The Need for Retirement Planning Advice

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As a result of the enormous ongoing change in the area of retirement provision in recent times, now more than ever each and every client needs personalised advice regarding the provision of adequate income in retirement. For example, the recent Finance Act introduced changes to the tax treatment of pension plans both with regard to contributions and with regard to maturities. These changes will mean that many of your clients will need to take a fresh look at the tax-efficiency of their pension plans and will turn to you for advice.

In addition, the opening up of the retirement options to members of Defined Contribution (DC) pension schemes means that members of these schemes need individual advice; not only as retirement approaches, but also from the first day they join the scheme.

In advising individual clients, including members of group schemes, there are many issues to consider in recommending a course of action to be taken to provide retirement income in a tax-efficient manner. And in a number of cases this advice will include methods of accumulating capital other than pension plans. It is my firm belief that there is no one better suited to provide advice on all matters relating to retirement planning than an independent Broker.

TAX CHANGES FOR PENSION PLANS/SCHEMES

- **Reduction of earnings cap on which personal contributions to pension plans can be based to €115,000.**
- **Reduction in the Standard Fund Threshold (SFT) to €2.3 million with penal taxation of excess amounts.**
- **Tax on retirement lump sums at 20% on excess over €200,000 up to €575,000 with full taxation applicable to higher cash withdrawals.**
- **Reduction for employers in PRSI relief on employee pension contributions to 50%.**

Issues for Consideration

The following are the issues that *all pension clients* should consider in order to ensure they are maximising the tax-efficiency of their retirement.

- *Maximising their contributions for 2010* before relief for 2010 is lost forever, by back-dating personal contributions made before the 31st of October 2011. The new earnings cap of €115,000 applies to contributions backdated to 2010, but employees will be entitled to PRSI and Health Levy relief and can seek a refund of this.
- *Reviewing existing personal contributions* to ensure they are not exceeding maximum contribution limits for tax relief, unless the clients wish to carry relief forward to future years.
- *Reviewing the current accrued value of their pension benefits as at the 7th of December 2009* in light of the new SFT and, if necessary, *applying for a Personal Fund Threshold (PFT)* before the 7th of June 2011.
- Reviewing any *pension-backed mortgage arrangements* they have in place.
- Replacing the after tax equivalent of existing pension contributions that are no longer tax-efficient (e.g. exceed contribution limits/earnings cap) with contributions to *savings plans*.

More specific issues that *self-employed* individuals need to consider are:

- *Employing their spouses* and putting Executive Pension Plans (EPPs) in place for them. This will mean a separate SFT and separate tax-free lump sum amount of €200,000 for each spouse. It will also mean higher contribution amounts being allowed to EPPs than to Personal Pension Plans or PRSAs, and no Income Tax, PRSI or USC liability on the employer spouse's contributions to the employee spouse's EPP.
- *Incorporating their businesses* on a limited or unlimited basis, or establishing service companies (limited or unlimited) to provide services to their businesses. Putting EPPs in place for themselves in respect of their income from these companies, and maybe for their spouses also, as employees of the companies.

Proprietary directors should specifically consider the following:

- Ensuring *pension contributions are paid solely by their companies to EPPs* in the future, thus avoiding Income Tax, PRSI and USC on the contributions, and availing of the higher contribution limits.
- *Employing their spouses* in the company and putting EPPs in place for them.

Employees in pensionable employment need to specifically consider the tax-efficiency of their AVCs (including PRSA AVCs). For those in DC schemes that are likely to opt for the A(M)RF/taxable cash option, where 25% of their fund will be tax-free (up to €200,000) funding through AVCs is likely to be tax-efficient. For those in Defined Benefit schemes who can fund for additional tax-free cash, such as those in the Public Sector, then funding for additional tax-free cash through AVCs is likely to be tax-efficient. For the rest, funding additional retirement income through AVCs may not be tax-efficient as the income is likely to be taxed at a higher rate than the rate at which relief has been received. However, over longer terms the tax-exempt growth in the fund may help the tax-efficiency of the AVCs.

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Dual income earners, who have one income that is taxable and another that is a self-employed income, should firstly consider how they can maximise the tax reliefs available in respect of their pensionable income. They should also consider the tax efficiency of their AVCs as suggested for employees in pensionable employment above. With regard to their self-employed income they should consider the same issues as outlined above for self-employed individuals.

Any individual who is entitled to a ***lump sum of 25% of the retirement fund*** at retirement should consider €800,000 as the minimum pension fund for which to aim from a tax-efficiency perspective, although in most cases any fund up to €2.3 million continues to be tax-efficient.

The Need for Advice

Although they may not be quite as attractive from a tax-efficiency perspective as in the past for a number of your clients, pension plans and schemes should continue to be the main basis for the provision of an adequate income in retirement. Provided the plans/schemes are put in place on a correct footing they generally continue to be the most tax-efficient way to save for retirement. However, putting them in place on a correct footing is the important point and this is where the need for ongoing proper advice from independent Brokers is required.

Note: In this article I have specifically excluded mention of the anomaly that exists with regard to the USC and PRSI treatment of employers' contributions to employees' PRSAs, as this issue is one that would merit an article of its own. At Zurich Life we are currently offering alternatives to employers with PRSA arrangements in place for employees. Our Broker Consultants will be able to let you have full details of these alternatives.