Financial **Feature**

How the pharmacist can plan for income in retirement

In the second instalment of a six-part series, Robert McOwan continues his exploration of the financial lifecycle of the community pharmacist. Using his experience in both the business and pharmacy sectors, Robert works as a financial advisor offering both business and personal financial planning. This month he discusses planning for retirement.

Robert McOwan

Retirement Planning

Many people agree that having a pension is very important but delay in doing something about it because they believe it is not very urgent today. However at some time in the future, it will become both very important and very urgent. Depending on when that happens there is a risk it may be too late. A consequence of this is potentially retiring from work without having the necessary income available and ready to use. Hopefully the information below will help with understanding how to make decisions regarding planning for income in retirement.

In our last edition of IPN News, we published **'Float Like A Butterfly'** which explained the four step cycle of financial planning. A quick recap is that for both employees and business owners, there are four financial planning steps; one is the early financial years, step two, the growth financial years and step three, the financial consolidation years. During these steps regular income is earned and saving regularly, building assets and creating wealth are financial goals. These steps lead to a final step four and financial security in retirement, hopefully, based on the excellent financial planning in all previous steps.

In this article there is a more detailed look at how to plan for income in retirement. This includes using Revenue Approved tax efficient methods of creating wealth from current income, to help ensure the standard of living enjoyed while working, is maintained when work stops and retirement starts.

Hierarchy of financial needs in retirement

1. Essential income – utilities, household shopping

2. Emergency income – urgent travel, car repairs, medical costs

3. Discretionary income – holidays, shopping, social events

4. Discretionary wealth/gifts – education funds, first time buyer deposit

5. Discretionary wealth/luxury items – travel, hobbies, shopping

Reasons to Plan

An important factor to consider is an increase in life expectancy. People can now look forward to spending up to a third of their lives in retirement, which is typically a time when it is not possible to earn a regular income. In addition the age profile of the Irish population is getting older, which means less money available to the Government in the future to pay for state pensions. The real expectation is that more people will be living their lives in retirement than there are people working.

This is one of the reasons why the Government actively encourages people to save for their income in retirement. On offer to investors is attractive and immediate tax relief on contributions, tax free returns on investments and an option to take a tax free cash lump sum at retirement. Investing in a Pension Plan is an opportunity to make a very wise investment as there is no simpler, easier or more tax-efficient way of saving money In Ireland.

What Pension Plan?

- The most suitable pension plan depends on your employment status, for example; Personal Pension plans are only available to self-employed, employees who are not members of a company pension scheme.

- Executive Pension Plans and Defined Contribution Schemes are available to business owners for their own use. These are also used to provide pension benefits for employees who become members of a company sponsored executive pension plan or a defined contribution scheme

Pension Contributions

The amount of money invested in a pension plan is called a contribution. Many people underestimate how much they will need to contribute in order to provide an adequate income when they retire. One way to overcome this challenge is to decide on potential income needs and then start saving as soon as possible. While it is never too late to start a pension plan, an early start usually equals smaller contributions to be put aside each month to reach an income in The points below show some key steps to help with thinking about achieving income in retirement targets

- Decide on retirement income goals

- Calculate time between now and target retirement date

- Set up a plan with affordable contributions

- Measure progress of retirement plan

Government Income Support in Retirement

A full state pension, called a State Contributory Old Age Pension is paid to people who have made the required number of PRSI contributions during their working lives. If a person does not have the required number of PRSI contributions they may be entitled to a reduced State Contributory Old Age Pension. Old Age Non-Contributory Pensions are also available. This is a means-tested payment for people aged 66 or over who do not qualify for an Old Age Contributory Pension based on their social insurance record.

Age limits apply to receiving state pensions, for example, a person who was born on or after 1 January 1955 qualifies for a state pension at age 67. A person born on or after 1 January 1961 qualifies for a state pension at age 68. Pensions are paid for life.

It is important to note that any private pension planning in a personal pension, executive pension plan or a company scheme allows a person to have a pension income paid sooner than a state pension.

Contributions Tax Relief

By contributing to a pension plan it is possible to reduce personal income tax. This is true for personal contributions to a personal pension or member's contributions to an executive pension plan or a defined contribution scheme. Tax relief is allowed by Revenue on all personal pension contributions at a person's marginal rate of income tax. The following table illustrates the effects of tax relief on monthly contributions.

	Standard Tax Rate @ 20%	Marginal Tax Rate @ 40%
Gross monthly contribution	€200	€200
Tax relief	€40	€80
Net Cost	€160	€120

Tax Relief Limits
The tax relief limits shown in the table below apply to personal contributions to any Revenue Approved pension plan:

Age attained during tax year	Limit (% of Net Relevant Earnings)
Under 30	15%
30 - 39	20%
40 - 49	25%
50 - 54	30%
55 - 59	35%
60 +	40%

Net relevant earnings are subject to an earnings limit of €115,000 for the years of assessment.

Flexible Pension Fund Options at Retirement

In the 1999, 2000 and 2011 Finance Acts the Minister for Finance made significant changes to pension legislation. This allowed owners of personal pensions and members of defined contribution scheme or contributors to executive pension plans to retain ownership of their pension funds. In addition, there are now more flexible Revenue Approved options available to how accumulated pension funds are used when people reach their selected retirement age.

Please Note: the flexible options listed below are choices that only have to be made at retirement. The first priority is to build the pension fund which makes these options available. At retirement day, any option selected depends on current personal and financial circumstances. It is accepted that financial and personal circumstances and therefore income in retirement priorities may have changed since a pension plan was originally set up.

Personal Pension Plans flexible options are as follows:

1. Invest the pension fund in an annuity which delivers a pension for life based on annuity rates at the time of retirement.

2. Invest the fund in an Approved Retirement Fund, subject to Revenue terms and conditions. (see point 6 below)

3. Take 25% of the pension fund as a tax free lump sum.

4. Invest the remainder of the fund in an annuity to provide a pension for life - or -

5. Invest the remainder of the fund in an Approved Retirement Fund

- or -

6. If a pension of €12,700 per annum is not available, €63,500 of the fund must be invested in an Approved Minimum Retirement Fund until age 75 or alternatively, invested in an annuity which would provide a pension for life.

7. Subject to terms and conditions, an ARF or AMRF can be used to provide taxable income in retirement at a person's marginal rate of income tax.

Financial planning for retirement

1. Think about income needs in retirement

2. Decide on a retirement plan start date

3. Get a trusted expert advice

4. Allocate available funds to the plan

5. Review funds versus income goals regularly

Executive Pension Plans & Defined Contribution Schemes Pension Options

These are the same as those for Personal Pension Plans listed above, with one additional option available.

- Take a tax free lump sum based on final salary and years of service.

If this tax free cash option is taken, the remainder of the fund must be used to purchase an annuity. Important point to note is that the tax free lump sums are subject to a limit of one and half times final salary and a lifetime limit of €200,000. Reference the Finance Act 2011.

Reasons to Start a Pension Plan

1. Tax relief at marginal rate on contributions. (subject to revenue terms and conditions)

2. Investment returns are tax free.

3. Tax free lump sum at retirement.

4. Excellent options and flexible choices at retirement.

5. Flexible retirement dates.

6. Financial security and independence.

Hopefully this article will have removed some of the mystery on how to organise a pension plan to support your income in retirement. It might be a good time to think about how to get started on building a pension fund to ensure all essential, emergency and discretionary income needs are comfortably met during retirement.

This can be achieved by taking advantage now of the excellent Revenue Approved tax relief available on contributions to any pension plan. As a starting point, consider the steps listed in the diagram as a starting point for your decision.

In the meantime, if you have any queries about any of the information in this article please contact Robert McOwan M: 086 896 1223

Robert McOwan is a Personal Financial Advisor with Acorn Life. Acorn Life DAC is regulated by the Central Bank of Ireland. Acorn Life is a 100% Irish owned Life Assurance Company offering protection, savings and investment products designed for the Irish public. Deductions for charges and expenses are not made uniformly throughout the life of the products mentioned above, but are loaded onto the early period. This means that if you withdraw from the product in the early period, the practice of front-end loading will impact on the amount of money which you receive and you may not get back the full amount invested.

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Warning: The income you get from this investment may go down as well as up.

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

About the Author

Rob McOwan is a Personal Financial Adviser with Acorn Life. Rob also has a strong connection to the Pharma Industry having worked alongside numerous pharmaceutical organisations to assist with the design and launch of key brands. He has significant experiences creating, building and supporting pharma companies within the Irish and European markets and in his current role is now ideally positioned to present financial advice within the pharmacy industry to owners and employees.