Irish Life

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 one adult over 65, but this ratio is predicted to change to 2 to 1 by 2050. (Source: National Pensions Framework 2010).
- 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	Change
1 January 2014	Removal of State Pension (Transition) for new applicants. State pension ageincreases to 66
1 January 2021	State Pension (Contributory) age increases to 67
1 January 2028	State Pension (Contributory) age increases to 68

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 76 years for males and 81 for females (Source: CSO 2009). 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 may change, but right now 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 BIK means, no income tax, no PRSA & no USC – potentially around 52%. Pension income in retirement is subject to income tax at your clients highest rate on withdrawal, Universal Social Charge, PRSI (if applicable) and any other charges or levies ("tax") applicable at that time. The tax rates used are current as at March 2012. Tax relief is not guaranteed. To be eligible to claim relief, your income must be taxable either Schedule E or Schedule D (case I or II). To claim 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 employer contributions will receive tax relief in the year the contribution is made and are deductible by them as a business expense for Corporation Tax purposes.

5 Tax Free Retirement Lump Sum

Tax free retirement lump sums are still available when taking retirement benefits. Within the pre-existing limits of 25% of the fund or 1.5 times final salary, a lump sum can be taken up to €575,000 before it is subject to marginal rate income tax treatment, as other income would be. The first €200,000 can be taken tax free, with the remaining €375,000 taxed at 20%.

Someone who can take the full lump sum allowance of €575,000 would pay tax of €75,000 and receive €500,000 in their hand. In comparison with someone who retired before 1 January 2011, this has the effect of reducing the lump sum he receives by 13.1%.

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

6 Lifecover

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

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

	Cover Required	Gross Cost (including govt. levy)	Net Cost after income tax relief at 41%	Net Cost after income tax relief at 20%
Life Term Cover	€200,000	€36.53 pm	€36.53 pm	€36.53 pm
Pension Life Cover	€200,000	€36.17 pm	€21.34 pm	€28.94 pm

The tax treatment of a lump sum paid out on death is the same for life term cover and pension life cover. 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.

7 ARF Options for All

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

- Members and directors in DC Company Pensions
- AVCs for those in DB Company Pensions
- 5% directors in DB Company Pensions
- Personal Pensions
- 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**

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 / 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 €332,084 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 you 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 standard rate	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	Yes. Normal CAT thresholds apply
Child (21 or older)	Yes – Due at standard rate	No
Other	Yes – Due at standard rate	Yes. Normal CAT thresholds apply

Amounts passing to a child over 21 are subject to income tax at the 20% standard rate. This is lower than the current 25% rate for inheritance tax, although the inheritance tax threshold is not available

9 Gross Roll-up

Exit Tax on savings and investment plans is 30%. DIRT is 27%. Capital Gains Tax is 25%, with an annual exemption of €1,270. (rates as at 2011)

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, Universal Social Charge, PRSI (if applicable) and any other charges or levies ("tax") applicable at that time). The impact of the Government Pension Levy will depend on each individual's circumstances. This will apply at 0.6% of the fund for four years.

Example:
We looked at one example of a 45 years old going to a 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 €1,987, to €202,553.

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

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, commodities, but also deposits, trackers and other secure options. Different currencies such as Euro, Sterling or Dollar are also available.

Warning: Pension products may be affected by changes in currency exchange rates

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

Please refer to product booklets for further information. Pensions are long term savings plans that can only be taken at retirement.

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