



An Bord Pinsean -  
The Pensions Board

## Investing in your future



### Learning outcomes

- The legal obligation on employers to provide pensions for their employees
- The Pension Act
- The importance of thinking of, and saving for, retirement.



## Introduction

In general, people are living longer and leading more active lives in retirement. As a result it is more important than ever to think about where your income will come from when you retire. A man retiring at 65 now can expect to live to 85 and a woman retiring at 65 can expect to live to 88. It takes a long time to save for retirement and the earlier a person starts to contribute to a pension, the better. When planning for retirement you will need to decide whether this is enough to live on in retirement and if not where your additional income will come from.

Retirement provision will have a major impact on the future progress of the Irish economy and the scale of the issue has the potential to result in serious consequences for the country at a **macroeconomic** level. Adequate retirement provision also has an enormous personal impact on individuals in terms of their future quality of life.

[www.pensionsboard.ie](http://www.pensionsboard.ie)



THE IRISH TIMES

**Business 2000**

ELEVENTH EDITION



## When starting a new job ask about your pension!

When taking up your first job ask about your employer's pension scheme for employees. The following are important facts you should know:

- By law your employer must provide you with some form of access to a pension, whether you are in full-time, part-time, temporary, contract or casual employment.
- You are legally entitled to information about your employer's pension scheme or your **PRSA**.
- You can save for retirement even if you are not working through a PRSA.

Income in retirement can be saved by using:

- A company pension plan – set up by an employer for its employees,
- A personal pension, such as
  - A **Retirement Annuity Contract (RAC)** or
  - A PRSA

These can be obtained from financial companies such as insurance companies, banks, building societies and financial advisors.

## Pension provision

Ireland's current pension policy is a partnership between State and private pension provision. The State pension is designed to avoid poverty and to provide replacement income for lower paid people in the **workforce**. Private pension provision is on a voluntary basis and at this time just over half the workforce has made some provision.

The current State social welfare pension is €209.30 per week or €10,883.60 per year (as of Jan 2007). Would this be enough for you to live on when you retire? 87% of a Pensions Board Consumer Research survey said that the State social welfare pension would not meet their needs in retirement.

### The Facts

- Only 61.8 % of the adult Irish workforce over 30 years of age
- Only 58.3% of men in the Irish workforce
- Only 50.6% of women in the Irish workforce
- Less than 25% of those working in
  - the agricultural industries including farming
  - working seasonal & part-time
  - working in the catering & tourism industries

**...have private pensions**

*(Source: CSO Survey Dec 2006)*

### What is a PRSA?

A PRSA is a type of contribution scheme where you make regular contributions to your pension, which are tax deductible. It is designed to allow people save for retirement flexibly. PRSA is owned by individuals (regardless of employment status), transferable from job to job, and available from a variety of providers. It's ideal for employees, self-employed, homemakers, carers, unemployed or any other category. PRSAs are covered by the Pensions Act.

### What is a RAC?

This is a pension policy which can only be effected by individuals who are in non-pensionable employment or who have taxable earnings from a self-employed trade or profession. It's an individual contract between individual and insurance company. These plans are not covered by the Pensions Act but are regulated by the Insurance Acts.

All of these options allow for tax relief on contributions, the tax free roll-up of investment and a tax-free lump sum at retirement. They are therefore a very efficient way of saving for your retirement.



## Tax benefits of pensions

**Tax Relief:** Contributions paid to a pension scheme qualify for income tax relief.

**Tax Relief Example:** If you contribute €100 per week to your pension and you pay tax at the higher rate (i.e. 41%), the net cost to you works out at €59 per week.

**Additional Relief:** Contributions will also be relieved from **PRSI** and the Health levy, if you pay these charges.

## Benefits to employers

A good pension scheme has been long recognised as a very valuable asset for both the company and its employees. There is a stronger commitment from employees to participate in pension schemes where the employer makes a contribution.

The company benefits from gaining:

- a reputation and respect as a good employer
- a workforce that feels valued and important
- increased loyalty and commitment from staff
- an enhanced staff recruitment, reward and retention package.

## What is the Pension Act?

The Pensions Act, 1990 set up standards for pension schemes in jobs. It provided a regulatory framework for the future supervision of such schemes and set up the Pensions Board. The Act was amended in 2002 to make provision for the introduction of a new type of pension arrangement, the Personal Retirement Savings Account (PRSA).

### Role of the Pensions Board

The Pensions Board was established by the Pensions Act, 1990. The Board's main role is to monitor and supervise the operation of the Pensions Act. It is responsible for issuing guidelines to employers and all PRSA providers on their duties under the Act. The Board also advises the Minister for Social and Family Affairs on all matters in relation to the Act and on pension matters generally.

Since 2003 the Pensions Board has been running the National Pensions Awareness Campaign (NPAC), on behalf of Government.



The main aim of the campaign is to inform the general public of the need for supplementary pensions in order to provide for additional income in retirement.

## Marketing pensions

Independent Consumer Research carried out on behalf of the Pensions Board (Jan 2006) shows that for those who do not contribute to a pension the main reasons given for not doing so were;

- too young yet (20%),
- can't afford it/too expensive (21%), and
- not interested in pensions (12%).

This research helps inform NPAC on the communication style, content and distribution channels required to reach the identified target markets.

The key target market for NPAC is young people in the age bracket 25 – 35. Research has shown that they have the least pension coverage. An integrated advertising and public relations programme is used to communicate with the identified target audience using TV, radio, newspapers, online, posters and direct mail.

In order to make such a complex message as pensions more consumer friendly, every means of trying to encourage people to act is taken. Leaflets are handed directly to people on the street, when they come off public transport and when they are in their cars at traffic junctions. The television and newspapers are used to raise the profile of pensions through strategic advertising.

## What is a personal pension plan?

A personal pension plan is like an investment account used to save for retirement. Employees pay regular contributions into the account. Employers can also pay contributions into them. Pension plans provide a tax-free lump sum and pension at retirement. An RAC (Retirement Annuity Contract) is a personal pension plan.

### PENSION CHECK LIST

**Answer YES or NO to the following 10 questions;**

1. Does your employer have a company pension scheme?
2. Can you join the scheme?
3. Do you know what benefits the scheme provides?
4. Have you heard about Personal Retirement Savings Accounts (PRSAs)?
5. If you are an employee, do you know that your employer must provide you, by law, with access to at least one Standard PRSA, if
  - you have no company pension scheme, or
  - you are only included in the scheme for death in service benefits, or
  - you are not eligible to join the scheme within 6 months from the date you commenced employment, or
  - you do not have access to **Additional Voluntary Contributions (AVCs)** through your scheme?
6. If you are unemployed or a homemaker or carer, do you know you can provide for your pension by using a PRSA?
7. If you are in a self-employed trade or profession or have earnings from non-pensionable employment, do you know you can provide for your pension by using a PRSA or a Retirement Annuity Contract (RAC)?
8. Do you know that contributions paid to a pension scheme, PRSA or RAC will benefit from income tax relief on your net relevant earnings, at your highest rate of tax, as outlined overleaf.

Highest age at any time during the tax year	Limit
Under 30	15%
30-39	20%
40-49	25%
50-54	30%
55-59	35%
60 and over	40%

9. Have you decided what level of income you will need in retirement?  
 10. If you have a pension scheme, PRSA or RAC, are you contributing enough to it in order to provide a realistic replacement income in retirement?

## The pensions calculator

The calculator allows you to estimate the amount of money you would need to contribute to your pension in relation to your age and current yearly salary to end up with the level of pension you expect in retirement.

### Sample details

Female selected	
Current age	25
Current salary	€30,000
Target pension as % of pre-retirement salary	50%

### Notes

Sample is based upon today's money and your pension starting at age 65. The average industrial wage is €30,160 (approx).

### How your pension is made up

Estimate private pension at age 65	€4,116			
Estimate state pension at age 65*	€10,884			
Estimate total pension at age 65	€15,000			
<b>The age you start your contributions</b>	<b>Age 25</b>	<b>Age 30</b>	<b>Age 35</b>	<b>Age 40</b>
Yearly as % of salary	5%	6%	7%	9%
Yearly contributions	€1,500	€1,800	€2,100	€2,700
Gross per month	€125	€150	€175	€225
Less tax reliefs	(€25)	(€30)	(€35)	(€45)
<b>Net contributions per month</b>	<b>€100</b>	<b>€120</b>	<b>€140</b>	<b>€180</b>

\*Entitlement to a full contributory state social welfare pension is assumed and is included as part of the target pension.

Visit the online Pensions Calculator at [www.pensionsboard.ie](http://www.pensionsboard.ie).

## The challenges of the changing workforce

The working environment in Ireland has been changing rapidly over the past decade. Today's teenagers are likely to have many jobs in their life. Permanent jobs are being replaced by contract work and more part-time employment is available. The necessity of having an adequate pension plan is more important than ever.

There is a clear difference between men and women's working patterns. Women often earn less than men. Women are more likely to have broken career paths as they may take time out to raise a family. They are also favouring to work part-time work so they can spend more time in the home.

Research has shown that women live longer than men so putting all these factors together women clock up a lot less working hours and their pension entitlements can be considerably lower than a man's. This can lead to increased vulnerability to poverty in later life. So the importance of having a sufficient pension plan is crucial.

## Glossary

**Additional Voluntary Contributions (AVCs):** Additional Voluntary Contributions paid by a member of a company pension scheme in order to secure benefits over and above those set out in the rules of the scheme.

**Macroeconomics:** A branch of economics that deals with the performance, structure, and behaviour of the economy as a whole. Macroeconomists seek to understand the determinants of aggregate trends in the economy with particular focus on national income, unemployment, inflation, investment, and international trade. In contrast, microeconomics is primarily focused on the determination of prices and the role of prices in allocating scarce resources.

**Personal Retirement Savings Accounts (PRSAs):** A PRSA is a contract between an individual and an authorised PRSA provider in the form of an investment account. The PRSA benefits will be determined by the contributions paid by and on behalf of the contributor and the investment return on those contributions.  
**PRSI:** A shortened name for Pay Related Social Insurance, under which individuals who earn an income pay a related contribution to the Social Insurance Fund, and in return are covered for certain Social Insurance Benefits, e.g. Retirement Pension, Social Welfare Old Age (Contributory) Pension.

**Retirement Annuity Contract (RAC):** An individual pension policy which can only be effected by individuals who are in non-pensionable employment or who have taxable earnings from a self-employed trade or profession. Also known as a Personal Pension Plan.

**Workforce:** Consists of everyone of working age who is employed and seeking employment. People not included are students, retired people and stay at home parents.

## Student activity

1. Why is it so important for everyone to have a pension plan?
2. Briefly outline the role of the Pensions Board.
3. Explain the following terms: PRSA and RAC.
4. How can you find out about pension plans?
5. 'Contributions paid to a pension scheme are tax-free'. Explain.
6. How do employers benefit from implementing a pension scheme in the workplace?

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