March 2017

PRSA Arrangements for Employees

Supplementing your income in retirement

The main reason for retirement saving is to build a fund to provide for you and your dependants when retirement age comes. If you don't you may be limited to depending upon the State Pension Benefits. A PRSA is a great way of supplementing your income in retirement.

Don't rely on the State

Assuming you have sufficient credits to qualify, the current State Pension (Contributory) is only €238.30 per week (as at March 2017) for an individual with no dependants. What's more, these State Pension Benefits will not become payable until age 66. Also, the qualifying age will rise to 67 in 2021 and 68 in 2028 so there may also be a bigger gap between when you retire and actually receive the State pension.

When should you start saving for retirement?

The simple answer is as soon as possible. The earlier you start, the easier it is to save for your target income at retirement. The following illustration shows the dramatic effect that delay can have. The later you start, the more you will have to save each month.

"The later you start, the more you will have to save each month."

Commencing Contributions	How much you'll need to save each month to have an annual income of €10,000 at age 65 €	Net Monthly Contributions* €
Age 20	326	192.34
Age 30	438	258.42
Age 40	639	377.01
Age 50	1,109	654.31

*Based on marginal Income Tax Rate of 40%.

Assumptions: Inflation of 3% p.a.; contribution escalation of 3% p.a.; gross investment return 6% p.a.; investment in a Pension Plan with an allocation rate of 95% and an annual management charge of 1.5% p.a. A single annuity rate which assumes; 2% escalations, a 5 year guarantee and the annuity is payable monthly in advance. The actual annuity rate will depend on the selection of dependant's pension, guarantee period and the escalation rate as well as interest rates prevailing when the annuity is purchased. These projections assume a start date of 01/06/2013 and allow for pension levy deductions under Finance (No. 3) Act 2011 until 2014.

Important: You will be entitled to claim relief against Income Tax on your pension contributions (within Revenue limits).

continued overleaf

Tax relief on your contributions

Income Tax relief is available on PRSA contributions paid. The maximum contribution on which relief is available depends on your age. Net Relevant Earnings, e.g. gross salary plus overtime, bonus etc., are subject to an overall ceiling of €115,000 for the purpose of calculating tax relief. These limits include any contributions made by you or your employer.

As your contributions are made directly from your pay before tax, you receive immediate tax relief at your highest rate, as shown below.

	Gross Monthly Contributions	Net Monthly Contributions	Tax Savings
40% Tax Payer	€100	€60	€40
20% Tax Payer	€100	€80	€20

Tax-exempt growth

All contributions, made both by you and your employer, accumulate in funds that are free of Irish tax.

At retirement

Tax-free cash

Under current legislation, you will be able to take a tax-free lump sum of 25% of your accumulated fund at retirement.† The maximum amount of tax-free lump sum which may be paid out is limited to €200,000, where existing lower limits do not apply. While lump sums in excess of this amount may still be paid, the excess would be subject to tax.†

†Subject to certain lewgislative conditions.

Retirement options

Your accumulated fund, after you have taken any lump sum can be used to:

- Take a taxable lump sum*;
- Purchase a pension (annuity) to provide you with a guaranteed income for life; or
- Invest in an Approved Retirement Fund (ARF) or Approved Minimum Retirement Fund (AMRF)*.
- Leave your fund within the PRSA contract.

*Subject to certain legislative conditions.

Note: The maximum allowable pension fund on retirement is currently €2m. If your pension funds exceed this at retirement, you will have to pay tax on the excess before maturing funds. Subsequent draw downs will also be subject to income tax.

Talk to your Financial Broker about starting a PRSA today!

Warning: These figures are estimates only. They are not a reliable guide to the future performance of this investment.
Warning: The value of your investment may go down as well as up.
Warning: Benefits may be affected by changes in currency exchange rates.

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