A guide for Financial Brokers

# Retirement Conversations

When 'at' retirement
becomes 'in' retirement

# Let's have a conversation about advice 'At Retirement'

'At Retirement' advice in Ireland is undergoing a change. No longer is it advice on a one-off product choice when your client retires; it has become a much more complex and involving process in retirement that could continue up until and after your client's death.

At Zurich, we are at the forefront in planning for the new reality of continuing ‘In Retirement’ advice. We recognise that as customers make different retirement income choices, the requirements and processes to support this also needs to change.

## The three stages in a person’s retirement journey:

| Stage 1 | Stage 2 | Stage 3 |
| --- | --- | --- |
| Nearing Retirement | At Retirement | Later Life |
| 5 to 6 years to go | Retirement age | 5 to 10+ years after |

Each stage of retirement brings different challenges and opportunities. But one element connects them all and this is the continuing need for professional advice from you. In this guide we will highlight many of the key questions that advisors should consider during the different stages of the retirement journey.

**To support you as an advisor, we have suite of**

- Online tools
- Reports
- Innovative retirement investment strategies
- Customer supports and guides

# The changing face of retirement and the need for advice

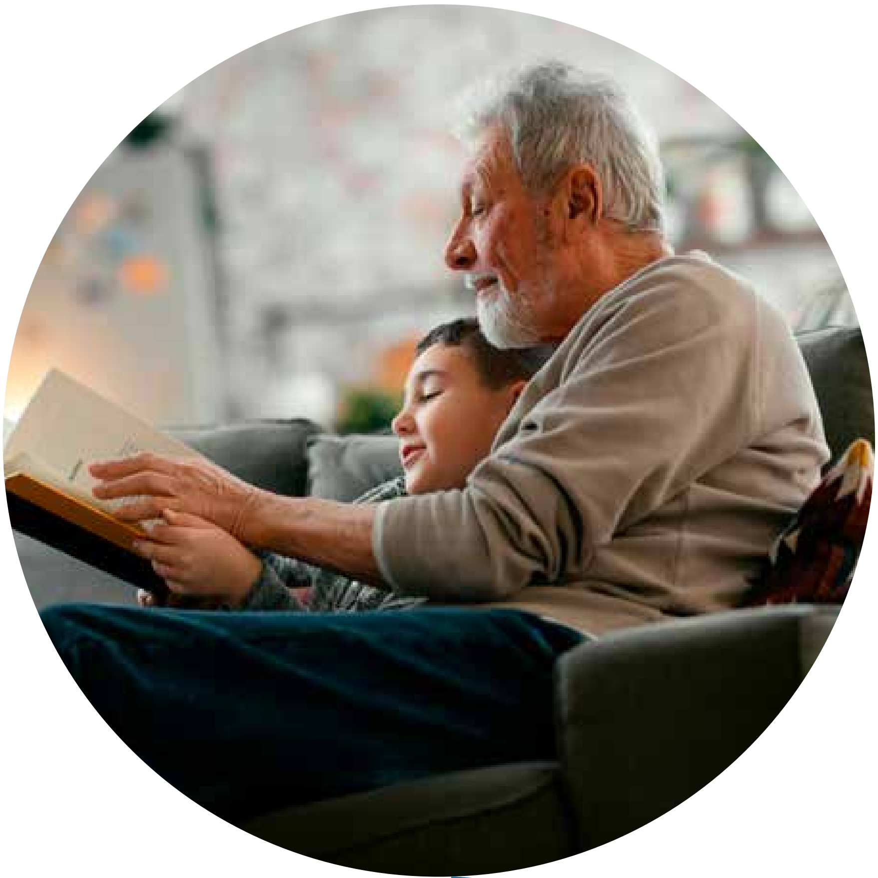
Like many developed countries Ireland is facing significant population challenges. While we currently have one of the youngest populations in Europe, the number of people aged 65 or over is now the fastest growing demographic in the country.*

Increased longevity and better medical care are transforming 'old-age' and Ireland is now predicted to have between 1.5 and 1.6 million people over the age of 65 by 2046.*

Of course this is good news but it is not without its challenges. Old age is being transformed; retirement is now seen as bringing a whole new lease of life, an opportunity to kick start new learnings and opportunities. The days of the 'carriage clock' retirement already seem outdated.

Changes in personal retirement expectations are matched by changes in retirement planning. Annuity rates have fallen over the last 15 years and for many retirees they are no longer the only option. The rise in popularity of Approved Retirement Funds (ARF) as a more flexible retirement vehicle is obvious and they are now an integral part of the client retirement conversation.

What is clear about retirement is that it is becoming one of the most important financial decisions a person will make and one that should not be made without proper advice. Choosing an annuity is a once in a lifetime decision. Choosing an ARF is the continuation of a life of investing - people should not make a decision on either route without first seeking financial advice.



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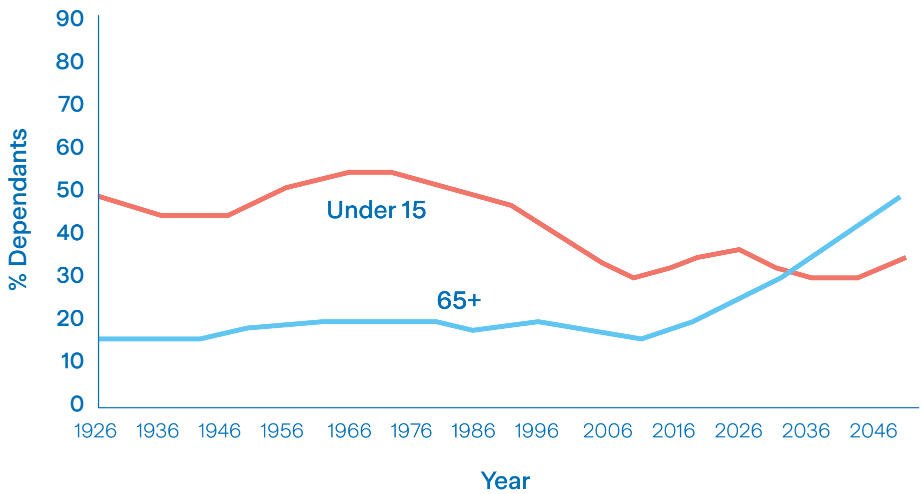
Old age is being transformed; retirement is now seen as bringing a whole new lease of life.

## As a nation we are getting older and by 2046 the 65+ dependency ratio** could double what it was in 2011*




* Source: Central Statistics Office, Population and labour force projection 2017-2051, June 2018.
** Projected dependency ratio i.e. ratio of those aged >65 to those aged 15-64. Source: Central Statistics Office, Population and labour force projection 2016-2046, April 2013.

Stage
1
Nearing
Retirement

# Nearing Retirement – 5 to 6 years to go

## The key to a successful 'In Retirement' strategy is to start planning it many years before the actual date. Five to six years before retirement is actually the best time to have a good conversation with your clients about their retirement plans.

There are a wealth of useful needs analysis tools and calculators that you can call on to help paint a realistic picture of what your client's retirement will look like. Most of these will inevitably (and in many cases correctly) recommend that your client increases the amount they are saving to give them the best chance of having an adequate pot of money at retirement.

**To de-risk or not!**

Another element of the pre-retirement conversation will revolve around de-risking in the years leading to retirement. Traditionally, retirement savers would move from higher risk investments into lower risk options in the years approaching retirement. It was important to shield a customers savings from market volatility before the purchase of an annuity.

However, if the conversation with a client is suggesting that an ARF might be the planned route for retirement, then the de-risking asset mix also needs to change. ARF investors are going to remain invested post retirement, so it makes sense to have a pre-retirement de-risking strategy take this into account.

**Zurich's Personalised GuidePath Investment Strategy gives the advisor and client full flexibility to tailor the de-risking mix in the final five years before retirement. So for customers who will choose an ARF, their mix of assets can be fully tailored to match this.**

**Regular communication is essential**

Conversations about risk, investment strategies, planned retirement dates and client goals should form the basis of regular communications between you and your clients. Retirement investing is rapidly becoming a lifelong journey, a continuation of saving through working life into retirement.

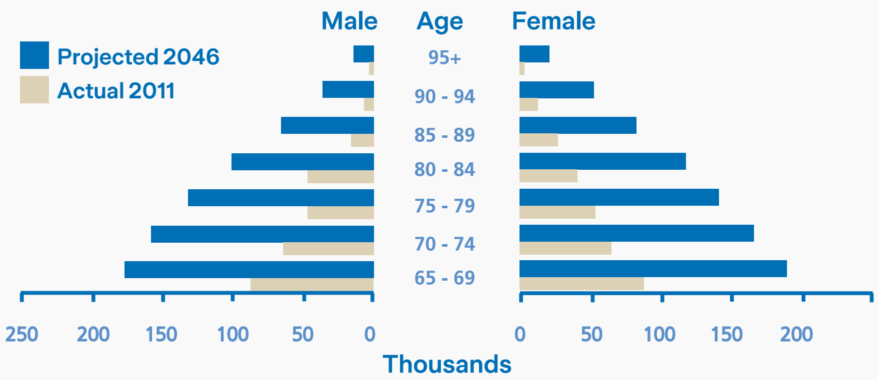
**Some considerations with customers**

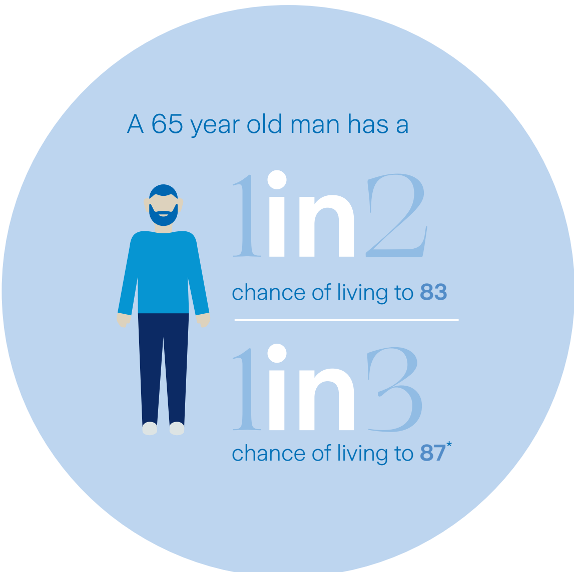
- Accumulation is still key – but they need to think about retirement plans at least five years beforehand.
- Consider the most appropriate investment strategies to suit actual retirement plans.
- Start to position the different retirement routes – Annuity or ARF.
- Recommend meeting regularly to ensure all plans are on track.

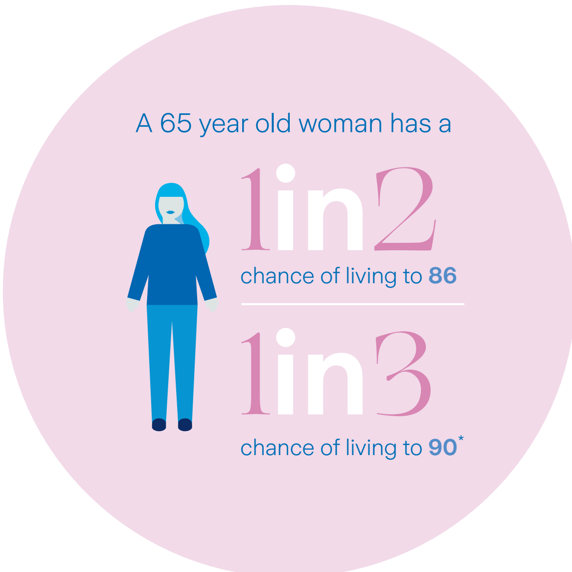
# Moving towards the 100-year life – a challenge for advisors

It is predicted that some children born today will live to 100 and while, for todays retirees, 100 years is still the exception rather than the norm, an average 65 year old today can expect to live for over 20 years in retirement.* Life expectancy has been steadily increasing for decades and while this means that people are living longer in retirement, it masks the type of retirement people expect.

**Population pyramid in Ireland****



As we adopt healthier lifestyles, people are now generally fitter and more active in retirement than previous generations and this means different expectations about how their retirement will be spent. Life expectancy is also different across different socioeconomic groups; the more money you have usually equates to a greater life expectancy due to a number of different factors.

### ARFs continue to rise in popularity

We are also seeing a shift in how people will fund their retirement. As defined benefit schemes (leading to guaranteed income for life through a pension) become a rarity, more and more people will rely on the defined contribution (DC) model. The DC model, coupled with the perception poor annuity rates for younger retirees will lead to an even greater number of people using flexible ARF products to provide their retirement income.

This shift in the provision of retirement income will bring challenges for advisors and customers. While an annuity might provide a lower income at outset than an ARF, it does have the advantage of providing a guaranteed income for life. With an ARF, there is the risk of exhausting the pot of money due to poor management of withdrawals or poor investment performance.

**Some considerations with clients**

- Make life expectancy an important part of the retirement conversation – consider using Zurich's Retirement Drawdown Calculator to help position it.
- If going the ARF route, make sure to build in a process of regular ongoing reviews to ensure careful management of the pot of money.

* Source: Central Statistics Office, 2016. Irish Life Tables No. 17.
** Source: Central Statistics Office, Population and labour force projection 2016-2046, April 2013

# At Retirement – the important decisions

Deciding between cash, annuity or an ARF – or a combination of all three is the single most important decision someone will face at retirement. And it is most certainly not one that should be made without proper advice.

It is usual for customers to take the maximum tax-free cash and then make a decision about how they are going to provide their regular income.

**Options available with the pension fund**

A Take a retirement cash lump sum.

+

B Use the residual fund to provide a regular income.

A

## The retirement lump sum

Retirees are entitled to take a cash lump sum from their retirement fund if they wish. The lump sum is calculated based on the type of pre-retirement pension contract and is tax free up to a maximum lifetime limit of €200,000. The next €300,000 of any lump sum is taxable at 20%. Anything over that €500,000 in total will be taxable at the retiree's marginal rate of income tax, USC and PRSI (if applicable).

| Cash Lump Sum | Tax Rate |
|---|---|
| Up to €200,000 | Tax free |
| Next €300,000 | Taxable at 20% |
| Over €500,000 | Taxable at marginal rate of income tax, USC andPRSI (if applicable) |

### Cash flow modelling can help plan income options

Helping customers to map out their income needs in retirement is key support that you can provide. Simple cash flow models – whether in excel or via specialist software – will help you paint a realistic picture of retirement income. You should incorporate all sources of income, such as savings, investments, State Pension and any other assets. By having a full picture, you can then start to make recommendations on how to drawdown pension income.

B

## Options with the balance of the fund

| | |
|---|---|
| 1 | Purchase of an annuity **and/or** |
| 2 | invest in an ARF **or** |
| 3 | Vested PRSA* |

* Revenue rules and restrictions apply. A vested-PRSA must be transferred to an ARF or annuity before age 75 at the very latest.

# Interactive client supports

## Retirement Drawdown Calculator and report

Helping a client to decide how they are going to take their retirement income is a key part of the retirement process.

**What option to recommend will depend on a number of different factors which include (but are not limited to):**

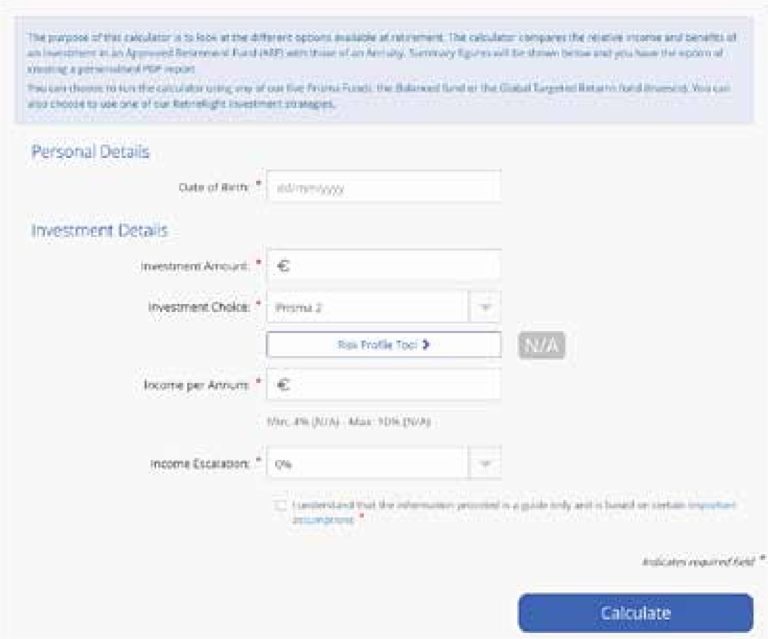
**The size of the retirement pot**

**What is the customer's state of health and predicted life expectancy?**

**What is the customer's attitude to risk**

Zurich's Retirement Drawdown Calculator is a useful support for helping you position the best route for retirement income. This online tool will highlight to you and your client the different income options and the risks associated with both.

### Retirement Drawdown Calculator




Simple to use and navigate!

Comprehensive report highlighting all that your client needs to know.

# RetireRight

## An innovative retirement investment strategy

It's well-known that investing before retirement is very different to investing after retirement. Some considerations for advisors to think about when looking at ARF investment options is finding the right balance between risk and reward and, also, whether investment risk should be reduced for clients as they get older.

**A solution built on Prisma**

Zurich has a reputation for excellence in developing investment strategies from PensionStar to the award winning Personalised GuidePath*. Zurich's RetireRight is a unique innovative way of managing ARF investments once a person retires. It is built on Zurich's market leading Prisma Funds and it offers three investment options, each one catering to clients with different risk appetites. As a person gets older, it will automatically transition their ARF investment from higher risk assets into lower risk assets over a 15 year period, helping to balance income requirements with the need to preserve the capital in later life.

Each RetireRight option will gradually move money from its starting point (in the Prisma 5, Prisma 4 or Prisma 3 Fund) into the Prisma 2 Fund over a 15 year period beginning when they reach age 75. The initial starting fund is dependent on which RetireRight option is selected at outset.

**From the start, fully invested in the Prisma 5, Prisma 4 or Prisma 3 Fund until age 75.**

From age 75, gradual de-risk into the Prisma 2 Fund over a 15 year investment period to age 90.

RetireRight 5 2

RetireRight 4 2

RetireRight 3 2

* Best Innovation by a Life Assurance Company, 2017 Longboat Analytics Financial Services Awards.

Stage 3 Later Life

# Later life – managing early activity to a slower lifestyle

## Your clients will pass through a number of stages once they retire. They may be more active in the early years but inevitably, old age will catch up and they will naturally slow down.

The nature of your regular reviews and financial advice to them will also change as you take into consideration changes to their health, their current income levels, investment markets and the need for inheritance tax planning.

### Changes to health and the personal circumstances

As your clients age, it will be natural that their circumstances change. You should factor this into any review meetings you have with your ARF clients as it could have a large bearing on their needs. This is particularly important as clients get older and may be looking for more simplicity and structure with their financial affairs.

### Should a later life annuity be considered?

At retirement, many customers will discount the annuity option as offering poor value – they may prefer the inherent flexibility of the ARF option. But this doesn't mean that in later life an annuity may become a very viable proposition for the customer. Annuity rates increase with age and customers may prefer the certainty of income in later life that they provide. So as part of any ongoing review you should keep a watchful eye on annuity rates and possible changes to your client's attitude to risk, and if appropriate, explore the option of converting some (or all) their ARF to an annuity.

### What annuity income would be paid today to somebody aged...

| Age | Annual Income |
|---|---|
| 65 | €3,738.51 |
| 66 | €3,881.92 |
| 67 | €4,035.92 |
| 68 | €4,201.35 |
| 69 | €4,379.29 |
| 70 | €4,571.15 |
| 71 | €4,778.70 |
| 72 | €5,004.21 |
| 73 | €5,250.36 |
| 74 | €5,520.22 |
| 75 | €5,817.09 |

Source: Zurich Life, November 2021. Figures quoted are based on annuity rates as at November 2021 and are for an annuity of €100,000 with income paid monthly in advance. 2% commission is paid. No spouse's pension or guaranteed period apply. No escalation will be applied to income payments. The age related annuity incomes above are based on current annuity rates as at November 2021. There is no guarantee the annuity rate for a 65 year old in 10 years will be the same as the current rate for an 75 year old now.

The advice you provide is important as many people's attitude to investment risk changes as they get older. A structured review of their investments is good practice once a year to make sure they are on target to deliver the required returns and are in line with their attitude to risk. While **Zurich's RetireRight** investment strategy will automatically de-risk clients into the lower risk Prisma 2 fund over a 15 year period, investment conversations should always be a core part of customer reviews.

# Inheritance tax planning and involving the extended family

Too often inheritance tax planning is left until it's too late. A part of any good review process should involve a discussion around planning for when your client has died – or has begun to lose some of their cognitive powers. A person's ability to process complicated information diminishes as they get older, so it's important that you broach this subject before it's too late. Conversations around inheritance tax in general should happen early – a Will should be drawn up in all circumstances. It may also be appropriate to raise the idea of appointing a power of attorney.

### Discussing Power of Attorney

Power of attorney is a legal device in Ireland that can be set up by a person (the donor) during their life when they are in good mental health. It allows another specially appointed person (the attorney) to take actions on the donor's behalf if they are absent, abroad or incapacitated through illness.

If someone in Ireland is mentally incapacitated (for example, because of a progressive degenerative illness), all of their assets and property are normally frozen and cannot be used by anyone else unless they are jointly owned or, someone has power of attorney to deal with the property or money. Power of attorney is just one of the legal arrangements that a person can make during their lifetime, in the event they become incapacitated or unable to deal with their affairs.

### Types of power of attorney

There are two types of power of attorney allowed under Irish law:

1

#### Power of attorney

A power of attorney can be specific (limited to a particular purpose, for example, sale of a property) or general (entitling the attorney to do almost everything that a person could do themselves). For example, it may allow the attorney to take a wide range of actions on the donor's behalf in relation to property, business, and financial affairs.

2

#### Enduring power of attorney

Perhaps more relevant for later life decision making, an enduring power of attorney also allows the attorney to make "personal care decisions" on the donor's behalf once they are no longer fully mentally capable of taking decisions themselves. Personal care decisions may include deciding where and with whom the donor will live and what rehabilitation he/she should get.

Your client will have a large degree of freedom in appointing an attorney and this can include a spouse, civil partner, family member, friend, colleague, etc. However, the procedure for creating an enduring power of attorney is much more complex than that for creating a general power of attorney.

### Creating an enduring power of attorney

Because the enduring power of attorney involves the transfer of considerable powers from your client to another person, there are a number of legal safeguards to protect them from abuses. The procedure for executing the enduring power of attorney is complex and requires the involvement of a solicitor and a doctor. The enduring power can only come into effect when certain procedures have been gone through and the courts have a general supervisory role in the implementation of the power.

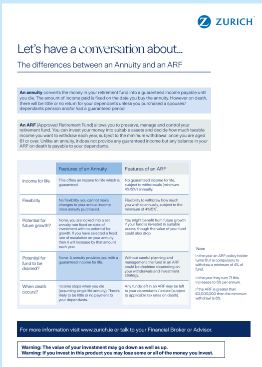
Looking for more information?
Check out:

**www.citizensinformation.ie**
**www.thinkahead.ie**

# Supporting you with your At Retirement proposition

Check out our range of supports and guides to help you.

**Let's have a conversation about...**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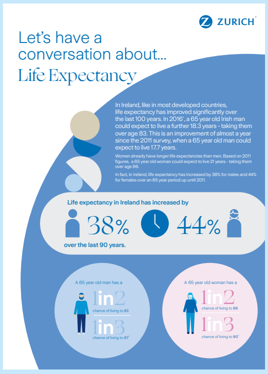
Let's have a conversation about...

The differences between an Annuity and an ARF

ARF Vs Annuity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Let's have a conversation about...

Life Expectancy

Life expectancy in Ireland has increased by

38% 44%

over the last 90 years.

Life Expectancy


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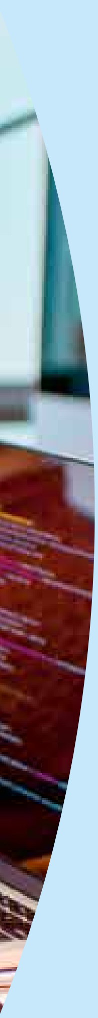
Let's have a conversation about...

Longer life investment risk and your ARF

Later life investing

Retirement Drawdown Calculator

RetireRight Investment Strategy for ARFs



# For more information

**Talk** to your Broker Consultant

**Visit** our website at zurichbroker.ie

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**Warning: Past performance is not a reliable guide to future performance.**
**Warning: If you invest in this product you may lose some or all of the money you invest.**
**Warning: This product may be affected by changes in currency exchange rates.**
**Warning: The income you get from this investment may go down as well as up.**

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