# Part Two… Living Beyond Their Assets.

When people are working and are observed to have  say two holidays a year, new car, expensive clothes, and social spending that looks like it is off the scale it may cause "*living beyond their means*" to be mentioned. Not as obvious to observers but very challenging financially to people close to or actually in retirement is the fear of "*living beyond their assets".*

A living beyond assets situation usually means a person's income in retirement is projected to be or is actually less than what is needed to cover all essential, emergency and discretionary spending. These categories are as outlined opposite in the five levels of **The Hierarchy of Financial Need In Retirement..**

Assets counting towards income in retirement include a state pension, a private pension or pensions, savings or assets converted to cash and used as income.

Therefore if you are ***not*** retired and are ***not*** independently wealthy it would be important to avoid the poverty trap of not having income in retirement by starting to think about what would be needed to live comfortably in each of the five levels of the retirement model.

## Retirement Income - Allocation to Levels.

**Level one essential income** needs are costs that occur regularly, for example, weekly and monthly cash needs or payment of direct debits. This is a minimum income requirement that must be available. A shortfall in the essential income level will more than likely cause financial hardship and emotional upset at a time in life when these should be avoided.

**Level two emergency income** needs are normally once off emergency financial costs but can unfortunately happen all too regularly. Payment may require sacrifice at the essential income level or a reduction in discretionary spending at levels three, four and five. Providing funds are available in these levels.

**Levels three, four and five** meet discretionary spending needs which may be a combination of income from a pension plan, savings and assets.

**The key objective and goal of all retirement planning is to help ensure income or capital is available at every level whenever it is needed.**

## Planning Positive Retirement Outcomes.

On a positive note, income needs normally decrease in retirement. A combination of targeted pension income and wealth creation helps ensure financial peace of mind and a positive outlook. The key to achieving these two desirable outcomes is to have a meaningful conversation about retirement planning that meets income needs. This should happen as soon as possible and long before retirement day arrives.

On the 10th December 1948, the United Nations defined a minimum essential standard of living as being one which ***meets a person's physical, psychological, spiritual and social needs'***. It did not state that people do not have these same needs in retirement because that would not be true. Achieving this standard is directly connected to income needs identified in the **Hierarchy of Financial Needs in Retirement.**

During our working lives we will always know when we meet this United Nations essential standard. Success or failure is usually based on income, personal and family circumstances, expenses and discretionary spending. As a general rule, if motivated sufficiently, we can always enhance these essential standards and achieve higher levels of comfort at essential, emergency and discretionary spending levels.

However and unfortunately, the same is not true when we retire from work. Earning potential stops. Motivation will not move it. Meeting financial needs in retirement is highly dependent on financial planning that includes pension planning, savings and building assets that can be converted to cash and income

### Meaningful Income in Retirement.

Expectations of income needs in retirement should be addressed early in life, regardless of age. People in their late twenties, thirties or early forties may not find it easy to be specific but they are likely to agree that a default planning option is to have the same standard of living in retirement that they had in the last three years before retirement. Planning usually has three factors that when managed correctly should deliver income goals in retirement.

### Retirement Planning: Advice Keeping Track of Income Goals.

During our working years, when retirement planning should be at its peak, financial advice you receive has to keep track of planned income goals, for example, if after a review, the likelihood is that only 70% of the income goal in retirement will be achieved and there is an appetite for this percentage to improve, there are only three key things to consider:

1. Save more if income level allows it.
2. Take advice on more risk with investments.
3. Plan to work longer than planned retirement age.

These are the only choices a saver needs to think about in the context of achieving original retirement planning goals. Advice on financial planning must continue right up to retirement day when a final decision on how best to use all retirement income is made. This final decision takes into account any change in personal or financial circumstances, attitude to risk, health and any other factor that would make a difference as to how the accumulated assets are to be used for both income and capital needs.

People need to provide for their retirement, however acquiring the expertise necessary to achieve income goals is not something they need to learn or should have to do, instead, people find a qualified person they trust and get answers to what is meaningful income in retirement for them and how to keep track of their expectations. Key actions are to plan early, start as soon as possible and stay with it as the need for income in retirement does not go away.

### How Much Income Do You Need?

When deciding about how much income is needed when retirement begins, it is important to have some common understanding about what is considered adequate income. Sometimes this income figure is presented as being a one size of fits all, for example, a target income of 67% of final salary is often presented as the target figure. This approach is not correct as it can de-motivate people from getting started on retirement planning because the gap between what they can afford to do, and what they are told they need is perceived to be too wide and expensive.

Research on income needs in retirement for Ireland from Trinity College Policy Institute in 2013 highlights the following.

A household with 2 pensioners requires €281.56 per week to achieve an adequate standard of living. Adequate income equals one which covers all their costs, allows them to socialise, have an annual holiday etc. This adequate level of expenditure equates to €14,691 per year. A couple with an entitlement to one contributory pension and one qualified adult pension will receive a weekly income from the Department of Social Protection which is enough to cover the adequate living standard mentioned above and leave a discretionary amount.

A couple desiring a very comfortable lifestyle in their retirement; one better than most people enjoy in their working years means their aim from a private/work pension is a retirement income of approx. €15,000 per annum. .
*Authors; Dr Micheál Collins; Dr Bernadette Mac Mahon; Gráinne Weld, Research Associate; Robert Thornton, Research Associate. The Blue Paper Trinity Policy Institute 2013*

## Effective Retirement Planning.

With income in retirement figures understood and goals decided, it is now possible for employees and business owners to take advantage of Revenue Approved tax relief on contributions and investment returns while also planning to have a tax free lump sum available and ready to be paid at retirement.

This is a unique savings opportunity as there is no other comparable savings plan available to savers and investors. It is Government strategy to support and motivate people towards funding their own retirement as they can clearly see the shortfall between what is available from the State Pension and what people actually need to survive and thrive in their retirement.

**State Pension as of the 26th March 2018.**

- State Pension (Contributory) under age 80
  €243.30 per week. €12,695 p.a.

- Personal + Adult dependant (66 and over)
  €461.30 per week. €24,070 p.a.

- Personal + Adult dependant (under 66)
  €405.40 per week. €21,153 p.a.

*Source; LIA Fact Sheet May 2018*

| **Tax Relief on Personal Contributions**<br><br>**Age Attained in Tax Year** | **Qualifying Pension Products**<br><br>**Personal Pensions, Additional Voluntary Contributions, (AVC's) Personal Retirement Savings Account, (PRSA)** |
|---|---|
| **Under 30** | 15% Net relevant Earnings (NRE) |
| **30 - 39** | 20% Net relevant Earnings (NRE) |
| **40 - 49** | 25% Net relevant Earnings (NRE) |
| **50 - 54** | 30% Net relevant Earnings (NRE) |
| **55 - 69** | 35% Net relevant Earnings (NRE) |
| **60 and over** | 40% Net relevant Earnings (NRE) |

**Maximum net relevant earnings on which relief allowed in 2017 is €115,000. This limit will also apply to contributions paid in 2017 which are to be backdated to the 2016 tax year. Employee contributions to pension arrangements are subject to employee PRSI and the Universal Social Charge.**

**Net Relevant Earnings: for employees, earnings means gross pay for tax purposes: for self-employed, earnings means net relevant earnings, that is earnings less allowable expenses.**
***Source: LIA Fact Sheet May 2018***

## Tax Relief Summary

- Contributions to a pension plan receive tax relief at 20% or 40% depending on your marginal rate of tax.
- These rates apply to contributions to personal pension plans and contributions from individual members to company schemes.
- Contributions to a company scheme from the company for a member receives tax relief at the corporate rate.
- Company schemes can be funded completely by the company or by both the company and the scheme member.

- The amount of contributions to a personal or company scheme on which tax relief is allowed is based on the table above, for example, a person who has attained an age between 40 & 49 in the tax year can contribute 25% of NRE and get tax relief on the full amount

All of the above are subject to revenue rules which should be explained and understood prior to any decision about retirement planning.

### A Retirement Planning Proposition

This article has tried to remove some of the mystery when it comes to talking about pensions and retirement planning. In many situations there is a lack of enthusiasm to engage in a meaningful discussion, sometimes it's because of confusing financial jargon and hard to understand figures about a pension plan, tax relief, and why it is so important to plan for your financial future after retirement.

Many people strongly agree having a pension is very important but delay in doing something about it because they believe it not very urgent now. However at some time in the future, it more than likely will become both very important and very urgent. Depending on when that realisation happens there is always a risk that while the timing appears to be right, it may then be too late to avoid retiring without an income plan in place.

Therefore, change your thinking today to using some of your finances now to help with building a retirement plan that will help you to avoid living beyond your assets when you should be enjoying a well-earned retirement, where all essential, emergency and discretionary income needs are comfortably met.

If you have any queries about any of the information in this article please contact ***Robert McOwan of FinancailExperts.ie on 086 896 1223or Rob@FinancialExperts.ie***

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About the Author

**Robert McOwan,** a previous business owner with vast experiences creating, building and supporting companies around the globe.

Within the Irish and European markets Robert worked alongside numerous pharmaceutical organization to assist within the design and launch of key brands sold exclusively within the OTC pharmacy sector.

This pharmacy background combined with his business acumen and financial training, now sees Robert offering a unique and specialised financial advisory service that focuses on supporting the pharmacy industry; be it owners or employees.

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