

Funding the longest holiday of your life

EMMET GIBSON, a Manager with PricewaterhouseCoopers Pension Solutions Group, looks at using your SSIA to provide for your retirement.



Most vets have SSIA's and, with the first batch of SSIA's due to mature very shortly, some of you may be trying to decide what to spend your hard saved money on. Some might be considering buying a new car, putting in a new kitchen or even taking a well deserved holiday. Let me stop you while you dream of far off lands and warmer climes !

My actuarial colleagues tell me that, on average, the 60-year-old male will live for a further 23 years and the 60-year-old female a further 28 years. In addition, people are healthier during those extra years and most people today can look forward to a long and active retirement – the longest holiday of your life ! With this in mind, I'd like to look at some points to consider regarding pensions and to outline legislative changes that have been introduced recently to encourage you to use some of your SSIA money to provide for your retirement.

The challenge

Increased life expectancy combined with reduced birth rates is part of the reason phrases like 'pensions time bomb' and 'pensions crisis' have appeared recently in the media. Basically, we're living longer and fewer people are being born to support us in our retirement. This is already a serious problem for some European countries. However, because of our relatively young population, Ireland has a stay of execution. This hasn't stopped the Government taking radical measures and, in 2001, the Government established the National Pension Reserve Fund. The objective of the fund is to meet as much as possible of the costs of social welfare and public service pensions from 2025 onwards. As of March 2006, there is E16.6 billion in the fund – clearly pension funding is something the Government believes should be taken very seriously.

Although the existing pensions framework offers very attractive tax benefits for pension funding, the Government has also introduced additional measures in the Finance Act 2006 to further encourage us to provide for our own retirement – and of course relieve pressure on the State. I will talk about tax breaks later, first the scary stuff !

The scary stuff

As mentioned in the opening paragraph, retirement means that you will have to provide for yourself (and any dependents) - for more than two decades on average. Currently the state pension is paid from age 65 and is less than E200 per week for a single person. If you are relying on the state pension in retirement, you will experience a very significant drop in your income and your prospects of retiring before age 65 disappear! A pension is a very efficient way to plug this income shortfall.

Under Revenue rules, individuals can fund a maximum pension of two thirds of their final remuneration. So, for example, a vet aged 60 earning E50,000 could, under Revenue rules, have a pension of E33,000pa.

To illustrate the cost of buying a pension at various ages, consider the following example of how much it costs to purchase a joint life pension of E10,000 per year for life from age 65. The following table illustrates that the longer you leave pension funding the more expensive it gets:

Starting age of pension	% of salary required pa
30	14%
35	17%
40	21%
45	28%

This highlights the importance of starting a pension early. In short, pensions are very expensive and the sooner you start the better.

The 'tax carrot'!

To encourage us to fund our own pensions, the Government gives us three very attractive tax incentives in the form of:

- Tax relief on contributions;
- Tax-free investment return;
- A tax-free lump sum at retirement.

Pension funding is essentially a very efficient way to defer (or even avoid!) tax while getting the benefit of tax-free investment return on those contributions. The income tax exemption limits for retirees are significant; currently the limit for a couple over 65 is E34,000pa. Therefore, pensions offer a means of avoiding income tax on significant levels of contributions.

Recent changes to paying into a pension

To continue the theme of the Government encouraging people to fund for their own retirement, I will summarise some of the changes introduced by Minister Brian Cowen in the Finance Act 2006. The Minister introduced additional age related bands for people who are 55 and over and people who are 60 and over, to increase the amount of pension contributions on which income tax relief can be claimed in a given tax year. The age related bands are now:

Age during tax year	Maximum relief
Less than 30	15%
30 but less than 40	20%
40 but less than 50	25%
50 but less than 55	30%
55 but less than 60	35%
60 and over	40%

For example, a vet aged 57 could make a pension contribution of 35% of earnings and receive full marginal rate income tax relief on that contribution.

Putting your SSIA into the longest holiday of your life

The Minister also introduced an SSIA pension incentive scheme. This means that certain SSIA investors can benefit from an additional top-up when all or part of their net SSIA proceeds after maturity is re-invested into an approved pension product (e.g., a personal retirement savings account or a personal pension plan). There are two elements to the incentive:

- 1) For every E3 of SSIA proceeds reinvested, the Government will contribute E1 by way of a tax credit. The tax-credit cannot exceed E2,500 (this effectively means a contribution of at least E7,500 by the SSIA holders to benefit from the E2,500 tax credit).
- 2) An additional tax credit, in relation to the tax deducted from the SSIA on maturity, will also be paid. This depends on the proportion of the SSIA proceeds that is reinvested in a pension product. For example, if you reinvest 50% of your SSIA proceeds into a pension product, then the additional tax credit will be 50% of the tax deducted on your SSIA.

You are eligible for the incentive if:

- * Your gross income is less than E50,000 in the year before your SSIA matures.
- * You do not claim a normal income tax deduction in respect of your

reinvested proceeds;

* You do not reduce the amounts that you are currently required to pay into a pension product in the year that the SSIA proceeds are re-invested.

Please note that there is a deadline related to this Government offer – you must transfer your money from your SSIA payout to your pension fund within three months of your SSIA maturing in order to claim the Government bonus. To avail of the new pension incentive you should, when your SSIA matures, obtain an SSIA maturity statement from your SSIA provider and forward the maturity statement to your pension provider.

The pension provider will then request you to complete and sign a declaration form and make your contribution to your chosen pension product. Once this has been done, the Government contributions under the pensions incentive will be claimed by your pension provider and invested in your pension.

It is important to be aware that the incentive scheme is open to both those within the 20% and 42% tax brackets, as long as they meet the other criteria. However, this incentive is only advantageous to people paying income tax at the lower rate of 20%, as normal tax relief is generally more beneficial for those on the higher 42% tax rate.

With the Government trying hard to encourage pensions funding this is a welcome measure and, going forward, there may be additional measures such as tax relief being given at the higher rate for all taxpayers.

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News in brief



New look for Advantage

Bayer Animal Health has announced changes in packaging of their popular anti-flea treatment Advantage. The design of both dog and cat products have been modernised, with a new look and typeface, and reinforced colour-coding throughout the ranges.



Pictured recently at Teagasc's Agriculture & Food 2006, Kildalton College, are (right to left): Tipperary veterinary surgeon, Martin Kavanagh MVB (Keenan Systems), explains the benefits of using mixer wagons to incorporate chopped straw into dry cow diets to Leon and Tina Treanor from Ballybay, Co. Monaghan.

Changes at Intervet Ireland

From August 2006, Intervet Ireland will see a reshuffle of old and new faces. The summer season sees the retirement of Frank Hughes (General Manager) and Cyril Byrne (Sales Manager) from their current positions. Stephen Murray, a New Zealand-qualified veterinary surgeon, will take over as General Manager. Stephen, a previous General Manager at Intervet NZ, has also worked in the UK and in Intervet's international marketing department, in the Netherlands.

Another change at Intervet is a reinforcement of their species-orientated approach to sales and support. According to Intervet, this is due to "the continued growth of small animal and equine practice, significant development of products within the ruminant range, along with increasing regulatory requirements on customers."

Bosco Cowley and David Neylon are now responsible for ruminant products and, in a new appointment, Ciara Feeney becomes Veterinary Advisor responsible for companion animal products. Ciara, a Dublin graduate with significant mixed practice experience from the UK and Ireland, is well known for her role within VICAS. She will be joined in the next few months by a companion animal Product Manager, another new appointment within the company.

Intervet Ireland also said that they would like to "acknowledge and sincerely thank both Frank and Cyril for their huge contributions over the years to Intervet and its former companies, Mycopharm and Hoechst Roussel Vet." The company wishes them both well in their retirement.



Cyril Byrne



Frank Hughes



Stephen Murray



Ciara Feeney