# Pensions Training

## Overview of Pensions

# Agenda

- The Need For Pension Planning
- Personal Pensions
- PRSAs
- Company Pensions
- ARFs / Annuities
- National Pensions Framework

# Pensions are

<u>**Tax Efficient**</u> **Policies**

that provide a

**Replacement Income**

**in Retirement**

# The Need For Pension Planning

# The need for pension planning

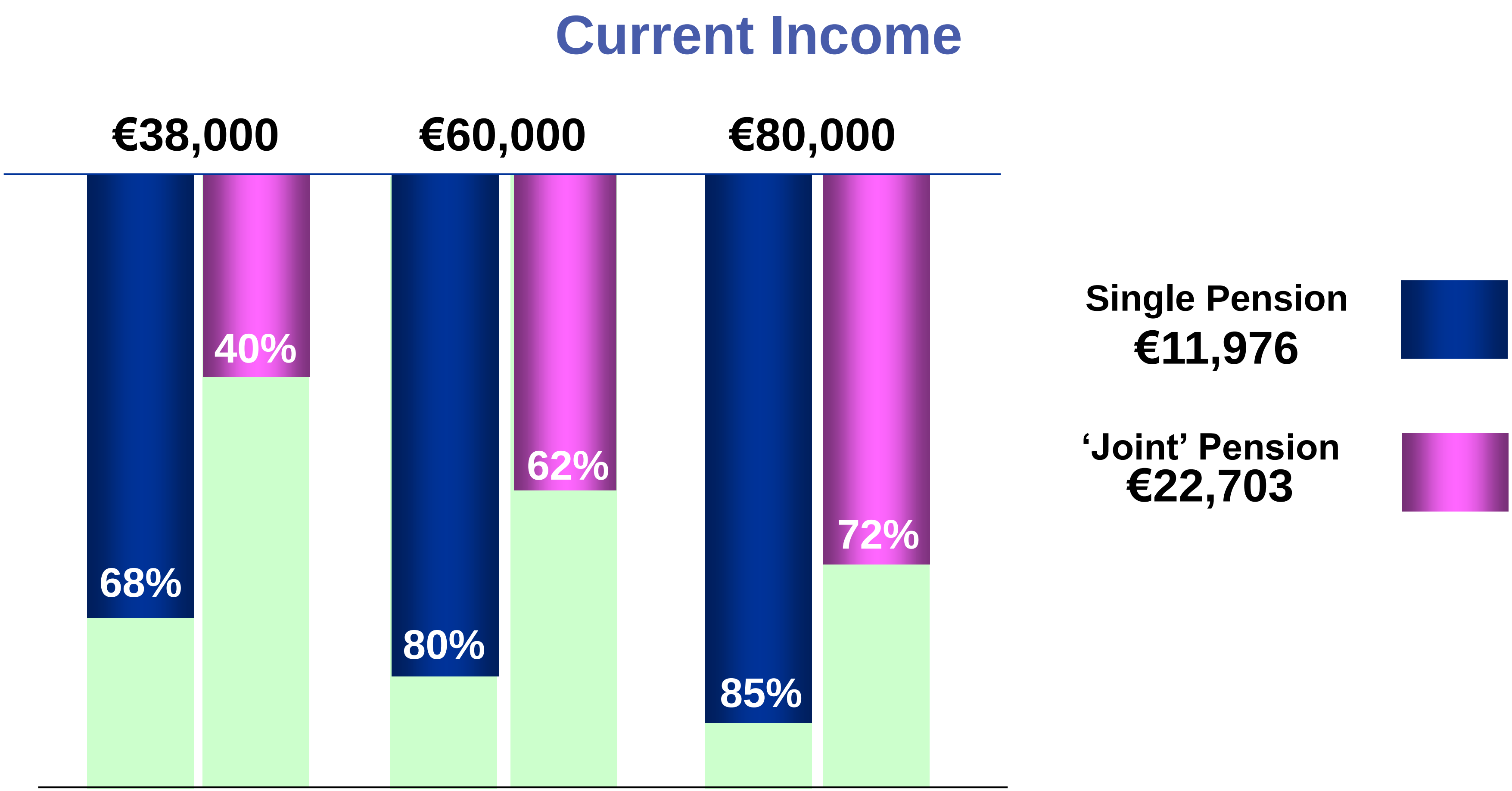
## Can you solely rely on the State Pension ?

## Retirement Old Age Contributory Pension 2013

| | |
|---|---|
| **Personal Rate** | **€230.30 (€11,976 p.a.)** |
| **Personal + Adult dependant (over 66)** | **€436.60 (€22,703 p.a.)** |
| **Average Industrial Wage** | **€675.53 (€35,128 p.a.)*** |

*CSO.ie Earnings & Labour Costs Q3 2013

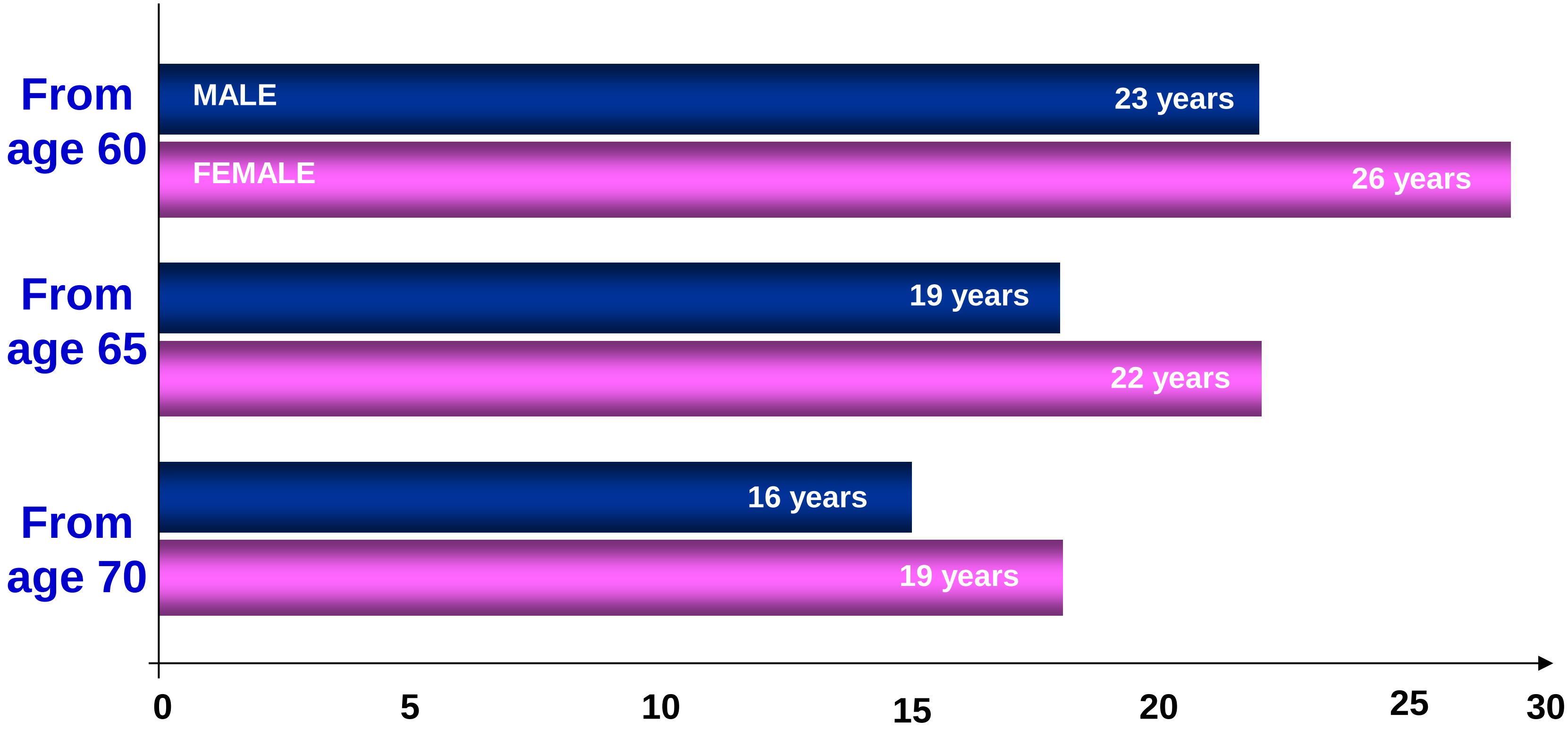
# Drop in income if relying on State Pension



# Life Expectancy

Irish Life

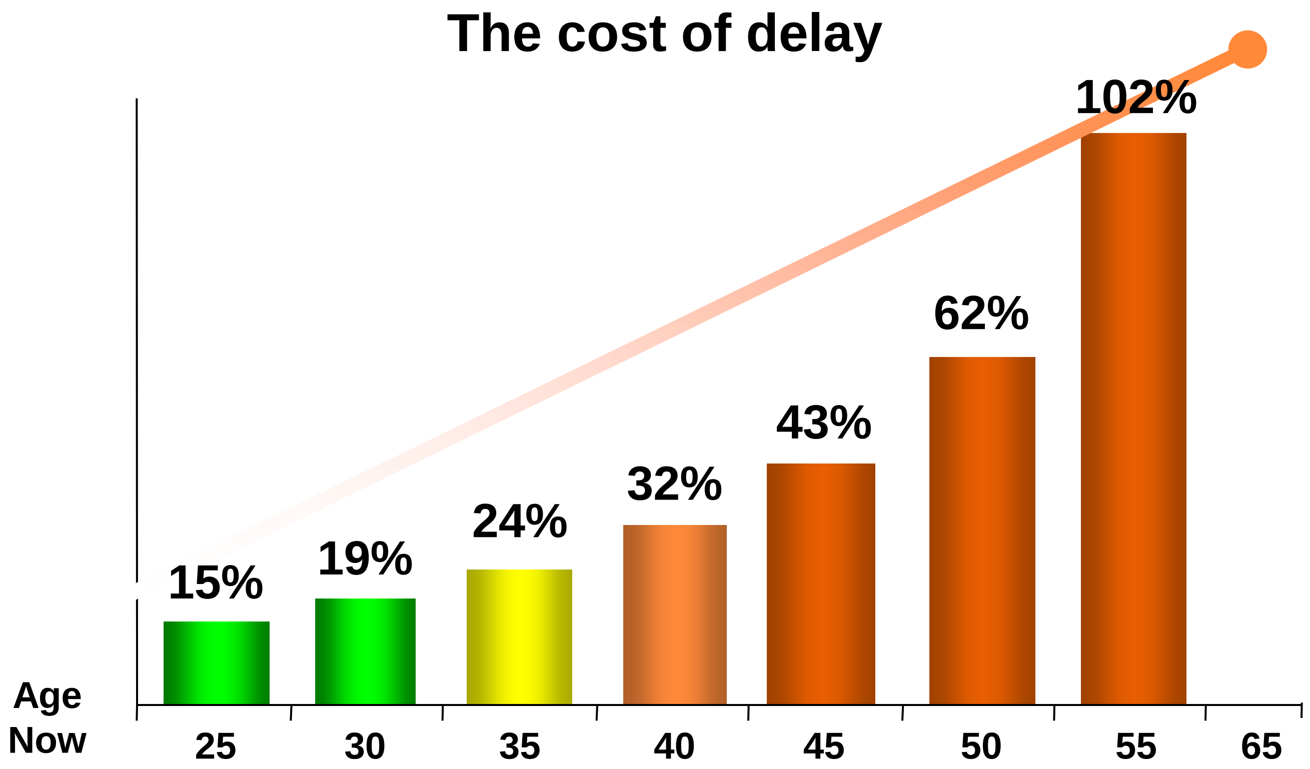
## People are living much longer in retirement*




* Source Swiss Re. 2010

# Replacing your income

## Percentage of salary needed




**Targeting 67% of salary at age 65**

# Pensions Family Tree

| Personal Pension / PRSA | Company Pension |
| --- | --- |
| Self Employed or Employee | Set up by Employer for Employee |
| Individual Legal Owner | Set up under trust<br>Trustee Legal Owner |
| Contribution Limits<br>No Benefit Limits | Benefit Limits<br>No Contribution Limits |

# Personal Pensions

# Personal Pension Plans

**You can contribute to a Personal Pension if,**

1. **Self employed** – in a trade or profession and have Net Relevant Earnings (NRE) taxed under schedule D, Case I or II
2. **Employed person** - with PAYE salary taxed under schedule E and **not** a member of employer's company pension scheme

# Personal Pension - Income Tax Relief

- Clients can receive full income tax relief on their personal contributions subject to certain limits:

| Age | % of Salary |
|---|---|
| Under 30 | 15% |
| 30 – 39 | 20% |
| 40 – 49 | 25% |
| 50 – 54 | 30% |
| 55 – 59 | 35% |
| 60 and over | 40% |

- Subject to earnings cap - €115,000

# Personal Pension-Retirement Benefits

Irish Life

- Access benefits between 60 & 75
  - On ill health early retirement at any time
- 25% of fund can be taken as a Lump Sum

**Balance can be used to:**

1. Purchase a pension annuity
2. Invest in an Approved Retirement Fund (ARF)
3. Take as cash, subject to tax

Options 2 & 3 subject to client having a guaranteed income for life of €12,700 p.a.

If not, €63,500 must be invested in an Approved Minimum Retirement Fund (AMRF)

# PRSAs

# PRSAs

## Who can contribute to a PRSA?

- Anyone with a PPSN who is “chargeable to tax in respect of relevant earnings”

## Contributions can be made by:

- Employee only
- Employee AND Employer
- Employer only

# PRSAs – Income Tax Relief

Irish Life

- The client can contribute up to the limits shown below, subject to a salary cap of €115,000

| Age | % of Salary |
|---|---|
| Under 30 | 15% |
| 30 – 39 | 20% |
| 40 – 49 | 25% |
| 50 – 54 | 30% |
| 55 – 59 | 35% |
| 60 and over | 40% |

- Employer can also contribute but these limits apply to the total employer and employee contributions

- Any employer contribution over these limits will incur a BIK income tax liability for the employee

# PRSA - Retirement Benefits

Irish Life

## Retirement Age

- between 60 & 75
- Employee's who leave employment can take benefits from 50
- On ill health early retirement at any time

## Benefits

- 25% of fund can be taken as a Lump Sum

## Balance can be used to:

1. Purchase a pension annuity
2. Invest in an Approved Retirement Fund (ARF)
3. Take as cash, subject to tax
4. Remain in the PRSA, PRSA effectively

   becomes an ARF / AMRF

Options 2 & 3 subject to client having a guaranteed income for life of €12,700 p.a.

If not, €63,500 must be invested in an Approved Minimum Retirement Fund (AMRF) or left in PRSA

# Company Pensions

# Company Pension Eligibility

## Who can take out a Company Pension Plan?

- Anyone with source of remuneration assessable to tax under Schedule E, including Proprietary Directors

## What counts as remuneration?

- Basic Salary
- Bonuses
- Directors Fees
- Commission
- BIK

# Types of Company Pensions

- Defined Contribution one-member schemes
  - Provided by Retail e.g. Executive Pension
- Defined Contribution Group Schemes
  - Provided by Corporate Business
- Defined Benefit Schemes e.g. Public Sector

# Who can pay into scheme?

- Employer must contribute
  - 10% of total contributions, excluding AVCs for one man defined contribution scheme
- Member does not have to contribute
  - Under Irish Life scheme rules this is for the employer and employee to agree
- Member can pay Additional Voluntary Contributions (Group AVC Scheme or PRSA AVC)

# Tax Advantages

1. Contributions invested in Tax Exempt Fund
2. Tax Free Lump Sum at Retirement
3. Employee can contribute between 15% and 40% of earnings
4. Full tax relief on contributions
   - Employer - corporation tax relief at 12.5%
   - Employee - income tax relief at 20% or 41%
5. **No BIK on Employer contributions**

# Retirement benefits

- Can be taken at normal retirement age NRA
  - Usually set between 60 and 70
  - On ill health early retirement at any time
- On early retirement from age 50
  - If they are retiring from company
  - With employer's consent

# Maximum Benefits Allowable

- Max Retirement Fund that will provide pension of 66.67% of final salary at NRA (with 10+ years service)

- Including: Indexation / Escalation at 3% p.a. or CPI
  Spouses pension
  Must include all other pensions / retained benefits

- Subject to: Standard Fund Threshold (SFT): €2,000,000

# Retirement Benefits

- Members in DC schemes have two options to choose from at retirement
  1. Salary & Service Route
  2. ARF Route

- Defined Benefits Schemes
  - Employees must take their retirement benefits the salary & service route.  Only AVCs will have ARF options
  - Proprietary directors may have ARF options

# Salary & Service Route

- Pension up to 66.67% of Final Salary (10yrs)

***OR***

- Retirement Lump sum up to 150% of Final Salary (20 yrs) and reduced pension

**AVC Fund:**

- Can augment lump sum received from main scheme (subject to 150% x Final Salary)

- After Lump sum, balance of AVC fund can be used to:
  - Purchase pension annuity
  - Invest in ARF/ AMRF*
  - Can be taken as cash, subject to tax*

*Min guaranteed pension €12,700 pa or
AMRF €63,500 rule applies

# ARF Route

**Lump Sum Option**

- 25% of the value of the pension fund

**With Balance of fund**

- Buy a pension
- Invest in an ARF*
- Take as a taxable lump sum*

* Subject to €12,700pa guaranteed income or €63,500 AMRF

# Taxation of Lump Sums

# Taxation of Lump Sums at Retirement

- Lump Sums that exceed €200,000 are subject to tax as follows

| Lump Sum Amount | Income Tax |
|---|---|
| First €200,000 | Exempt |
| Next €300,000 | Standard Rate Tax only |
| Balance | Marginal rate income tax plus PRSI & USC |

- These limits include all retirement lump sums taken since 7th December 2005

# ARFs & Annuities

# Approved Retirement Fund (ARF)

Irish Life

- A lump sum post retirement investment plan
- Source of ARF fund must be from a “retirement benefit scheme” (Personal / Company / AVC / PRSA / PRB)
- Can invest in same funds as pre retirement
- Can draw down income (regular or once-off)
- All withdrawals are subject to income tax, PRSI & USC
- On death fund paid to client’s estate

# Approved Minimum Retirement Fund (AMRF)

Irish Life

**If you don't already have a pension of €12,700 p.a.**

You must first invest €63,500 in Approved Minimum Retirement Fund (AMRF) before investing in ARF

***OR***

Buy an annuity (pension) with €63,500

- Can only withdraw growth from AMRF until
  - Client meets guaranteed income requirement, or
  - Age 75
- AMRF fund can purchase an annuity at any time

# Annuities

Irish Life

- An annuity is the only investment that ensures an income for life, no matter how long one lives

- An annuity suits those who have a low appetite for risk and demand certainty of income in retirement

**Annuity Rate is determined by:**

- Clients Age,
- Prevailing Interest Rates
- Mortality Rates

# State Pension Changes

# State Pension Age

Irish Life

- State Pension Age is to increase to 68 by 2028

| Year | State Pension Age | Year of birth of those at State Pension Age |
|---|---|---|
| **2014 to 2020** | State Transition Pension abolished in 2014, pension age increased to 66 | 1948* to 1954 |
| **2021 to 2027** | Increase to 67 | 1955 to 1960 |
| **2028 onwards** | Increase to 68 | 1961 or later |

* Some people born in 1948 may have qualified for the State Pension at 65 in 2013

# Summary

Irish Life

- The Need For Pension Planning
- Personal Pensions
- PRSAs
- Company / AVC Pensions
- ARFs / Annuities

The information and tax rates contained in this presentation are based on Irish Life's understanding of legislation and Revenue practice as at April 2014 and may change in the future.  While great care has been taken to ensure the accuracy of the information contained in these slides, Irish Life cannot accept responsibility for its interpretation nor does it provide legal or tax advice.