

PENSIONS FAQ

What is a pension?

A pension is basically salary you have deferred taking during your working life. You make regular or lump sum contributions to an investment fund and at retirement you receive a regular payment on top of your State Pension entitlements. A very simple rule of thumb is that the fund should be at least 20 times what you hope to receive from it each year you are retired.

What tax benefits are there to contributing to a pension?

There are significant tax advantages to contributing to a pension;

- Tax relief at your marginal rate (either 20% or 40%) on contributions going in to the fund, subject to age related contribution limits

In other words, for every €100 you invest in a pension, the net cost to you is either €80 or €60, depending on your marginal tax rate

- Tax free growth on your investment over the term
- An element of the retirement lump sum is available tax free at retirement

Why a pension, why not a savings plan or an investment property?

Contributions to savings plans are paid out of taxed income and gains are subject to tax, typically at 40% of the growth. Investment properties are also subject to significant tax liabilities on the income and on any capital gains, and are illiquid in nature.

When should I start paying into a pension?

You should start a pension as young as possible. The longer your investment period, the greater your fund will be at the end of it due to gains being compounded each year. That said, it is never too late to start a pension.

How much can I contribute?

The table below sets out the maximum contribution rate at which you can obtain tax relief subject to a maximum salary cap of €115,000.

| Age | Percentage of Annual Salary |
|-----|-----------------------------|
| <30 | 15% |
| <40 | 20% |
| <50 | 25% |
| <55 | 30% |
| <60 | 35% |
| >60 | 40% |

Source: Revenue – www.citizensinformation.ie. Information is correct as at 11/08/2015.

How much do I need to contribute to my pension?

Assuming your salary is currently €40,000 and that this increases at 3% per annum. The following table sets out how much you should be contributing to your pension to receive a pension, including state benefits of 50% of your salary at retirement age (linked to the age at which you will be entitled to the State Pension). It is assumed that contributions will increase by 3% per annum also and you have no other retained benefits.

| Starting Age | Contribution Required from Annual Salary | Fund Risk Level |
|--------------|--|---------------------|
| 25 | 9% | Medium to High Risk |
| 30 | 10% | Medium to High Risk |
| 35 | 14% | Medium Risk |
| 40 | 17% | Medium Risk |
| 45 | 21% | Low to Medium Risk |
| 50 | 26% | Low to Medium Risk |
| 55 | 35% | Low to Medium Risk |

What funds should I invest in?

You should invest in funds that reflect your own attitude to risk. Low Risk funds are cautious and typically lose less of their value in bad market conditions than Higher Risk fund. Conversely, in good market conditions, they will gain less in value than the Higher Risk Funds.

Funds are typically made up of a mixture of assets such as equities, bonds (debt issued by governments and large companies), property, commodities (such as copper) and cash. Low Risk funds are made up predominately of bonds and cash. High Risk funds are mostly comprised of equities.

You may also use a pension to invest directly in shares, deposit accounts, property and other investment products. This flexibility is normally restricted to personal pension holders or company owners.

In deciding the level of risk you are willing to accept, you should consider how long you have to retirement, how sophisticated your investment knowledge is, how comfortable you are with volatile investments and what your ultimate goal is.

When will I be entitled to the State Pension?

| Year Born | State Pension Age |
|--------------|-------------------|
| Pre 1955 | 66 |
| 1955-1960 | 67 |
| 1961 onwards | 68 |

Information is correct as at 11/08/2015.

When can I retire?

Typically you can retire at any stage from the age of 60. As an employee, you may be able, with the agreement of your employer, to retire in your fifties. You must take occupational pension benefits before the age of 70. Please be aware of the impact early retirement will have on your pension income.

What benefits will I received when I retire?

When you reach your retirement age you will have a number of options;

- Take a lump sum of up to 1.5 times your final salary (subject to a minimum number of years service) and the balance of the fund must be used to purchase an Annuity
- Take a lump sum of up to 25% of the fund and use the balance to purchase an Annuity, invest in an Approved Retirement Fund (ARF), or (subject to meeting certain requirements) take as a taxable lump sum.

What is the difference between an Annuity and an ARF?

An Annuity is a regular income for life purchased with a lump sum. This income can be index-linked to protect it against inflation and you may choose to guarantee its payment for an initial period of 5 or 10 years and then for life thereafter. You may also elect to make provision for your spouse upon your death of a reduced Annuity payable until his or her death. Please note that every one of these options has the effect of reducing the initial income payable to you. Furthermore, once the initial guarantee period has passed, subject to there being no spouse's pension, all payments will cease on your death and there is no lump sum available for your estate.

An ARF is a fund through which you may invest in approved investments which will grow tax free. You must take a minimum income of 4% of the value of the fund each year, which will be subject to Income Tax, PRSI and USC. If you do not have guaranteed lifetime income of €12,700 per annum, you must invest the first €63,500 of your fund in an Approved Minimum Retirement Fund (AMRF). You may elect to take one withdrawal in a year up to a maximum of 4% of the value of the AMRF at the time of the withdrawal. Any withdrawal is subject to PAYE and USC. You may not access the balance of the AMRF until your 75th birthday. On death, the then value of the fund will form part of your estate.

What taxes will I have to pay?

Currently, the first €200,000 of the retirement lump sum is tax free. Any amount between €200,000 and €500,000 is taxed at 20%. Income from annuities or ARF's is treated similarly to earned income and is subject to Income Tax, PRSI and USC under the same rules.

Information is correct as at 11/08/2015.

What happens if I die before retirement?

If you die before retirement, the value of your fund will be paid to your estate, if you have a personal pension or a PRSA. If you are a member of an occupational pension scheme, your fund will be paid out by the trustees in accordance with the scheme rules and Revenue limits.

What happens if I die after retirement?

If you have chosen the annuity option and assuming you have not made provision for a spouses' pension, your pension will cease and there is no fund transferable to your estate. If you die within the guarantee period (typically an initial 5 or 10 year period after retirement) the balance of payments to the end of the guarantee period will be paid to your estate.

If you have chosen the ARF option, the value of the fund will form part of your estate.

What if I want to retire early?

You can retire before the age of 60 but will require the agreement of your employer to do so. You must take into consideration that you will not receive your State Pension entitlements until your late 60's and the detrimental impact retiring early would have on your pension fund.

How often should I check on my pension's performance?

A pension is a long term investment and movements in value are likely to occur regularly over time. We recommend that you look at the performance at least once a year in the company of your financial adviser. As you get closer to retirement, you should review its performance and the continued suitability of the fund choice at more regular intervals.

The information contained in this document is based on our understanding of legislation as at 11th August, 2015 which may change in the future. While great care has been taken to ensure the accuracy of the information it contains, we cannot accept responsibility for its interpretation, nor does it provide legal or tax advice.