IPM Draper Financial Brokers
Hyde House, Stephen Street,
Sligo, F91 VR68
T: +353 (0) 71 9143742
E: adrian@ipmdraper.ie

A Guide To Personal Retirement Savings Accounts (PRSAS)

1

Why should I plan for my retirement?

Your retirement may seem like a long way off, but it is never too early to start planning. Smart planning for your retirement will ensure that when you do retire you can maintain the standard of living you have become used to.

While you may be entitled to a State Pension at retirement, the age at which you can pick up this pension has been increased: it will not be paid until age 68 for people who were born on or after the1st of January 1961.

And even if you do get the full State Contributory Pension, at €289.50 per week currently, it's designed to cover the basic necessities of life only and will be a sharp drop from your annual salary. Bearing this in mind you will need a plan to supplement the State Pension payment. In particular, if you are selfemployed or working for an employer who does not include you in a pension scheme for retirement benefits, it's up to you to make additional financial provision for your retirement.

Autoenrolment is now coming into focus and will presenet an opportunity for an estimated 800,000 people who do not have a pension to get on the pension ladder.

There are a number of options available to you, but perhaps the most straightforward is the Personal Retirement Savings Account (PRSA), which was introduced by the Government to encourage people to save for their retirement.

2

What is a PRSA?

A PRSA is a private pension plan, separate from the State pension scheme and is available from a range of financial companies, including banks and insurance companies.

Anyone can take out a PRSA, regardless of their employment status. It is essentially, a tax-efficient savings account set up by you to save for your retirement. A PRSA is extremely flexible: you (and your employer, if applicable) can gain tax relief on contributions to it; you can take it with you when you change jobs or employment and you can start, stop, increase or decrease your contributions at any stage.

There are two types of PRSAs available: a standard PRSA and a non-standard PRSA. The key difference between the standard and non-standard PRSA is:

Standard PRSAs have a maximum fund management charge of 1% and a maximum contribution charge of 5% but have restrictions on the types of funds you can invest in; non standard PRSAs don't have limits on charges but may have a wider choice of funds including guaranteed funds which may be attractive to you.

Your Financial Broker will be able to talk to you about which option would be most suitable for you.

3

Why would I need to use a Financial Broker?

Choosing the right way to save for retirement and how to take your retirement benefits when the time comes, can be a daunting task. Your Financial Broker will be able to explain the choices available to you in simple language allowing you to make an informed decision.

Your Financial Broker will get to know you, your personal and financial circumstances, retirement plans and your attitude to and capacity for risk – products like PRSAs for example, contain a certain level of risk that you need to be aware of.

Your Financial Broker will guide you through the process of setting up your PRSA and help you to make sense of charges, tax reliefs and benefit options. They will advise you in developing a well-researched and structured investment strategy for your PRSA compatible with your attitude to and capacity for risk and designed to achieve your goals as far as possible.

Ultimately, your Financial Broker will ensure you choose the option and product best suited to your needs.

4

How much should I invest in my PRSA?

You can start a PRSA by investing as little as €25 per month, however, there are a number of things you should consider before deciding on your monthly amount: what age you'd like to retire at, your current age, the length of time to your retirement, and your existing income.

General consensus suggests you should aim to retire on two thirds of your current income (this figure will include the State Pension). Because a PRSA is flexible you can keep your contributions at a consistent amount or you can decrease them or increase them, when appropriate, helping you to achieve your ideal retirement fund. You can also boost your PRSA with a lump sum payment at any stage.

Your Financial Broker will talk to you about your expectations for retirement and your personal circumstances. In understanding what you hope to achieve they can offer you helpful advice in setting your investment amount.

5

What are the tax advantages of a PRSA?

A PRSA is an extremely tax-efficient way for you to save for your retirement.

Your monthly contribution to your PRSA qualifies for income tax relief at your marginal tax rate: for example, if you pay tax at the 40% rate, for each €1 you contribute to your PRSA you can claim 41 cent back in tax relief. To give you an idea how much this will save you annually: if you invest €1,000 in your PRSA per year, it will actually only cost you €600, after income tax relief.

There are limits to the income tax relief you can get from the Government.

The maximum contributions which you can get income tax relief on in a year vary by your age in that year:

Age in year	Maximum tax deductible contributions as a % of your earnings (max €115,000 earnings)
29 or younger	15%
30 to 39	20%
40 to 49	25%
50 to 54	30%
55 to 59	35%
60 or more	40%

In addition, the growth achieved by your PRSA is not subject to tax. This means that you gain from any investment growth and income your PRSA earns.

Remember: Make sure you understand the tax benefits of a PRSA and that you apply to the Revenue Commissioners for these benefits. This is something your Financial Broker can help you with.

6

How do I decide where to invest my PRSA?

You may be relying on your PRSA to provide an important source of income in retirement, so it's vital that you invest it wisely. There are many options available to you, from low and high risk funds investing in particular types of assets to managed or mixed funds investing in a spread of assets and selfdirected funds, where you choose the funds or assets in which you invest.

The PRSA you decide to invest in should offer you a diversified range of investment options that can meet your changing circumstances over time.

Any choice you make should be based on the level of investment risk you are comfortable with and should take into account your financial circumstances and goals. It is important to understand that the value of your PRSA can fall as well as rise, depending on which funds or assets you invest in.

Remember: If you make no decision on how to invest your PRSA it will be automatically invested in a default fund, which may or may not be suitable for your circumstances.

7

How your Financial Broker can help you with your PRSA investment choice?

Your Financial Broker will get to know you, your financial needs, attitudes to and capacity for investment risk and your ultimate goals. They will guide you through the basic elements of investing – risk and return, diversification and your own attitude to risk – and ensure you understand what's at stake.

With help from your Financial Broker you can create a diversified range of investments within your PRSA. This means you can spread your money in a way that suits your needs and is in line with your risk and return expectations and how you expect to take your benefits at retirement.

8

How can I take benefits from my PRSA?

You don't have to be retired to draw on your PRSA; from the age of 60 onwards you can access your PRSA. You can also access your PRSA on ill health retirement at any age and on early retirement from employment at any age from 50 onwards. The value of your PRSA is payable in full to your estate if you die before drawing on your PRSA benefits.

You will have a number of options when it comes to taking your retirement benefits from your PRSA. You can take a lump sum of up to 25% of your fund subject to the following limits:

Lump sum amount (25% of fund)	Rate of tax
Up to €200,000	Tax free
Next €300,000	Standard rate (currently 20%)
€500,001 and over	Marginal rate (currently 41%) plus PRSI and

With the balance of your PRSA you can choose to:

- Buy an annuity
- Transfer to an Approved Retirement Fund (ARF) to be held in your name
- Keep your fund in your PRSA; this type of PRSA is called a 'vested PRSA'
- Take the balance as a taxable lump sum.

Remember: The ARF or vested PRSA can provide an income in retirement and any balance on death is payable to your estate. You are effectively required to withdraw at least 5% per year from your ARF or vested PRSA in retirement if you are aged 61 or older in that year.

Your Financial Broker will be able to tell you how you can take your PRSA benefits when the time comes.