



# Retirement Planning for **Company Directors & Executives**

Extracting wealth  
from your business

## **Max Funding Rules**

Making the most  
of tax breaks available

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# Pension Planning

If you're 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.

With numerous changes to pension regulation in the last year, it is now more important than ever to take the time to sit with your financial advisor to ensure you are making the most of current tax incentives available to you.

The government has indicated that pension tax reliefs could be lowered soon so this year could be the last chance to reduce your income tax liability and take full advantage of the current tax savings available on pensions.

- 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.
- You now have a window of opportunity to take full advantage of the attractive tax benefits of saving into a pension in 2011.
- Talk to your financial adviser today to ensure you are making the most of the benefits currently available to you.

**For advice on how to make the most of your retirement savings now, why not book a meeting with your financial adviser.**

## 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:** Recent Government changes to State Pension ages for receiving a pension 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.

## What does this mean in practice?

If you were born before 1949 you will continue to be eligible for the State Pension (Transition) at age 65 - subject to meeting the qualifying conditions.

If you were born from 1949 to 1954 inclusive, you cannot claim a State Pension until age 66 - you will have a retirement income shortfall of €11,975\* if you retire at age 65.

If you were born from 1955 to 1960 inclusive, you cannot claim a State Pension until age 67 - you will have a retirement income shortfall of €23,950\* if you retire at age 65.

If you were born in 1961 or later, you can't claim a State Pension until age 68 - and you will have a retirement income shortfall of €35,925\* if you retire at age 65.

\* Based on the State Pension (Transition) amount for 2011.

**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.**

# Types of Pension provision

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

- 1 PRSA
- 2 Personal Pension or
- 3 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 are:

Age attained	Max contribution as % of earnings up to a max of €115,000
> 30	15%
30-39	20%
40-49	25%
50-54	30%
55-59	35%
60+	40%

The tax relief outlined above is based on current legislation as at September 2011 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.

# Executive Retirement Plan

An Executive Retirement Plan builds up a fund, which allows a company to provide retirement benefits for its directors and key employees.

If you are a Company Director, you can provide greater pension funding through your company using an Executive Pension plan, than would be possible if you were self employed.

The following are the benefits of Retirement Planning through your company:

- Contributions made by the company to the plan can normally be fully offset against Corporation tax.
- No benefit in kind implications
- Pension fund grows tax free\*
- Tax free cash at retirement
- Possibility of early retirement from age 50 – you will need to surrender shareholding and sever links with the business
- Lump sum death & disability benefit may be included
- Valued staff can be provided with more generous benefits than other employees
- Company can make much higher contributions to a pension plan than an individual in their own right
- Employee contributions are tax deductible by up to 40%\*\* of salary (subject to age)

\* A temporary Government pension fund levy of 0.6% p.a. will be applied to the value of the pension assets for the four years 2011 – 2014.

\*\* 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.



An Executive Retirement Plan gives you:

## Affordability Options – so you decide how much to save

The flexibility to choose the amount you contribute, increase or decrease contributions, take a break in payments, or make special lump sum contributions as frequently as you want. Both you and the company can contribute, however the company must make a minimum contribution to the Plan, usually one tenth of overall contributions.

## Investment Options

Which allows you to tailor your investments to suit your individual attitude to risk.

## Retirement Options – that suit your circumstances

When you retire, there is considerable flexibility as to how the benefits can be taken.

### Your options may include:

- A Tax-Free lump sum
- A taxable lump sum
- An income (pension) for your lifetime
- An income (pension) for your dependants on your death in retirement
- Investing in an Approved Retirement Fund (ARF) or Approved Minimum Retirement Fund (AMRF).

## Protection Options – to give you peace of mind

The Plan can be designed to include additional benefits such as:

- Life Cover
- Disability Cover
- Premium Protection Cover



**THE EXTENT OF PENSION TAX RELIEF AVAILABLE TO BUSINESS OWNERS IS SIGNIFICANT: IN MANY CASES IT IS MORE TAX EFFICIENT FOR BUSINESS OWNERS TO PUT A PORTION OF THEIR COMPANY PROFITS INTO A PENSION THAN TO GIVE THEMSELVES A PAY RISE.**

# Tax benefits

## of an Executive Retirement Plan

**CURRENTLY A DIRECTOR WITH NO PENSION PROVISION IN PLACE CAN START FUNDING LATE FOR THEIR RETIREMENT, BY MAKING A COMPANY CONTRIBUTION OF UP TO A MULTIPLE OF JUST OVER 4 TIMES THEIR SALARY.**

### 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 New Ireland 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. It should however be noted that in certain circumstances your contributions may have to be restricted in order to ensure that Revenue limits are not exceeded. It is important to note that tax relief is not automatically granted, you must apply to and satisfy revenue requirements.

\* 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.

### 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

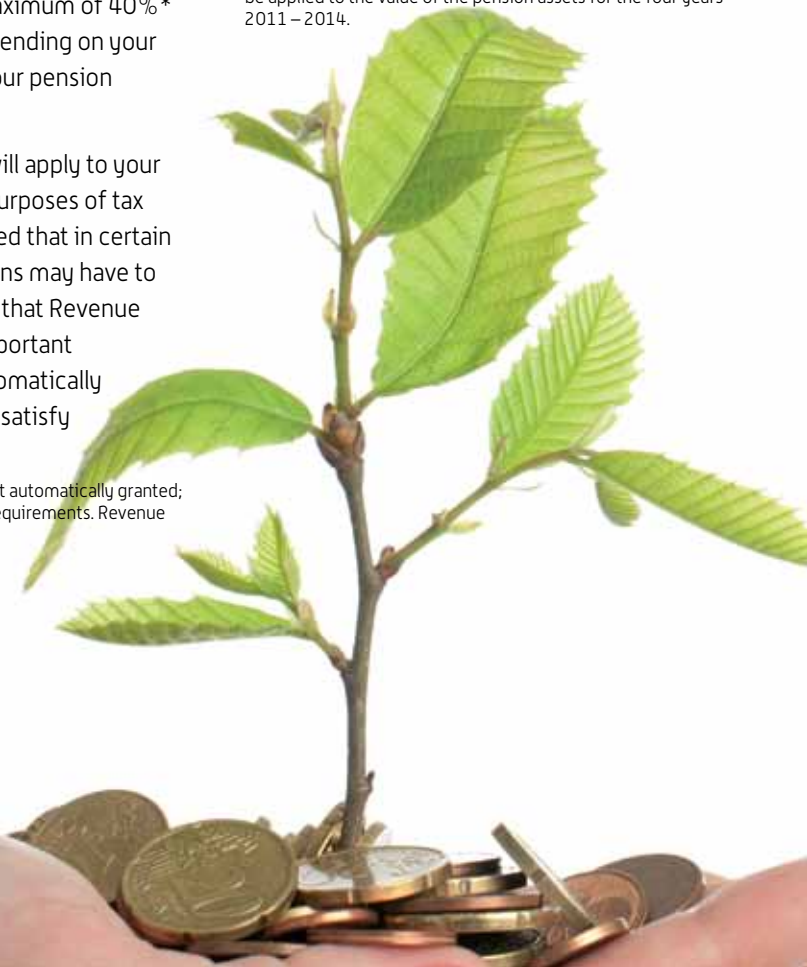
When you retire, part of the accumulated fund can be taken as a retirement lump sum.

### 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 by retirement. With effect from 7th December 2010 this limit is €2,300,000. 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 funds at retirement are subject to a one off income tax charge at the top rate of Income Tax, before being applied to provide your retirement benefits.

\*\* A temporary Government pension fund levy of 0.6% p.a. will be applied to the value of the pension assets for the four years 2011 – 2014.



# Contributions

## to an Executive Retirement Plan



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

You decide how much to contribute

The answer will depend on a number of factors including:

- Your age now, and the age at which you think you'll retire
- The amount of income you think you'll 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, bi-annually or annually. Single Premium Payments can also be made by cheque on an annual basis.

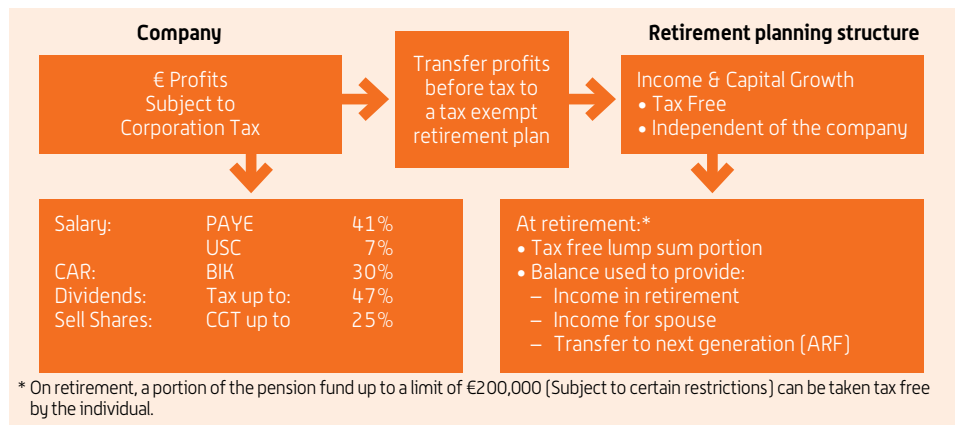
### You can increase or decrease your contributions at any time.

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 our indexing 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

How does it work?



The above illustration shows different ways of extracting wealth from the company. It shows that for any of the events on the left hand side, there is a potential tax liability for the company and employee.

If profits are transferred before tax into a pension, then there is a more tax efficient manner of extracting wealth.

### How much can my company contribute to my executive pension?

The amount of money a company can contribute to an Executive Pension can be substantial. The chart below shows the maximum contributions that could potentially be made and tax relief that can be claimed. It is important to note that to set up an executive pension, the company must make a contribution.

Maximum Annual Contribution as a % of Salary

Current Age	Male Retiring Age		Female Retiring Age	
	60	65	60	65
40	108%	76%	100%	69%
45	144%	95%	133%	86%
50	216%	126%	200%	115%
55	414%	189%	383%	173%

Source: New Ireland Pensions Technical Department September 2011.

The table shows the maximum pension contribution allowed in a given year based on current Revenue rules, expressed as a percentage of salary. The maximum contribution includes both employer and employee contributions but excludes the cost of any risk benefits. These contribution rates assume that the individual is married, does not have any other pension provision in place and that they will have completed at least 10 years service at retirement age. Special contributions in excess of set limits may need to be spread forward for tax relief purposes over a period of up to five years.

### 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.

# What happens at retirement?

## Taking your retirement benefits

You can choose to take your retirement benefits under your Executive Retirement Plan at any age between 60 and 70, which is the Normal Retirement Age under an Executive Retirement Plan.

## Early Retirement

You may be able to take your benefits from age 50 under certain circumstances.

### When you retire, you can use your retirement fund in either of two ways:

#### 1 Lump Sum and Pension

**Lump Sum:** You can take part of your benefits as a lump sum. The maximum lump sum you can take is 1.5 times your Final Salary – provided you have 20 years service completed with the Company by your chosen retirement age.

If you have less than 20 years completed or if you retire early, a lower lump sum will be payable in line with a sliding scale. Under current Revenue rules the following tax rates will apply to your lump sum.

Lump Sum Amount	Rate of Tax
Up to €200,000*	Tax Free
Next €375,000	Standard rate (currently 20%) no reliefs, credits allowed
Over €575,000	Marginal rate – taxed under PAYE system, plus PRSI and USC

\* Any Tax Free Lump Sum taken on or after the 7th of December 2005 will count towards this limit.

**Pension:** After taking your retirement lump sum, the balance of your fund can then be used to purchase a pension (a guaranteed income for life – also known as an Annuity) for you and your dependants, subject to Revenue limits.

You could opt for a level pension or a lower initial pension which then increases each year to help offset the effects of inflation. You can also opt to have your pension continue to your spouse or recognised civil partner after your death.

If you have paid any Additional Voluntary Contributions (AVCs) into the Plan, then the fund accumulated by those AVCs can also avail of the ARF option detailed in section 2.

#### 2 Lump Sum and Approved Retirement Fund/Taxable Lump Sum

**Lump Sum:** You can take up to 25% of your accumulated fund as a lump sum (the tax position for this lump sum will be the same as detailed in the previous section).

**Taxable Lump Sum/ARF:** The balance of your fund can then be invested in an Approved Retirement Fund (ARF)\* or taken as a Taxable Lump Sum\*. An ARF is a retirement investment fund which allows you to choose between various investment options and gives you complete control over when and how you draw down funds subject to certain requirements being met.

\* In order to invest in an ARF or take a Taxable Lump Sum, you must have a guaranteed income for life from all sources of currently €18,000 per annum in payment at the time you take your retirement benefits. This can include your State pension benefits (single person rates only) or any income derived from other pension arrangements. If you do not have this guaranteed pension income then you must either:

- use all or part of your retirement fund to purchase a Pension (annuity) to bring your pension income up to €18,000, or
- use an amount equal to 10 times the Social Welfare pension (currently €119,800) of your retirement fund to invest in either an Approved Minimum Retirement Fund (AMRF), purchase a Pension or a combination of both. If your retirement fund is less than currently €119,800, then the whole amount must be used in this way.

Remember that a guaranteed pension income for life does not include income from sources such as investments, businesses, rents or employment.

### 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.

For further information, you should contact your Financial Adviser

A man in a dark suit and red tie stands on the left, gesturing with his right hand as if presenting. He is looking towards a group of people seated at a table on the right. The group includes a man with glasses in a blue striped shirt, a woman with blonde hair, and another man in a dark suit. They are all looking towards the presenter. The background shows a modern office setting with large windows and a bookshelf. The overall scene is a professional meeting or presentation.

# Executive pensions for Key Employees

Most businesses are created around a few vital individuals whose technical knowledge or experience make them a very valuable asset to the firm

An Executive Retirement Plan is an excellent way to reward a key member of your staff and to encourage them to consider a long term future with your company. It can also be useful in attracting new staff, especially when you consider that in today's competitive environment, employee benefits are becoming increasingly more important in attracting and retaining the best people.

An Executive Retirement Plan is an ideal way to provide retirement benefits for your key employees. It's a tax efficient savings plan that builds up a fund, which allows a company to provide retirement benefits for its key employees.

An Executive Retirement Plan is flexible and can be designed to suit your own particular requirements including:

- The level of company contributions, can be decided by you – subject to Revenue limits.
- The Plan can be non-contributory or you can arrange for part of the contributions to be paid by the employee.
- The employee can then pay Additional Voluntary Contributions to provide additional benefits for themselves.
- Life Cover and Disability Cover can also be included if required.

# Example 1



## Saving Tax through an Executive Pension

**THE FUNDS INVESTED IN A COMPANY'S PENSION PLAN GROW TAX-FREE UNTIL MATURITY, SUBJECT TO 0.6% GOVERNMENT LEVY FROM 2011-2014.**

Kane owns his own warehousing and distribution company. It is now a profitable business, having commenced trading five years ago. His annual salary is €60,000 and he is aged 46. Typically, the company's annual corporation tax bill is about €12,500 on annual company profits of around €100,000. At present, Kane has no pension plan in place for himself.

By making an annual contribution of €40,000 to an executive retirement plan, Kane will reduce his company profits to €60,000, and consequently his annual corporation tax bill would fall to 12.5% of €60,000 or €7,500. So the company's annual tax bill is reduced by €5,000 and Kane has moved €40,000 from the company to his pension plan without incurring any income tax.

The funds invested in a company's pension plan grow tax-free until maturity, subject to 0.6% p.a. Government levy from 2011-2014. On retirement, Kane can use his pension fund to avail of the retirement options detailed on page 8.

# Example 2

Achieving a sizeable Pension by restructuring the company.



Start-up business entrepreneur, Gary, runs his own graphics company, which supplies innovative image solutions to clients in Ireland and the UK.

Following careful consideration and professional advice from his accountant Gary has recently registered as a limited company. While this means that the 31st October self-assessment tax deadline will no longer be a key date for Gary, he will have to file accounts on an annual basis in line with his chosen business year end.

From a pension planning perspective Gary's situation has changed dramatically in that he can now pay significantly more money into his pension using current maximum funding rules.

**Gary Conway**

**Age: 30**

**Annual Earnings: €100,000**

**Retirement Age: 65**

## Maximum Contributions Allowed Paying into a Personal Pension V's an Executive Pension

PERSONAL PENSION / PRSA	EXECUTIVE PENSION
Maximum Contribution 20% of net relevant earnings: €20,000 per annum	Maximum Contribution Estimated contribution to generate a pension of 66.67% of final earnings at age 65: €38,949.73 per annum
Tax relief @ 41% for individual: €8,200	Tax relief at 12.5% for company: €4,868.72

**Note:** The example above shows the maximum pension contribution allowed in a given year based on current Revenue rules, expressed as a percentage of salary. The maximum contribution includes both employer and employee contributions but excludes the cost of any risk benefits. These contribution rates assume that the individual does not have any pension provision in place and that they will have completed at least 10 years service at retirement age.

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**WARNING: Past performance is not a reliable guide to future performance.**

**WARNING: The value of your investments may go down as well as up.  
You may get back less than you put in.**

**WARNING: These figures are estimates only.  
They are not a reliable guide to the future performance of your investment.**

The case studies are not real people and are for illustration purposes only.

While great care has been taken in its preparation, this newsletter is of a general nature and should not be relied on in relation to a 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 September 2011.

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