

# Securing Your Future

A Smarter Business Guide to Pensions and Life



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PUBLICATION



**EAGLE STAR**



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Foreword by

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# Foreword

Let me open with a statement that may surprise you.

*“Contributing to your employees’ pensions could increase your profits.”*

How is this possible? Surely employee pensions are all about increased costs and administration nightmares.

Not necessarily. Did you know?

- **It is cheaper for a company to contribute €1,000 into an employee’s pension than give them a €1,000 pay rise**
- **Companies with a good pension scheme can expect lower staff turnover – thereby reducing recruitment and training costs – than companies without**
- **Administration overheads can be greatly reduced by an efficient web service from your pension provider.**

It is also now a legal requirement to provide your employees with access to a basic pension scheme.

You should also think about your own requirements. Your business may be the major part of your wealth but you can copper fasten your future by investing in retirement provision. These assets are independent of the fortunes of your business and will be there for you no matter how your business fares.

The tax reliefs available are excellent and the availability of Approved Retirement Funds means that your accumulated retirement wealth is not lost on death but can be passed on to your family.

It is vital that you get the full picture on how pensions can benefit you and your business. If the points above are news to you, we would suggest that you sit down with your financial advisor as a matter of priority.

Eagle Star recognises the great efforts made by Chambers Ireland in promoting pension issues to its members and we are delighted to sponsor this guide. We hope it will add to your knowledge of your pension options. However, remember this booklet is only a guide and should not replace professional advice tailored for your needs.



# Pensions and your employees

## Your legal obligations

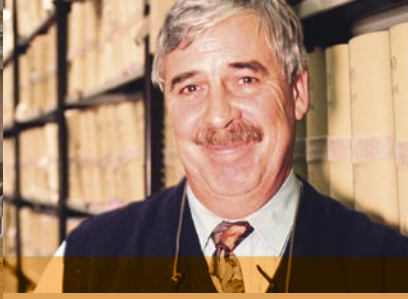
Where employers do not operate an occupational pension scheme or where there are certain restrictions applying to the occupational pension scheme then they are required under legislation to ensure that their employees have access to at least one Standard PRSA.

## What is a PRSA?

A PRSA (Personal Retirement Savings Account) is a flexible, portable, low-cost, transparent retirement vehicle that anyone can take out, regardless of employment status.

Subject to certain limits, a person and their employer, if any, can make tax-free contributions to it, they can take it with them if they change their job or employment status, and they can stop and start making contributions at any time.

Charges for Standard PRSAs are low, and limited by legislation: 5% of contributions paid and 1% per annum management charge.



The purpose of a PRSA is to provide you with a pension fund at retirement. From this pension fund, you will be allowed to take a tax-free lump sum and purchase your retirement benefits.

Retirement benefits can take the form of a) an annuity — a guaranteed income for life, or b) an ARF (Approved Retirement Fund) — an investment fund from which you can draw an income and pass on an inheritance. Before you can invest in an ARF you must have a guaranteed lifetime income of at least €12,700 per annum or have invested at least €63,500 in an AMRF and/or annuity. An AMRF (Approved Minimum Retirement Fund) is similar to an ARF. However, you cannot access the capital of this fund before age 75, but you can access fund growth.

Check out the questions and answers on the following pages to find out your obligations as an employer.

## **Does an employer have to provide access to a PRSA?**

All employers are required to have entered a contract with a PRSA provider so that access to at least one Standard PRSA is available for all “excluded employees”.

## **Who are “excluded employees”?**

“Excluded employees” are:

- Employees of an employer who does not offer an occupational pension scheme
- Employees who are included in an occupational pension scheme for death-in-service benefits only
- Employees who are included in an occupational pension scheme that does not permit the payment of additional voluntary contributions (AVCs)
- Employees who are ineligible to join the employer’s occupational pension scheme and who will not, under the rules of the scheme, become eligible to join the scheme for pension benefits within six months from the date they commenced employment.



## **What must an employer do to provide access to a Standard PRSA?**

To provide access to a Standard PRSA an employer must:

- Enter into a contract with at least one PRSA provider to enable “excluded employees” to participate in a Standard PRSA (there is no charge involved for the employer to establish the contract)
- Notify “excluded employees” of their right to contribute to a Standard PRSA
- Allow PRSA providers or intermediaries reasonable access to “excluded employees” at their workplace to discuss Standard PRSA contracts
- Allow reasonable paid leave of absence, subject to work requirements, to “excluded employees” so that they can set up a Standard PRSA
- Make deductions from payroll at the “excluded employees” request.

## **What is the position in relation to payment of employee contributions to a PRSA?**

An employer who, at the request of the employee, makes deductions from payroll in respect of PRSA contributions must remit these contributions to the custodian account of the PRSA provider within 21 days following the end of the month in which the deduction was made. An employer cannot make any deduction from this payment.

## **What is the position in relation to an employer’s contribution to an employee’s PRSA?**

In the event of an employer making contributions on behalf of an employee (he is not obliged to do so) a similar timescale to that for employee payroll deductions applies. An employer cannot make any deduction from this payment.



### **What information does the employer have to give in relation to PRSA contributions?**

The employer must advise both the employee and the provider in writing at least once a month of:

- a** The total amount deducted from the employee's salary,
- b** If appropriate, the total amount paid by the employer on behalf of the employee in the preceding month or if the previous statement was given less than a month before, in the period since the previous statement was given.

The employer may satisfy this requirement by notification on whatever documentation is normally provided to the employee in relation to salary details, e.g. payroll slip.

### **Does the employer have any responsibility in relation to the investment performance of a Standard PRSA?**

No. An employer who enables his employees to participate in a Standard PRSA has no responsibility in relation to the investment performance of the Standard PRSA.

### **What happens if an employer does not comply with the statutory requirements to provide access to a Standard PRSA?**

Failure to comply is a criminal offence and could result in a fine of up to €12,700 and/or up to two-years imprisonment.



# Employers and pensions

## Retirement planning

If you want to be free to do what you want later in life, you need to make the most of the cash and investments you have now.

A bit of planning is all it takes. The government will give you significant help in making your retirement as comfortable as possible. But you need to plan now to take advantage of this.

You are eligible for an executive plan if you are employed and your company agrees to set up a plan on your behalf.

Throughout your working life, it is hard to get even a moment of freedom. Life often entails spending time doing things out of duty to your family or your work. There is relatively little time left for you and the things you would really like to do. From an early age in adulthood there are pressures on you to achieve, to build a good career, to own a nice house, to provide your children with an education and to meet their needs and their increasing wants.

## People are living longer

In the midst of these pressures, it is hard to look into the future to see how your life will develop. But there are some things that you can be relatively sure about. It is very likely that you will live to retirement age; that you will be in reasonable physical shape and will have another 25 to 30 years to live.

## Your golden age

This could be your opportunity to develop your own golden age. Your time is your own and you can follow your own internal compass wherever that might lead — to play golf, to follow your sport, to read, to learn, garden, travel or to give something back to society. A time when every weekday feels like a Saturday and Sunday is no longer tainted by the dread of Monday. And it's a time where you can be yourself without the stress of deadlines, heavy overtime and unsociable hours.



## The bottom line

Retirement will give you the time to follow your plans, but your freedom will be restricted by the amount of money that you have saved. The following is an example of the financial baseline that is provided by the State and that many people are relying on as their sole source of income after retirement.

<b>State Pension</b>	<b>€10,080 per annum</b>
<b>Average Industrial Wage</b>	<b>€30,190 per annum</b>
<b>Replacement Percentage</b>	<b>33%</b>

You can easily work out your own replacement percentage. If you earn twice the average industrial wage, the replacement percentage applicable to you would be half 33% or 17%. If you earned three times the average industrial wage, it would give you a replacement percentage of only 11%, leaving you with a large hole in your finances.

## Money better saved than spent

You need to decide how much money you will require in retirement to meet your aspirations. You may well find that the euro put aside for tomorrow will be much better used than the one spent today. For example, would your life change that much if you were paid 20% more or 20% less? The answer depends on how well off you are.

For a pensioner living on the State pension, a 20% increase in income will have a very significant effect. For people now working and earning well in excess of the average industrial wage the effect will be marginal. But 20% of a €40,000 salary invested in a pension plan by a 30-year-old could mean the difference between retiring at age 65 on €193 and €589\* a week — a huge difference in money and a huge difference in the ability to make the most out of your new freedom.

*\* This is based on a projected investment return of 6% per annum, salary escalation of 3% per annum and an assumed annuity rate. These rates are for illustrations purposes only and are not guaranteed.*



## Executive pensions

While PRSAs have become popular over the past year another option is to take out an executive plan. The executive plan is the traditional form of pension provision and has the advantage that very high levels of contribution can be paid while with PRSAs the contributions are limited in terms of tax relief.

An executive retirement plan will help you and the other selected colleagues of your company to obtain freedom in retirement, and gain full tax relief on the contributions. There may be a member contribution as part of the total contribution to the plan or you can opt to pay Additional Voluntary Contributions (AVCs).

Both you and the company get full tax and PRSI relief on these personal contributions. It is worth bearing in mind that one advantage of an AVC is that you can invest the proceeds of your AVC into an Approved Retirement Fund (ARF). These funds (described later in greater detail) will give you even more freedom in how you use your retirement savings.

## Tax advantage

The great thing about saving for retirement is that the taxman gives you a really good deal.

Your personal contributions into your retirement plan are not taxed. The investment growth that your fund achieves is also free of tax.

Although you do pay tax on your retirement income, the Revenue allows you to receive a tax-free lump sum which can be as much as 1.5 times your final remuneration.

The contribution limits for companies are very generous and depend on the age and length of service of the employee. The amount an employee can put in on his own behalf, including a normal member contribution, is as follows:



### Member/employer contribution limits

Up to 29 years of age:  
15% of taxable earnings

30 to 39 years of age:  
20% of taxable earnings

40 to 49 years of age:  
25% of taxable earnings

50 to 54 years of age:  
30% of taxable earnings

55 to 59 years of age:  
35% of taxable earnings

60 years plus:  
40% of taxable earnings

*Taxable earnings are subject to a cap of  
€254,000.*

### Personal pensions

If you not covered by an executive or occupational pension plan, you can invest in a personal pension. A personal pension is similar to a PRSA except that you can have additional risk benefits attached. The charges on personal pensions are not capped.

If you were to put €200 a month into a pension, it might cost you only €104 per month. The difference is tax relief and PRSI/health-levy relief. The example above assumes that you are paying tax at the marginal rate (42%) and PRSI at 6%. If you are paying tax at 20%, it will still only cost you €148.



## Additional Voluntary Contributions

Additional Voluntary Contributions are more commonly known as AVCs. They are voluntary contributions made by employees who are already members of a company-sponsored pension scheme and are in addition to any normal member contributions that are required under the scheme.

AVCs enable employees to top-up the benefits of their employer's scheme from their own resources, subject to the Revenue maximum allowable benefits for their service and final salary.

Retirement should be the start of a new life rather than a continuation of old routines or habits. AVCs can help you fund for a worry-free retirement to give you the security to explore new opportunities and take on new roles in life. You might decide to start up a new business, or you might want to use your time to do volunteer work. A well-funded retirement gives you more choice.

There are a number of ways in which you can use your AVCs to make your retirement years more rewarding.

Almost all pensions provide a tax-free lump sum, but not all allow the Revenue maximum. AVCs will ensure that you can make the most of this valuable tax concession.

At normal retirement age, an employee will be entitled to a tax-free lump sum of up to one and a half times their final salary. This is reduced if company service is less than 20 years.

Quite often a company-sponsored pension plan will only allow basic salary to be counted in calculating entitlements. But remember that you can use all earnings on which you pay tax to calculate the lump sum to which you would be entitled, this includes bonuses and benefit-in-kind on company cars.

Those who frequently change their job or career, will find that their pension entitlements can suffer. If you have served a short period of time with a company when you retire, you might find that your pension entitlements leave you facing a major drop in income at retirement. One of the best ways to try to make up for such a shortfall is through an AVC plan.



The possibility of redundancy is something that few people can rule out. When you are in your twenties or thirties this is unlikely to signal the end of your career. However, later in life when in your forties or fifties, redundancy can be a greater threat and finding new employment can be a much tougher proposition.

If you start soon enough, AVCs will provide you with a financial cushion to help you re-adjust to new circumstances and possibly give you the chance to explore a new career or role in life.



## Approved Retirement Funds

In the past, you had no control over the fund you had built up for retirement — you had to buy an annuity.

Now, there is a new option — Approved Retirement Funds, or ARFs, as they are more commonly known. Put in simple terms, ARFs give you even more freedom in retirement.

### **Can I invest my PRSA or personal pension fund in an ARF?**

Yes. If you are contributing to a PRSA or personal pension, you can invest the fund generated by your contributions in an ARF when you retire. This gives you the freedom to choose how best to use your retirement fund.

### **Can I invest my executive pension in an ARF?**

An executive plan, with the likes of Eagle Star, is a defined contribution plan that means the benefit you get at retirement is based on the size of your fund. At retirement you have the option to take a tax-free lump sum from this fund. If you have more than 20 years' service, this will be 1.5 times your final remuneration. Allowances are scaled back for shorter service.

Generally, the balance of the fund generated by the employer and your normal employee contributions is used to provide you with an annuity. The funds generated by Additional Voluntary Contributions can be invested in an Approved Retirement Fund (ARF) described opposite. If you own more than 5% of your company you have the option of investing all your fund in an ARF or taking it as taxable cash.



## **Can I invest my AVC fund in an ARF?**

Yes. If you are contributing to an AVC (as part of a company pension scheme that allows ARFs, and most will), you can invest the fund generated by your AVC contributions into an ARF when you retire. This gives you the freedom to choose how best to use your retirement fund.

While in an ARF, your investment growth is not taxed. You can make regular withdrawals from your ARF (which are subject to tax) to provide you with a pension income, and you are free to withdraw your money at any time.

A tax on a deemed withdrawal from ARFs now applies. This amounts to income tax on a deemed withdrawal of 1% of the fund at 31st December 2007, 2% of the fund at 31st December 2008 and 3% on each subsequent 31st December. If the income you take from your ARF in each year is lower than this deemed withdrawal, then income tax will still be payable on the amount of the deemed withdrawal.

With an ARF you can decide when to access your fund and you retain control over how your pension fund is invested.

## **Approved Minimum Retirement Fund**

If your retirement income from alternative sources is less than €12,700 per annum you must set up an Approved Minimum Retirement Fund (AMRF) of €63,500 or purchase an annuity. You cannot access the capital of this fund before age 75, but you can access fund growth.

## **ARFs and the family silver**

If you choose to buy a basic annuity when you retire, your pension will stop when you die. The funds in your ARF are available to your family after your death. This can be appealing if you want your spouse or children to benefit from the pension contributions you have made throughout your life.



### **Tax implications of passing on your ARF**

On death, any funds held in an ARF in your name are payable to your estate. You are free to bequeath them to whoever you wish. However, the tax treatment of the fund depends on who inherits the funds.

If the ARF is to be transferred to an ARF in your spouse's name, or in cash to children under age 21, then there is no income tax to be paid. If monies are transferred to a spouse in cash, income tax is payable as if monies had been withdrawn by the deceased ARF holder. If monies are transferred to children aged 21 and over, tax is payable at the standard rate (currently 20%). Tax is due at the deceased's marginal rate if the assets are transferred to any other persons. Capital Acquisitions Tax may also be payable, unless monies are paid to a spouse or to children aged 21 and over.

### **Inheritance planning**

Although the taxation rules on passing on an ARF are somewhat complex, they do open up a great opportunity for tax efficient inheritance planning.

This will be an area where good advice will greatly assist you.

### **Annuities – an income for life**

You may want the security of a guaranteed level of income in retirement with respect to all your funds. This is not always possible with an ARF. For example, if you take too large an income from your ARF early on, you could exhaust your fund. If you don't want to take this risk, you should consider purchasing an annuity. Annuities will provide you with a guaranteed income for life. You can also provide an annuity benefit for your spouse and children after your death.

### **Are ARFs and annuities subject to tax?**

Withdrawals from an ARF or income from an annuity are subject to PAYE at source and the health levy. You also have the option to use a mix of ARF/AMRF investment and an annuity to provide you with an income in retirement.



# Life cover

## Get covered

Sometimes it's easy to forget when building a career, a home and a family, how important it is to protect your family and business interests against the many ways they can be put at risk.

It is not pleasant to think about what would happen if you (or your partner) were to die or suffer a serious illness. Worse still, if one of your children were to suffer a serious illness or need to travel abroad for treatment, would you be in a position to cope financially?

If you are the sole earner in the household and were to die or suffer a serious illness, who would pay the mortgage and who would pay for your children's education? Who would provide for those special future events such as your son's or daughter's wedding? And of course, day-to-day bills, such as electricity, heating, transport, clothes and food, all need to be paid.

With a life policy, you can protect the well-being of your family and allow them to cope when you are not able to help them. Life cover and serious illness cover are essential elements of protecting the essence of your family or business.

### **How much cover do I need?**

This depends on your own financial circumstances. A good basis to use is your current salary or earnings. The cover should be a multiple of this amount, taking into account the number of years your family or business will need your financial support.

Your financial advisor can help you to make these calculations.

### **How many years am I covered for?**

This depends on the term you select. For Eagle Star there is a minimum term of five years and a maximum term of 40 years. This is limited to a maximum ceasing age of 85, or 75 if you choose serious illness cover.

### **What premium shall I pay?**

Most people are surprised at how inexpensive life and serious illness cover can be.

The premium you pay will be determined by factors such as your age, your sex, your health, whether you are a smoker or non-smoker, the term you select and the benefits you choose. These will all be taken into account when calculating your premium.

Your financial advisor will provide you with a personalised illustration, showing you the premium and benefits under the policy for the term you have chosen.



## Cover for you and your family

The policy enables you to cover more than one person. You can cover both yourself and your partner under the policy either as two separate covers (called dual cover) or as a single cover payable only on the first claim (called joint cover).

## Cover for your business

If you are a company director, you can set up your policy to protect against the financial losses involved if you or a co-director were to die or suffer a serious illness. This is done by setting up your policy 'in trust'. Talk to your financial advisor if you are interested in setting up your policy in this way.

## Why it pays to start early

The cost of both life and serious illness cover rises as you get older. You also run the risk that your good health will decline as time goes by. It is important to understand that deteriorating health can result in significant loadings on your premium (i.e. higher premium), and in some cases, you may not be able to get cover at all. Therefore, it makes good sense to get insured while you are in good health.

## Life cover — additional benefits

At Eagle Star, there are a number of benefits provided automatically with life cover. If before the age of 55, you experience a major life event (specifically: marriage, birth/adoption of a child, purchase of a new main residence where you increase your mortgage) and want an increase in life cover, you can do this without providing further medical evidence, up to a maximum of the lesser of €100,000 and 50% of your original sum insured. This benefit is subject to underwriting at the start of the policy. The maximum increase you can make over the policy term is the lesser of €200,000 and your original sum insured. Your premium will be adjusted accordingly.

This option ends on your 55th birthday (if the cover is on a single life basis), on the 55th birthday of the older person insured (if the cover is on a joint life basis), or on the 55th birthday of each person insured separately (if the cover is on a dual life basis).



If you choose to take out life cover, you are provided automatically with accidental death benefit from the time Eagle Star receive your completed application form (maximum of €130,000). Cover ceases on the earlier of the application being accepted or declined and 30 days.

Later in life, you may decide that the life cover you have built up exceeds the needs of your dependants. For example, your children might be financially independent and your spouse's income might be sufficient to cover his or her needs.

You then have the option of converting this life cover to long-term care cover to ensure that money is there to help fund the cost of future care. This option, starting at age 60, is available up to age 65 or ten years before the end of the term, whichever is the sooner.



## Pension Guaranteed Term Protection

Pension Guaranteed Term Protection provides you with life cover with the added attraction of tax relief on the premiums paid.

With this type of policy, you can protect the well-being of your family and allow them to cope when you are not able to help them. Pension Guaranteed Term Protection will cover you for a sum insured, and tax relief is available on the premiums paid in the same way it is available on pensions.

### **Are there limits on the amount of cover I can take out?**

For the self-employed or those not in pensionable employment, there are no limits on the amount of cover allowed by the Revenue Commissioners.

However, for members of occupational pension schemes, the maximum amount of life cover that is allowed by the Revenue Commissioners is four times your annual salary plus an allowance for dependents' pension.

### **How long am I covered for?**

For a personal plan, you are covered to the retirement age you select. For an executive/group AVC plan, you are covered to the normal retirement age of your employer's pension scheme.



## Eligibility

To take out a Pension Guaranteed Term Protection policy, you must meet certain conditions, because this is a life cover policy with tax advantages.

You must be tax resident in Ireland. You can only take out a plan on your own life. There is no facility to effect a policy on the life of another or on a joint/dual life basis.

Personal plan: you must be either self-employed or in non-pensionable employment.

Executive plan: if you are a member of a company-paid pension scheme and your employer will be contributing at least 10% of the premium.

Group Additional Voluntary Contribution (AVC) plan: if you are a member of a group occupational pension scheme and your employer has set up a group AVC scheme.



## Group risk benefits

Most employers recognise the importance of providing group life benefits and group disability benefits and appreciate the value of these benefits in attracting and retaining quality staff.

Employees too, appreciate the need for disability in order to maintain living standards in the event of long-term disablement and also the need for group life benefits to maintain living standards for their dependants. The benefits under group life are usually a multiple of salary, say four times salary. In addition, a spouses or dependants pension can be included. Group disability benefits are payable after a waiting period of 13, 26 or 52 weeks. The disability benefit would usually be 75% or 66.67% of salary, less once the State Disability Benefit for a single person.

Pension contributions can also be covered. Group risk schemes benefit from more lenient underwriting and lower premiums compared to individual insurance.



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