Blackhall Financial Services

A Guide to Retirement Planning for Company Directors & Executives

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1. Pension Planning

If you are a director or senior executive of a company, you undoubtedly have an extremely demanding work life.

You work hard today to ensure you can enjoy tomorrow and you want to have the financial provisions in place to do just that.

Pensions advice has never been more important. Many significant tax benefits remain and a Pension is still one of the best ways to save for your retirement.

Important Considerations

Late Starter: Depending on your age, you can contribute up to 40% of your personal income into a pension and claim full tax relief so even if you're starting your pension late, there's still time to catch-up

Check your Expected Pension Income: What level of pension and lump sum can you currently expect at retirement? Will this be enough money to last you through your retirement years?

Plan your Retirement Date: Government changes to State Pension ages will impact on how you plan to take your retirement benefits, so now is the time to see how this will affect your personal situation and decide on any appropriate action required.

You could bridge this gap by topping-up your pension now.

Pensions are an essential part of your financial plans, both the tax-relief and the long-term nature of a pension makes it one of the best retirement planning & wealth extraction tools available today.

2. Types of Pensions

As a company director or executive you have the option of starting one of the following pensions:

- PRSA
- Personal Pension or
- Executive Pension

Personal Pensions and PRSAs are usually for self-employed earners, or those who do not wish to avail of an employer-sponsored pension scheme

The current Maximum tax relief limits on a PRSA or Pension Contributions are:

Age attained	Amount which qualifies for tax relief (as % of salary)
Under 30 years	15%
30 to 39 years	20%
40 to 49 years	25%
50 to 54 years:	30%
55 to 59 years	35%
60 and over	40%

The tax relief outlined above is based on current legislation as at August 2017 and may change in the future. For an Executive Pension the table above represents personal contributions made to the plan and exclude any contributions made by the company.

It is important to note that tax relief is not automatically granted; you must apply to and satisfy Revenue requirements. Revenue terms and conditions apply.

3. Executive Retirement Plan

An Executive Retirement Plan is one of the most tax efficient ways of converting pre tax gross income into after tax personal wealth. Using a company as a vehicle creates a number of possibilities that are not available in a self employment contract or through a Personal Pension or PRSA.

Some of the benefits are:

1. A much higher level of pension contributions are permitted
2. The possibility to provide income to a spouse in order to counteract the tax consequences of tax individualisation and achieve increased pension contribution.
3. Providing an income for the stay at home spouse can also qualify them for the State contributory pension.
4. No benefit in kind implications
5. More flexible early retirement options

As a proprietary director (owning more than 5% of the company), you are able to have the company fund your pension, and make far more significant contributions than as a self-employed person.

Get specialist advice today

Retirement planning can seem like a complicated area so it's best to get expert help. To discuss a tax efficient way to make the most of your company assets and create the best financial plan for your retirement, talk to your Financial Broker or Adviser today

4. Tax Benefits of Executive Retirement Plan

Tax Relief on Company Contributions

Contributions made by the company to your Executive Retirement Plan can usually be fully offset against Corporation Tax as a business expense, subject to Revenue limits. There's considerable flexibility in relation to the timing of these contributions so that payments can be tied in with the Company's profitability from year to year.

Benefit in Kind (BIK)

Subject to the Plan having Revenue approval, you will not be assessed for BIK on any contributions made by the Company to your Executive Retirement Plan.

Tax Relief on Employee Contributions

Under current legislation, you can benefit from tax relief on the contributions you make to your Executive Retirement Plan. Tax relief is available at your marginal rate up to a maximum of 40% of your earnings each year, depending on your age. This reduces the cost of your pension contributions considerably. An earnings cap of €115,000 will apply to your pension contributions for the purposes of tax relief.

Tax-Free Investment Growth

The fund in which your contributions are invested benefits from tax-free growth, unlike most other saving methods which are liable for tax

Retirement Lump Sum

When you retire, part of the accumulated fund can be taken as a tax free lump sum

Tax Efficient Succession Planning

An Executive Retirement Plan facilitates succession planning, enabling you to pass on money to your dependants in a tax-efficient way. This is facilitated by choosing an Approved Retirement Fund (ARF) when reviewing your retirement options. There is a limit on the maximum pension fund that can be built up in retirement, this limit is €2,000,000. This includes funds from all of your pension arrangements and also includes the capital value of any pension rights which you have already drawn down since 7th December 2005. Where this limit is exceeded, the excess in your pension fund at retirement is subject to a one off income tax charge at the top rate of Income Tax, before being applied to provide your retirement benefits.

5. Contributions to an Executive Retirement Plan

How much will it cost to provide a decent income in retirement?

The answer will depend on a number of factors including:

- Your age now, and the age at which you think you will retire
- The amount of income you think you will need when you retire
- The investment returns which your fund achieves
- The interest rates which apply when you retire, which will determine the rate at which you can purchase a regular income.

Depending on your company service the maximum benefits that may normally be provided under Revenue rules is a pension of two-thirds of your final salary with a matching pension for your spouse, payable on your death.

Significantly under current legislation unlike salary increases, bonuses, or benefits such as company cars, your company's contributions to an Executive Retirement Plan are not treated as your income and are therefore not taxed.

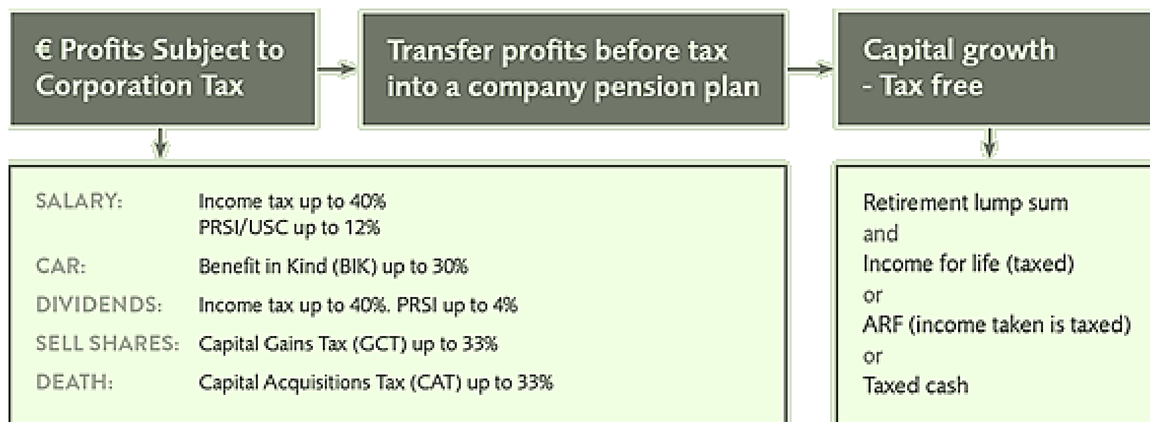
Flexibility to tailor payments to suit you

The Executive Retirement Plan allows you to make your contributions how and when you want to. You can pay by direct debit - monthly, quarterly, semi-annually or annually. Single Premium Payments can also be made by cheque on an annual basis.

You can increase or decrease your contributions at any time. You can also make one-off contributions at any time.

Contributions made within Revenue limits can be varied year to year to suit both the finances of the company and your own personal finances. We recommend that you consider indexing your contribution option, which automatically increases your contributions on a yearly basis so that they are in line with the Consumer Price Index, or 5% if higher. This helps enable your pension contribution to keep pace with inflation.

Using your pension to extract wealth from your company



The following table illustrates a theoretical tax position on company earnings of €50,000 based on three scenarios

Retained Earnings	**€**	**Personal Investment**	**€**	**Pension Investment**	**€**
Company Earnings	€50,000	Company Earnings	€50,000	Company Earnings	€50,000
Corporation Tax 12.5%	€6,250	Corporation Tax 12.5%	0	Corporation Tax 12.5%	0
Net Earnings	€43,750	Salary payment	€50,000	Net Earnings	€50,000
PAYE & PRSI 52%	0	PAYE & PRSI 52%	€26,000	PAYE & PRSI 52%	0
Company Investment	€43,750	Personal Investment	€24,000	Pension Investment	€50,000
Maturity Value	€78,350	Maturity Value	€51,039	Maturity Value	€89,542
Taxable Growth	€34,600	Taxable Growth	€27,039	Tax free lump sum	€22,386
Exit Tax @ 41%	€14,186	Exit Tax @ 41%	€11,086	Taxable Sum	€67,157
Net Cash Value	€64,164			PAYE & PRSI 52%	€34,922
PAYE & PRSA 52%	€33,365				
Net Cash in Hand	**€30,799**	**Net Cash in Hand**	**€39,953**	**Net Cash in Hand**	**€54,621**

In each of these three cases, the taxable growth figure is calculated at 6.00% per annum compound for 10 years on the Investment amount

6. Level of contributions

A common misconception pertains to the level of pension investment allowable by Revenue. Many think that 15% to 40% of earnings depending on age is all that is allowed.

However, the amount of money a company can contribute to a director's pension on behalf of a proprietary director can be substantial. A company may make whatever contributions are necessary to build up a pension fund which will provide a director with a pension of 2/3rds of final pensionable salary - subject to a maximum salary of €115,000 and a maximum fund value of €2m.

The table below shows that amount of salary a company may pay for a director, **assuming retirement age of 60**

Married Male Age	*Maximum Annual Contribution by Company (% of Salary)*	*Married Female Age*	*Maximum Annual Contribution by Company (% of Salary)*
45	144%	***45***	133%
50	216%	***50***	200%
55	432%	***55***	400%
57	720%	***57***	667%

Single Male Age	*Maximum Annual Contribution by Company (% of Salary)*	*Single Female Age*	*Maximum Annual Contribution by Company (% of Salary)*
45	108%	***45***	122%
50	163%	***50***	183%
55	325%	***55***	367%
57	542%	***57***	611%

Can I contribute personally and get tax relief?

Yes, you can contribute personally and claim income tax relief. With an earnings cap of €115,000 currently, and limits based on age, our advice is to contribute as much as possible each year. Legislation may reduce this earnings cap in the near future.

7. Death Benefit

Company pension plans typically provide benefits should you die in employment. The precise form of these benefits will depend on the rules of any particular plan.

These benefits may however include one or all of the following:

- A lump sum, of up to four times salary.
- A refund of your contributions, including any Additional Voluntary Contribution made by you.
- A spouse's or partner's pension, payable for life.
- A child's or orphan's pension, normally ceasing at age 18 (later if in full-time education).

8. Investment Options

It is more or less possible to invest in anything through your pension that you could invest in outside the pension. Some people like to set up a Self-Administered pension scheme to acquire property assets or specific investments.

We normally advise our clients to avoid these structures until such time as they have built up a fund of at least €400,000 because in our opinion the cost of administration of self directed schemes makes it uneconomic below this level.

The typical asset classes invested in through traditional pension funds managed by one of the Life Assurance companies are as follows:

- Mixed managed funds
- Equities (Stocks)
- Commodities
- Currencies
- Property
- Deposits
- Government Bonds
- Corporate Bonds

There is full freedom to move the fund from one Life Company to another or from a Life Company to a self-administered structure.

9. Management charges & Investment allocation rates

When you invest your pension with a Life Company the monies are invested in underlying assets within a fund. The fund is usually quite large with numerous investors. With a large fund it is possible to diversify the underlying investments to reduce the overall risk. Changes in investment profile can be made on a marginal adjustment basis and therefore transaction charges can be kept to a minimum.

Fund Managers charge an annual fee for managing the fund. These charges will vary depending on the type of investment. Typically some of the more actively managed international equity funds would attract a higher management charge whereas a consensus fund which is not actively managed but just follows the market benchmark would have a low management charge. Management Charges vary from 0.75% to 2.0%. Fund performance figures are normally given after the management charges have been deducted.

The amount of the initial contributions invested depends on the particular allocation rates within the policy. Allocation rates can vary from 75% to 100% depending on the level of contributions and commission deducted by the broker

Through using our relationships with pension providers Blackhall Financial Services can normally ensure that we obtain an allocation rate of at least 100% which will enhance the fund value at retirement.

10. What happens at retirement

You can avail of your retirement benefits on or after your 50th birthday, wherein you will decide how to use the retirement fund that you have accumulated. Generally where Proprietary Directors take early retirement between the age of 50 and 60, they must sever all links with the company including the disposal of their shareholdings (possibly to family members). You must retire from a company pension at age 70.

At retirement you will have a range of different options available to you including taking 25% of your retirement fund or up to 1.5 times your salary as a Tax Free Lump Sum. The balance of the fund can be used to provide you with an income for the remainder of your lifetime. This can be done through investing in an Approved Retirement Fund (ARF) or through the purchase of an Annuity.

Annuity

An annuity is a guaranteed yearly or monthly income for life - a pension! Annuities are sold by life assurance companies like Irish Life, Friends First etc. You can choose a flat pension or a pension that increases each year to counteract inflation. You can build in a pension for your spouse after your death. The amount of income you receive will vary depending on the type of annuity you choose. There's an open market for annuities so when you come to pension age, you can shop around to get the annuity terms available.

Approved Retirement Funds (ARF)

An ARF is a post retirement investment fund that remains in your ownership and does not die with you. You decide where the funds are invested and the investments grow tax free within the fund.

It is up to you to decide when and how much to withdraw from the ARF. You must withdraw at least 4% of the value of the fund each year to satisfy current tax rules. Withdrawals are treated as income and taxed accordingly. You could plan the amount you withdraw in any year to utilise tax allowances and minimise or avoid income tax.

When you die the ARF can pass tax free to your spouse who can continue to take income from the ARF in the same way that you did. You or your spouse can pass the ARF to your children after your death at 30% tax. If not willed to your spouse or children any amount remaining in the ARF will form part of your estate.

In recent years most self employed chose to use their retirement fund to purchase an ARF rather than purchasing an annuity. The following were the main reasons for this choice:

- Annuity rates have fallen in line with lower interest rates and longer life expectancy. Consequently annuities were seen as poor value for money.

- The annuity payments cease on the death of the annuitant or after a fixed guaranteed period (usually 5 years from the purchase of the annuity). Consequently if the annuitant does not have a long life he/she may not fully recover the capital sum used to purchase the annuity. An ARF on the other hand remains the property of the policyholder and passes to his estate or spouse or children.

- The yearly amount received under an annuity is fixed and is taxable as income in the hands of the annuitant whereas the policyholder can determine when they draw income from an ARF. Thus the pensioner has greater tax planning flexibility with an ARF.

- The ARF represents a tax efficient way of passing on assets from one generation to the next.

Which option is best for me?

The retirement option that suits you will depend on your personal circumstances at the time that you retire. Before you retire, all of the various options available to you at that time will be explained in full.

Life Expectancy

As average life expectancy increases, so does the amount of time we spend in retirement. Your retirement fund now needs to last longer….

11. About us

Blackhall Financial Services was established in 2005 to provide high quality, independent financial advice, targeting the needs of individuals and their businesses. Today it continues to serve its client base with a range of services include wealth management, investment advice and retirement planning.

Our approach is based on identifying the key financial issues that concern you most. Using our knowledge and experience of financial services and tax planning we can provide the most appropriate business solution to suit your specific requirements.

What we offer

- Retirement Planning
- Constructing Investment Portfolios
- Advice on existing Portfolios
- Life Assurance
- Serious Illness
- Income Protection
- Savings Plans
- Deposits

12. Contact

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Disclaimer

This document does not constitute an offer and should not be taken as a recommendation from Blackhall Financial Services. Advice should always be sought from an appropriately qualified professional. Whilst great care has been taken in its preparation, this newsletter is of a general nature and should not be relied on in relation to specific issue without taking appropriate financial, insurance or other professional advice. The information contained in this newsletter is based on our understanding of current and intended legislation and Revenue practice as at August 2017.

Warning:

- The income you get from an investment may go down as well as up
- The value of your investment may go down as well as up
- Benefits may be affected by changes in currency exchange rates
- Past performance is not a reliable guide to future performance