

take

advantage



One of the most attractive features of saving in a pension plan is the many tax incentives encouraging you to save. As you get closer to retirement age, those incentives only get stronger.

The top **FOUR** tax advantages to saving money in your pension plan:

1 You get income tax relief on what you pay in

When you receive your wages, the government normally deducts income tax before your money even arrives in your bank account. If you put that money into your pension plan, you will receive income tax relief on what you pay in (up to Revenue limits, covered later in this newsletter). Depending on the rate of income tax you pay, that could mean 20% or even as much as 40% of your salary back from the government for your future.

2 Investment growth on pension savings is tax free

Normally, investment growth is subject to tax of 41% (calculated every eight years and when you withdraw your investment). Inside a pension plan, however, investment growth is tax-free.

3 You can take a tax free retirement lump sum

When you retire, you can receive some of your pension savings as a lump sum payment. The maximum lump sum you can take will be calculated based on your final salary and company service, or 25% of your pension savings. Revenue places rules on this calculation to take account of your personal circumstances and how you use the rest of your pension savings to provide benefits. The lump sum will be tax free, up to Revenue limits.

4 Most people pay a lower rate of income tax in retirement

Income tax is payable on any income you receive from the balance of your pension savings. You might assume that the savings you made on income tax will be cancelled out by the income tax you pay in retirement. However, most people actually pay lower rates of income tax when they retire and come out better off as a result.

Please Note: This newsletter discusses general information about best practices when planning for retirement and tax relief on pension benefits. Taxation can be complex and we cannot take all individual circumstances into account. This newsletter should be taken as general guidance only, and does not constitute personal advice. Mercer are not tax advisors.

You're receiving this newsletter because some, or all, of your pension savings are held in a Mercer Aspire pension plan. Your pension plan may be administered by Mercer, Zurich or New Ireland.

If you are not sure who administers your plan, you may wish to check your Annual Benefit Statement before taking action.

If you have left the employer who provided the pension plan that led to you receiving this newsletter, you may not be able to contribute any more to that plan. However, the same principles apply to other employer pension plans in Ireland and to Private Retirement Savings Accounts (PRSAs).

This newsletter is aimed at people who are within 15 years of retirement.

Follow the link below to access more newsletters and recorded webinars to help you get the most out of your pension as you approach retirement.



<https://linktr.ee/AspireRetireInStyle>

Let's take a closer look at these tax advantages

The example below compares investing an amount of €5,000 (after USC and PRSI have been applied, but before income tax has been deducted) inside a pension plan with investing outside a pension (via an investment bond policy).

For this example, we compare investing through a pension plan with investing in an Insurance Bond as this is the closest equivalent investment vehicle. Other investment vehicles are available. We assume that you pay the higher rate of income tax, 40%, during your career, that you will retire at age 66 and when you do, that your income tax rate will drop to 20%.

INVESTMENT OUTSIDE THE PLAN

Before income tax	Income tax @ 40%	Amount invested	Investment returns	Growth: subject to taxes	No tax free benefits	Income tax - none USC - none	Final value
€5,000	€2,000 tax €3,000 worth of take home pay	€3,000	100%	€1,354 tax €4,646 after growth and taxes	€4,646	€4,646	€4,646

INVESTMENT INSIDE THE PLAN

Before income tax	Income tax - none	Amount invested	Investment returns	Growth: free from taxes	Tax free lump sum	Income tax @ 20% USC @ 4.5%	Final value
€5,000	€2,000 tax relief €3,000 worth of take home pay	€5,000	100%	€10,000	€7,500 Taxable €2,500 Tax free	€1,837 tax €5,663 after income tax and USC €2,500 Tax free	€8,163

When you pay in

Outside a pension:

You will pay income tax on your earnings. €5,000 less 40% (€2,000) income tax leaves just €3,000 to be invested.

Inside a pension:

As the money you invest in your pension is not subject to income tax the full €5,000 is invested. (Revenue limits apply to how much you can contribute to a pension plan tax free. We have assumed the full value of this contribution is within those limits).

As your savings grow

Outside a pension:

If no taxes were applied, the initial investment of €3,000 would double to be worth €6,000. However, investment growth outside of a pension is subject to Exit Tax, and the initial investment would grow to just €4,645.85.

Inside a pension:

The initial investment of €5,000 doubles to be worth €10,000. This investment growth is not subject to Exit Tax, so it remains unchanged.

Note:

We assume that, over a 15 year period, the money invested in both arrangements performs equally and would double if no taxes were applied. This means that both approaches would have achieved identical returns (roughly 5% p.a.) and had identical management fees. We know this is unlikely as no two investment options are identical. However, our aim with this example is to focus on comparing the impact of taxation on your savings, inside and outside of a pension plan, and we have assumed identical purposes to avoid adding unnecessary complexity.

When you take it out

Outside a pension:

As income tax has already been paid on the amount invested outside a pension it does not have to be paid again. The figure of €4,645.85 remains unchanged.

Inside a pension:

We have assumed that for this example you are able to take 25% of this pension investment tax free, and do so. Your tax free lump sum would be worth €2,500. The remaining €7,500 would, however, be liable for income tax and USC. We are assuming a post retirement income tax rate of 20% (€1,500), and a USC rate of 4.5% (€337.50), which would leave a final value of €5,662.50 on the taxable income. Add that to your tax free lump sum of €2,500 and you have a total of €8,162.50 to enjoy in retirement.

Note:

PRSI is payable until age 66. For both scenarios, we have assumed that you will retire at age 66.



How much can you contribute free from income tax?

The closer you get to retirement, the more you can pay into your pension without having to pay income tax. You can claim income tax relief on a percentage of either your total earnings, or €115,000 (whichever is lower). The percentage that applies to you is based on your age in the year the contribution is made, and increases as you get closer to retirement.

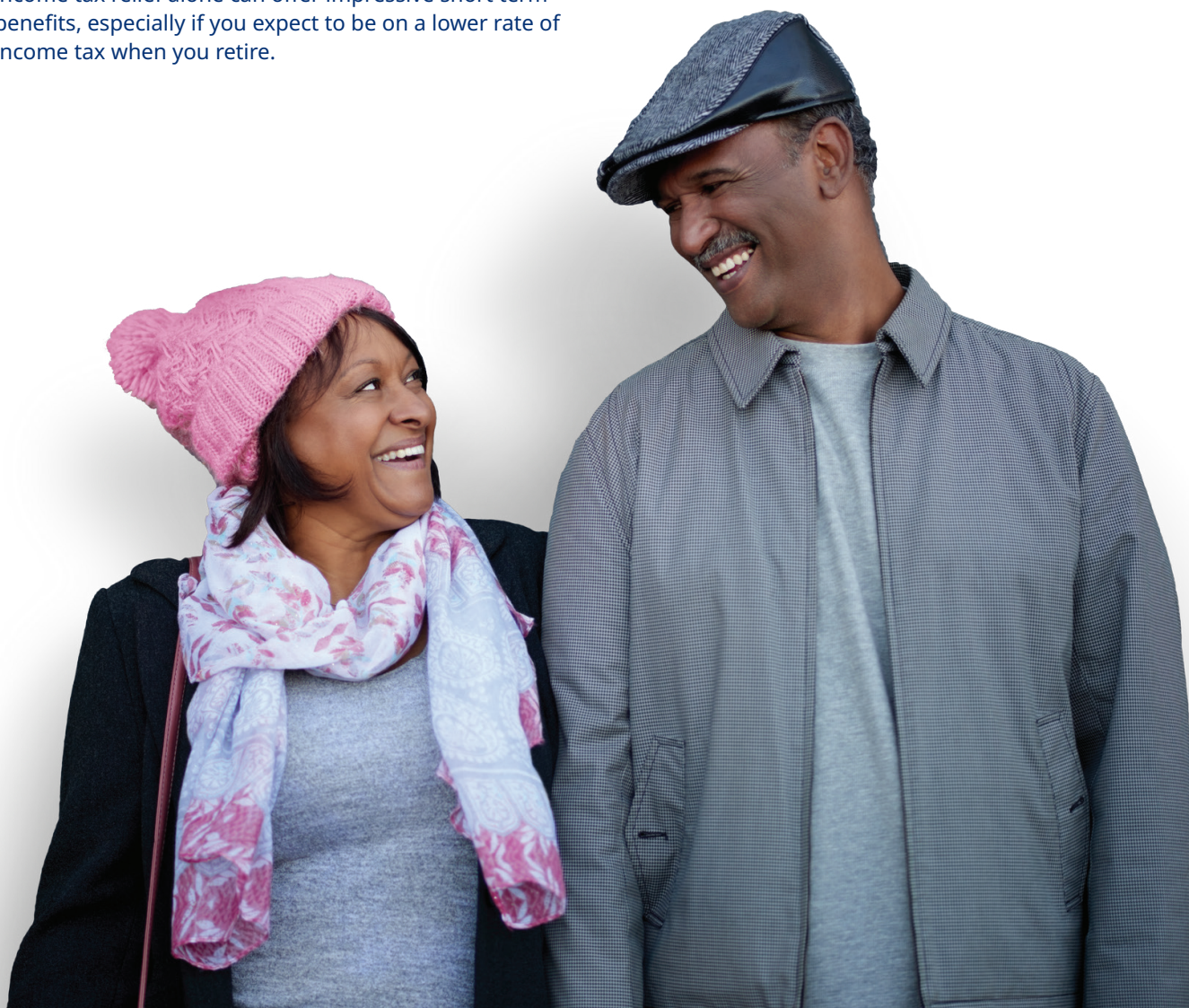
Employer contributions **do not** count towards these limits, so they do not soak up any of the available tax relief!

Age	% of earnings eligible for relief
Under 30	15%
30 – 34	20%
35 – 39	20%
40 – 44	25%
45 – 49	25%
50 – 54	30%
55 – 59	35%
60, or over	40%

There is a bonus FIFTH tax advantage as you approach retirement.

The final incentive for saving in your pension plan when you are close to retirement ... is that you won't have long to wait to benefit!

While saving in a pension plan should normally be considered a long term investment, if you are close to retirement, it may only be a couple of years before you benefit from what you put away. While you may not have a long time to build up savings through investment, income tax relief alone can offer impressive short term benefits, especially if you expect to be on a lower rate of income tax when you retire.



Want to find out more?

If you have questions about how your pension plan works, Mercer's JustASK member helpline is your first port of call.

The JustASK phonenumber is available weekdays, 09.00 – 17.00, excluding public holidays.



Submit a query online:
bit.ly/JustAskMercer
(case sensitive)



Call:
+353 (0)1 4118505

For more information on the JustASK helpline, follow this link:



<https://linktr.ee/JustASKMercer>

How to boost your payments to your pension plan

You can boost the amount of money that goes into your pension plan by making Additional Voluntary Contributions (AVCs).

You can usually make a **regular** AVC through payroll, or you can make a **once off** AVC whenever you have a specific amount you want to invest. Regular AVCs are very flexible: you can start and stop them whenever you want. And once off AVCs are a great way to maximise your income tax relief for the year.

How to make a regular AVC

The way you make a regular AVC depends on who administers your pension plan:

- **Mercer:** visit www.MercerOneView.ie
- **New Ireland:** visit MyPension365 via <https://id.mypension365.ie/employee/sign-in>
- **Zurich:** email Zurich at aspire@zurich.com

How to make a once-off AVC

Visit https://linktr.ee/Lump_Sum_AVC_Aspire for:

- A handy worksheet to help you estimate how much you can contribute tax free
- Instructions on how to make a payment depending on who administers your plan
- Forms to reclaim your tax

Most employers will make payments to the pension plan on your behalf. Some even give you the option to choose how much they will contribute. Typically, the more you pay in, the more they will pay (within the range of options on offer). If you have this option, you may wish to consider choosing a personal contribution rate that ensures you get the maximum money your employer is offering you **before** making AVCs. AVCs are not normally eligible for those employer matched contributions. For the rest of the newsletter we will assume that either you don't have this option, or have already maxed out your regular contributions to take advantage of employer contributions.

Log on to your website or contact your administrator

Whether your plan is administered by Mercer, New Ireland or Zurich you can find the appropriate contact and website details by visiting the following link and choosing your plan administrator.

https://linktr.ee/Aspire_YourAdministrator



The content in this newsletter is correct as at the date of issue, 2023.

A business of Marsh McLennan

© 2024 Mercer LLC. All rights reserved.

