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PENSIONS *Report*

> **"THE INTERSECTION OF LONGER LIFE EXPECTANCIES AND HIGH INFLATION MEANS THAT PEOPLE NEED TO ADDRESS RETIREMENT PLANNING EARLIER."**

Beginner's guide to pensions - all you need to know

If you're at the beginning of your working life or are simply new to pensions, we look at what you need to know

A pension is a term that can seem distant to many, especially if you're at the beginning of your career. But it is a vital part of long-term financial planning, designed to provide you with a source of income in your retirement years.

As the pension landscape continues to evolve, understanding the fundamentals and staying informed about the changes is crucial.

So, what do you need to know?

Types of pensions:

State pension (Contributory) - This is based on your PRSI (Pay Related Social Insurance) contributions. To qualify, you typically need to have started paying into PRSI before the age of 56 and have a certain number of contributions by retirement age. Budget 2023 announced a rise in the State Pension, and it is now set at €265.30 weekly.

Occupational pensions - Offered by employers, this pension allows employees to contribute a portion of their salary into a pension fund. The employer often matches or contributes an additional amount.

Personal pensions - These are individual pension policies you can establish with a pension provider, suitable for self-employed people or those whose employers don't offer a pension scheme.

There are primarily two types of pension schemes:

Defined Benefit Pension - Promises a predetermined level of benefit during retirement.

Defined Contribution Pension - The retirement benefit is based on the amount contributed and its investment growth.

Tax benefits

Personal contributions to a pension plan attract relief from income tax at your marginal rate. This means in effect that each €100 added to your pension results in income forgone of only €60 for a higher rate taxpayer, or €80 in the case of someone who pays the standard rate of tax.

Eoghan Gavigan, Certified Financial Planner and Owner of Highfield Financial Planning (highfieldfinancialplanning.ie), says, "The level of contributions which you can make and qualify for tax relief depends on your earnings and your age. For example, a person in their 30s can contribute 20pc of their income to a pension and get relief from income tax on the full contribution."

When you actually access your pension, you can take a retirement lump sum, which for most people is 25pc of the fund. The first €200,000 of this is tax-free and the balance up to €500,000 is taxed at 20pc.

Eoghan Gavigan

The balance of your fund after the retirement lump sum can be taken, as Eoghan says, "as a taxable withdrawal or used to provide an income for life by purchasing an annuity or investing in an Approved Retirement Fund (ARF).

"Annuity rates have increased in recent times and are getting some consideration. But most people still choose to invest in an ARF for the flexibility it offers and to preserve capital to be passed on to their heirs. But it's important that you obtain advice on all the options that are available to you."

Eoghan recommends seeking the help of a fee-based advisor to help you determine if you are on course to have the pension you need to sustain the lifestyle you want during your retirement. They can calculate the funds you will need based on your retirement provisions and desired lifestyle.

Investing

Eoghan, who has over 28 years of experience in banking and finance, is a Certified Financial Planner, the world's most respected financial advice designation. He established his company in 2018, focusing primarily on financial and retirement planning. He believes in providing client-focused advice that ensures the financial wellbeing of his clients.

Getting advice from a professional is vital as Eoghan says there is a lot of jumbled information and concerns around pensions.

"Of the cohort who don't start a pension, the most common concerns are probably affordability and perceived complexity," says Eoghan. "But the irony is that those who start a pension are concerned about investment risk when, in reality, being such a long-term product, a pension is the one investment where the investment risk is lowest.

"The intersection of longer life expectancies and high inflation means that people need to address retirement planning earlier if they are going to achieve the lifestyle they want in retirement."

Pension changes

Over the years, Ireland's pension landscape has seen several changes. The age for the State Pension is undergoing changes, and with life expectancy on the rise, there's an increasing emphasis on saving adequately for a longer retirement.

There have been two significant developments in recent times: employer contributions to a PRSA no longer being treated as a benefit in kind (BIK), and the impending introduction of auto-enrolment.

Eoghan says, "The elimination of BIK has opened doors for employers to make considerable contributions to PRSAs. The only limits which now exist are the Standard Fund Threshold (€2m) and the ability of the business to fund the contribution."

Auto-enrolment is also on the horizon in late 2024. Under auto-enrolment, workers who are between the ages of 23 and 60, and who is earning over €20,000 a year, will have their pension contributions matched by their employer up to 6pc of eligible salary, with the state contributing €1 for every €3 contributed by the employee.

"There is a danger that some people might defer commencing a pension in the expectation that auto-enrolment will take care of it. This would be a mistake as the way that the scheme is being phased in will mean that it will be quite a few years before the contributions will be meaningful for the level of retirement assets that most people will need."

Accessing your pension

Generally speaking, the lowest normal retirement age is 60. However, a pension can be accessed at any age in the case of ill health early retirement.

"Interestingly, if your occupation is one where you would be expected to retire before age 60," adds Eoghan, "for instance, if you are a professional athlete, then you may be able to access your pension before age 60.

"Make sure you have an advisor who knows that their job is to help you to stick with the plan during periods of volatility."

He also recommends regular reviews of contributions and warns against over-monitoring, which can increase anxiety.

"The thing is that you don't need to know everything there is to know about pensions any more than you need to know everything about heart surgery! A pension is like a deposit account in which the Government helps you to fund the lodgements. Don't look a gift horse in the mouth."