Retirement Planning; Back to Basics

As the economy begins a slow recovery from recession, it is an appropriate time to take stock of your current financial plan and ask what it is designed to achieve and more importantly, is it fit for purpose?

Generally speaking, people are not very good at long term planning, particularly when it comes to financial matters. People want the 'quick win' and are focussed on immediate results. The difficulty in this approach is that with money, barring a windfall Lotto win or inheritance, there needs to be a significant time invested in order for a strategy to bear fruit. This is especially true of retirement planning. I think it important to re-visit the basics of pension planning.

Currently there are three 'pillars' of retirement income. The first is the State Non-Contributory Pension. The second is personal savings accrued from net income and the third is private pension provision. In relation to the State Non-Contributory pension, the maximum that this will provide you is an annual amount of €11,975, which is equivalent to 1/3rd the average industrial wage. In order to qualify you need to:

1. Have paid social insurance contributions before a certain age
2. Have a certain number of social insurance contributions paid and
3. Have a certain average number over the years since you first started to pay

There are serious concerns in relation to the sustainability of this pension. This is due to the changing demographic of Ireland. Currently there are approximately six people working and paying PRSI to fund every one person who is claiming the State pension. However by 2060, there will only be two people contributing PRSI for every one person claiming pension. Obviously, given this information, the Contributory pension as it is currently formatted is unsustainable, and one of the reasons why Ireland's pension sustainability was questioned in a recent international pension report compiled by international pension group, Mercer.

The second pillar of pension, that of private savings / assets, has unfortunately been eroded due to the recession we have experienced with falls in asset prices, particularly property, as well as in salaries and income.

The third pillar, that of private pension provision, remains one of the most attractive ways of accumulating wealth to provide for an income in retirement. There has been many changes over the past number of years in respect of retirement planning, but there are essentially **four tax advantages** (five if you include death benefits) that private pensions provide;

1. Income tax relief at the marginal rate of tax (40%) on personal contributions made to a pension (subject to certain limits). So, if you are a high rate tax payer, a contribution of €100 to pension will cost you a net amount of €60.

2. No benefit in kind tax payable by the employee on company contributions to an occupational pension scheme. This is effectively a tax saving of 51% over having the benefit as salary. (assuming income tax at 40%, PRSI at 4% and USC at 7%)

3. Investment growth within a pension fund is earned tax free. (No DIRT applicable which is currently 41% or Capital Gains tax which is 33% apply)
4. Ability to take a tax free lump sum (and in some cases the entire amount) from the pension fund at retirement (subject to certain limits)

There has been changes in the design of retirement plans with newer plans offering increased flexibility, lower charges, greater investment choice including the ability to buy one's own choice of investment assets (shares or property subject to certain limitations) and an ability to pass on wealth accumulated in a pension plan post retirement to the next generation. All these improvements to retirement plan design have made retirement planning utilising private pension plans very attractive indeed.

Despite these very attractive tax incentives, private pensions coverage in Ireland remains stubbornly low, and even those who have taken the wise decision to contribute to a private pension may not be contributing an adequate amount to secure their financial future. With this in mind I outline below a checklist for people to do depending on their age;

Checklist for 30 something	**Checklist for 40 something**	**Checklist for 50 something**
See what you can afford to contribute	If you have started a pension already, do you know what type of funds you are invested in? What is their risk profile? Does it match your risk profile?	If you have started a pension already, do you know what type of funds you are invested in? What is their risk profile? Does it match your risk profile?
Get to know a little about your options in terms of pre-retirement and post retirement options	Are you in track with your expected retirement income?	Have you considered moving to lower risk funds as your investment horizon shortens?
If you haven't started a pension yet, talk with an independent financial adviser	Have you met with the Pension Adviser within the last year?	Have you considered and made plans for your options in retirement? For example, whether you're going to take your pension as an income or mix of lump sum and income.
If you have started a pension, check your most recent Pension Benefit Statement to see how your pension is performing and review likely pension benefits at retirement	Do you take the time to read the Pension Benefit Statement?	Do you take the time to read the Pension Benefit Statement?
If you haven't reviewed your pension in the last year, ask for a review with your pension adviser. Investment markets change, pensions legislation changes and individual circumstances change, it is important to keep track of your pension	Do you know that you can contribute up to 25% of income to pension and claim income tax relief on the amount paid?	Are you reviewing your retirement plans with your Pension Adviser at least every year?

	Do you know that you may be able to arrange tax efficient life cover and claim back income tax paid in respect of premiums paid?	Are you claiming the full amount of income tax relief that you are entitled to?
	If you haven't started a pension, talk to an independent financial adviser who is suitably qualified and can assist you	If you have a company pension, are you keeping track of your employment details?
		If you haven't started a pension, talk to an independent financial adviser who is suitably qualified and can assist you

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

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