PENSIONS
INVESTMENTS
LIFE INSURANCE

Irish Life

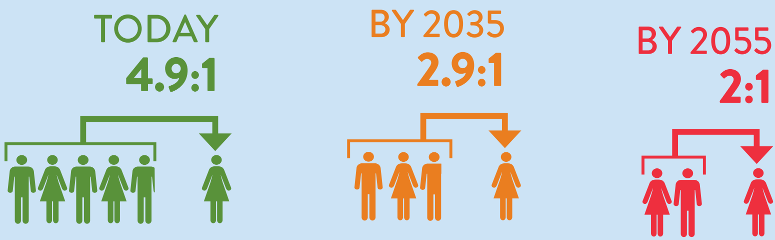
10 KEY REASONS WHY PENSIONS STILL MAKE SENSE

1. THE STATE PENSION UNCERTAINTY

The State Pension (Contributory) personal full rate for a single person is currently €248.30 per week, or €470.80 per week with an adult dependant allowance.

The number of people aged over 66 is expected to keep growing strongly over the next 35 years.

Currently in Ireland there are nearly 5 adults of working age for every person over 66 and this ratio is projected to decline to 2.9 workers by 2035 and further to 2 workers by 2055. This means that there will be more people in retirement and less people at working age to support older generations. This will put the funding of State Pension payments under pressure.



Source: National Risk Assessment 2019

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

2. AGE TO RECEIVE STATE PENSION IS LIKELY TO INCREASE

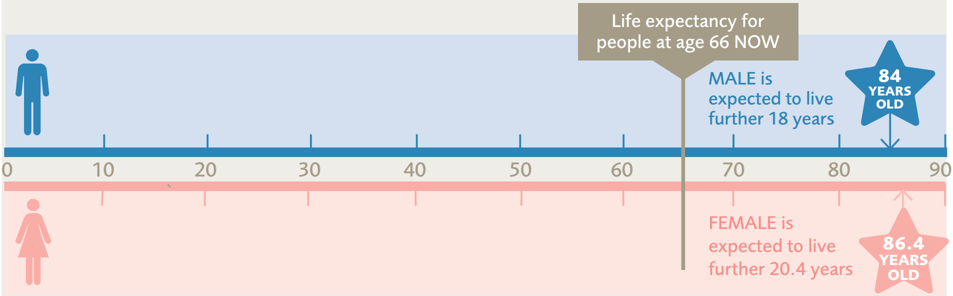
The increase in the State Pension age to 67 from 2021 and to 68 from 2028 has been deferred pending a report due to Government in June 2021. But the State Pension age is likely to be increased again in the future.

It's important that you look at your retirement plans and what impact it would have if you weren't due to get the State Pension until age 67 or 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 you need to consider when planning for your retirement.

Your retirement savings may need to last over 20 years after you finish working.



Source: Health in Ireland Key Trends 2019

4. INCOME TAX RELIEF

There is significant income tax relief available on payments made personally into pension plans for those that are eligible. This tax relief is available at the higher rate of 40% on pension payments 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 their net pension payments by up to 67%!

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

In addition to income tax relief on any personal payments, employer payments 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% (Income tax 40% + PRSI 4% + USC 8%). Pension income in retirement is subject to income tax at your 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, you can apply to their Inspector of Taxes to adjust your tax credits. Pension payments deducted from salary will receive immediate tax relief. Any regular pension payments from your employer are deductible by them as a business expense for Corporation Tax purposes in the Company tax year which payments are made.

5. TAX FREE RETIREMENT LUMP SUM

Tax free retirement lump sums are available when taking retirement benefits. Those who are about to retire can take 25% of their pension fund as a retirement lump sum or with a company pension they can instead choose to take a retirement lump sum of up to one-and-a half times their 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. Someone who can take a retirement lump sum allowance of €350,000 would pay tax of €30,000 and receive €320,000 in their hand.

6. PENSION LIFE INSURANCE

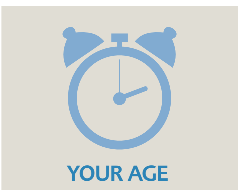
The same income tax relief that applies on pension payments is also available for Pension Life Insurance, which means cheaper life cover. For example, a 40 year old self-employed non-smoker taking out €200,000 of life cover to age 65 with indexation and conversion option could choose between a term life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

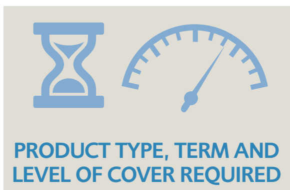
	Cover Required	Gross Cost (including govt. levy)	Net Cost after income tax relief at 40%	Net Cost after income tax relief at 20%
Term Life Insurance	€200,000	€38.43 (per month)	€38.43 (per month)	€38.43 (per month)
Pension Life Insurance	€200,000	€38.05 (per month)	€22.83 (per month)	€30.44 (per month)

Figures quoted are correct as at May 2020.

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 under either Schedule E or Schedule D (case I or II). To claim income tax relief, you can apply to their Inspector of Taxes to adjust your tax credits.

The actual cost of cover will depend on





You must keep paying to stay covered.

7. APPROVED RETIREMENT FUND (ARF) OPTIONS FOR ALL

The ARF options are available to

- Members and directors in Defined Contribution (DC) Company Pensions
- Additional Voluntary Contributions (AVCs) for those in Defined Benefit (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 €335,000 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 (CAT)
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 and they must pay CAT at 33% on any inheritance over these thresholds
Child (21 or older)	Yes due at 30%	No
Other (including husband, wife or registered civil partner if benefit is paid out as a lump sum, without going to ARF)	Yes – Due at the marginal tax rate of the deceased	Yes. Normal CAT thresholds apply depending on their relationship and they must pay CAT at 33% on any inheritance over these thresholds.
Tax Treatment on death of second ARF holder		
Children (under 21)	No income tax due	Yes. Normal CAT thresholds apply and they must pay CAT at 33% on any inheritance over these thresholds
Child (21 or older)	Yes due at 30%	No
Other	Yes due at 30%	Yes. Normal CAT thresholds apply depending on their relationship and they must pay CAT at 33% on any inheritance over these thresholds

** 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 (Deposit Interest Retention Tax) is 33%. Capital Gains Tax is 33%, with an annual exemption of €1,270.

Pension funds are exempt from Irish income and capital gains taxes (however pension income in retirement is subject to income tax at your highest rate on withdrawal, USC (Universal Social Charge), PRSI (Pay Related Social Insurance) (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 every risk appetite. This includes investments in shares, property, bonds, cash and externally managed funds. Different currencies such as Euro, Sterling or Dollar are also available.

You 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. DSC looks at long-term movements and trends in the market and is not designed to react to one-off or short-term jumps or shocks. For more details please log onto www.irishlife.ie.

Warning: Certain funds may be affected by changes in currency exchange 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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Need more information?

For more information
contact your **Financial Broker or Adviser.**

Information is correct as of September 2020.
Irish Life MAPS® is available on our Pension and Investment plans.
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