Five reasons to set up a pension

Patrick O'Shea, manager, and **Susan Gibson**, director, Pensions, at Irish Life set out their five-point argument for pension investment

1. The future of the state pension?

Demographic changes in Ireland will put increased pressure on government finances as the cost of state pensions and healthcare for the elderly increase. Currently in Ireland, there are six adults of working age for every one adult over 65, but this ratio is predicted to change to 2 to 1 by 2050.

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

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. From January 1, 2014, the state pension age is in effect increased to 66 by removing the state pension (transition) for new applicants.

The state pension age will increase to 67 from January 2021 and then increase to age 68 from January 2028. So those born in 1961 or later will not receive the state pension until they are 68.

3. Life expectancy

Life expectancy is now 76 years for Irish-born males and 81 for females. While this is a good thing, it is also something to be aware of when planning for retirement. Your retirement savings may need to last for up to 30 years after you finish working.

4. Income tax relief

To encourage people to save for retirement, income tax relief is provided on pension contributions. Tax relief is available on up to 41 per cent of the pension contribution for a top rate taxpayer or 20 per cent for a standard rate taxpayer.

This means that for every €100 you put into your pension fund, it could only cost you €59 if you are paying income tax at the top rate.

5. Tax-free retirement lumpsum and flexible retirement options

Pensions are long-term savings plans, and benefits cannot be taken until age 60 and/or you retire. Your options at retirement are typically to take part of your pension fund as a retirement lump sum and use the remainder to provide a regular income in retirement.

Susan Gibson, director, Pensions, Irish Life

Most people have the option to take 25 per cent of the fund as a tax-free lump sum. If you have a company pension, instead of taking 25 per cent, you can take a retirement lump sum of up to one and a half times your final salary, depending on the length of time you have actually been employed. Within these limits, the maximum tax-free retirement lump sum you can receive is €200,000.

How you use the remainder of your pension fund depends on the type of pension you have. If you are in a defined benefit (DB) company pension, the balance of your pension must be used to buy a pension for life.

If you have a defined contribution (DC) company pension, a personal pension or a PRSA or have made additional voluntary contributions (AVCs), your fund can be used for one or more of the following: to buy a pension for life, invest in an approved retirement fund (ARF) or an approved minimum retirement fund (AMRF) or alternatively to take it as a taxable cash sum.

The income you receive will be treated the same as any of your other income in retirement, meaning it will be subject to things like income tax, universal social charge, PRSI and any other charges or levies (tax) applicable at that time.

You need to plan well in advance to make sure you fund for the options that suit you best for your retirement. Then, by the time you approach retirement, the hard work will be behind you.

Everyone needs to consider their options carefully and should seek expert advice from their financial broker or adviser.