Irish Life

In your forties… it's the time to review your plans for retirement

Pension planning with Irish Life

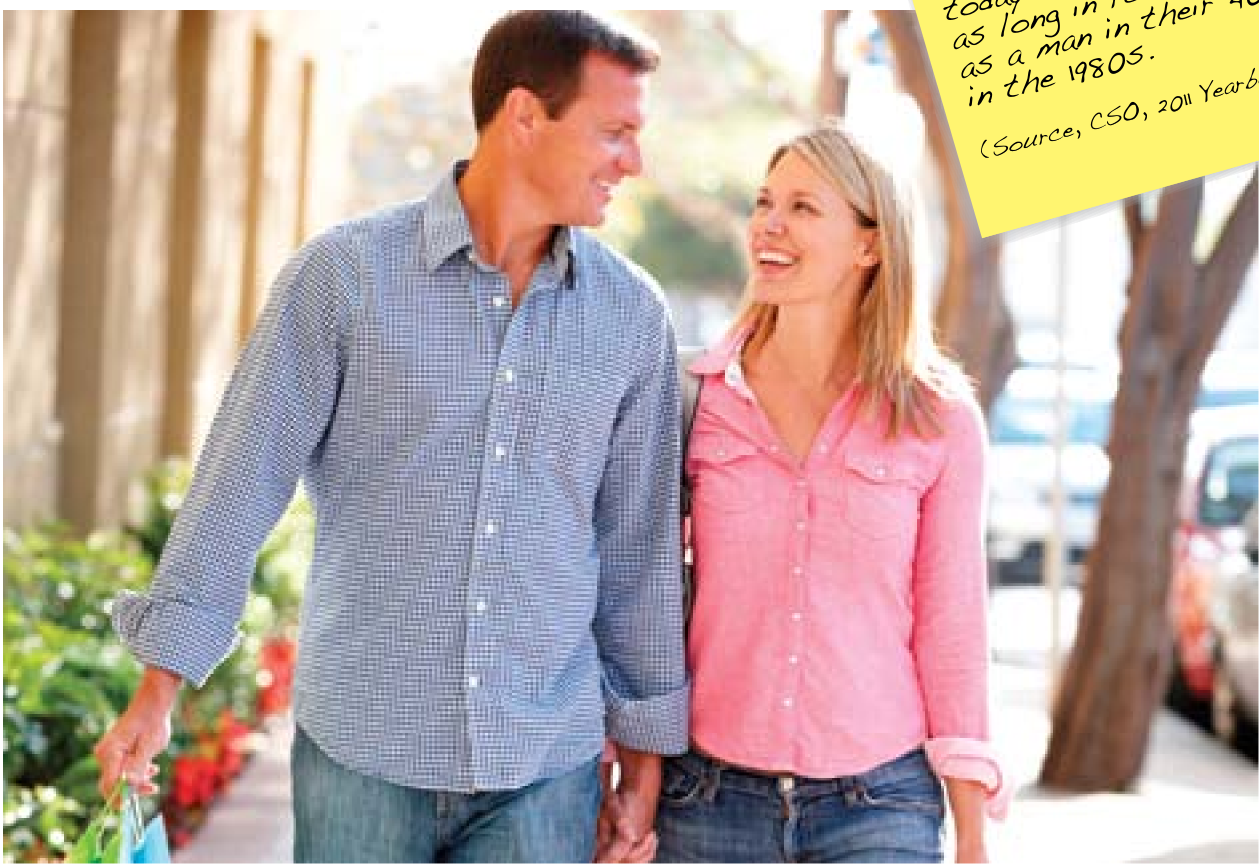
Planning for a longer life

First the good news – as a nation, we're living longer! And not just by a little. According to the 2011 Census, there are 58,416 people aged 85 or over – that's 10,000 more than the previous 5 years.

Of course, as life expectancy increases so does our need for a realistic retirement plan. For most of us that will include a well-funded pension. A pension will help you ensure that your retirement years are spent doing the things you always wanted to, not regretting the opportunities you missed.

A man aged 40 years today will live twice as long in retirement as a man in their 40s in the 1980s.

(Source, CSO, 2011 Yearbook)



Introduction

Have you made a realistic plan for your retirement yet?

That's the question we all need to ask ourselves, whether we're in our twenties or closing in fast on retirement age.

In recent years there has been extensive media debate about the challenges around retirement. Challenges like whether the Government can afford to maintain the State Pension at the present level. Concerns about changes in Government policy, such as the pensions levy and a possible change in income tax allowances. The difficulties we face because of a rise in the official State retirement age. And, of course, stress caused by the general economic crisis.

We can't solve every problem in one go. But we can make a good start, with realistic retirement planning with Irish Life.

PENSION CALCULATOR CLICK HERE

Take advantage of income tax relief

Even if you're sure you have all the savings you'll ever need, a pension would still be worth it for the income tax relief alone. The Government actively encourages you to put your money into a pension, as a good way to keep your own taxes working for your own benefit.

€100 invested	Tax rate 20%
	Tax relief €20
	You pay €80

€100 invested	Tax rate 41%
	Tax relief €41
	You pay €59

For lower rate taxpayers it means that every €100 invested in a pension saves €20 off your tax bill. For higher rate taxpayers the benefit is even greater, saving €41 for every €100 you invest. And at the end of the day, when you come to cash in your pension, you can take up to 25% of it as a tax-free lump sum (up to a limit of €200,000). For a company pension your lump sum may be based on your salary and service (up to a maximum of one and a half times of your annual salary but up to a limit of €200,000).

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

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

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

Income tax relief is not guaranteed.
To be eligible to claim income tax relief, your income must be taxable either Schedule E or Schedule D (case I or II). To claim income tax relief, you can apply to your Inspector of Taxes to adjust your tax credits. Contributions deducted from salary will receive immediate tax relief. If you are self-employed, you must include your pension contributions in your self assessment tax returns in order to obtain income tax relief.

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.

Life on the State Pension

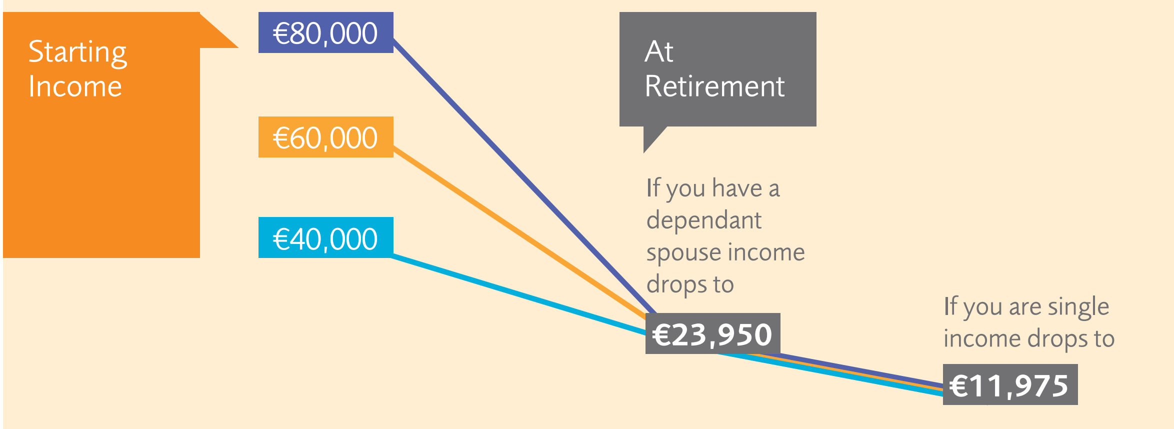
The fall-back retirement option is of course to make do with the State Pension, assuming you are eligible. Sounds like a good idea until you hear what you actually get. Currently the State Pension (Contributory) for a single person is just €230.30 a week, which adds up to a grand total of €11,975 a year. That's even lower than the minimum wage.

That might seem hard enough, but in view of our aging population it will probably get worse. Today there are six workers paying taxes to support every one pensioner (Source: Census 2011). By 2050 it's estimated there will be just two workers supporting each pensioner. That just doesn't add up. Already, everyone under 50 will have to wait an extra three years till they're 68 to claim the State Pension.

How can you tell how much you'll need?

Most of us find it hard to look so many years into the future and imagine what it takes to provide a comfortable retirement. For example you might have little or no mortgage but you might have higher medical or leisure expenses. To give you an idea it is worth comparing with the lifestyle and income level you have now. The difference between the State Pension and your income could be the gap you need to fill with a pension. The more you earn now, the bigger the drop in lifestyle you may face as you can see in the graph below.

Income Drop at Retirement



So, in the example above, if you earned an annual income of €60,000 and were planning to rely solely on the single State Pension (Contributory), you would be taking a drop in income of 80% of your current salary, or a yearly drop of €48,025.

FACT: Eight out of ten people say that the State Pension would not meet all their needs in retirement.

(Source: Pensions Board, August 2012)

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This is Patrick. He's married to Grace and they have four teenage children. Patrick is 48 and is an IT Consultant. Grace has recently returned to the workforce and started a new pension plan. At the moment the biggest strain on Patrick's pocket are second and third level fees. He started paying into a pension a few years ago but has forgotten about it since.

Check out our online Pension Calculator on **www.irishlife.ie** to see the kind of income you can expect in retirement.

For advice on how to make the most of your retirement savings now, book a meeting with a Pension Adviser today.

What to do if you're 40-something

Time for action

For those of us with a pension already, it's very easy to put it away in a drawer and forget about it. But in fact the benefit of regular reviews and adjustments is invaluable. You could be missing out on tax incentives. Or you could be still contributing the same amount into your pension as you did when you started, even though you now earn far more. Or if you are a couple with both of you earning, there are ways to maximise income tax relief for each of you.

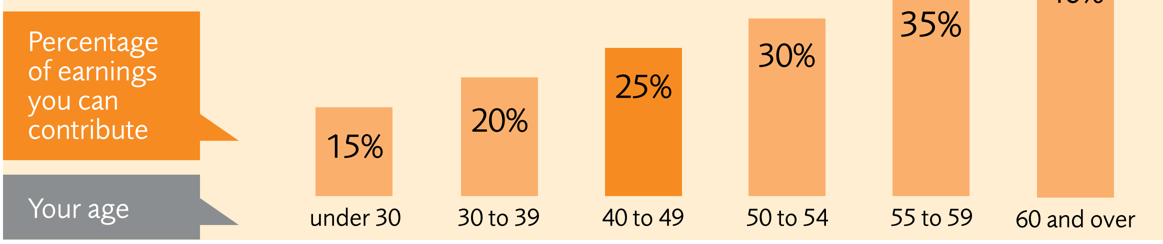
If you haven't started a pension, now is the time to get serious. You can expect to be spending as many years if not more in retirement as you have left in work.

Which makes a proper retirement savings plan all the more important.

It really depends on your own circumstances but as a rule of thumb, the tax relief limits on your pension contributions are around half of your age. So you could be investing about half your current age as a percentage of your income. If you're 40 now, that would mean setting aside 20% of your income for a pension. It may seem a lot but with the income tax relief it's not so hard.

So, someone earning €45,000 should be saving €750 a month – but with income tax relief it might cost them just €442 from their take-home pay!

Maximise your income tax relief



The graph above shows that if you were 40 years old earning €70,000 a year you would be able to save €17,500 each year into your pension and receive income tax relief on this saving. Pension income in retirement is subject to income tax at your highest rate on withdrawal, Universal Social Charge (USC), PRSI (if applicable) and any other charges or levies (tax) applicable at that time.

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Q&A

"With all these new taxes, am I right to stick with my pension?"

No doubt about it, times are tough for the economy. All of us are paying extra taxes one way or another. Some may question whether putting money into a pension is a priority right now. But if you don't do it, no one else is going to do it for you. The current single State Pension (Contributory) is a grand total of €11,975 a year. That's actually below the Government's own minimum wage. Even if you have no mortgage left to pay in the future, that's not much to get by on.

The good news is that pensions are much more flexible than most people think. You can change the level of contributions, you can even take a payment holiday if something major happens – for instance, a gap in employment due to redundancy.

"What if I just rely on the State Pension?"

The State pays for pensions out of current tax income, not what you contribute in taxes yourself. Which means that you will be relying on the taxpayers of the future to pay for your pension. However, based on current trends there will be far fewer people in work versus retirement by the time you retire. That will make the current State Pension less and less affordable:

(Source: National Pensions Framework, 2010)

FACT: 238,000 additional people will reach 65 during the next 10 years.

(Source: Central Statistics Office 2011)

Don't leave yourself dependent on future taxpayers

Did you know that the qualifying age for the State Pension has gone up from 65 to 68 for today's 40-somethings? That means, if you were planning on retiring at 65, you will have a three year gap to fill. Fortunately, if you start planning now, this needn't be too much of a strain. Talk to your Pension Adviser today and make sure you keep all your options in place.

"What's my pension worth right now?"

If you already have a pension, you can ask one of our Pension Advisers any time for an update. We'll also give you an estimate of what your pension would be worth in retirement. It's important to meet with your Pension Adviser each year to check if you are on track with your retirement plan. During the Pension Review the Pension Adviser will discuss all aspects of your retirement plan and help you take control of your future.

FACT: Research shows that one in five Irish people don't know how much they are currently saving into their pension.
(Source: Amarach Research August 2011)

Checklist for 40-something:

- [ ] If you have started a pension already, do you know what type of funds your pension is invested in?
- [ ] Are you on track with your expected retirement income?
- [ ] Have you met your Pension Adviser in the last year?
- [ ] Do you take time to read your Pension Benefit Statements or keep track online?
- [ ] Do you know that you can claim income tax relief on your pension? (Up to 25% until age 50 and higher afterwards.)
- [ ] As a couple, are you both maximising your income tax relief benefits?
- [ ] Do you know that you may be able to arrange Pension Life Cover and claim back income tax relief?
- [ ] If you haven't started a pension, then see for yourself what you can afford with the easy to use online Pension Calculator at www.irishlife.ie. Then talk to your Pension Adviser.

Irish Life – strength and experience

Established in Ireland in 1939, Irish Life is now part of the Great-West Lifeco group of companies, one of the world's leading life assurance organizations.

Irish Life has over 1 million customers and is Ireland's leading pension provider.
We provide pensions to the Irish employees of over 3,000 companies, state bodies and unions.

Irish Life Investment Managers (ILIM) is a separate company within the Great-West Lifeco Group and provides asset management services to Irish Life.

Irish Life Investment Managers (ILIM) is Ireland's biggest and most successful fund manager. ILIM currently manages €38 billion for private investors and leading Irish and international companies.

Information correct as of June 2014.

For the latest information, please see www.irishlife.ie.

To discuss your retirement plan contact your Financial Broker or Adviser today.

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

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