The Changing Pension Landscape

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Agenda:

1. Overview of the Pension Landscape
2. Your Pension Scheme - Superannuation
3. Notional Service Purchase Scheme (NSP)
4. AVCs, PRSAs and Retirement Savings
1. Overview of The Pension Landscape:
The need for pension planning is greater than ever.
In Ireland, there will be about **20,000** more people over the age of 65 every year until **2040**.

- **Longevity**
- Increased health costs
- Additional pressure on health services
- Greater need for private health care nursing homes

**Source:** Irish Times, 07.01.17
People living longer in retirement

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>7.2 people aged 20-64 for every 1 person over 65</td>
</tr>
<tr>
<td>1990</td>
<td>5:1</td>
</tr>
<tr>
<td>2012</td>
<td>3.5:1</td>
</tr>
<tr>
<td>2050</td>
<td>1.8:1</td>
</tr>
</tbody>
</table>

In other words, every two people working are supporting each pensioner.

Source: The Economist – 07.04.11
## CSO Population projections

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2026</th>
<th>2046</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Over 65</strong></td>
<td>531,600</td>
<td>854,900</td>
<td>1,419,300</td>
</tr>
<tr>
<td><strong>Estimated</strong></td>
<td>4,686,500</td>
<td>5,042,100</td>
<td>5,635,200</td>
</tr>
<tr>
<td><strong>Population</strong></td>
<td>11.34%</td>
<td>16.96%</td>
<td>25.19%</td>
</tr>
</tbody>
</table>

Source: CSO Population and Labour Force Projections 2016 - 2046
In retirement, people’s spending profile is U-Shaped

- **60s**: Travel & spend
  - Still active
- **70s**: More time at home
  - Spend less
  - Accumulate
- **80s**: Healthcare spend more
Governments and companies are getting more and more stretched to offer and maintain DB Schemes.

They are looking to reduce cost or burden by:

- Raising taxes for existing workers
- Current generation of workers fund more to pension
- Raising retirement age
- Halting practice of early retirement (cost neutral)
- Auto-enrolment – compulsory for everyone to pay into a pension
- Linking retirement age to longevity.
Increasing Retirement Age

...so what is being done?

State Pension Age in Ireland

Source: Pension Authority, 2017.
“The rich will always have a comfortable retirement, the poor will be supported by the state. Those in the middle will have to fend for themselves and make adequate provisions”

“Young people are often unwilling or unable to consider retirement. It is difficult to defer instant gratification... they need to be encouraged or nudged”

“Never underestimate the value of compound interest. Start early and it’s much more affordable”
2. Your Pension Scheme - Superannuation
Which one applies to me?

1. Pre 1995
2. 1995 to 2004
3. 2004 to 2012
4. 2013 +

What’s important when working out my pension?

- Starting Dates & re-entry dates
- Service History
- Final Salary (except for 2013 + Scheme)
- Relevance of Social Welfare in your pension.
Benefits payable from your Superannuation Scheme

Contribution level of 6.5%

- **Pension**
  - Taxed & Paid for Life

- **Lump Sum**
  - Tax-Free & Paid Once

- **Spouse & Child Benefit**
  - Payable on Death
How do I calculate my Pensionable Entitlements?
D1 PRSI Staff – Pre 1995

- Officers modified PRSI
- Lump Sum
  - Salary $ \times $ Year’s Service $ \times $ 3/80ths
- Pension
  - Year’s Service $ \times $ 1/80
D1 PRSI Staff – Pre 1995

Officers modified PRSI

Lump Sum

€60,000 × 40 × 3/80ths = €90,000

Pension

€60,000 × 40 × 1/80ths = €30,000 p.a.
Class A Full PRSI

Lump Sum

Salary $\times$ Year’s Service

$\times$ 3/80ths

Pension

Year’s Service $\times$ 1/200th

$\times$ (CSP* $\times$ 3.333)

+ 

Year’s Service $\times$ 1/80th

$\times$

(Salary – (CSP X 3.333))

*CSP – Contributory State Pension.
### Example of Pre and Post 2004

#### Pre 1995

<table>
<thead>
<tr>
<th>Salary</th>
<th>Age</th>
<th>Service</th>
<th>Pension</th>
</tr>
</thead>
<tbody>
<tr>
<td>€ 60,000</td>
<td>60</td>
<td>34 yrs</td>
<td>€25,500 p.a.</td>
</tr>
</tbody>
</table>

#### Post 2004

<table>
<thead>
<tr>
<th>Salary</th>
<th>Age</th>
<th>Service</th>
<th>Pension</th>
</tr>
</thead>
<tbody>
<tr>
<td>€ 60,000</td>
<td>60</td>
<td>34 yrs</td>
<td>€11,433</td>
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</tbody>
</table>

**Cost Neutral Early Retirement**
If your normal retirement age is **60** i.e. you were appointed **before** 1st April 2004

<table>
<thead>
<tr>
<th>Age last birthday at retirement</th>
<th>Pension will be reduced to</th>
<th>Gratuity will reduced to</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>62.4%</td>
<td>82.2%</td>
</tr>
<tr>
<td>51</td>
<td>65.1%</td>
<td>83.9%</td>
</tr>
<tr>
<td>52</td>
<td>67.9%</td>
<td>85.5%</td>
</tr>
<tr>
<td>53</td>
<td>71.0%</td>
<td>87.2%</td>
</tr>
<tr>
<td>54</td>
<td>74.3%</td>
<td>88.9%</td>
</tr>
<tr>
<td>55</td>
<td>77.8%</td>
<td>90.7%</td>
</tr>
<tr>
<td>56</td>
<td>81.6%</td>
<td>92.4%</td>
</tr>
<tr>
<td>57</td>
<td>85.7%</td>
<td>94.3%</td>
</tr>
<tr>
<td>58</td>
<td>90.1%</td>
<td>96.1%</td>
</tr>
<tr>
<td>59</td>
<td>94.8%</td>
<td>98.0%</td>
</tr>
</tbody>
</table>

If your normal retirement age is **65** i.e. you were appointed **after** 1st April 2004

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<th>Pension will be reduced to</th>
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<td>58.2%</td>
<td>82.4%</td>
</tr>
<tr>
<td>56</td>
<td>61.1%</td>
<td>84.0%</td>
</tr>
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<td>71.0%</td>
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</tr>
<tr>
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<td>83.6%</td>
<td>94.3%</td>
</tr>
<tr>
<td>63</td>
<td>88.5%</td>
<td>96.1%</td>
</tr>
<tr>
<td>64</td>
<td>94.0%</td>
<td>98.0%</td>
</tr>
</tbody>
</table>
On 1st January 2013, the Single Public Service Pension Scheme was introduced. All members of this Scheme are entitled to retire under Cost Neutral from age 55.

<table>
<thead>
<tr>
<th>Age at last birthday</th>
<th>Normal Retirement Age: 66 Years</th>
<th>Normal Retirement Age: 67 Years</th>
<th>Normal Retirement Age: 68 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>55</td>
<td>69%</td>
<td>97%</td>
<td>64%</td>
</tr>
<tr>
<td>56</td>
<td>71%</td>
<td>97%</td>
<td>66%</td>
</tr>
<tr>
<td>57</td>
<td>73%</td>
<td>97%</td>
<td>68%</td>
</tr>
<tr>
<td>58</td>
<td>76%</td>
<td>98%</td>
<td>70%</td>
</tr>
<tr>
<td>59</td>
<td>78%</td>
<td>98%</td>
<td>72%</td>
</tr>
<tr>
<td>60</td>
<td>81%</td>
<td>98%</td>
<td>75%</td>
</tr>
<tr>
<td>61</td>
<td>84%</td>
<td>98%</td>
<td>77%</td>
</tr>
<tr>
<td>62</td>
<td>86%</td>
<td>99%</td>
<td>80%</td>
</tr>
<tr>
<td>63</td>
<td>90%</td>
<td>99%</td>
<td>83%</td>
</tr>
<tr>
<td>64</td>
<td>93%</td>
<td>99%</td>
<td>86%</td>
</tr>
<tr>
<td>65</td>
<td>96%</td>
<td>99%</td>
<td>89%</td>
</tr>
<tr>
<td>66</td>
<td></td>
<td></td>
<td>92%</td>
</tr>
<tr>
<td>67</td>
<td></td>
<td></td>
<td>96%</td>
</tr>
</tbody>
</table>
Supplementary Pension
(‘95 – April ‘04 only)

• You must be a fully Insured Public Servant i.e. A1 Contributor

• Eligible from Normal Retirement Age

• Pre ‘01 April ‘04 Entrant

• Must fail to qualify for any other social welfare payments

• Must not be employed in any capacity post retirement

• Must not be retiring on ill-health grounds.
1. New Single Public Service Pension Scheme
   (Career average earnings)

2. Retirement in line with State Pension Age: 66 to 68
   - Minimum pension age of 66
   - to 67 in 2021
   - to 68 in 2028
   - Pensions being linked to life expectancy
   - From 65 to 66 in 2014.
How will it work?

- Referable amounts will accrue for each year of service
- Accrual rates of 0.58% on first €45k and 1.25% on balance
- Lump-sum accrual rate of 3.75%
- Annual increase in referable amounts in line with Consumer Price Index.
Example: Public Sector Employee who dies aged 47 with Salary of €60,000 with 25 yrs service

- Spouse & Child Benefit
  - €60,000
  - €30,000
  - €12,500
  - €0
  - €30,000
  - €5,000
  - €5,000
  - €5,000
  - €15,000
  - Spouse's pension
  - child 1 (1/3 spouse's pension)
  - child 2 (1/3 spouse's pension)
  - child 3 (1/3 spouse's pension)
3. Notional Service Purchase Scheme (NSP)
• Need 9 yrs actual reckonable service at retirement/resignation date i.e. 60/65 yrs
• Your service at retirement would not be sufficient to qualify for maximum benefits (i.e. 40 years equivalent)
• You can exercise an option to join the Scheme at any time
• You can purchase shortfalls in service with an expected retirement age of 60/65
• New entrants (April 2004 – December 2012) can only purchase shortfalls in service to age 65
• You can purchase Notional service by regular contribution or Lump Sum.
• There is currently no Notional Service for the Single Pension Scheme
4. AVCs and PRSAs
Provides you with a way to make

**Additional Voluntary Contributions**

towards your retirement benefits

**Warning:** If you invest in this product you may lose some or all of the money you invest.

**Warning:** This product may be affected by changes in currency exchange rates.

**Warning:** The value of your investment may go down as well as up.

**Warning:** If you invest in this product you will not have any access to your money until you receive your Superannuation Benefits.
Reasons why an AVC/PRSA might make sense

- Early Retirement
- Shortfall in Service
- Service in excess of 40 years service
- Non pensionable earnings (overtime)
- Revenue maximum pension.
### Contribution

<table>
<thead>
<tr>
<th>Less tax relief (assuming tax @40%*)</th>
<th>NO PRSI rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real cost to you for every €100</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>€100</th>
<th>*€40</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Real cost:

€ 60

For the typical employee, this means a ‘saving’ each month of 40%.

*As of 01/01/2019
What options do I have for the money in my AVC/PRSA Investment Account?

These are entirely subject to personal circumstances and choice, and certain Revenue limits.
Example

- Final Salary of €60,000 with 32 years of service
- AVC/PRSA fund value €100,000

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Gratuity</td>
<td>€90,000</td>
</tr>
<tr>
<td>Actual Gratuity</td>
<td>€72,000</td>
</tr>
<tr>
<td>Shortfall in Gratuity</td>
<td>€18,000</td>
</tr>
</tbody>
</table>

Warning: The value of your investment may go down as well as up.
1. You may be able to take part or all of your AVC as a **Tax free Lump Sum**

For the Rest of your AVC Investment Account you have a number of options.

- **Your AVC PRSA**: €100,000
- **Your Lump Sum**: €18,000

**Warning**: The value of your investment may go down as well as up.
Warning: The value of your investment may go down as well as up.
To invest in an ARF you must:

✓ Have a guaranteed income of €12,700 p.a.*

OR

✓ Have the 1st €63,500 of your fund invested in a AMRF** (can use an ARF for the balance).

*Finance Act 2011 moved the guaranteed income limit to €18,000, it was reversed back to €12,700 in the Finance Act 2013. It is likely to be reviewed again. ** you can only withdraw 4% of capital per annum from the year you turn age 61.
3. Buy Superannuation benefits through your employer (deductions from gratuity)

- Repay a marriage gratuity
- Buyback credit for years spent in training or temporary service.

**Note:** This must be decided prior to retirement.
4. At retirement you can purchase benefits under the **Notional Service Purchase Scheme (NSPs)**

Your AVC/PRSA

- Your Pension
- Your Family’s Pension
- Your Lump Sum

**Note:** Cannot pick and choose which benefits you want. This must be decided prior to your actual retirement date.
5. You can buy an income for life (annuity)

Your Balance of AVC/PRSA €82,000

Additional Pension €1,820.30 p.a.

Annuity rate 2.293% from November 2017 – person aged 60, single life, indexed at 3%.


Note: Annuity income is liable to Income Tax, PRSI & the Universal Social Charge similar to any other income.
6. You can take the rest of your AVC as taxable cash.

If buying a pension i.e. guaranteed income in retirement is your priority, you should consider NSPs.
7. A mixture or combination of the options

- Top Up Lump Sum to its Max
  - €18,000

- Mixture of remaining options
  - Employer Options
  - ARF
    - €82,000
  - Pension
    - €1,820.30

€100,000
How much can you contribute?

<table>
<thead>
<tr>
<th>Age</th>
<th>% Of Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 30</td>
<td>15%</td>
</tr>
<tr>
<td>30-39</td>
<td>20%</td>
</tr>
<tr>
<td>40-49</td>
<td>25%</td>
</tr>
<tr>
<td>50-54</td>
<td>30%</td>
</tr>
<tr>
<td>55-59</td>
<td>35%</td>
</tr>
<tr>
<td>60+</td>
<td>40%</td>
</tr>
</tbody>
</table>

Important: maximum % of salary contributable is dictated by the age you turn in that year. **Additional Superannuation Contribution (ASC) is not** taken into account when accessing funding limits.
Overall contribution limit takes into account:

- Superannuation Scheme
- Spouses’ and Children’s Scheme
- NSPs
- Purchase of temporary/training years
- Repayment of refunded pensionable years/marriage gratuity, etc.
- AVC Scheme.

Pension Tax Relief Limits will not be affected by Additional Superannuation Contributions
Issues to be aware of when Retirement Planning

1. Public Service Superannuation Act 2004
2. Public Service Pension Reform – “Cost Neutral Early Retirement”
3. Personal tax rates
4. ARF and AMRF options versus Annuity
5. Social Welfare entitlements
6. Tax Relief Scope
7. Standard Fund Threshold (SFT)
8. Personal Fund Threshold (PFT)
9. Fee, Charges and Commissions
10. Partner Pension Details.
Approved Retirement Fund (ARF) changes:

- **Year you turn age 61**: minimum income withdrawal is 4% (was 5%)
- **Year you turn age 71**: minimum withdrawal is 5%
- **If fund is over €2 million**: minimum withdrawal from age 61 is 6%.

Approved Minimum Retirement Fund (AMRF) changes:

- **Option to withdraw up to 4%** per annum of fund value (based on value as at 1st Feb)
- **Previously**, you could only withdraw interest on capital prior to your 75th birthday.

Warning: The value of your investment may go down as well as up.
Where a ‘Last minute’ AVC/PRSA may be worthwhile for Superannuation Scheme members

Important information for public sector employees nearing retirement.

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: If you invest in this product you will not have any access to your money until you receive your superannuation benefits.
1. If you are nearing retirement and your **Tax-free Lump Sum** is likely to be less than the maximum allowed because you:

   • Are short service and/or
   • Have service over 40 years and/or
   • Have non-pensionable earnings; e.g. exam supervision, correcting of exam papers and/or
   • Had experienced a reduction in pay.

There is a special tax break under Revenue rules that you might be able to take advantage of before you retire. This is known as a **Last Minute AVC.**
What is a Last Minute AVC?

It is an excellent way of funding any shortfall in Pension provision between the Tax-free cash lump sum provided for within the Superannuation Scheme and the maximum Revenue approved tax-free cash entitlement.
The benefits of investing in a Last Minute AVC include:

- Receiving a refund of tax on Pension contributions
- Maximising your tax-free cash lump sum at retirement.

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How does a Last Minute AVC work?

- You can **top up** your tax-free lump sum through a ‘Last Minute’ AVC with a single investment.
- You can then **claim back full tax relief** after retirement (subject to Revenue limits).

Note: you cannot avail of a ‘Last Minute’ AVC after retirement.
An annual management charge will also be applied by the insurance company. The typical charge is 1% per annum. The €595 fee only applies if you are not already a member of the AVC Scheme.

### Example

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>You Invest</strong></td>
<td>€5,000</td>
</tr>
<tr>
<td><strong>Plus fee and contribution charge</strong>*</td>
<td>€803</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>€5,803</td>
</tr>
<tr>
<td><strong>Less tax relief (assuming 40%)</strong></td>
<td>€2,321</td>
</tr>
<tr>
<td><strong>Amount you actually pay</strong></td>
<td>€3,482</td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td>€1,518</td>
</tr>
</tbody>
</table>

* €595 fee plus 4% contribution charge. An annual management charge will also be applied by the insurance company. The typical charge is 1% per annum. The €595 fee only applies if you are not already a member of the AVC Scheme.*
Dynamisation

- Relevant to all who experienced a reduction in pay
- The calculation of final salary under Revenue Rules differs from Superannuation Rules.

**For example**, Revenue allows the following calculations:- Basic Salary (including allowances, etc.) in any 12 month period in the last 5 years.

**Plus**
Average of 3 or more consecutive years for fluctuating emoluments up to the end of date chosen.

(CPI can then be applied to the above once retirement date is over 12 months away).
How do I know if I am eligible?

- Cornmarket can establish the maximum tax rebate available to you.
- It is possible to use up any unused allowance for 2018 in addition to 2019.
- Your service, age and tax band must be considered in establishing your eligibility.
Do I need to be a current member of an AVC Scheme?

• No, this is open to all members of Superannuated Schemes.

• The process varies slightly but the result is the same – maximising your tax-free cash.
When does the process begin?

The review or consultation must happen in advance of your retirement to ensure that the process is completed before you retire.
How long does the process take?

Usually 6 – 8 weeks.

N.B The process must be completed in advance of retiring. We cannot guarantee completion of the process if the application is left too late.
Is a ‘Last Minute’ AVC/PRSA right for you?

No single right answer.
Each individual is different.
Pension planning is COMPLEX.

Expert advice is recommended.
For a copy of today’s presentation visit:

www.cornmarket.ie/retirement-seminars
Thank you

Any questions?

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