept can serve as a useful tool for a review of a client's likely sources of pension assets/income in retirement and can highlight gaps.

### Pillar 1: State pension

For those clients who will be entirely dependent on the State old age pension, it is vitally important to understand that from 2028 it will only be payable from age 68. In addition early retirement is not recognised at all by the State social welfare system. The maximum basic pension (currently €230 per week) is an income essentially designed for subsistence and not prosperity.

### Pillar 2: Occupational and private pension provision

The Government provides an array of tax benefits to encourage people to fund private pensions. Despite some recent restrictions, no other savings or investment product may give the contributor full tax relief at marginal rate (subject to limits), tax free returns on the fund, a tax free cash lump sum at retirement and the ability to stagger an income in retirement in order to minimise the tax liability that applies on drawdown.

### Pillar 3: Private assets

Whereas it is always a good idea to have a rainy day fund, the problem with funding a pension with private investments is that more often than not, the asset is purchased with 'after tax' income. The taxation treatment of any gains or dividends or interest can also be quite penal, with DIRT tax now at 41%, marginal rate income tax at 40% and exit tax at 41%. Of course capital gains tax also applies on the disposal of an asset if a gain is realised: yet another tax that has increased dramatically in recent years, from 20% to 33%.

### Pillar 4: Post retirement part time and full time employment

Many retirees may have no option but to continue working well into old age to maintain their standard of living. The necessity for Pillar 4 income will essentially depend on how strong the other pillars are. For example, in an ideal world where someone retires on a pension of two-thirds of final salary and also qualifies for the old age pension Pillar 4 may be entirely optional.

### Summary

If we examine to what extent clients have control over their income from these four pillars, one would have to say that control on Pillar 1 is limited. Yes, a client can ensure that their PRSI contributions continue, but changes may be introduced that are outside of their control to limit the State's liability.

With Pillar 3, a fund or asset is difficult to accumulate in a tax efficient manner and as mentioned is almost always done with 'after tax' income anyway.

Pillar 4 works great, strictly from a financial point of view, assuming one's health and strength holds up but is hardly ever desirable, especially if it is done out of financial necessity.

Pillar 2 may well be imposed on people in the years ahead as a mandatory approach is taken to improve pension coverage. Where affordability allows, the tax benefits of private pension funding is highly attractive, assuming the access restrictions are not too problematic. Clients should bear in mind that a rainy day fund with easy access should be a priority in any event. All told, funding private pensions makes sense and funding a private pension by exploiting the many tax advantages should be carefully considered when deciding where income in retirement is likely to come from.

*This article is based on current pension rules, which are subject to change. Pension plans should be reviewed regularly. Independent advice should always be sought on pension planning. 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.*

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