3 steps to a better retirement

Begin with the end in mind

Why do women face more challenges when planning for retirement?

What you need to know when getting closer to retirement

The impact of new regulation for:

- Self-employed
- Company Director
- Employers or Employee

Talking Pensions

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Bank of Ireland

I'm delighted to welcome you to this edition of Talking Pensions

Bernard Walsh
Head of Pensions
& Investments
Bank of Ireland

Welcome to our latest Talking Pensions magazine. From the last issue, we are starting to see the proliferation of vaccination but with the continuing cloud of variants remaining a concern. Businesses are re-opening, road traffic is increasing and more people are returning to their place of work. The crisis has already had a profound impact on our lives but also on the way we think about life. For many of us, our values have shifted – having the benefit of more time with immediate family, appreciation for the connections we have to friends and family, our general health and the freedoms we normally enjoy.

Throughout the year, we have continued to ask people for their views about investing for the future and the results are going in one direction – consumers want to do more to give themselves the opportunity to enjoy the lifestyle in retirement they desire. But they need help – pensions continues to be an alphabet soup of acronyms and most find the tax relief piece confusing rather than what it should be – a great way to help you to save. The aim of this magazine is to highlight what people can do, we look at some key considerations and hopefully help you on the road to getting your plan up and running.

Many of us are now working in a completely different way, with less routine, structure and thankfully reduced commuting. The way we work is different and the way we retire is probably changing too. The conventional model was to retire when you reach age 65. You make your leaving speech and collect your gold watch before you head home to live off your defined benefit pension, combined with the State Pension benefit.

This model has changed dramatically and responsibility now falls on the individual. Being able to continue to enjoy a comfortable lifestyle when you stop working is the real goal for many. This cannot be achieved by accident though, you need a plan that needs to be easy to implement, and we're here to help do just that.

We focus on three steps: one: know what you have, two: know what you want and three: know what you need to do to get there. Three steps, three "what's", maybe three home truths. What do you get from this – some real clarity, a direction and a plan. We find that the feeling people get when they have a plan in place is quite incredible. You take away that doubt and you answer that question "what if?" It feels good to take control.

Achieving your desired outcome at retirement is dependent on you contributing little and often throughout your working life, availing of an employer contribution if available and using tax relief to make it affordable. What is sometimes given less attention is what happens after you put your money into a fund i.e. how is it invested. We talk about optimising growth which means getting the highest level of growth on your money but within the level of risk you are comfortable with, over time. Over the last eighteen months, we have seen the highs and lows of stock markets – as COVID spread in early 2020, shares sold off at the highest rate on record. As governments and central banks launched the biggest rescue packages in history, we saw a very strong rebound in markets. This trend continued into 2021 with shares delivering a healthy first half of 2021.

If you have pension savings, has your money benefited from this growth? Optimising returns on your pension savings and reviewing your investment strategy are essential aspects of achieving your retirement goals that we can help with but you need to take the first step. Getting good advice when you start saving and on an ongoing basis will really help you.

The pensions landscape is undergoing considerable change for those in certain one-person company pension strategies as well as for those who are providing employee benefits packages. We will introduce you to what the new IORPS legislation will mean but in general it's aim is to encourage better operation of pension plans, to ensure that they are properly run and to simplify a very complicated system. As the consultation process concludes in the later half of 2021 and the Pensions Authority gives clarity on implementation plans we'll be better able to inform our customers of its implications but those affected will need to start thinking about the changes that will inevitably come down the tracks in the short term.

In Talking Pensions, we will introduce you to a number of characters who have started their journeys to achieving a comfortable lifestyle in retirement. They come from different backgrounds, have different work situations but have much in common too – they have just been through the Three Steps we introduced you to – understanding what they have, what they really want and how to go about getting there. The cornerstone of all of this is getting good advice from our advisors.

Contents

Where to start?

It's as simple as 1, 2, 3....

1. Know what you have

Knowing what you have is a great starting point. It's good to review your existing savings and any existing pension policies you may have contributed to over the years. Some of the statements and documentation can be hard to understand, we can try to help.

2. Know what you want

Knowing what you want from life when you do retire is key. Consider what kind of lifestyle you see for yourself. Do you plan to travel every year? Enjoy big occasions and celebrations?

You may need an income for up to 30 years once you retire so setting realistic expectations of the lifestyle you want and knowing how much you will need to have saved for your retirement years is vital.

3. Know how to get there

Getting expert advice is critical to having a good understanding of what you need to put aside during your working life in order to have a comfortable retirement. Many think the whole area of pensions is too complex but when it comes to pensions, our team of advisors have a wealth of experience. In as little as 60 minutes, they can explain everything and guide you through the process of getting a plan in place that's right for you.

We hear from a lot of people that when it comes to saving for retirement, a big challenge for them is where to start. There are a number of initial steps. If you are an employee of a company, find out if they offer a staff pension scheme and does the employer make a contribution. If so, this can be a fantastic way to get on your saving journey with your employer as well as you contributing to your future. However, some companies while having a pension scheme, do not contribute to it.

If you don't have a company pension scheme option or if you are self-employed or if you just want to set up a private arrangement, you need to work out what you can afford. What is really helpful is if you gather together details of any money held in bank accounts or any existing investments you might hold. We can take you through a process where we assess what you have and what you owe, what is coming in and what is going out to allow us to identify what is realistic for you to set aside. We can then get into the process of how your pension savings should be invested.

If you are married or in a long term relationship, it is always useful to have a conversation with your spouse/partner on what retirement savings they have in place. When getting advice on saving for the future, it is always best to look at the family unit as a whole to ensure that you get real broad-based advice.

The main thing is that if you want to start, do something about it now. Our advisors are available over the phone or in branch to help you get started today!

Mick, in his 40's, self-employed, no pension

I'm Mick, I'm in my mid 40's and self-employed.

I went out on my own as an hardware store owner 3 years ago. My business is pretty established now and I'm getting a lot of support locally. We have a strong community spirit in the town and my family involvement in the GAA club didn't do any harm!

The COVID crisis was the first big shock to my business but I have adapted like most. The crisis has taught me that I am not "bullet-proof" and that I need a plan for the future.

My wife Aine is a schoolteacher so she has been building up a retirement plan for years.

We bought our own house 5 years ago and we have 2 kids. We have some control on our bills and this helps us to plan a little better.

Before I went out on my own, I was an employee with a big firm and one of the great perks of the job was the company pension plan. I really miss that now – particularly the ease of watching it go from my payslip every month without me having to do anything. Even better, my employer matched what I was putting in.

Now I need to set up my own pension plan. It has to be right for me and has to be what I can afford at this stage. My Dad explained how the tax relief bit works – great to have an accountant in the family! I hadn't realised, as a higher rate tax payer, if I save €100 in my pension pot, with tax relief it only costs me €60 – nice to have someone helping me on this journey.

I need to get some advice on what type of plan is right for me - I want someone to simplify it for me. It must be more than just a plan for me, it has to be right for my family unit too. The big thing is that I know that nobody is going to do this for me and I have to look into it myself.

"I'm self-employed"

Three reasons you need a pension

1. You may need an income for up to 30 years or more after you retire

People are living longer which means you may be retired for up to a third of your life. That's why it's so important to have a savings plan that ensures that the money you earn during your working life lasts in retirement.

Your pension plan is one of the most important savings plans you will ever save into. It can provide you with an ongoing income to ensure you have the money you need to enjoy your retirement years.

2. Your income could drop by almost 70% in retirement

When you retire, you'll probably assume that you will have the same standard of living. However, unless you put a pension plan in place, your income could drop by almost 70% in retirement.

The State Pension (Contributory) is currently €12,912 a year (€248.30 a week), but the average wage is €45,111**. You need to start saving for your retirement to help avoid a big drop in income, and the impact this would have on your lifestyle.

** Source: CSO, Average earnings in Q1 2021, Earning and Labour Costs June 2021

3. If you qualify for the State Pension, you could be 66 before you receive it

Currently the qualifying age for the State Pension is 66. This was meant to be extended in 2020 to 67 from 2021 and 68 from 2028. However, in Budget 2021, it was announced that the qualifying age for the State Pension would remain at 66.

If you choose to retire before aged 66, you could have a gap in your retirement income.

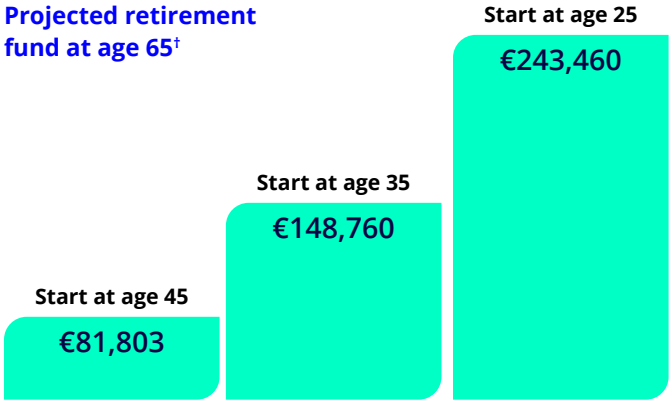
How do I work out how much I should be saving?

As a general rule of thumb **you should be aiming for an income of between 50% and 66%** of your final salary. However, everyone's situation is different and it really depends on the type of lifestyle that you want for yourself in retirement, as well as on your own specific circumstances. An Advisor in your Bank of Ireland branch can meet with you to discuss your retirement needs and help you put a plan in place designed to achieve your financial goals based on:

- your current age
- when you would like to retire
- the kind of lifestyle you want
- what you can afford to save

When should I take out a pension?

It is important to start planning for tomorrow, today. The sooner you start your pension, the longer it has to potentially grow which could make a big difference to the size of your savings at retirement.



†The figures are based on level monthly contributions of €250. This illustration assumes a gross investment return of 4.5% per annum, a 5% premium charge and 1% annual fund management charge. This rate is for illustration purposes only and is not guaranteed. Actual investment growth will depend on the performance of the underlying investments and may be more or less than illustrated.

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

WARNING: Past performance is not a reliable guide to future performance.

I'm not sure if I can commit to long term savings

A personal pension is very flexible. You can usually stop and start when you need to, and increase or decrease your contributions at any time. It is better to start saving into your pension plan now, even if you put in less than you would like to. Remember you can usually change how much you save to suit your changing circumstances.

Find out more

To meet an Advisor call 01 511 9202†

†Calls may be recorded for service, training, verification and analysis purposes.

Mary, in her 30's, an employee, started a pension

I'm Mary, I'm 36. I am 18 months in this role and it has changed so much in that time. My day has moved from a one hour commute each way to a walk from the kitchen table to my new home office. Not having to travel from work has "bought" me some additional time in the evening to enjoy extra family time.

With less commuting, my trips to the petrol station are now rare events and those expensive lunches have been replaced by the homemade version. I have been surprised to see our bank account getting a bit healthier by the week. Restrictions have meant that we got into some really good savings habits that we hope to continue going forward. One of the big plusses of my new job is the company pension scheme. I got to join it when I was there six months. It is great to know that not only am I saving for our future every month but my employer is contributing the same amount again. It really helps when two are paying in, not just one.

It was fantastic to get to sit down with the financial advisor to get a better understanding of what I wanted to do and more importantly, what I needed to do. I never really understood pensions before, but the explanation was quite simple. She took me through a couple of steps starting with a really important one which was to understand what I already had. This is my fourth job so I had three other company pensions already. I had a file with all the communications from previous pension providers but it was an alphabet soup of PRSA's and PRB's. I thought they were all pretty small but she was able to illustrate a better picture than I had expected. Because I had taken a few years out when the kids were born, I had left a few gaps in my pensions.

The hard bit was trying to answer the second step – what did I want? One of the insights I have got from this crisis is that money isn't everything. I just want to have a decent lifestyle for my husband and I when we finish working. For the first time, we sat down with the advisor and looked at our finances as a whole, including his pension plan and savings. We agreed a few financial goals and a plan to get there.

With some goals in mind, our advisor set out a plan to help us get there, we wanted it to be affordable and realistic. One feature that surprised me was the flexibility of the plan – we can increase it or decrease it as we need to. We can pause it and re-start when we choose. This really took the fear of over committing for the next 30 years out of the equation. We discussed how our funds should be invested. We are young enough so we agreed a plan that aimed at maximising growth for the next few years but moves into lower risk in later years.

It's such a weight off to know it's sorted and I now have an advisor in my local branch that is there to help anytime we need advice or our circumstances change.

"I'm an employee"

Contributing to a workplace pension is a convenient, tax efficient and flexible way to plan for your retirement.

Your employer is required to provide you with a facility to make pension contributions and there are two options available when an employer sets up a pension arrangement for employees – **an Occupational Pension Scheme or a Group Personal Retirement Savings Account (PRSA)**. A real advantage for employees whose employer offers an Occupational Pension Scheme is that the employer must make a 'meaningful' contribution which is effectively free money! Employers are not required to contribute to a PRSA arrangement but many do.

With both options, your employer must deduct your contributions from your pay which is not only convenient but also means you don't have to make a separate tax claim as your tax relief is automatically applied directly at source.

You should talk to your employer for more information on the options available to you. Remember, if you pay into a PRSA you don't have to go with the provider that your employer has chosen - you can pick your own PRSA provider and pay your contributions directly to that PRSA provider from your own bank account. If you do this you can apply direct to the revenue for tax relief on your contributions.

How do I know if I'm on track?

You can get a projection of your expected income in retirement from your pension provider. You can then compare this against the income you think you will need in your retirement and take action if there's a shortfall.

How much should I be saving?

As a general rule of thumb you should be aiming for an income of between 50% and 66% of your final salary. However, everyone's situation is different and it really depends on the type of lifestyle that you want in retirement, as well as on your own specific circumstances.

See HOW MUCH YOU COULD BE SAVING

Putting €100 into your pension may actually only cost you €60, assuming you are a higher rate tax payer*.

*It is important to note that tax relief is not automatically granted. You must apply to and satisfy Revenue requirements. Revenue terms and conditions apply.

Am I saving enough into my pension for a comfortable retirement?

It's great that you have a pension plan in place, but do you know what income it will provide you with in retirement? Taking out a pension plan is the first step to your financial wellbeing in retirement. However it doesn't necessarily mean that your financial future is taken care of.

It is important to have a clear understanding of what income your current level of pension savings is likely to provide you with. You should then compare this against the income you think you will need to support the lifestyle you want after you stop working.

Have your circumstances changed?

If your circumstances have changed since you took out your pension plan or last reviewed it then you should review your plan in light of those changes.

- Have you changed jobs?
- Has your income increased?
- Do you have dependants?
- Did you start your pension with a low contribution with the aim of increasing it over time?
- Have you stopped paying into your pension plan?
- Are you happy with your current pension provider?

Find out more

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Eve, in her 40's, Company Director, putting a retirement plan in place

I'm Eve, founder of my own digital marketing company in 2010. Generally, it is not considered a great idea to start a new business in the middle of a recession. Like most self-starters though, there was no talking to me. 11 years on, our "empire" has grown to six amazing workers and we have moved to a bigger premises. The last 18 months have been the most challenging for us on many levels. We have been working from home as have most of our clients. Many of them have been forced to reinvent their business and we've had to really up our game to bring our clients into a new online arena. Digital adoption is one of the phrases of the crisis.

Every now and again, I get letters regarding my pension savings from previous jobs. It reminds me of when someone else was looking after my future for me as my previous employer took care of all of that. That has to be part of my responsibilities now. I was lucky that when I was setting up the business, my accountant told me in no uncertain terms to get advice on saving for the future. I'm glad I listened to him because it makes perfect sense. I pay myself what I can afford and what I need. I don't want to be paying lots of income tax if I don't need to. But what I learned is that I can also pay myself for what I need to spend in the future in a really tax-efficient manner. I was amazed at how much my company could contribute for me and not just that – we could claim corporation tax relief on that amount too. The tax breaks really made it attractive and affordable. The advice I got helped me to work out how much I needed to pay myself, how much I could put in and what was the best way to get my pension pot growing. I paid in on a monthly basis what I felt the business could afford and usually topped it up at the end of the year just before we signed off on our accounts to maximise my tax savings. It sounded complicated at first but when you get a plan in place, it made perfect sense.

One feature that was very important to me was flexibility. When we moved to the new building in 2018, it was a year with a lot of additional expenses and we knew we needed the business to expand to pay for it. It was comforting to know that I could pause my plan for six months to allow the cash reserves to build up again. I am hoping to do a bit more this year to catch up.

I always had an interest in the stock markets and I have enjoyed keeping an eye on the investing side of my pension pot. It is my saving and I wanted it managed in a way that reflects what I want. I am in my 40's so I have plenty of years ahead before I retire. Growing my money over time was paramount. I have seen plenty of ups and downs in the stock market, but as I won't need the money for another 20 something years, I'm not concerned by them.

"I'm a Company Director"

With an Executive Pension you can extract wealth from your business and potentially save tax

When it comes to looking further into the future, company directors and business owners often view their business as their primary nest egg. As a business owner you may believe that you will never retire from the business or will sell it and use the lump sum to fund your retirement years.

However, what some business owners don't realise is that **you have a unique opportunity to transfer profits out of the business today into a savings pot of your own tomorrow.** Doing so can make real sense, in that your retirement income isn't entirely dependent on the future success of the business. What's more, you can actually offset payments into this savings pot against the company's Corporate Tax bill.

Contributions can normally be offset against Corporation Tax reducing your company's tax bill and don't attract any tax liability in your hands at the time of payment as they are not treated as a Benefit in Kind. Tax may be payable at retirement when benefits are finally taken and this will depend on the options chosen at that time.*

Some key benefits of an Executive Pension plan

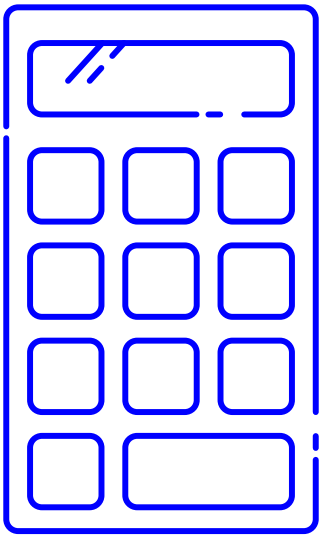
- Contributions can be varied year to year to suit both the finances of the company and your own personal finances
- The company can usually make much higher contributions to a pension plan than an individual in their own right - subject to Revenue maximum funding limits
- Company contributions can normally be fully offset against Corporation Tax
- No Benefit in Kind tax applies to contributions made by the company to your Executive Pension**
- Any growth on the money within your Executive Pension is tax-free (under current legislation)
- Possibility of early retirement from age 50 – you will need to surrender shareholding and sever all links with the business
- When you retire, part of the accumulated fund within your Executive Pension can be taken as a tax free retirement lump sum (subject to Revenue rules).

An Executive Pension Plan offers you flexibility

- **Contribution options**
  You have flexibility at the outset to choose the amount you and your company contribute
- **Investment options**
  You can tailor your investments to suit your individual attitude to risk
- **Retirement options that suit your circumstances**
  When you retire, there is flexibility as to how the benefits can be taken. This will depend on rules that are in place at the time you take your retirement.

As a business owner you work hard today in order to provide yourself and those that depend on you with a better tomorrow. Through an Executive Pension plan you can provide yourself with an income in retirement that's independent from your business, allowing you to choose whether you want to continue running your business, pass it on to the next generation or sell it to top up your income.

Recently there has been new legislation introduced for Company and Executive Pension plans. See page 17 for details of the proposed changes coming down the track.



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*Subject to Revenue rules

**Subject to the plan having Revenue approval, Revenue limits apply

Brendan, in his 50's, farmer, needs a flexible pensions option with the seasonal work he does

I'm Brendan and I'm 52. Farming has been in my family for generations and it didn't surprise anyone when I took over from my father when he decided he'd had enough of the daily grind. While he handed over the reins, he would never admit that he has retired. One of the biggest lessons I learned from him at an early stage was that farming is a marathon, not a sprint. To finish a marathon, you need to focus on the long game, and plan out your steps as best you can, remembering that you are at the mercy of so much that is outside your control. My father had a phrase "you can't turn the wind, so turn the sail." It is a line that has kept me grounded plenty of times.

A key part of my plans is to make sure that I can step back from farming when I am young enough and fit enough to enjoy retirement. I won't do that without a plan and that is what I worked out with my accountant and my financial advisor. The message that they gave me was simple enough – some of what you earn this year is to be spent this year; some needs to be put aside for what may be needed next year or the year after and then a portion is for the future when I stop working and saving and start spending and relaxing.

I don't work nine to five, five days a week with a salary paid into my account on the same day every month. I also know that weather can change my fortunes as can the prices I can achieve for my produce. That is why I put aside what I can every month and take a closer look at what I can do when I'm dealing with my tax in November. My "team" work out what is best, it is made up of my accountant, my advisor, me and my wife. The decisions are about what is right for us as a family and as a farming unit. I do like to hear how saving for our future also allows me to cut down my tax bill.

I know I need my money to grow and this means some ups and downs along the way. That goes with business and with life but my aim is to build up a healthy pot for when it comes to retirement. This means that sometimes, we have to "cut our cloth" and drop back on the pension savings for a few months but we like to get back on track as soon as we can. In the better years, it is good to put aside a little extra.

The key thing is that we have a plan that gives us real comfort that we are on the right track. Saving some tax along the way is a real bonus. My retirement plan allows me to put aside what I can, when I can.

Did you know?

Pensions can be very flexible. You can stop and start when you want, increase or decrease your savings at any time – so any change in your circumstances can be catered for.

Many Company Directors are also employers

As an employer you are legally required to provide employees with access to some form of pension arrangement. While this will help your employees to plan for the future, a good pension plan can also form an important part of any remuneration package. In effect, you are actively encouraging employees to consider a long term future with your company.

A good idea for you and your employees

There are two options available to you when setting up a pension arrangement for employees:

- An Occupational Pension Scheme
- A Group Personal Retirement Savings Account (PRSA).

Both are tax efficient, flexible and accessible ways to provide financial security for your employees in retirement. There are a number of differences between how they operate and it is important to set up a pension arrangement that takes your employees' particular circumstances and requirements into account.

There's lots to consider when setting up a pension arrangement for your employees

There are many factors to consider, we've covered three of these below:

- **Employer contributions**

You don't have to make contributions to a Group PRSA arrangement so this option is suitable if you are providing your employees with access to pension provision but don't plan to make a contribution yourself. There is a Revenue requirement to make a meaningful contribution towards your employee's benefits under an Occupational Pension Scheme whereas under a Group PRSA arrangement you must deduct and remit any contributions made

- **Trustee requirements**

A Group PRSA arrangement is a simpler arrangement to establish as it does not have to be set up under trust and trustees do not have to be appointed – each PRSA policy is individually owned by each employee.

Under an Occupational Pension Scheme you need to appoint Trustees

- **Additional Protection Benefits**

You may have the option of adding protection benefits for example life cover, income protection cover or premium protection cover. Depending on the age profile of your workforce, it may be relatively inexpensive to add these benefits and they will be highly valued by your employees.

One of the key advantages of a pension is the generous tax relief available

Tax advantages for you

As an employer you benefit from Corporation tax relief on any contributions that you make to your employees' pension plan. The net cost of a company contribution of €1,000 is effectively €875.*

* Based on 12.5% Corporation Tax rate

Tax advantages for your employees

Employees can normally avail of generous tax relief on their contributions of up to 40%** (subject to Revenue maximum limits) so that if they paid €100 into their pension each month the actual cost to them could be only €60.

Under current Revenue rules employees may also benefit from tax free growth (if any) on their investment, and a tax free lump sum at retirement.

** Based on tax relief at the higher rate of 40%.

Did you know?

The Government recently carried our an extensive consultation process regarding the introduction of a new auto enrolment pension system. It is set to be launched no later than 2022.

When it is introduced it will mean that employees will be automatically included in a pension scheme and will be required to make some level of contributions (the exact amounts are to be confirmed).

It is expected that Employers and the Government will also pay into the scheme.

Taking the next step

We have a team of dedicated pension advisors who can meet with you or talk to you over the phone to discuss the differences between each arrangement and help you decide on the best option based on your circumstances and requirements. They can guide you through the setting up process, helping you decide the contribution level that best suits you, and assist your employees in selecting appropriate investment funds.

If you don't already have a pension arrangement in place, **at the very least you must appoint a designated PRSA provider.** As a first step, you could fulfil your compliance responsibilities by appointing Bank of Ireland Life as your designated PRSA provider.

Women and Pensions: What you should know

It's important for everyone to have a plan in place so that their standard of living doesn't fall when they retire. While women generally live longer than men, they are less likely to have adequate income in retirement.

Women generally end up with smaller pensions than men

One of the reasons for this is because women often face challenges during their working lives not experienced by men.

Their career paths are more likely to alter course to allow for temporary or permanent leave to mind children, take care of loved ones or even take a career break. And while this pattern is changing with more men taking on the role of carer, the vast majority of women still undertake this role.

If you take time away from work, this can have a significant impact on your pension savings and ultimately on the type of lifestyle you will be able to afford in retirement.

Things to consider...

- Will your employer still contribute to your pension if you are on **maternity leave?**
- If you take extended leave or reduce your working hours, there could be a knock on effect of **losing out on employer contributions towards your pension.**
- If your income is reduced, **saving for your retirement may become less of a priority.**
- If you take extended leave or reduce your working hours **will you have enough contributions** to qualify for the full State Pension (Contributory) when you retire?
- If you have a pension from a previous employer **do you know how much it is worth?**
- If you are married or have a civil partner do you know **how much income** their pension will provide in retirement?

If you don't have a pension plan

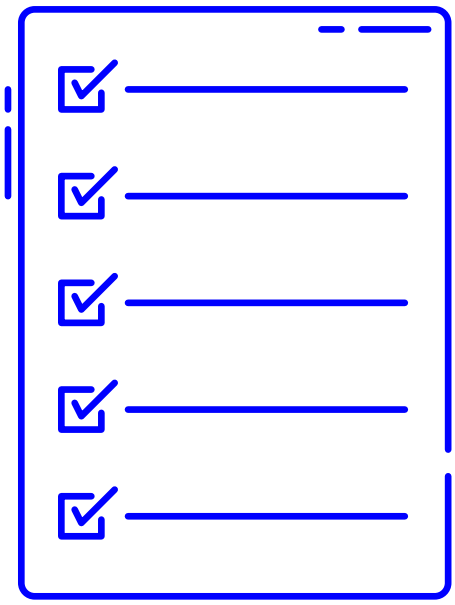
- Start one now to help ensure that you have a comfortable retirement.
- If there are any gaps in your earnings as a result of taking extended leave or reduced working hours, you can factor this into your pension savings.

If you already have a pension plan in place

- You should review it to ensure you're on track for the retirement you want.
- It's important to ensure that it factors in the impact that any extended leave or reduced working hours could have on your pension savings, if this applies to you.

If you are approaching retirement

- Find out how much income your pension is likely to provide you with in retirement. If there is a shortfall you still have time to increase the amount you are saving into your pension.
- Find out if you are eligible for the full State Pension (Contributory) and at what age it will become payable.



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Begin with the end in mind

When we plan for the future, we start by considering what outcome we want and work our way back. When we talk about "the end," we do not mean death, we mean when your pension savings finish and you begin drawing down your benefits.

When you decide to save, it is important that you understand how you might want to access your money at retirement. In the past, you would have had very little choice on this matter. The traditional approach was that you took one amount as tax free cash and the remainder was used to buy an annuity. An annuity is a guaranteed income for the rest of your life. This worked for a lot of people because annuity rates were higher. As people are living longer and longer, annuity rates have fallen sharply, making them less attractive.

The alternative is to again draw down tax free cash but alternatively to put your money into an Approved Retirement Fund or ARF. By doing so, you are effectively continuing your investment. However through the ARF, you can draw down from your funds as you wish. As your money is invested, its value will rise and fall.

In certain circumstances, you may be able to draw down the entire pension pot as tax free cash.

Your pension savings need to be invested with these drawdown options in mind. As you get near retirement, you may look to de-risk your funds. How you do this should reflect which draw down option you choose.

For Company and Executive Pension Schemes

New pensions legislation and what you need to know about IORP II

As if the alphabet soup of acronyms in the pensions world wasn't already complete, we now have the long-awaited Institutions for Occupational Retirement Provision II Directive (or IORP II as it's more commonly known). This is an EU directive that sets out new pension standards to be passed into law by each EU member state. These standards are designed to ensure the soundness of company pension schemes and better protect pension scheme members and their beneficiaries. The directive is both a comprehensive and wide-ranging piece of legislation that will also look to improve and harmonise governance, risk management, member communications and transparency of pension schemes across the EU. In some countries, it applies to company schemes with many members. In this country, it is to apply to one person company schemes too. PRSAs are not directly affected by these changes.

The transformational nature of the directive was acknowledged by the pension's regulator, Brendan Kennedy, in a recent statement - "Irish occupational pensions are about to undergo the most significant changes in at least a generation". Some of these changes will apply immediately, others will have a transitional period of up to five years.

The directive provides for EU-wide pension scheme standards covering areas such as:

- Scheme assets must be predominantly invested in regulated markets. This means that direct property investments and unregulated investments will be restricted to no more than 50% of the aggregate portfolio
- Diversification of investment of assets will be required to limit exposure to any one asset or accumulation of risk in the portfolio as a whole
- Environmental, Social and Governance (ESG) issues must be incorporated into investment decisions
- Requirements on providing clear, relevant and more consistent communication about pension schemes to active and deferred members
- Fit and proper standards for trustees
- Appointment of key function holders for risk management, actuarial and internal audit
- Written policies on risk management, internal audit, and, where relevant, actuarial and outsourced activities.

What does it mean if I have a one-person executive pension arrangement?

If you have established such an arrangement prior to the introduction of the legislation, you can continue to take advantage of maximum funding/wealth extraction strategies, subject to Revenue and legislative limits. That position is likely to remain for the next five years so you have a real window of opportunity.

You will need to consider any planned investment strategies that include unregulated asset purchases by the scheme such as individual properties and any plans to use borrowing within the scheme.

What changes can pension schemes expect from the IORP II legislation?

There will be significant cost and resource implications for pension scheme trustees, their sponsoring employer and scheme consultants, associated with these new requirements, so it will be important to understand and review the different options available. Many employers will look to assess and determine the appropriateness of their current pension benefits in light of these new rules and begin consideration of other alternative solutions such as Master Trust arrangements or non-trust based arrangements such as Group PRSAs if their company is particularly small.

What happens next?

Now that the IORP II legislation has been enacted and the Pensions Authority announced its intentions, we can expect greater clarity on requirements between now and the end of the year

Although there are still some key elements that remain somewhat unclear, what is very clear is that the time to start preparing for the changes ahead is now.

What can I do to prepare?

If you are an employee/sponsor/trustee:

It's pretty clear that IORP II will add complexity to plan governance, and that ultimately there's a lot of work ahead for everyone in meeting these new regulations.

With that in mind we've outlined some initial actions to help you start preparing:

- Get comfortable with the legislation and what it means for you and your scheme. Speak to your advisor or your Bank of Ireland Life contact to understand the likely implications
- Review your current governance structure and assess how it measures up to the new legislation and where the gaps might be in meeting the new regulations. Key areas to consider include trusteeship, governance materials and scheme structure
- Speak to your advisor about setting a plan to fill the gaps you identify and the likely changes required to do so. Consideration should be given to the resources needed from a time, cost and people perspective.

If you have a one-person company scheme / executive pension:

- Consider if there are opportunities to take advantage of wealth extraction strategies or to increase the pace of any existing strategies
- Examine your investment strategy to assess if it remains fit for purpose under the new regime.

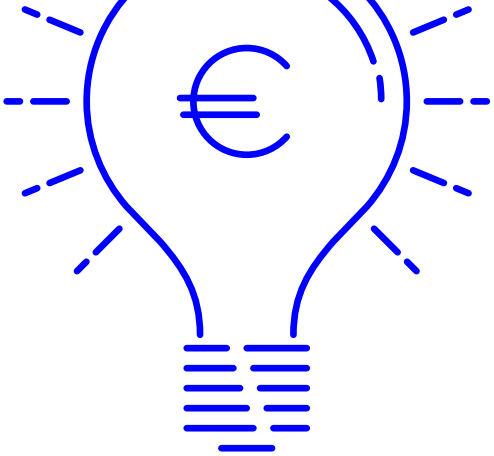
The IORP II legislation will have far-reaching consequences. It is not one to sleepwalk into – it is complex and it brings with it considerable powers of enforcement for the Pensions Authority. Above all, now is the time to get advice on what you have in place and what plans you can make for the future.

Find out more

To meet an Advisor call 01 511 9202†

†Calls may be recorded for service, training, verification and analysis purposes.

Pension Transfers



In the past, many people left school, started working and stayed in the same job until they retired. Now, those entering the workforce might end up having nine or ten jobs during their working lives. This means they could end up accumulating nine or ten different pension pots.

We often are asked the question, "should people combine them all into one single pot?" This has a number of advantages.

- It allows you to have a single view of what you have
- You might be able to avail of lower fees through economies of scale
- It might just be a bit more convenient to have one single pot.

In general you should be able to bring all of your pension savings together into one plan. However, there are conditions around moving your pension and it can depend on the type of pension arrangement you have versus what you want to transfer it into.

Generally, on leaving employment you have three main options depending on the circumstances:

1. **Leave your benefits in your existing pension arrangement.**
2. **Transfer your benefits to your new pension arrangement.**
3. **Take a refund of contributions, in limited circumstances.**

However, you need to be careful when transferring pensions. There may be some very attractive additional benefits that you would lose if you transfer:

- You might be already availing of lower fees in some of your pension pots
- There may be exit charges on transferring out. You might lose out on diversification by having all of your money in one fund.

This is an area where we recommend that you get advice before you transfer.

AVCs – Additional Voluntary Contributions

I'm already in a pension scheme but is it enough?

If you are lucky enough to be a member of a company pension scheme through your employment, this is a good start. However, do you know if the retirement income from your employer's pension scheme will be enough for the lifestyle you want in retirement? Depending on the answer to that question and, if you can afford it, you might want to consider paying a little bit more.

One way to do this is through Additional Voluntary Contributions or AVCs. They can be paid in a number of different ways depending on the pension scheme you are in. Based on your circumstances, it may even be possible to get tax relief on your AVCs and then get some, or all, of your AVC fund tax-free when you retire.

One option available to everybody is an AVC PRSA. This allows you pick your own pension provider and invest in the funds best suited to your attitude to risk. An advisor in your Bank of Ireland branch would be happy to talk you through the options open to you.

Find out more

To meet an Advisor call 01 511 9202†

†Calls may be recorded for service, training, verification and analysis purposes.

Save tax while saving for retirement

with a range of tax incentives that you simply won't get with any other savings product

TAX RELIEF

Tax relief on your pension contributions

You are entitled to claim generous tax relief on payments into your pension plan. If you are a higher rate taxpayer, for every €1 you save, you can claim back up to 40% in tax relief[1].
If you make an overall monthly contribution of €100, this means it will actually only cost you €60 after tax relief. If you pay tax at the standard rate, you can benefit from 20% tax relief.

TAX FREE

Tax free growth

Unlike other savings plans, any growth on the investment of your pension contributions is not subject to tax.
You pay DIRT of 41% on any interest earned on bank accounts and exit tax of 41% on any gains made on most investments. You pay 0% tax on any growth within your retirement fund.

TAX FREE

Up to €200,000 as a tax free retirement lump sum

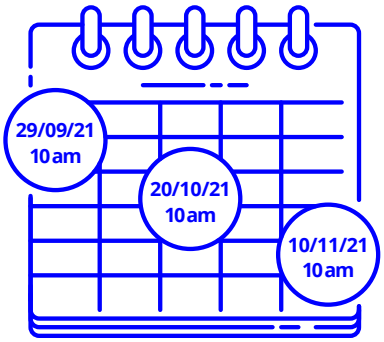
On reaching retirement, you may be able to take part of your retirement fund tax free, subject to a limit of €200,000[2].
Even where the retirement lump sum is greater than €200,000, the next €300,000 is only taxed at the standard rate (currently 20%). This very attractive benefit is not available on any other savings plan!

No one wants to have regrets in life. That's why at Bank of Ireland we're helping you look after your futures financial wellbeing with our latest three part educational webinar series focusing on the world of Pensions.

Many think that Pensions are a very complicated area. But with a little help and some good advice, planning for your future may be the difference between you living your best life in retirement and regretting not taking action sooner.

Think of it like this... you work hard throughout your working life to enjoy the things that interest you. Are you going to stop them when you retire? Are there new things you want to take up when you say goodbye to the workplace and have more freedom? We're all living longer which means we may spend up to a third of our life in retirement. Sounds good doesn't it, but will you have put aside enough to replace your income for those 30 years?

Join us and our panel of expert speakers throughout the series to find out what you can do to be retirement ready.



Visit bankofireland.com/pensions to register for the series today.

Note: There is a limit on the maximum fund that can be built up on retirement. This is currently €2,000,000. This figure includes all of your pension funds, including the capital value of any retirement benefits drawn down since 7th December 2005. Where the relevant limit is exceeded, the excess in your pension funds at retirement will be liable to a once off Income Tax charge.

1 Assuming higher rate tax payer (40%). It is important to note that tax relief is not automatically granted. You must apply to and satisfy Revenue requirements.

2 Under current Revenue rules the first €200,000 of any retirement lump sum is tax free with any balance up to €500,000 subject to Income Tax at the standard rate. Any amount paid out in excess of €500,000 will be taxed at your marginal rate and will also be subject to PRSI and the Universal Social Charge. Any retirement lump sums taken on or after the 7th of December 2005 will count towards these limits.

Understanding why investing is important for your pension

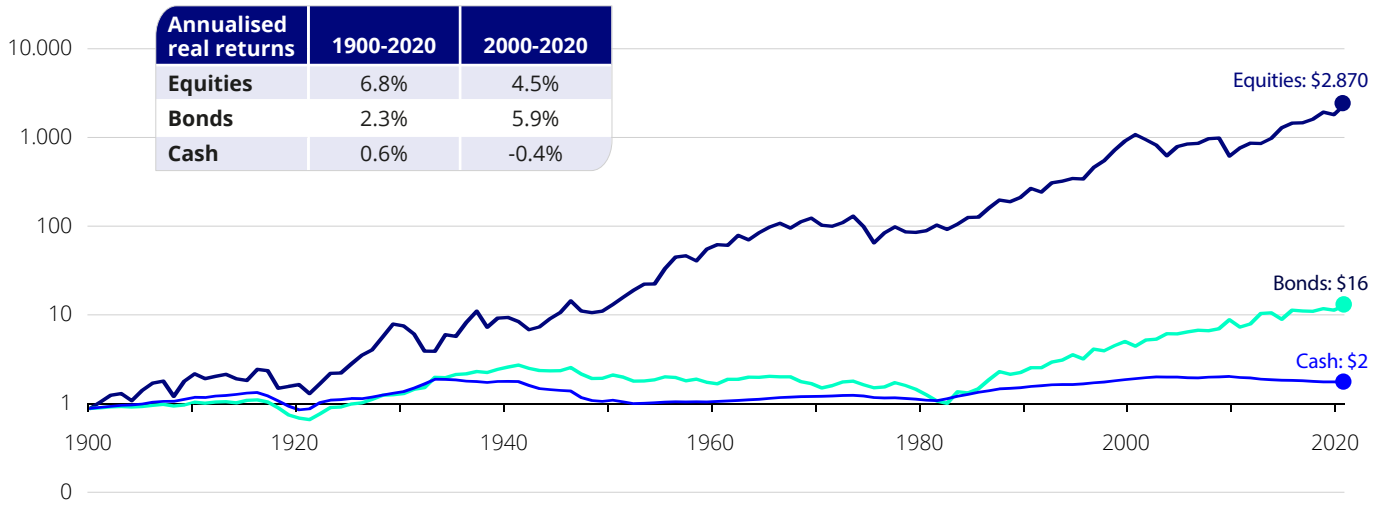
If you want to save for your retirement, it can be a tough journey if you are to do it on your own. It can be made much easier if other parties can help you along the way. The Government can play an important role by making saving easier for you through those very generous tax breaks. An employer or company contribution can help too. A critically important consideration that can sometimes get less attention is investment growth. In many cases, other than your family home, this could be your biggest financial asset and it is important that it is invested as you would wish.

The core rules of investing are firstly, "don't put all of your eggs in one basket" – make sure that your money is well spread across a range of assets, typically including shares, bonds, property, cash and some newer "alternative" ways of investing. The mix of these should usually change over time as they serve different purposes – shares and property are typically for growth, bonds generate income and some growth and cash is usually for some safety and a minimal return. When you are younger, growth is generally the priority and therefore your money should be allocated more to shares and property. As you near retirement, you may wish to reduce your risk level by switching more to bonds and alternatives.

Total return of $1 in real terms

USD, log scale, total returns

Annualised real returns	1900-2020	2000-2020
Equities	6.8%	4.5%
Bonds	2.3%	5.9%
Cash	0.6%	-0.4%

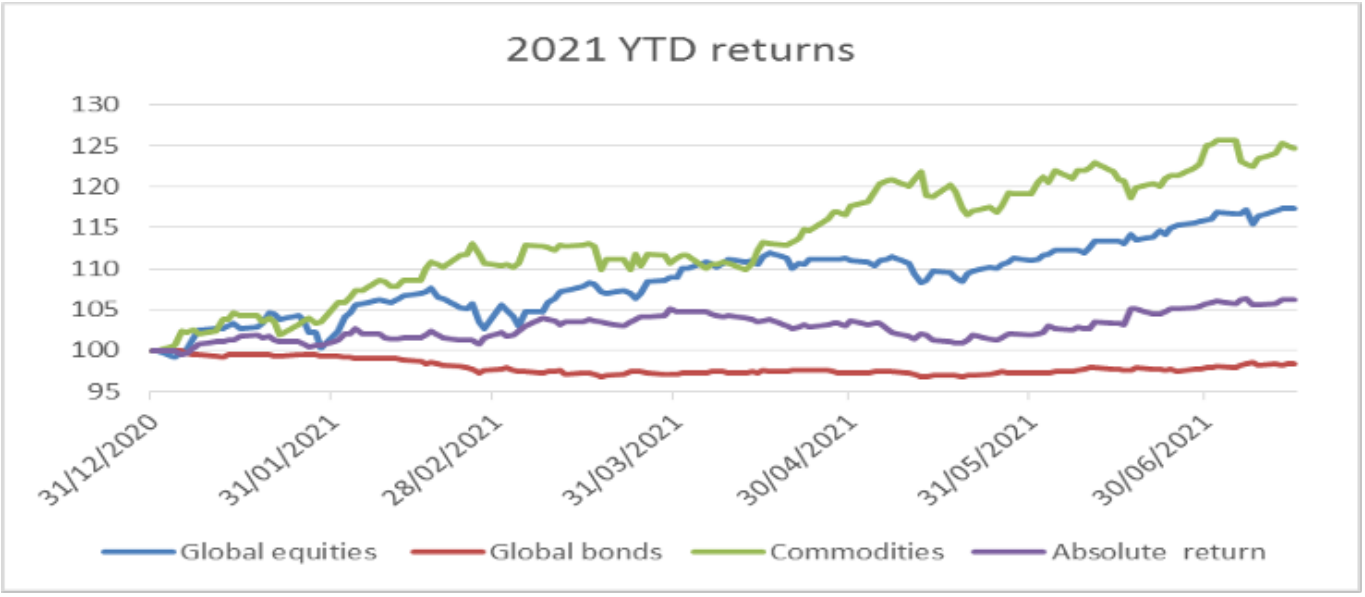


WARNING: Past performance is not a reliable guide to future performance.

Source: Bloomberg, Bloomberg Barclays, FactSet, Shiller, Siegel, Standard & Poor's, J.P. Morgan Asset Management. Pre 2010 returns: Shiller, Siegel; from 2010.
Equities: S&P 500; Bonds: Bloomberg Barclays US Treasury 20+ year Total Return Index; Cash: Bloomberg Barclays US Treasury Bills Total Return Index.
Latest point as of end of 2019. Past performance is not a reliable indicator of current and future results. Guide to the Markets - Europe. Data as of 30 June 2021.

As the chart shows, investing $1 in equities (another name for shares) substantially outperforms cash and bonds, but with some setbacks along the way. We can often hear more about the more sensationalist periods called "crashes" or "meltdowns" but overall, you can see that very healthy returns have been achieved. We show how these compare with bonds and cash in what we call "real" terms i.e. when we subtract the effects of inflation.

The chart above shows performance of the very long term, but what may be of interest, in addition, is what has been happening more recently. This time last year, we were writing about the sharpest sell-off in stock market history. This year, we are talking about markets hitting all-time highs. Markets have been less volatile (going up or down by less in a day) and those who have more shares saw healthy returns while bonds have sold off a little. The chart below demonstrates returns from the start of the year for equities (shares), bonds and commodities (goods such as gold, oil, foodstuffs). It also includes what is called "absolute return" which looks at alternative sources of return to deliver positive outcomes irrespective of how stock markets perform.



WARNING: Past performance is not a reliable guide to future performance.

Source: Bloomberg July 2021

2021 performances (to 14/7)	
Equities	**+17.3%**
Fixed income	**-1.6%**
Commodities	**+24.7%**
Absolute return	**+6.2%**

WARNING: Past performance is not a reliable guide to future performance.

The main reasons for these returns have been related to a markets' expectation that the vaccine is winning the war with the COVID virus. They are forward looking and are factoring a world that will re-open with people returning to work, spending more normally, going out and going on holidays. Central banks and governments have fuelled this recovery and administrations like the US under President Biden have announced multi trillion dollar spending programs. Companies are following through with announcements of healthy earnings well ahead of expectations. The increase in commodity prices is further evidence of the recovery story playing out in investment markets.

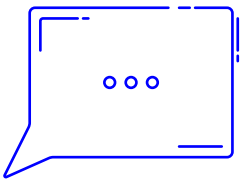
With plenty of positives around markets, it is always worth remembering that it is a long term exercise and that there will be plenty ups and downs along the way. The obvious lingering cause for concern remains the COVID virus and its variants. Markets will be unsettled by any delays to the global recovery story.

When we are asked to take out our crystal ball and look at what is likely to happen next, stock markets should continue to deliver but at a more muted level, with a lot of good news already priced in by now. Bonds may struggle to deliver anything more than modest returns as interest rates remain low but they continue to play an important role in a well-diversified portfolio.

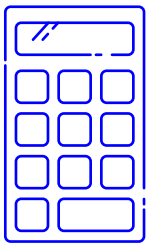
In an ever-changing world, it is essential that you get good advice around how your pension assets are invested at inception as well as throughout the life of your plan.

What to expect when you meet an Advisor

You can have a meeting with us over the phone using the latest screen sharing technology or in your local branch.



- The Advisor's first priority will be to find out about you. They will discuss what's important to you and get a sense of where you are financially.
- Together you can work out where you are on your pension journey - whether you are just starting out or a good bit down the road.



- They can run calculations to help you identify the right balance between the lifestyle you want in retirement and what you can afford to save towards it today.
- Your Advisor can also talk to you about the generous tax incentives that are only available through a pension plan.
- They will work with you to agree the fund(s) to invest your pension contributions into based on your goals, your term to retirement and your attitude to risk.

- Throughout the meeting you can ask your Advisor any other questions you may have about pensions or retirement planning.
- If you do decide to put a pension plan in place, they will set you up on Life online through 365 online, our online banking platform so you can keep track of your pension plan today and into the future.

So in as little as 60 minutes, you could have your retirement plan sorted, from the comfort of your own home.

Isn't that worth giving your time to!