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lifeandpensions

# What will your retirement be like?

There's been a lot of talk during 2018 about reform of the private pension system in Ireland and the future introduction of a new "auto-enrolment" scheme, with a view to driving up pension coverage levels. With less than 50% of people in Ireland having made any provision themselves for their retirement, the pension coverage levels have become a real thorn in the side of successive governments over the last few decades.

Unfortunately, all of us in the private sector who don't enjoy the benefits of an employer sponsored scheme need to take ownership of our own retirement plans. Yes, you can wait for the introduction by a government of an auto-enrolment pension scheme, but there have been quite a number of false dawns when it comes to mandatory pension provision in the past. Introducing such a scheme is a real political hot potato that has been pushed off into the distant future a number of times! Of course another alternative is to rely on the state pension to fund your retirement. Is that such a good idea?

**You're going to be waiting longer to get it**
Since January 2014, an individual has to be aged at least 66 to qualify for the state pension. This age is also increasing further – anyone born after 1960 won't qualify for the state pension until they are age 68. So if you are still planning to retire at age 65 or before, you will have to fund for this lack of state benefits for these interim years yourself. A pension plan is probably the most appropriate and tax efficient way to do so.

**The state pension offers a subsistence lifestyle only**
In Budget 2019, it was announced that the maximum personal rate of contributory state pension will increase by €5 per week to €248.30 per week or under €13,000 p.a. This doesn't offer any room for luxuries. When you add up all your regular outgoings, could you survive on this? Then ask yourself again about one off expenses you face – healthcare, insurance, entertainment, holidays, gifts etc. It is really very hard to make the sums add up on the state pension alone.

**Qualifying for state pension has also got harder**
From January 2020, the qualifying basis for the state pension is moving to a "total contribution" approach. This means that individuals will need a greater number of full PRSI contribution years in order to qualify for the maximum state pension. Allowances will be made for time out of the workforce to raise children, but anyone who went abroad for a period of their working life or who spent time out of the workforce will find it more difficult to qualify for the maximum rate of state pension.

The bottom line is… you need to take ownership and save for your retirement yourself

**This is where the government are on your side!**
To help encourage you to plan for your retirement yourself, private pensions attract tax breaks that really aren't available through any other means. The main benefits (within certain limits) are;

- You get full tax relief available at your marginal rate on contributions
- Your fund grows free of tax (no DIRT, CGT etc.)
- A portion of your fund can be taken tax free at retirement
- A structure can be put in place at retirement (Approved Retirement Fund – ARF), which enables tax efficient wealth transfer to your estate on death of any remaining fund.

**Do you have a choice?**
Of course you always have a choice. But choosing to live life to the full today while avoiding saving for your retirement will result in a pretty subdued lifestyle in retirement!

Taking ownership today will reap many rewards. You'll gain the tax breaks, the power of compound interest will help you grow your retirement fund significantly if it's invested for many years and you can face your retirement with confidence and optimism, rather than the dread of a continuous financial struggle.

So what's it to be for you? Give us a call and we can help you to plan for the retirement that you want.

**Warning:**

- **Pension products may be affected by changes in currency exchange rates.**
- **The value of your investment may go down as well as up.**

***This article does not constitute advice. Independent advice should be sought at all times.***

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