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

What are the Golden Rules of Pensions and where to start?

Talking Pensions

bankofireland.com/pensions

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. This time last year, our research indicated that throughout the Covid-related lockdown, we took more time to think about our personal finances and our pensions were a key consideration. When we polled again in 2022, the results confirm that Irish people remain concerned about their future and are looking for help to achieve the best outcomes for themselves and their families.

While Covid continues to be a major healthcare concern, when it comes to our money, the rising cost of living is preoccupying our customers. Along with seeing your bills increase, it also makes getting your money working for you and future-proofing your retirement plans even more important.

We ran a series of events last year called The Pension Pot Series and we will do so again this year. For details, please go to www.bankofireland.com/pensions. The most common questions we are asked are about how to start on your journey. We suggest that you 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.

In this edition of Talking Pensions, we use three personas to represent the very typical individuals we meet about their pension needs. Hopefully you will find that one or more of their situations will resonate with you. Patricia the farmer does not have a HR department to run her pension scheme – like most things in farming, she has to make the decisions herself. She is also acutely aware of the impact that inflation can have on her finances. We look at Saoirse who is in her 50's and has recently become a director of her own business and wants to start planning for her future as well as that of her business. We meet Brian and his wife Aileen. Brian is nearing his retirement age and wants to keep on track and he has some big decisions to make.

In Talking Pensions, we will also look at some key considerations for women, we write about AVCs – a useful top-up for employee's as well as the essential area of how your pension should be invested throughout your savings journey.

Pensions continue 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.

This cannot be achieved by accident though, you need a plan that should be easy to implement, and we're here to help do just that.

Contents

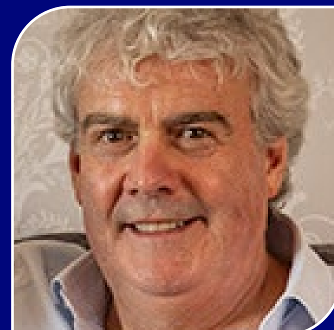
Who am I?

"I'm self-employed"

page 4

"I'm a Company Director"

page 6



"I'm an employee"

page 8

Additional Reading

Where to start? 10

Retirement Options 11

Women and Pensions: What you should know 12

The Golden Rules of Pensions 14

Executive Pension or a PRSA? 16

Pension Transfers 18

State Pension 19

AVCs – Additional Voluntary Contributions 20

Save tax while saving for retirement 21

Join our Pension Pot series 22

What to expect when you meet an Advisor 23

Patricia, in her 40s, self-employed famer who needs flexibility, starting a pension

Tell us a bit about yourself

I'm Patricia, I'm 42 and I'm married to my husband Lorcan and we have two children, aged 9 and 6. We're living in Kilkenny on my family farm, recently passed to me by my father. We live in the farmhouse, keeping me close to the farm at all times but close enough to the local village and schools for the kids. My family have been part of this community for generations so we're well connected in the community. The kids are heavily involved with the local GAA and other sports and Lorcan is a landscaper so a lot of his work is local too.

Farming is in my blood so I couldn't see myself doing anything else. As always, it has its ups and downs but thankfully we're having a few good years now with barley and wheat. Lorcan's work has also become more stable than recent years gone by. The re-zoning of land close to the village for residential building has really given his landscaping business a boost.

What plans do you have around retirement?

With a young family, over the years our priorities have been more short term focused but now is the time to start planning properly for our future. We recently put a savings plan in place for the children's future college education but one piece of advice my father gave me when taking over the farm was to get a pension started and so I did! It wasn't much at the time but it has got me into a good savings habit.

Farming is tough, physical work and I've seen the toll it can take so ideally, I'd like to wind down a bit in my 60's. I probably won't retire in one go but I've a few hobbies, such as bee keeping that will keep me busy. Some people I know say that their farm is their pension but that is fine if you plan to sell it – I see it that Lorcan and I are just minding it for the next generation – it has been in our family for centuries now.

Putting a plan in place now for the future is a smart move. I won't be prepared to retire when I want to if I don't, so getting professional advice was paramount to me. When I spoke to the advisor in my local Bank of Ireland branch, the message they gave me was simple – 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 and then a portion is for the future when I stop working.

What decisions do you need to make?

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 all to well that the weather can change my fortunes as can the prices that I can achieve for my crops. So that's why I put aside what I can every month and take a closer look at it when I'm dealing with my tax return in November.

My plan and the decisions we make when adjusting the plan is all about what is right for us as a family and as a farming business. I'm always happy to hear how saving for our future retirement also allows me to cut down my tax bill.

I know we 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's time for me to retire. This means that from time to time we may have to "cut our cloth" and drop back on the pension savings for a few months but we'd like to get back on track as soon as we can. But also, in the better years, put a little extra aside.

My pension plan allows me to put aside what I can, when I can, and that's exactly the flexibility I need!

Priorities for Patricia & Lorcan

- Agree an amount per month to be put into pension that they can afford
- Patricia is young enough to take a long-term view so it may be time to make the most of growth through allocating more to stock market investments
- Make sure the plan has flexibility to allow for years when farm activities may not be as fruitful

"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 over 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 over 70% in retirement.

The State Pension (Contributory) is currently €13,171.60 a year (€253.30[a week), but the average wage is €45,779**. 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 2022, Earning and Labour Costs May 2022

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, 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.

Projected retirement fund at age 65†

†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.

We know that when you are self-employed, you don't turn to your Finance Department to help you with your accounts, your IT crew to help you fix your computer and certainly there is no HR Department to help you with your pension plans.

To help you with your personal finances, we always advise you to "pay yourself first" – in other words, make sure that you allocate for you and your family. It is also important that you ask yourself a few questions – some of these can be pretty hard to think through – but remember, only you can really answer them:

- How long is it realistic for you to continue to work? Some jobs can be challenging mentally and physically so can you really continue to work into your late 60's and 70's?
- What would happen if you were sick for an extended period of time? How would you replace your earnings?
- When you plan to stop working, will you be able to sell your business?
- And the real worst case scenario, if you died unexpectedly, would your family have the means to meet their ongoing financial requirements?

Saoirse, in her mid 50s, Company Director, enhancing her pension

Can you tell us a little about yourself?

I'm Saoirse, I'm 55 and I live in Dublin. I was recently given the opportunity to become a Director of the business I'm working in so that's been a big change. I wouldn't have thought I'd ever become a Director of a business but I took the opportunity from some of the inheritance my parents left me. Mum and Dad would have wanted me to be secure and set up for life and I think that is exactly what buying into the business has given me.

Since my parents passed away, I've thought a lot about my finances and it dawned on me, it's up to me to look after myself into the future. Having met with my financial advisor a couple of times recently, I feel there's a weight lifted off my shoulders, having put a plan in place for critical illness and health insurance - I needed to make sure I'll be ok financially if something bad were to happen to me. And I know it's time to focus on putting a plan in place for the type of lifestyle I want when I retire.

I'm a good saver, I don't have any real debts and with my parents' inheritance, I've a decent bit of savings for any rainy days that may come my way. But, I do know how to look after myself. I love going on lovely city trips and vacations throughout the year and myself and my friends have a really good time so I don't want that to stop when I finally retire.

What decisions do you need to make around planning for the future?

I met with my financial advisor, giving them a clear picture of what I have and "where I am" with my finances. It really was time well spent – for both of us. I hadn't put much thought into the different pension pots I had been saving into over the years with different employers and nor had I considered what the buying into the business would mean for me in terms of pension options.

As a business that is going through change, we've collectively taken the time to reflect on the goals we have for the company. Part of this is taking care of our future retirement plans. Our accountant spoke to us about the benefits of pensions in terms of reducing our income tax bill and we think we have a plan that is flexible and adaptable for each of our needs.

I'm amazed at how much the company could contribute for me and not just that – we could claim corporate tax relief on it too. The tax breaks really make it affordable and attractive. The advice I got really helped me to work out how much I could put in and what was the best way to get my pension pot growing. Paying in on a monthly basis what you can afford and then topping it up at the end of the year to maximise tax savings is great. It sounded complicated at first but when you have a plan in place, it all made perfect sense.

I now know what my advisor means when she says "It's all about the future you!"

Priorities for Saoirse

- Assess whether to amalgamate pension pots or leave as is
- Use the pension system to extract wealth from the business in a tax efficient manner.
- Come up with a pension investment strategy that meets the twin goals of achieving growth while ensuring that her money is managed in a manner that factors in sustainability and avoiding harming the environment.

“I’m a Company Director”

As a Company Director, 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.*

As a business owner you work hard today in order to provide yourself and those that depend on you with a better tomorrow. A pension plan can provide you 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.

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.

* Subject to Revenue rules

Find out more

To meet an Advisor call 01 511 9202†

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

Brian, in his 60s, an employee, approaching retirement, making the most of his pension

Can you tell us a little about yourself?

I'm Brian and I'm 63. I've worked in hospitality for the last 36 years as a hotel manager. I started out at the bottom and worked my way up to where I am today so I think it's safe to say I've seen it all.

Covid has been a blessing and a curse for me. It was awful to see the hotel shut for such a long stretch and it's taking a lot to get it back up and running but on a personal level, having to slow down and not go to work every day was a good insight to what retirement might be like.

What plans have you around retirement?

My wife Aileen has retired already. She was the secretary at our local secondary school for a number of years once our own children grew up and flew the nest so she's already receiving a modest pension along with the State Pension.

We see ourselves living a modest lifestyle in retirement. We love playing golf but a lot of our time is spent with our family, our kids and our grandkids. Our girls live locally but our son lives in Canada with his family so we don't get to see them often. We'd like to do a bit more travel once we retire, go to visit Stephen and the family and then we'd love to go to the Ryder Cup in the States in 2025.

I never really gave my pension or what I was saving into it much consideration until recently but having worked for nearly the last forty years, I can now see the benefit of both myself and my employer putting in small regular contributions and having it build up over time. When I got a promotion about ten years ago, a friend at the time advised me to do some AVCs. This has really bumped up the overall pot. What money I'll have to spend every week will look very different because of the little extra I put in over time.

I'm ready for retirement, so we're planning on making the most of saving into my pension for the next few years while I'm working and then to enjoy life once I retire. I'm hoping to retire in about two years so the money we put away won't be locked away for long.

What decisions do Brian & Aileen need to make?

Making a plan is key! Having recently sat down with my Bank of Ireland advisor, I now have a clear picture of what my incomings and outgoings are, allowing us to clearly see what is realistic to save towards my pension for the next few years. Secondly, having that discussion about the options available to me when I do retire gave me a sense of what my "retirement income" will be. I've always looked at my pension pot as one big number but never before considered what that actually gave me annually to live off in retirement. I know I've a big decision to make about how I decide to draw down my pension but getting advice on the options now before retiring is something that I'm glad I've done sooner rather than later. The plan gives us clarity for the future.

With a few years before I finish at the hotel, I know I still have some time to add to my pension pot while taking every advantage of the tax breaks. Getting the right amount of growth without taking on too much risk is important for us at this stage. We remember inflation in the 1980s so we know we need to try and make sure our money grows to keep pace with the rising cost of living.

We were told that our plan should be suitable to meet our goals but still allows us to sleep at night. And that's exactly what it is!

Priorities for Brian & Aileen

- Careful management of pension investments in glidepath to retirement
- Agree how to draw down benefits as tax free cash, income and investments
- Maximise last minute funding opportunities and tax saving initiatives

"I'm an employee"

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

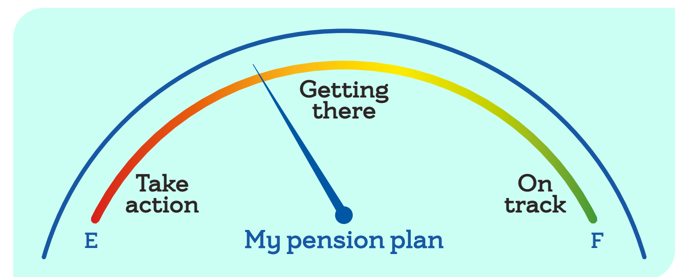
Your employer is required to provide you with a facility to make pension contributions and there are two options available when an employer sets up a pension arrangement for employees – **an Occupational Pension Scheme or a Group Personal Retirement Savings Account (PRSA)**. A real advantage for employees 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

To meet an Advisor call 01 511 9202†

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

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!

Retirement Options

When we plan for the future, we start by considering what outcome we want and work our way back - begin with the end in mind. 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.

Find out more

To meet an Advisor call 01 511 9202†

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

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.

Find out more

To meet an Advisor call 01 511 9202†

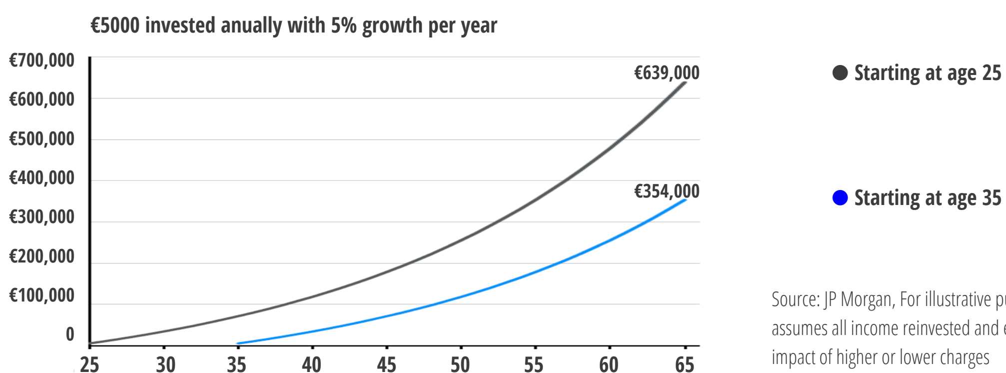
†Calls may be recorded for service, training, verification and analysis purposes.

The Golden Rules of Pension Investing

Our 5 simple "Golden Rules" to pension investing that everyone should follow in order to build a comfortable pot for retirement.

1 Start Early

As the chart below shows:

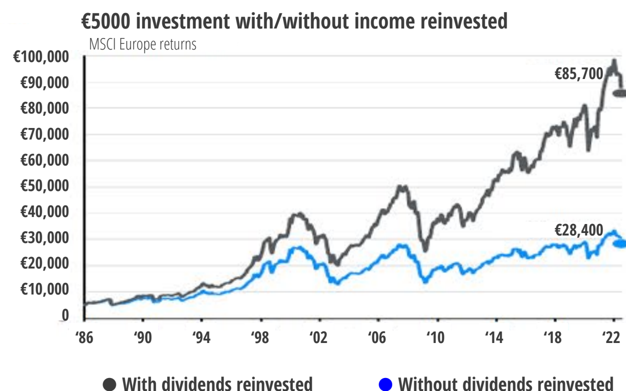


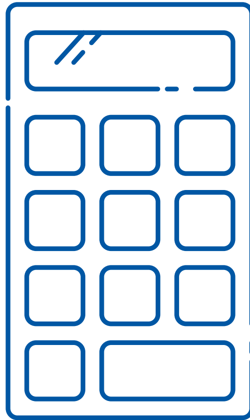
Source: JP Morgan, For illustrative purposes only, assumes all income reinvested and excludes the impact of higher or lower charges

2 Potential to Get Growth and Growth Upon Growth

This is all about making your money work for you by investing in assets that generate income and reinvesting that income to deliver even more potential growth. Income can come in many forms – dividends from shares, coupons from bonds, rent from property assets and deposit interest.

The chart shows the impact of the income reinvestment strategy, compared with the much more meagre gains from the plain capital growth one.

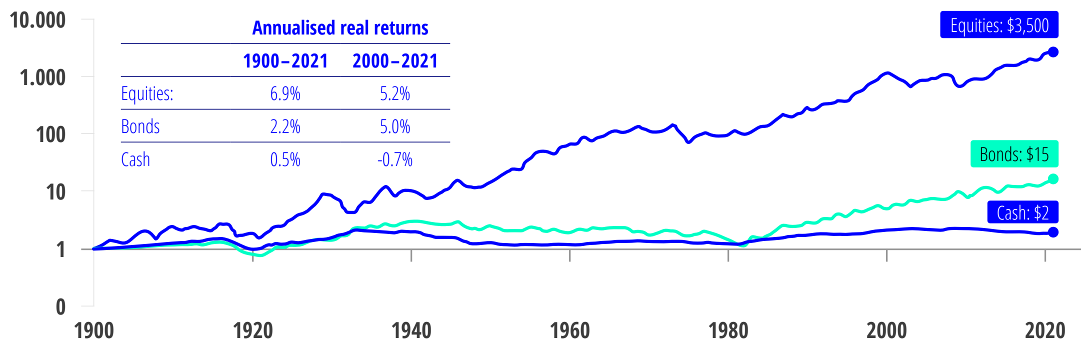




3 Don't Put All of Your Eggs in One Basket

It is a fundamental principle of successful investing. It recognises that you could be lucky enough to invest entirely in one single asset that performs exceptionally well. But the reality is that most ways of investing have their "day in the sun" and that it pays to spread your money across a portfolio of assets, on the basis that if one struggles, it should not drag down the entire pot of money.

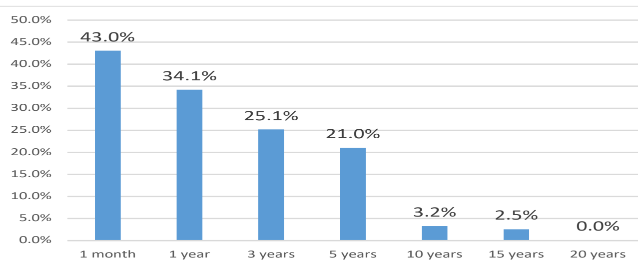
4 A Diversified Basket of Assets is Important – But Shares Are More Likely to Deliver You Growth Over Time



Source: Bloomberg, Bloomberg Barclays, FactSet, Shiller, Siegel, Standard & Poor's, J.P. Morgan Assets 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 2021. Past performance is not a reliable indicator of current and future results. Guide to the Market – Europe. Data as of 31 December 2021.

5 It is about Time in the Markets Rather than Timing the Markets

Many pension investors fear losing money more than look forward to generating gains. Illustrated in the chart below, the amount of time you can allocate to your investment, the stronger the likelihood of you avoiding losses, albeit with some ups and downs along the way.

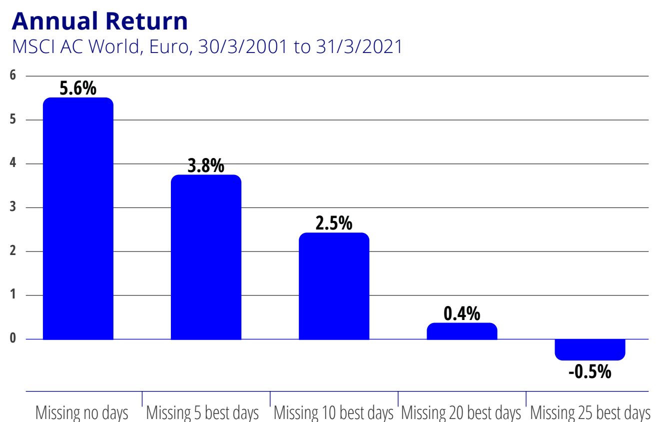


Source: Bank of Ireland Investment Markets, 2022.

The chart below shows the returns from putting your money in a global stock market basket over the last 20 years. The average annual growth rate of 5.6% p.a. is great. However, look what happens when you miss the "best" 25 days out of over 7,000 days – your gains become losses. The key lesson is that patient investing delivers the best results over time.

Annual Return

MSCI AC World, Euro, 30/3/2001 to 31/3/2021



Source: Bank of Ireland Global Markets

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

Executive Pension or a PRSA?

With an Executive Pension or a PRSA, 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 may be able actually offset payments into this savings pot against the company's Corporate Tax bill.

The tax treatment of your contributions and those of the company can depend on the pension structure that you use.

If you have an Executive Pension Plan, you have some key benefits available to you.

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 (subject to Revenue limits)
- 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).

Recently there has been new IORP II legislation introduced for Company and Executive Pension plans. These changes need to be considered if you plan on using this structure.

PRSA Plans

The alternative is to use a PRSA which allows both employer and employee contributions.

When employers make contributions to PRSAs they are treated as a Benefit In Kind but income tax relief is provided subject to the overall contribution limits for employee contributions. Employer contributions to PRSAs are not subject to PRSI or the Universal Social Charge (USC).

The maximum contribution levels can differ between PRSA's to Executive Pensions.

Both Executive Pension Plans and PRSA's offer 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 or PRSA you can provide yourself with an income in retirement that is 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.

Did you know?

The Government recently carried out an extensive consultation process regarding the introduction of a new auto enrolment pension system. It is expected the system will be set up by 2023 for employee enrolments in 2024.

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.

Tax advantages for your employees

Employees can normally avail of generous tax relief on their contributions of up to 40%* 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.

*subject to Revenue maximum limits.

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.

State Pension

The State Pension, previously called the Old Age Pension, is a key pillar of retirement plans for most people. It is typically paid to qualifying individuals from the age of 66 for the remainder of their life. It therefore meets the sustainability need but at current rates of c. €253 per week, is it adequate to meet your spending needs?

There are a number of payments – the "Contributory" scheme applies to those who have worked and paid enough social insurance contributions. The "Non-Contributory" equivalent is a means-tested payment.

We do not have the space to go through all of the rules and regulations surrounding the State Pension but the primary question you need to satisfy yourself with is do you qualify to receive it.

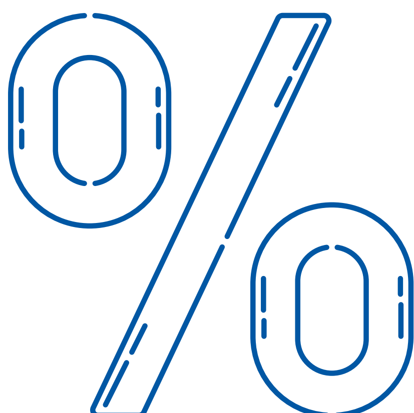
If you retire at 65 and stop working, you may qualify for a payment until 66, once you meet certain PRSI contribution levels.

The viability of the State Pension has been examined many times, including by the OECD. It does place a significant burden on the Exchequer and as we live longer, that burden is increasing. The Government established The Pensions Commission to examine sustainability and eligibility issues with State pensions.

To qualify for a Contributory State Pension you must first be aged 66 or over and have enough relevant social insurance contributions (PRSI).

You need to:

1. **Have paid PRSI contributions before a certain age and**
2. **Have a certain number of paid PRSI contributions and**
3. **Have a certain yearly average number of PRSI contributions since you first started to pay PRSI (this is the average rule) OR have a certain total number of PRSI contributions (this is the Total Contributions Approach).**



For more detail on this measure, you should go to **https://www.citizensinformation.ie/en/social_welfare/social_welfare_payments/older_and_retired_people/state_pension_contributory.html**

Since 6 April 1994, the new Total Contributions Approach (TCA) does not use a yearly average to calculate the rate of pension. Instead, the rate is based on the total number of contributions you have paid before you reach the age of 66.

The TCA calculation includes the HomeCaring Periods Scheme which can allow for up to 20 years of homemaking and caring duties. Using the TCA, you will qualify for the maximum personal rate of State Pension (Contributory) if you have 2,080 or more PRSI contributions (or 40 years' of employment).

If you have fewer than 2,080 contributions, you may still qualify for a high rate of pension because up to 1,040 HomeCaring Periods (20 years) and up to 520 credited contributions (10 years) can be used as part of your pension calculation.

Some people will qualify for a "pro-rata" pension and again, the Citizens' Advice website above has plenty of information to assist you on this.

You can request a copy of your contribution statement through MyWelfare.ie. To do this, you need your PPS (Personal Public Service) Number.

The key is to find out what you are entitled to and what steps you may need to take between now and your retirement age.

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.

What are they?

As the name suggests, these are discretionary contributions, over and above what is provided in your main scheme. The voluntary part is important – you have a lot of flexibility in how much you contribute - for how long and in how these contributions are invested. You can start and stop when you like and increase and decrease the size and frequency of your contributions to meet your cash flow and affordability. Some make monthly AVC contributions while others wait until near the end of the year to assess what they can afford to put away.

Why use them?

You might want to make AVCs for a number of reasons. There are rules and Revenue maximums that have to be factored into what you might want to do. Here are the main reasons we use AVCs:

- The most obvious one is to have more in your pension pot when you retire
- Some people use AVCs to fund the tax-free element they plan to draw down at retirement – leaving more for buying a guaranteed income or for investment.
- Your main scheme may use a definition of salary that excludes bonuses or overtime and you may wish to fund for a higher amount.
- If you are a late starter in retirement saving, you may want to catch up for lost time by contributing some more.

In certain schemes, particularly in the state and semi-state sectors, you may be able to buy pension benefits for service you missed. This is often referred to as buying either "back years" or "notional service." Your employer should have more details, if this is an option they make available.

Investing your AVCs

A feature of AVCs that is attractive to some savers is that you can select the strategy for how you want your money managed, from the available choice. You might decide to use a very different strategy from that employed by your main fund. How it is managed should reflect how you plan to draw down benefits at retirement.

If you want an even wider investment choice, you might consider setting up an AVC PRSA. This is completely independent from your main scheme and is an individual pension arrangement. We suggest that getting advice on this option is essential.

The tax relief really helps

One of the most attractive features is that 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. Your contributions are subject to Revenue maximum limits, but this can be a really smart way to boost your retirement savings plan while using the tax breaks to make it more affordable. So an employee who pays top rate income tax (currently 40%) a €100 AVC only costs you €60 net – a great start to your plan. In addition, your AVCs grow tax-free and you may be able to draw down some of your AVC pot tax-free.

Your employer should operate a "net pay" contribution approach which means that your tax relief is calculated and dealt with on your behalf. You can make a one off contribution after the end of the tax year and before your tax filing deadline – in other words, you can make a contribution via AVCs and reclaim tax at your top rate for the previous year. An employee has to apply to Revenue for a refund before the deadline date for a refund of income tax connected to these special contributions.

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

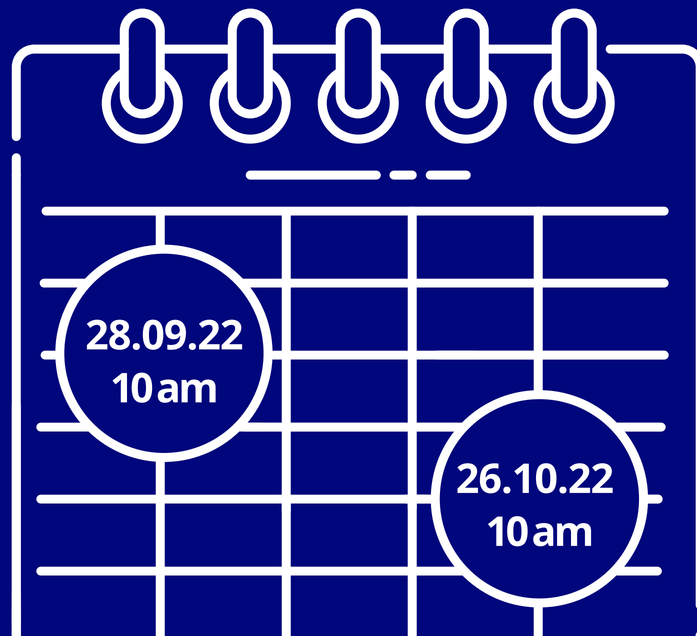
On reaching retirement, you may be able to take part of your retirement fund tax free, subject to a limit of €200,000[2].
Even where the retirement lump sum is greater than €200,000, the next €300,000 is only taxed at the standard rate (currently 20%). This very attractive benefit is not available on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

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.

Join our Pension Pot series



Need some help to fund your future? At Bank of Ireland we're helping you look after your future financial wellbeing with our latest two part educational webinar series focusing on the world of Pensions.

Many think the world of Pensions is very complicated and the truth is it can be. 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.

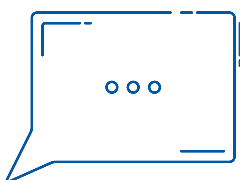
Think of it like this... you've worked hard throughout your working life to enjoy the things that interest you. Are you going to stop them when you retire? Are there new things you want to take up when you say goodbye to the workplace and have more freedom? We're all living longer which means we may 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?

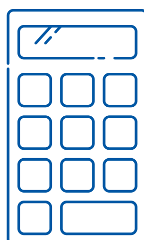
Join us and our panel of expert speakers throughout the series to find out what you can do to be retirement ready.

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

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 or a place that suits you. Isn't that worth giving your time to!

Begin

Fund your future.

Talk to us about a retirement plan that works for you and your financial wellbeing.

Let's chat about your pension.

bankofireland.com/pensions

Bank of Ireland

The personas portrayed in this document are fictitious and no identification with actual persons is intended or should be inferred.

While great care has been taken in its preparation, the information set out in this document is intended to be a guide only and should not be relied on in relation to specific issues without appropriate financial, insurance, investment or other professional advice. It is important to note that tax relief is not automatically granted. Revenue terms and conditions apply. The content of this document is for information purposes only and does not constitute an offer or recommendation to buy or sell any investment/pensions or to subscribe to any investment management advisory service. While the information is taken from sources we believe to be reliable, we do not guarantee its accuracy or completeness and any such information may be incomplete or condensed. All opinions and estimates constitute best judgement at the time of publication and are subject to change without notice.

Life assurance and pension products are provided by New Ireland Assurance Company plc trading as Bank of Ireland Life. New Ireland Assurance Company plc trading as Bank of Ireland Life is regulated by the Central Bank of Ireland. Advice on life assurance and pension products are provided by Bank of Ireland. Bank of Ireland is a tied agent of New Ireland Assurance Company plc trading as Bank of Ireland Life for life assurance and pensions business. Bank of Ireland trading as Bank of Ireland Insurance & Investments, Insurance & Investments, Bank of Ireland Private and Bank of Ireland Premier is regulated by the Central Bank of Ireland. Members of Bank of Ireland Group. Information correct as of August 2022.

Warning: The value of your investment may go down as well as up.
Warning: If you invest in a pension you may lose some or all of the money you invest.
Warning: If you invest in a pension you will not have access to your money until your retirement date.
Warning: Past performance is not a reliable guide to future performance.