

PENSIONS
INVESTMENTS
LIFE INSURANCE



Irish Life

10 KEY REASONS WHY PENSIONS STILL MAKE SENSE

THIS IS NOT A CUSTOMER DOCUMENT AND IS
INTENDED FOR FINANCIAL ADVISERS ONLY.



1. THE STATE PENSION UNCERTAINTY

The State Pension (Contributory) personal full rate for a single person is currently €243.30 per week, or €461.30 per week with an adult dependant allowance.

Demographic changes in Ireland, as in countries across the EU, will put pressure on government finances as the cost of state pensions and health care for the elderly increase. Currently in Ireland there are 5 adults of working age for every pensioner, but this ratio is predicted to change to 2.1 to 1 by 2050.



Source: Finfacts 2016

The State Pension (contributory) is financed on a pay-as-you-go basis out of PRSI contributions plus additional contributions from government finances to cover any shortfall. The National Pensions Reserve Fund was established to help meet costs of social welfare and public service pensions from 2025 onwards. In 2009, it was required to make investments in credit institutions and Irish Government securities, as directed by the Minister of Finance. This has resulted in a large share of the pension reserve fund being used for the recapitalisation of Irish banks.

(Source: OECD Reviews of Pensions Systems: Ireland, 2014)

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

2. AGE TO RECEIVE STATE PENSION IS INCREASING

Legislation is now in place that will increase the age at which the State Pension becomes payable in the future.

Date	State Pension Age	Year of birth of those reaching State Pension age
2014 to 2020	The State Pension (Transition) was abolished for new applications, thereby increasing pension age to 66	1948 to 1954
2021 to 2027	Increases to age 67	1955 to 1960
2028 onwards	Increases to age 68	1961 or later

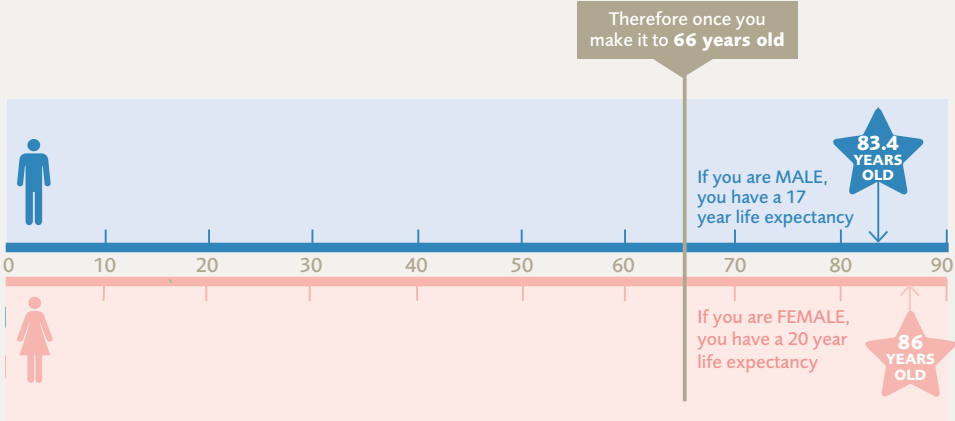
These changes are happening and people need to look now at the impact they will have on their plans for retirement. Somebody born in 1961 or younger will not receive the state pension until they are 68.



3. LIFE EXPECTANCY IS INCREASING

With improvements in health care and lifestyle, people are living much longer and leading more active lives in retirement. While increasing life expectancy is a good thing, it is also something your clients need to consider when planning for their retirement.

Your client's retirement savings may need to last over 20 years after they finish working.



Source: EurOhex 2018 - Ireland Country Report

4. INCOME TAX RELIEF

Income tax relief is still available on contributions made personally to a pension. This relief is available on up to 40% of the contribution for a top rate tax payer, or 20% for a standard rate tax payer. For a higher rate tax payer, this is equivalent to the government topping up your net pension contribution by up to 67%!



Income Tax Rate	Pension Contribution net of Income Tax Relief	Gross Pension Contribution	Increase from net cost to gross contribution
40%	€6,000	€10,000	67%
20%	€8,000	€10,000	25%

In addition to income tax relief on any personal contributions, employer contributions to a Company Pension are also tax deductible and no benefit-in-kind is appropriated to the employee. No benefit-in-kind (BIK) means, no income tax, no PRSI & no Universal Social Charge (USC) – potentially around 52%. Pension income in retirement is subject to income tax at your clients highest rate on withdrawal, USC, PRSI (if applicable) and any other taxes or government levies applicable at that time.

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, your client can apply to their Inspector of Taxes to adjust their tax credits. Contributions deducted from salary will receive immediate tax relief. Any regular contributions from your employer are deductible by them as a business expense for Corporation Tax purposes in the Company tax year which contributions are made.

5. TAX FREE RETIREMENT LUMP SUM

Tax free retirement lump sums are available when taking retirement benefits. You can take 25% of your pension fund as a retirement lump sum or with a company pension you can instead choose to take a retirement lump sum of up to one-and-a half times your final salary, depending on the length of time employed. The maximum total tax-free amount is €200,000.



A retirement lump sum of between €200,000 and €500,000 is subject to standard-rate income tax, currently 20%. Where total retirement lump sums are greater than €500,000 these will be taxed as income at marginal rate, plus USC and PRSI. Someone who can take a retirement lump sum allowance of €500,000 would pay tax of €60,000 and receive €440,000 in their hand.

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



6. PENSION LIFE INSURANCE

The same income tax relief that applies on pension contributions is also available for Pension Life Insurance, which means cheaper life cover. For example, a 40 year old self-employed non-smoker taking out €200,000 of life cover to age 65 with indexation and conversion option could choose between a term life insurance plan and personal pension life insurance.



	Cover Required	Gross Cost (including govt. levy)	Net Cost after income tax relief at 40%	Net Cost after income tax relief at 20%
Term Life Insurance	€200,000	€38.43 (per month)	€38.43 (per month)	€38.43 (per month)
Pension Life Insurance	€200,000	€38.05 (per month)	€22.83 (per month)	€30.44 (per month)

The tax treatment of a lump sum paid out on death is the same for term life insurance and pension life insurance. In each case the lump sum is subject to inheritance tax, and there is no tax if the lump sum is going to a spouse or registered civil partner. 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, your client can apply to their Inspector of Taxes to adjust their tax credits.


The actual cost of cover will depend on



YOUR AGE



YOUR HEALTH



THE TERM AND LEVEL OF COVER REQUIRED

7. APPROVED RETIREMENT FUND (ARF) OPTIONS FOR ALL

The ARF option is available to all members of Defined Contribution (DC) company pensions. This means that the ARF option is available on

- Members and directors in DC Company Pensions
- Additional Voluntary Contributions (AVCs) for those in Defined Benefits (DB) Company Pensions
- Buy out Bonds from DC and DB schemes
- Personal Pensions
- Personal Retirement Savings Plan (PRSAs)

Individuals need to consider their options carefully on retirement, and will need advice more than ever in this area. However, the ARF option gives what many individuals want in terms of

- control over income drawdown
- control over investment options

Warning: The income you get from this investment may go down as well as up.

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

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



8. INHERITANCE PLANNING

PRE-RETIREMENT

The tax treatment of pension funds on death can result in a tax efficient way of inheritance planning. A summary of the tax treatment of lump sums paid on death is set out in the table below



Personal Pension / PRSA / Company Pension / Personal Retirement Bond (PRB) inherited by	Income Tax	Capital Acquisitions Tax (CAT)
Surviving spouse or registered civil partner	No income tax due	No
Child (any age)	No income tax due	Yes. Normal CAT thresholds apply
Other	No income tax due	Yes. Normal CAT thresholds apply

For children the inheritance tax threshold is €310,000 per child, including any other gifts and inheritance received from parents since 1991. If a spouses, dependants or childrens pension is provided this will be taxed as income. Company pensions are subject to a limit on the lump sum death benefit if the member dies while still in the relevant employment.

The lump sum limit is 4 times salary (include any retained benefits) plus a refund of their own employee contributions and AVCs. Where the member has left service with a preserved benefit* then the full value of the company pension scheme or Buy out Bond is paid to their estate on death. Also there is no such limit for PRSAs and Personal Pensions.

**An employee will have a preserved benefit if they left employment after 1 June 2002 and had at least two years service in the pension scheme (different rules apply for employees who left service between 1 January 1991 and 1 June 2002).*

POST-RETIREMENT

ARFs, Approved Minimum Retirement Funds (AMRFs), vested PRSAs and vested Retirement Annuity Contracts** (RAC) are all treated the same on death. A summary of the tax treatment is set out in the table below.

ARF / AMRF / vested-PRSA / vested RAC inherited by	Income Tax	Capital Acquisitions Tax
If paid to ARF for surviving spouse or registered civil partner	No tax due on the transfer to an ARF. Subsequent withdrawals are taxed as income	No
If used to purchase an annuity for surviving spouse or registered civil partner	No tax due on the transfer but annuity payments are taxed as income	No
Child (under 21)	No tax due	Yes. Normal CAT thresholds apply
Child (21 or older)	Yes due at 30%	No
Other (Including transfer directly to spouse without going to ARF for surviving spouse)	Yes – Due at the marginal tax rate of the deceased	Yes. Normal CAT thresholds apply. No CAT due between spouses or civil partners.
Tax Treatment on death of second ARF holder		
Children (under 21)	No income tax due	Yes. Normal CAT thresholds apply
Child (21 or older)	Yes due at 30%	No
Other	Yes due at 30%	Yes. Normal CAT thresholds apply

** A vested RAC is a personal pension where the individual reaches age 75 and has not taken retirement benefits.

9. GROSS ROLL UP

Exit Tax on savings and investment plans is 41%. DIRT is 37%. Capital Gains Tax is 33%, with an annual exemption of €1,270. (rates as at August 2018).

Pension funds are exempt from Irish income and capital gains taxes (however pension income in retirement is subject to income tax at your client's highest rate on withdrawal, USC, PRSI (if applicable) and any other taxes or government levies applicable at that time).



10. INVESTMENT OPTIONS TO SUIT EVERY INVESTOR TYPE

Pensions allow for a wide range of investment options to suit the risk appetite of every client. This includes investments in equities, bonds, property and also deposits, trackers and other secure options. Different currencies such as Euro, Sterling or Dollar are also available.



Clients can access our range of Irish Life Multi Asset Portfolio Funds (MAPs) through our pension plans. As the name suggests, each portfolio is multi asset – investing in shares, bonds, cash and other assets. Each portfolio uses the unique DSC – Dynamic Share to Cash model. For more details please log onto www.irishlife.ie.

Warning: Certain funds may be affected by changes in currency rates.

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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Information is correct as of August 2018.

Irish Life MAPS® is available on our Pension and Investment plans.

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