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PLANNING FOR YOUR RETIREMENT

IN YOUR 30'S

A close-up photograph of a woman with long dark hair smiling warmly at a baby. The baby is also smiling and looking towards the woman. The background is a soft, out-of-focus green, suggesting an outdoor setting.

Meet Mary, married to Brian with two children. Mary is a 37 year old accountant who has many demands on her income. There's the mortgage to pay, the bills and the future cost of education. She is thinking about starting a pension.

WHAT TO DO IF YOU'RE 30 SOMETHING



FACT 56% of those with a pension feel secure about their retirement compared to only 26% without a pension. (Source: Amarach Research August 2011)

WHEN IS THE BEST TIME TO START A PENSION?

It's true to say that the sooner you start a pension, the longer it has to grow and the easier it can be to reach your target. Even a small regular payment could deliver big results if you start in your twenties.

The strange thing about your thirties is that, although you're probably getting paid more than when you were younger, you seem to have less in your pocket at the end of the month. So how do you fit a pension into all of this?

TAKE ADVANTAGE OF INCOME TAX RELIEF

Even if you have all the savings you'll ever need, a pension plan would still be worth it for the income tax relief alone. Did you know that money you put into your pension fund receives income tax relief if you are eligible for it? Basically, this means you pay less tax if you make payments into your pension plan.

For example, if you invest €100 in your pension plan, as a lower rate tax payer, it saves €20 off your tax bill. For higher rate taxpayers the benefit is even greater, saving €40 for every €100 you invest.



HOW MUCH SHOULD YOU SAVE INTO A PENSION?

There are income tax relief limits, which mean there is a cap on the amount of your income that you can use to make payments to your pension plan each year.

So that means, if you're thirty now, you could set aside 20% of your income for a pension. Now that may seem like a lot of money but with the income tax relief it's not so hard.

Let's say, if like Mary, you are earning €52,000, and you decide to save €500 a month into your pension plan. That is a lot of money when you consider all the other outgoings you have, but with income tax relief at 40% it could cost Mary just €300 from her take-home pay, or €400 with 20% income tax relief.

Mary's monthly pension payment	Cost to Mary
€500	€300 (40% income tax relief)
Yearly pension payment	Yearly Cost to Mary
€6,000	€3,600

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 your Inspector of Taxes to adjust your tax credits. Payments deducted from salary will receive immediate tax relief. If you are self-employed, you must include your pension payments in your self-assessment tax returns in order to obtain income tax relief.



QUESTIONS & ANSWERS

“I’M STILL YOUNG, I’LL WORRY ABOUT IT LATER.”

Retirement seems a long way off when you're in your thirties. Whereas paying a mortgage, raising kids and buying a new car all seem very close and urgent. It's something you can afford to put off, isn't it?

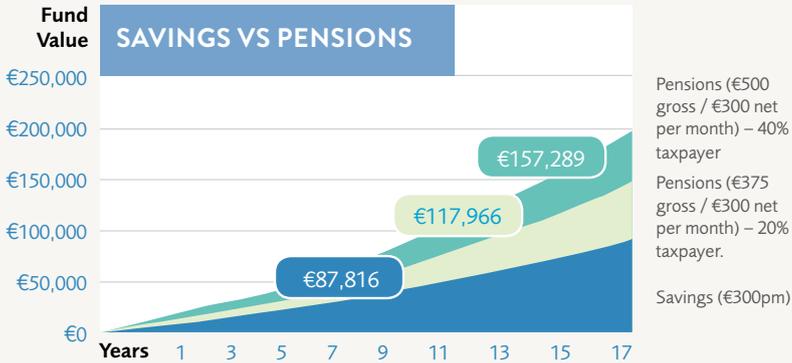
WELL, NO. The person that will lose most is your future self. The sooner you start, the easier it will be and the less it will cost you in the long run.

“I DON’T WANT TO COMMIT TO A PENSION PLAN. I’LL USE A SAVINGS PLAN INSTEAD.”

A savings plan is another way to put money aside and of course you can get at it any time you need it. But for long term needs like retirement, easy access is a drawback, not an advantage. It's all too tempting to dip in. More significantly, the tax benefits that come with a pension plan make it a more efficient way of saving.

A PENSION PLAN VERSUS AN ORDINARY SAVINGS PLAN – WHO WINS?

The simple answer is that the income tax relief on pension payments made to a pension plan gives it a head-start. For example, supposing you saved €300 into a savings plan. If you put that into a pension plan instead it would be equivalent to investing €375 per month with 20% income tax relief or €500 per month (with higher 40% rate income tax relief). By the time you retire that could give you more in pension benefits compared to the average savings plan.



Unlike a savings plan, you cannot access your pension fund until you reach retirement age. At retirement you can take part of your pension fund as a retirement lump sum. The remaining balance can be used to provide you with an ongoing pension income.

The savings plan shown allows for exit tax of 41% being deducted every 8 years on the plan. The savings plan is inclusive of the 1% government levy. The graph assumes 100% of your payment is invested, 1% fund charge, 4.4% growth, indexation at 2.5%, no policy fees.

Pension income in retirement is subject to income tax at your highest rate on withdrawal, Universal Social Charge (USC), PRSI (if applicable) and any other taxes or government levies due at that time.

Warning: These figures are estimates only. They are not a reliable guide to the future performance of your investment.

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 age 60 and/or you retire.

CHECKLIST FOR 30 SOMETHING



- See for yourself what you can afford with the easy-to-use Pension Calculator at www.irishlife.ie/pensions
- If you haven't started a pension plan yet talk to your Financial Broker or Adviser today.
- If you have started a pension plan, check your most recent Pension Benefit Statement or go online to see how your pension fund is performing.
- If you haven't reviewed your pension plan in the last year or so, set up an appointment with your Financial Broker or Adviser.



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