Your No.1 Supporter

Irish Life

Supporting your pension plan

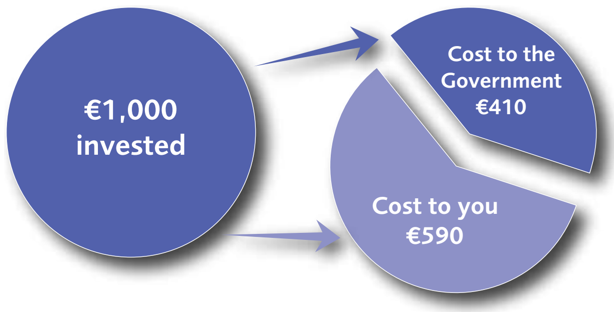
Pensions – A tax efficient way to save for retirement

For Personal Pension clients

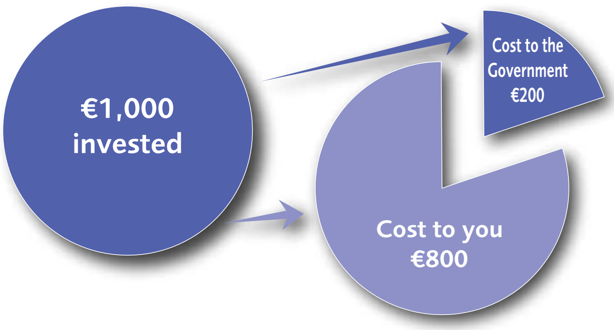
Did you know that for every **€1,000 you put into your retirement fund, it actually only costs you €590 if you are paying income tax at the top rate.**

You may get full tax relief

41%



20%



Tax relief is available to self employed schedule D (case 1 or 2) or Schedule E non pensionable. For more information see page 3.

These rates are correct as at August 2012.

Subject to an earnings cap of €115,000 you can contribute up to a certain percentage of your salary, and claim income tax relief, depending on your age.

Age	% of net relevant earnings
<30 yrs old	15%
30 - 39 yrs old	20%
40 - 49 yrs old	25%
50 - 54 yrs old	30%
55 - 59 yrs old	35%
60 yrs old Plus	40%

Pension income in retirement is subject to income tax at your highest rate on withdrawal, Universal Social Charge, PRSI (if applicable) and any other charges or levies (tax) applicable at that time.

Warning: If you invest in an AMRF you will not have access to your initial investment amount until age 75.

Your options at retirement

25% can be taken as a retirement lump sum

The remaining 75% can be

Invested in an Approved Retirement Fund*
(Any withdrawals are taxed as income).

and/or

Purchase an annuity which provides an income payable for life
(Taxed as income)

and/or

Taken as taxable lump sum
(Subject to AMRF rules)

OR a combination of all three options can be taken with the remaining 75% of the fund.

* Unless you have a guaranteed pension income for life of €18,000 a year when you retire, €119,800 of your fund must be invested into an approved minimum retirement fund (AMRF). Growth from your AMRF can be taken at any time, however the original investment amount cannot be withdrawn until age 75, unless it is used to purchase an annuity or you start receiving a guaranteed pension income for life of €18,000 a year form other sources. Any amount withdrawn from the AMRF will be taxed as income.

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Case Study of how tax effective pensions are today and in retirement

The tax effectiveness of pensions today and in retirement

Consider a male married client aged 45 with a current salary of €80,000 who is aiming to retire at age 68. At 68, under current legislation a married couple can earn up to €36,000 a year without paying income tax. The case study shows an example of a client who wishes to make use of this exemption limit and is outlined in the following 4 steps.

Step 1 Maximum Pension Contributions

The current income tax relief band for a 45 year old is 25% of salary (see table overleaf). So this client could contribute €1,666 per month to a pension within his individual limit.

If your contributions are deducted from your bank account you can apply to your local Inspector of Taxes to have your tax credits adjusted to reflect your pension contributions. If you are self employed, you must include your pension contributions in your self assessment tax returns in order to get income tax relief. Income tax relief is not guaranteed.

Step 2 Affordability

Having considered the maximum contributions for tax relief, the client decides that he can afford to personally contribute a net amount of €600 per month to his pension. Income tax relief is at the higher rate of 41% in this example.

Net cost of initial contribution:	**€600 per month**
Gross contribution allowing for income tax relief at higher rate 41%	€1,017 per month
Income tax relief at higher rate 41%	€417 per month

Step 3 Options at retirement

The values below are shown in today's terms. The estimated value based on contributions of €1,017 per month is €320,577. Benefits can be taken as follows.

25% retirement lump sum	**€80,144**
Remaining fund available	**€240,433**

and/or and/or

Invest in ARF/AMRF	Purchase an annuity	Take as a taxable lump sum
€240,433	€12,358 per annum (increasing at 2%)	(less income tax and USC, subject to AMRF rules)

The values in today's terms above are based on an assumed inflation rate of 3% per year.

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

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.

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Step 4 Taxation in today's terms

The pension figures in today's terms on page 3 can be looked at to see how this would be treated under current taxation limits.

	Annuity	ARF/AMRF
Projected remaining fund available in today's terms (after taking retirement lump sum)	€240,433	€240,433
AMRF requirement	-	€119,800
Remaining fund	€240,433	€120,633 (ARF)
Projected income figure in today's terms at age 68 (year 1)	€12,358	€6,031 (5% of ARF amount)
State Pension (Contributory): based on full personal rate plus adult dependant over 66	€22,703	€22,703
Total income	€35,061	€28,734
Married income tax age exemption limit:	€36,000	€36,000
Income tax payable:	€0	€0

So in today's terms the client's combined state and personal pension benefits are under this exemption limit under either the annuity or ARF/AMRF options. Assuming the client isn't receiving other income in retirement that brings him over the income tax exemption limit, he could receive the total income amount above without deduction of income tax.

Under current USC bands the client's annuity income would fall into in the 2% and 4% bands, while 5% of the ARF value would fall below the USC exemption limit.

The current income tax exemption limit for a married couple over 65 is €36,000 and for a single person is €18,000. The current full social welfare State Pension (Contributory) including an adult dependant is €22,703 and for a single person is €11,975 as at August 2012.

Assumptions: Figures are based on investing in the Consensus Fund with a 0.75% annual fund charge and 0.5% plan charge through Complete Solutions 1 Personal Pension plan; 96% investment allocation; Gross fund growth of 6% per annum before charges; Premiums increasing by 3% per annum; Inflation rate of 3% per annum; These charges may change depending on the products and options chosen. Annuity rate used for single life is 5.14% and is based on a post-vesting interest rate of 4% per year. The annuity rate used is a long term average rate and is not guaranteed.

We advise that you seek professional tax advice as the information given is a guideline only and does not take into account your personal circumstances.

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