Pensions made simple

Take control of your future

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A 40 year old
needs to save an extra
€6,700 p.a.

A 50 year old
needs to save an extra
€9,700 p.a.

A 60 year old
needs to save an extra
€28,000 p.a.

These figures are based on the average extra saving required to provide a retirement income of 70% of pre-retirement salary. Source: Aviva, September 2016.

If you don’t want to live a ‘recession’ style retirement, relying solely on the State pension – you will need to plan your retirement now, because it really is your responsibility, **no one else is going to do it for you**.

At Aviva, we have carried out extensive research across Europe to explore just how adequately we are prepared for our retirement. We discovered that Ireland has the third largest pension gap in Europe, an average of €12,200 p.a. per person. This is the difference between what most people expect to live on in their retirement – and what they currently make provision for. *(Source Aviva, September 2016).*

Will you have enough money to enjoy your retirement – or will you be faced with a gap in your funds? Talk to an independent financial broker to find out how much you need to put into a pension today to ensure you enjoy the longest holiday of your life.

Don't worry –
it's a lot simpler
than you think!

First things first

This guide aims to explain pensions in a way that everyone can understand. It tells you the important points you need to know, raises some of the questions you may need to think about – and lets you know where you can find more information. What's more, it does so without any of the usual complexities.

Make sure you have enough money for your later years

Your retirement could last a long time. Twenty years wouldn't be exceptional. This is time that you have worked hard for. Time you owe yourself. Time to spend doing all those things you have always promised yourself.

Without the stresses of having to earn a living, some of that time will probably be spent travelling. Visiting friends in other parts of the world – or visiting places that you've always wanted to see. Some, perhaps, will be spent on hobbies and quality time with your partner, family and friends.

But there's no such thing as a free holiday. Everything has to be paid for. **So, will you have enough money to enjoy your retirement to the full?**

Why pensions are so important

In the past, you may have found pension planning confusing, but it doesn't need to be. Of course, there are things to consider and choices to make – but, with the help of this guide, you'll quickly understand the key aspects.

What exactly is a pension?

It's the money (usually income) that you will live on when you stop working. In effect, it will replace the salary or wages that you earned before retirement.

What is a pension plan?

It is a special type of savings plan, with important tax breaks, in which you can build up money in order to provide yourself with a pension. It is a long-term arrangement, so you can't dip into it before you retire.

Why do you need a pension plan?

Well, when you stop working, your pay will come to an end – but, unfortunately, the bills won't! So, you will need a substantial regular income. And where will it come from? Unless you win the lottery or inherit a large sum of money, your pension will almost certainly be your main source of income after you have retired.

What about your employer?

Unfortunately, the days are long gone when most employers provided pensions for their staff. Nowadays, they mainly offer the facility to have a personal plan, with the contributions being deducted from pay. However, there is no obligation for the employer to contribute to the arrangement.

Won't the State provide you with a pension?

Yes, it will. But it is rather like a lifeboat – fine in an emergency, but not suitable for a long-term cruise. The State pension is currently only €253.30 a week*. Could you realistically expect to get by on that level of income?

**Source: The Department of Social Protection, August 2022.*

How a pension plan works

A pension plan is a special type of savings plan. It is designed to build up a ‘pot’ of money that will enable you to make the most of your retirement years – without having to worry about how you are going to pay for it. Because a pension plan enjoys valuable tax breaks (as described on page 10), a pension plan is the most tax-efficient form of saving available.

Who can have a plan?

You can – provided you are under age 75. And that’s regardless of whether you are working full-time, part-time or in casual employment.

Who pays for the plan?

It is your responsibility to pay contributions into the plan. These are usually regular monthly amounts, but they can be paid less frequently – say, quarterly or yearly – or even as one-off lump sum payments. It is worth asking your employer if the company would be willing to ‘chip in’ as well – but there is no requirement for it to do so.

How much do you pay?

That’s up to you to decide. However, if you join a pension plan arranged by your employer, there may be a minimum level of contribution that you will be required to pay.

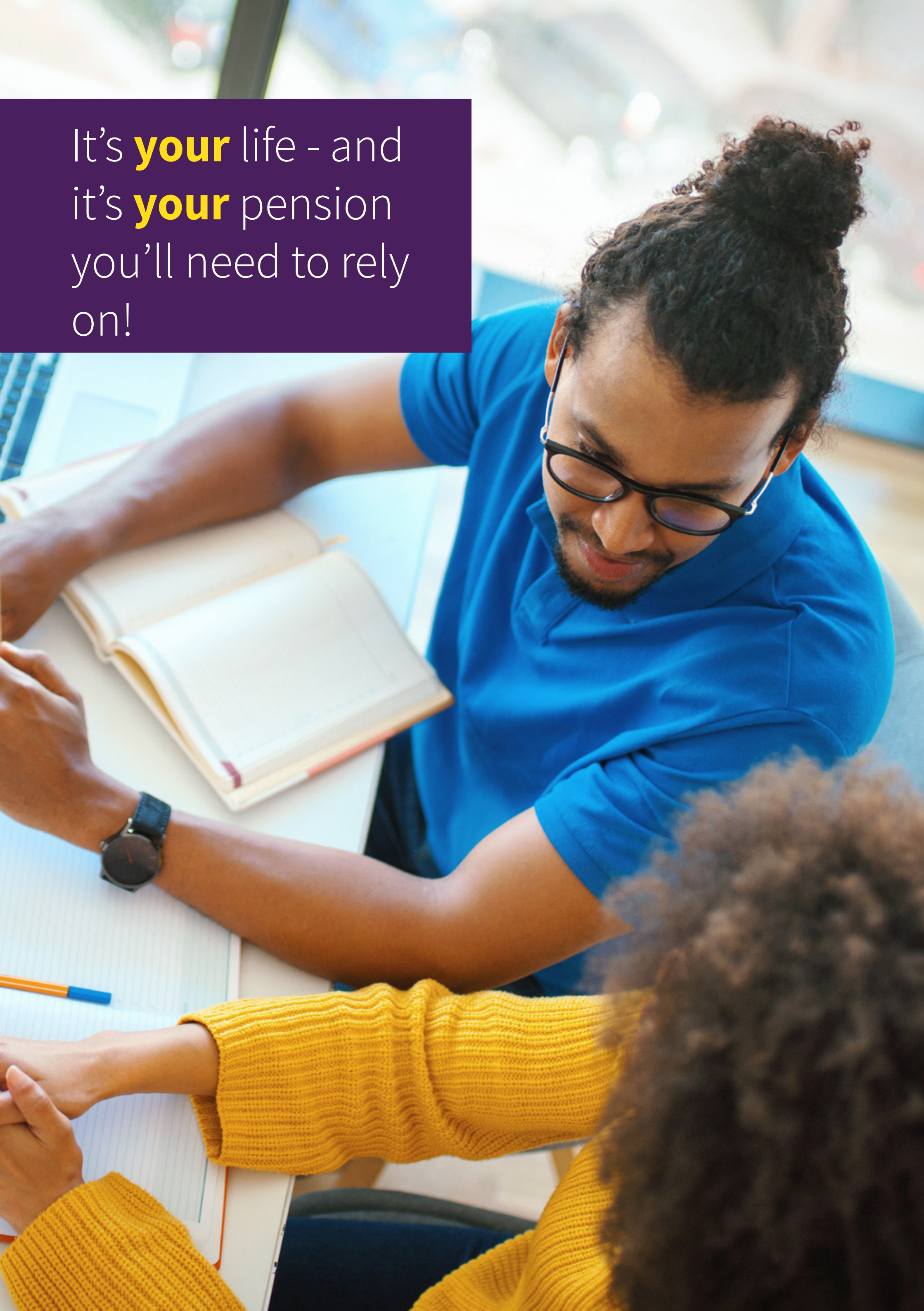
What happens to the contributions?

They are invested by the firm – usually an insurance company – that operates the pension plan. The investment aspects are explained on pages 16 and 17.

What happens when you retire?

The accumulated value of your plan will provide you with your retirement benefits. You will be allowed to take some of the money as an immediate tax-free cash sum. The balance will be used to provide you with a pension. Some of the options available to you are described on pages 20 and 21.

Warning: If you invest in this product you will not have any access to your money before you retire.


It's **your** life - and it's **your** pension you'll need to rely on!

The tax breaks

Because the government wants to encourage everyone to set aside money for their retirement, it gives three valuable tax breaks to pension savers – whether they have their own pension plans or are in a company pension plan.

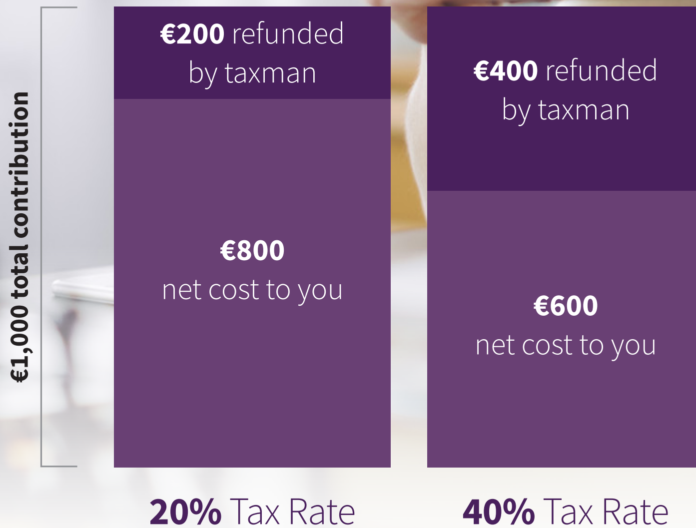
The first is tax relief on what you pay in. The second is freedom from tax on any investment returns achieved by the plan. And the third is the ability to take part of your plan's value as a tax-free cash sum when you retire.

How does tax relief work?

When you pay money into a pension plan, the taxman will give you back part of your contributions – either 20% or 40%, according to your marginal rate of tax.

Tax relief in action

If you pay a contribution of €1,000, you will be able to claim a substantial rebate from the taxman:



Does tax-free growth make much difference?

It most certainly does. Your pension plan (or your employer's pension plan) will be invested in a special fund that doesn't have to pay any tax on any of its investment returns.

That's a really worthwhile benefit – as the value of your plan should build up much more quickly than in a fund that has to pay tax.

Can you really draw money tax-free?

Yes. When you retire, you will have the option to take part of the money in your plan as a cash sum – without having to pay a cent in tax on it. Any remaining money in your pension fund will be taxed at your highest rate of income tax.

The income you will need in retirement

The over-riding priority, of course, is to avoid falling into the ‘pensions gap’ – and finding yourself short of money. Beyond that, you will almost certainly want to maintain your standard of living.

And you may have more ambitious plans in mind, like travelling the world, buying a second home – maybe abroad – or taking up a hobby that you have always dreamed about.

As with most financial matters, it makes sense to start with some straightforward budgeting, to work out how much pension you are likely to need.

Some of your income will go down

Unless you win the lottery, the one sure thing is that, when you retire, your income will fall – as your pension is unlikely to equal your earnings immediately before you retire. But you don’t want to be left high and dry. So you should try and work out how much income you will actually need.

Some of your expenses will go up

You are likely to spend more time at home than when you were working. So, in the winter, you may have to heat your home all day – not just in the evenings and at weekends. What’s more, with more time on your hands, you may want to spend more money on entertainment, like the cinema, theatre, holidays and restaurants. Later on, if your health deteriorates, you may need to move into a nursing or care home, for which the fees can be quite costly.

Some of your expenses will fall

Once you have retired, you can forget all about the daily costs of travelling to work – and of any special work clothing. At the same time, as a pensioner, you should be able to get many things cheaper – including eyesight tests, prescriptions, holidays, hairdressing and shopping discounts. And train and bus travel will usually be free.

Preparing a budget

As a general rule of thumb, many pension experts recommend that people should aim to provide themselves with a pension of around two-thirds of their annual earnings just before retirement. However, it is probably best to discuss your requirements with a pension expert.

Your financial broker can work out the numbers with you, building in assumptions about when you expect to retire and how your earnings are likely to increase between now and retirement.

How much should you pay in?

Don't underestimate how much you need to squirrel away. Many financial brokers will tell you that, over the period from now to your retirement, a good pension plan is likely to be one of your largest financial commitments.

That's if you are aiming to provide yourself with the widely recommended target pension of around two-thirds of your earnings just before you retire. Of course, if you are willing to settle for a lower pension, it will cost you less.

Are you just starting a pension plan now?

The earlier you start paying into your pension plan, the more affordable you will find it, as you will be spreading the cost over a greater number of years. As a general rule of thumb, you are aiming to provide yourself with a pension which is two-thirds of your earnings just before you retire.

This means, of course, that the younger you are when you start saving, the less your pension will cost you – and the older you are at the outset, the more you should pay.

Do you have any existing pension arrangements?

Many people have already made a start, by taking out one or more plans, which are often quite modest. If you have done this, you should check to see if the arrangements are likely to be sufficient for your needs. So, ask a financial broker to help you establish whether or not you are likely to have a shortfall – and, if so, how much you should increase your contributions to make up the difference.

Do you need to worry about inflation?

Yes, you do. Every euro that you pay into your plan will be worth less, in terms of its spending power, in future years. Contributing the same percentage of your earnings every year will help – because, each time your earnings increase, you will automatically be paying in more money. This will reduce the impact of inflation over the period from now to retirement (provided, of course, that your salary increases match the rate of inflation).

When you retire, you may be able to choose a pension that increases each year at a pre-determined rate. This will start at a lower level than one which doesn't increase at all – but the annual increases will help to offset the ongoing effects of inflation during your retirement.

Is it ever too late to start a pension plan?

In terms of providing yourself with any meaningful benefits, the sooner you start the better. Nevertheless, it is possible to pay a contribution at any time – even on the last day before retirement – and claim the resulting tax relief.

Investing the contributions

To give your contributions the opportunity to grow faster than inflation, you should consider a plan that will put your money to work in a balanced portfolio of stockmarket-linked investments.

Your financial broker may recommend that you invest the contributions in a diversified portfolio of funds that will spread your money across a large number of different holdings, including shares, bonds, properties and cash. These funds will be professionally managed by teams of experts, who will monitor the markets constantly – and alter the funds' investments from time to time, to take account of changing trends.

Isn't stockmarket investment a bit risky?

It can be – as the value of investments can fall as well as rise. So the value of your plan will fluctuate and cannot be guaranteed. However, most pension companies offer a choice of funds, ranging from low risk to high risk. A low risk fund aims for steady growth, with little (but still some) risk of losing money. A higher risk fund aims for higher growth, but carries a greater risk of falling in value.

You will be able to choose whichever fund (or combination of funds) you like. It would make sense to discuss the alternatives with your Financial Adviser, so that you can choose a fund with which you are totally comfortable.

Who invests the funds?

The funds are carefully managed by a team of experts, who aim to increase the value of your plan by choosing investments that they believe will prove profitable – although the results they achieve cannot be predicted or guaranteed.

And when retirement gets closer?

Investing in stocks and shares gives you the potential of enjoying medium-to-long-term growth. However, with stockmarket investments you run the risk that the value of your plan can fall significantly as you approach retirement. If this is a risk you are uncomfortable with, you can ask your pension provider for details about a 'lifestyle strategy'. Lifestyling strategies use an automatic system that, over time, switches your pension fund from higher risk funds to lower risk funds as you approach retirement. This in effect means that the pension fund you have built up is gradually "de-risked" over a set period of time prior to your retirement age.

Warning: The value of your 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: This product/service may be affected by changes in currency exchange rates.

Questions people often ask

Set out opposite are some of the typical questions that people ask about pensions – with our answers. If there are any further questions you would like to ask, please contact your financial broker.

Can I vary my contributions?

Most pension plans will allow you to increase or reduce your contributions at any time – and to take a 'payment holiday', stopping your contributions altogether, if you need to, and starting them up again when you can afford to do so. Of course, reducing your contributions – or missing some altogether – will reduce the eventual value of your plan and mean that your pension may not be as high as you wanted. So you should try to maintain your contributions, if at all possible. But, if you need the flexibility to cut back, it will normally be there.

Can I alter my investment choice?

Yes. Most pension plans offer you a wide range of funds to choose from. But this isn't an irrevocable decision. As time goes by, you can switch all or part of your accumulated investment from one fund to another. You will also normally be able to direct your future contributions into a different fund. Your financial broker can review the options with you on a regular basis.

What about my retirement date?

You can start to draw your full State pension on your 67th birthday. However, the Social Welfare and Pensions Act 2011 made a number of changes to the qualifying age for State pensions. The qualifying age will rise to 68 in 2028. If you are in a company pension plan, the retirement age will be specified in the scheme rules – while, if you have your own pension plan, you can choose your retirement age, provided it is between 60 and 75.

Can I retire earlier or later?

Yes – at any time between your 60th and 70th birthdays, if you are a member of a company scheme (depending on scheme rules), or between your 60th and 75th birthdays for all other pension arrangements. In company pension schemes, early retirement is generally possible with your employer's and /or trustee's consent from age 50. Under a PRSA arrangement, early retirement from an employment is possible from age 50.

What if I change jobs?

If you have your own pension plan, you can simply take it with you to your new job - and keep it going. Furthermore, if you will be earning more in your new position, you should think about increasing your contributions. It could also be worthwhile asking your new employer if the company would be willing to make any contributions.

It will also be a good time to review your plan – and your financial broker will be pleased to help you do this.

What options do I have when I retire?

First, after you have taken any of the tax-free cash that you are allowed to draw, the balance of the money will be used to provide you with a pension. This can be arranged by using the money to buy what is called an 'annuity' – or investing it in an 'approved retirement fund'.

What is an annuity?

It is a guaranteed income for life. And you can choose either a level pension or one that starts lower, but increases by a set amount each year, to help offset the effects of inflation. You can also choose what will happen to your pension when you die. For example, it can stop immediately – or it can continue to be paid (at a reduced rate) to your widow/er or partner.

What is an approved retirement fund?

It is an ongoing investment fund. It still has the potential to earn investment returns, but nothing is guaranteed. If you choose this option, instead of receiving a regular pension, you can simply withdraw the money you need (subject to some conditions), as and when required. On your death, the balance in the fund (less tax) will be paid to your chosen dependants.

What if I die after retirement?

You decide this when you retire – as described in the answers to the two previous questions.

Will my pension be subject to tax?

Yes. Like any other form of income, your pension will be taxable.

What about charges?

The pension company will charge for setting up and running your pension plan. You won't have to find any extra money yourself, as the charges will automatically be deducted from your plan. This will, of course, eat into its value – so, if you are starting a new plan, please make sure that the scale of charges is competitive.

How can I follow the progress of my plan?

You will receive regular reports from your pension company on the progress of your plan and the performance of your chosen investment funds. Some pension companies will even let you monitor your plan on-line. If you ever have any queries about your plan – and how it is progressing – you should ask your financial broker to explain the position to you.

Your next step

Sort out your financial future – talk to an independent financial broker

An hour with a financial broker is probably one of the most important things you can do. It's like a health check-up – but for your finances. An independent financial broker will work with you, to review your current finances, recommend possible solutions and ensure your financial needs now, and into the future, are provided for.

Important notes

1. *Pension contributions, benefits and tax relief are subject to limits laid down by the government - which are subject to change. For details of the prevailing limits - and any news about future changes - please speak to your financial broker.*

2. *The information in this guide is mainly of an outline nature. For more detailed information - and advice about how it will apply to you - please speak to your financial broker.*

3. *Great care has been taken to ensure the accuracy of the information in this guide. However, the company cannot accept responsibility for its interpretation – nor does it provide legal or tax advice. Except where stated otherwise, the brochure is based on Aviva's understanding of current law, tax and Revenue practice, September 2022.*

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About Aviva

Aviva has been helping clients look to the future with confidence for over 300 years. Today, we continue that legacy by providing you with the products you need to take control of your financial future. Master Trust provides Employers and members with a flexible way to save for retirement with tailored investment options to suit your needs. Whatever retirement you want, we will be there to help you achieve it.

Source: www.aviva.com June 2022.

It takes Aviva.

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