10 reasons why pensions still make sense

This is not a customer document and is intended for Financial Advisers only.

1 What will the state pension be in the future?

The State Pension (Contributory) personal rate for a single person is currently €230.30 per week, or €436.60 per week with an adult dependant allowance.

- Demographic changes in Ireland, as in countries across the EU, will put pressure on government finances as the cost of state pensions and health care for the elderly increase. Currently in Ireland there are 6 adults of working age for every pensioner, but this ratio is predicted to change to 3 to 1 by 2060. (Source: National Pensions Framework June 2012).
- Steps taken in the past to plan for this demographic change can no longer be relied upon. The National Pensions Reserve Fund was established to help meet costs of social welfare and public service pensions from 2025, but is now being used to make investments in credit institutions and Irish Government securities as directed by the Minister for Finance.

Simply put, you cannot be sure the State will provide you in your old age with the same level of pension income, medical card support or other benefits as are provided currently.

2 State Pension age increasing

Legislation is now in place that will increase the age at which the state pension becomes payable in the future.

Date	State Pension Age	Year of birth of those reaching State Pension Age
2014 to 2020	The State Pension (Transition) was abolished for new applications, thereby increasing pension age to 66	1948 to 1954
2021 to 2027	Increases to age 67	1955 to 1960
2028 onwards	Increases to age 68	1961 or later

These changes are happening soon and people need to look now at the impact they will have on their plans for retirement. Somebody turning 50 this year will not receive the state pension until they are 68.

3 Life Expectancy

Life expectancy for those born in Ireland is now 78 years for males and 82 for females (Source: CSO 2013). While increasing life expectancy is a good thing, it is also something your clients need to consider when planning for retirement. If your client's retirement fund is to last longer your clients will either need to set aside more, or take a lower income each year in retirement.

Your clients retirement savings may need to last for up to 30 years after your clients finish working.

4 Income Tax Relief

Income tax relief is still available on contributions made personally to a pension. This relief is available on up to 41% of the contribution for a top rate tax payer, or 20% for a standard rate tax payer. For a higher rate tax payer, this is equivalent to the government topping up your net pension contribution by up to 69%!

Income Tax Rate	Pension Contribution Net of Income Tax Relief	Gross Pension Contribution	Increase from net cost to gross contribution
41%	€5,900	€10,000	69%
20%	€8,000	€10,000	25%

In addition to income tax relief on any personal contributions, employer contributions to a Company Pension are also tax deductible and no benefit in kind is appropriated to the employee. No Benifit In Kind (BIK) means, no income tax, no PRSI & no Universal Social Charge (USC) – potentially around 52%. Pension income in retirement is subject to income tax at your clients highest rate on withdrawal, USC , PRSI (if applicable) and any other taxes or government levies applicable at that time.

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, your client can apply to their Inspector of Taxes to adjust their tax credits. Contributions deducted from salary will receive immediate tax relief. Any regular contributions from your employer are deductible by them as a business expense for Corporation Tax purposes in the Company tax year which contributions are made.

5 Pension Life Insurance

The same income tax relief that applies on pension contributions is also available for Pension Life Insurance, which means cheaper life cover.

For example, a 40 year old self-employed non-smoker taking out €200,000 of life cover to age 65 with indexation and conversion option could choose between a term life insurance plan and personal pension life insurance

	Cover Required	Gross Cost (including govt. levy)	Net Cost after income tax relief at 41%	Net Cost after income tax relief at 20%
Term Life Insurance	€200,000	€38.43 (per month)	€38.43 (per month)	€38.43 (per month)
Pension Life Insurance	€200,000	€38.05 (per month)	€22.45 (per month)	€30.44 (per month)

The tax treatment of a lump sum paid out on death is the same for term life insurance and pension life insurance. In each case the lump sum is subject to inheritance tax, and there is no tax if the lump sum is going to a spouse or registered civil partner.

The actual cost of cover will depend on your age, your health, the term and level of cover required.

6 Tax Free Retirement Lump Sum

Tax free retirement lump sums are still available when taking retirement benefits. You can take 25% of your pension fund as a retirement lump sum or with a company pension you can instead choose to take a retirement lump sum of up to one-and-a-half times your final salary, depending on the length of time employed. The maximum total tax-free amount is €200,000.

A retirement lump sum of between €200,000 and €500,000 is subject to standard-rate income tax, currently 20%. Where total retirement lump sums are greater than €500,000 these will be taxed as income at marginal rate, plus USC and PRSI.

Someone who can take a retirement lump sum allowance of €500,000 would pay tax of €60,000 and receive €440,000 in their hand.

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

7 Approved Retirement Fund (ARF) Options for All

The ARF option has been extended to all members of Defined Contribution (DC) company pensions. This means that the ARF option is now available on

- Members and directors in DC Company Pensions
- Additonal Voluntary Contributions (AVCs) for those in Defined Benefits (DB) Company Pensions
- 5% directors in DB Company Pensions
- Personal Pensions
- Personal Retirement Savings Plan (PRSAs)

Individuals need to consider their options carefully on retirement, and will need advice more than ever in this area. However, the ARF option gives what many individuals want in terms of

- control over income drawdown
- control over investment options

Warning: The income you get from this investment may go down as well as up.

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

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

8 Inheritance Planning

Pre-retirement

The tax treatment of pension funds on death can result in a tax efficient way of inheritance planning. A summary of the tax treatment of lump sums paid on death is set out in the table below

Personal Pension / PRSA / Company Pension / Personal Retirement Bond (PRB) inherited by	Income Tax	Capital Acquisitions Tax
Surviving spouse or registered civil partner	No income tax due	No
Child (any age)	No income tax due	Yes. Normal CAT thresholds apply
Other	No income tax due	Yes. Normal CAT thresholds apply

For children the inheritance tax threshold is €225,000 per child, including any other gifts and inheritance received from parents since 1991.

If a spouses, dependants or childrens pension is provided this will be taxed as income.

Company Pensions are subject to a limit on the lump sum death benefit if the member dies while still in the relevant employment. The lump sum limit is 4 times salary (including any retained benefits), plus a return of their own personal contributions.

This limit on lumps sums paid on death does not apply to Company Pensions or PRBs if the member has left the relevant employment, assuming they completed at least two years pensionable service for those leaving employment after 1 June 2002. Also there is no such limit for PRSAs and Personal Pensions.

Post-retirement

ARFs, AMRFs and vested-PRSAs are all treated the same on death. A summary of the tax treatment is set out in the table below.

ARF / AMRF / vested-PRSA inherited by	Income Tax	Capital Acquisitions Tax
Surviving spouse or registered civil partner	No tax due on the transfer to an ARF in the spouse's name. Subsequent withdrawals are taxed as income.	No
Child (under 21)	No tax due	Yes. Normal CAT thresholds apply
Child (21 or older)	Yes due at 30%	No
Other (Including transfer directly to spouse without going to ARF for surviving spouse)	Yes – Due at the marginal tax rate of the deceased	Yes. Normal CAT thresholds apply. No CAT due between spouses or civil partners.
Treatment on death of surviving spouse ARF		
Children (under 21)	No income tax due	Yes. Normal CAT thresholds apply
Child (21 or older)	Yes due at 30%	No
Other	Yes due at 30%	Yes. Normal CAT thresholds apply

9 Gross Roll Up

Exit Tax on savings and investment plans is 41%. DIRT is 41%. Capital Gains Tax is 33%, with an annual exemption of €1,270. (rates as at August2014).

Pension funds are exempt from Irish income and capital gains taxes (however pension income in retirement is subject to income tax at your clients highest rate on withdrawal, USC, PRSI (if applicable) and any other taxes or government levies applicable at that time). The impact of the Government Pension Levy will depend on each individual's circumstances. This is currently 0.75% for 2014 and 0.15% for 2015.

Example:

We looked at one example of a 45 year with a normal retirement age of 60. He has a current fund of €33,551 and contributes €433.33 per month.

Based on assumed 6% gross fund returns, the pension levy reduces his fund at retirement by €114, to €195,395.

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

10 Investment

Pensions allow for a wide range of investment options to suit the risk appetite of every client. This includes investments in equities, bonds, property and also deposits, trackers and other secure options. Different currencies such as Euro, Sterling or Dollar are also available.

Clients can access our range of Multi Asset Portfolio Funds (MAPs) through our pension plans. As the name suggests, each portfolio is multi asset – investing in shares, bonds, cash and other assets. Each portfolio uses Irish Life's unique DSC – Dynamic Share to Cash model. For more details please log onto www.irishlife.ie.

Warning: Certain funds may be affected by changes in currency exchange rates.

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

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

ILA 8943 (REV 08-14)