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The countdown to retirement

On the long and winding road to retirement, one basic question repeats itself: What should I be doing now?

Of course, there are dozens of more specific questions that flow from retirement planning:

- What should I invest in?
- What is the best value for money?
- Who can give me impartial advice?
- What is the cost of delay?
- Am I in the right funds?

At any point in time, there are the ups and downs of the financial markets to navigate. But the major themes, for the most part, are variations of that single underlying question, 'how am I going to provide for my retirement?' At an early age, say your late twenties to early thirties, it is about how to get started and build good regular pension investment habits. During peak earnings years, it is about maximising your tax efficient pension contributions, and on the verge of retirement, the questions revolve around your post-retirement income strategy.

IN YOUR 20s

In the early years of working, retirement seems an eternity away. For most people, starting salaries don't always allow much scope for pension contributions. Now is the age to start building good savings habits and a base from which your pension pot can grow for decades to come. It is all about the power of compounding.

IN YOUR 30s AND 40s

Raising children, buying and maintaining a family home, investing in your practice and trying to survive when you have suffered a substantial redction in income - for most families it's all they can do to keep their heads above water. But stay disciplined and keep taking advantage of the tax relief. The pension cap at present is €115,000 and you get tax relief at your marginal rate.

IN YOUR 50s AND EARLY 60s

For many people, these are peak earning years and potentially a time when the children are off the household payroll. It is time to make some serious headway on retirement savings and to look at where you stand compared with your objectives.

THE LAST FIVE YEARS

With five years to go to retirement a Lifestyle Investment Strategy (LIS) can help safeguard your retirement fund and should certainly be considered as a vital part of your overall investment strategy. A LIS is an investment strategy that is specifically designed for pension investors. It automatically invests in assets with the aim of safeguarding the income and lump sum you can take at retirement. The fund switches from risk assets like equities and property to fixed income (bonds) and cash. This strategy recognises the fact that your investment needs will be different depending on your term to retirement. It is designed to match these changing needs by automatically targeting the most appropriate level of risk – a higher level of risk (if that is your risk profile) when you are far from retirement and want to grow your fund, and a lower level of risk as you near retirement and want to safeguard your fund as you need to preserve your purchasing power on retirement. You also need to begin planning for your lifestyle in retirement and this can only be done if you have some certainty about the pension income you will receive each month. It is time to make some serious decisions and assess what your income streams are going to look like after collecting that final payslip. Of course, there's the question of when to retire. These days, it's increasingly common for vets to phase into retirement slowly, by reducing the amount of sessions you work rather than going straight to the golf course or the garden full time. There's the benefit of staying engaged and active. And financially, working makes sense when it comes to making sure your retirement fund lasts.

Pensions and retirement planning still makes sense. You get tax relief at your marginal rate (up to 41%) based on your age related contribution limit (up to 40% of income) subject to the maximum Earnings Cap of €115,000. Your pension fund grows tax free and so any investment growth is not subject to DIRT – unlike a deposit or direct investment. You can avail of a lump sum on retirement of up to €575,000 or 25% of the value of your fund (whichever is the lesser figure). The first €200,000 is tax free and any balance is subject to tax at the standard rate of 20%. Any retirement lump sums greater than €575,000 will be taxed as income at your marginal rate. You will also pay the Universal Social Charge (USC), PRSI (if this applies) and any other taxes or government levies due at that time. Both the €200,000 and €575,000 limits include all retirement lump sums you have received since December

Group Pension Schemes

If you are a member of a pension scheme where your employer is making a contribution then you are not entitled to make personal pension contributions until you have first made the maximum possible AVC Contribution. AVC Contribution can usually be done directly with the Pension Scheme or through an independent standalone PRSA AVC Policy.

Standard Fund Threshold

The Standard Fund Threshold or SFT is the overall lifetime limit on the value of your pension. In December 2010 the SFT was reduced from €5.4M to €2.3M and it may reduce further following the April 2013 Finance Act which indicated that the SFT was going to be restricted to the provision of a €60,000 per annum pension.

Pension Levy

The 0.6% pa pension levy which is charged on the total value of your pension fund remains in place until 2014. The Department of Finance has said it will not be extended beyond this point but that remains to be seen. The levy applies to pre-retirement policies such as Occupational Pension Schemes, Personal Pensions, AVCs, PRSAs & Buy Out Bonds. Post retirement policies such are ARFs, AMRFs and Vested PRSAs are exempt.

Access to Pension Funds

If you are a member of a Group Pension Scheme and you have been making AVC Pension contributions then these cannot be matured until such time as you actually retire from the scheme. However, the Finance Act 2013 has now allowed access on a once off basis to 30% of the value of your AVC Policies.
This might seem like an attractive option but a word of warning – your withdrawal will be subject to tax at the marginal rate.
If you have personal pension policies in place then these can be matured from the age of 60 onwards and there is no requirement for you to retire.
If you decide to mature personal pensions then you can access your 25% tax free lump sum and you then have the option of purchasing an annuity or investing in an AMRF/ARF with the balance of the funds.

7, 2005. How much do you need to contribute? At a recent meeting of the Society of Actuaries the members were told: 15% of salary contributed from the age of 25 would allow you to retire on half final salary at the grand age of 73.
To retire at 65 on half final salary you would have to contribute 25% of salary consistently over your working life. A fund of €1,000,000 at retirement age would provide an annual income in the region of €43,200. (This is based on a level joint life annuity basis.) It seems like a daunting task but highlights the necessity of starting young and staying consistent. And that 41% tax relief does take a lot of the pain away.

If you wish to discuss your pension arrangements, contact us at finance@vetireland.ie or on +353 1 4577987
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