**Pension Basics**

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**What is a Pension and why are they so important**

A Pension is the money that you will live on when you stop working. In effect, it will replace the salary or wages that you earned before retirement.

It’s a special type of savings plan, with important tax breaks, that allows you to build up money in order to provide yourself with an income in retirement. It is a long-term arrangement, that doesn’t allow access to the funds until you reach retirement age. The retirement age that applies depends on the type of plan you have.

When you stop working, your salary/earning capacity will come to an end but as you well know the ongoing costs of living will not! It’s fair to say that each individual will still need a substantial regular income to maintain a decent standard of living. So, the question to be asked is ‘where will this income from’? Unless you have other assets like property, rental income, large amount of savings etc. your pension will almost certainly be your main source of income after you have retired.

**State provision**

Currently, the full State Pension (Contributory) provides each individual with a Pension of €238.30 per week or circa €12,400 per annum (provided you have paid the relevant PRSI contributions over your lifetime). This provides each qualifying Irish citizen with some degree of comfort in knowing they will have enough guaranteed income to survive each month.

**Who pays for the plan**

It’s each individual saver’s responsibility to pay contributions into their plan (unless you are a member of a specific type of employer scheme which says otherwise). Contributions are typically made by way of regular monthly/annual amounts, or once-off lump sum payments (also known as Single Premium payments). For those individuals who are in employment and pay into a Pension Scheme, it’s also worth asking your employer if they will make a contribution to your Plan- but bear in mind there is no legal requirement for them to do so!

**How much should you pay**

There is no right or wrong answer. Ultimately it comes downs to the individual’s ability and affordability & what level of income they want to have in retirement. In some circumstances, if/when you join your employers scheme, there may be a minimum amount you are required to pay. Industry standard would typically be between 3% & 5% of salary per annum.

The amount you pay into a plan could also depend on what, if any previous pension arrangements you may have through former employments etc. It’s worth checking with one of our Financial Advisors to see if you may have any pension entitlements you might not even be aware of!! You would be amazed at the amount of benefits we have uncovered for people – all stemming from a quick 2/3 minutes conversation with one of our advisors.

**What happens the contributions**

Normally, the contributions are invested by your chosen Life & Pension Provider, who in turn utilises the expertise of a Pension Fund Investment Manager to invest your money. In a typical Pension Fund, your money is normally pooled together and invested in what’s known as ‘Unit Linked Investment Fund ‘. These type of fund’s allow individuals access to invest (at a low unit cost) in Companies, Stocks & Shares, in different geographic areas around the Globe that typically would not be accessible if operating alone.

It’s worth bearing in mind that each Pension contribution you make grows tax free until drawdown as Pension Funds are exempt from Exit Tax, Dirt Tax & Capital Gains. It’s estimated that this relief alone could have the affect doubling your Pension Pot over a 20 year period, as opposed to a Fund that deducts investment tax on an ongoing basis.

In order to give your contributions exposure to growth assets i.e. equities, which have a proven track record of outperforming every other asset class (property, commodities, futures etc.) over time, it is necessary to invest your money in a balanced portfolio of Stock Market linked Investments. However, we will ensure your choice of Funds will coincide directly with your own attitude to risk to investing & the term you have left until you need to access your benefits. This is one of the most important and critical aspects of prudent retirement planning and something that we here at F.W.E. Crowe Insurance are very experienced at.

**What happens when you retire**

The accumulated value of your plan will provide you with your retirement benefits at your appropriate normal retirement age (NRA). You will be allowed to take a portion of the money as an immediate tax-free cash sum (25% of the Fund or an amount based on your salary service with your employer). The balance will be used to provide you with a pension or a residual pension pot (subject to certain criteria governed by the current Pensions Legislation).  THIS IS WHERE YOU NEED ADVICE!

**What about my retirement date**

You can start to draw your full State pension on your 66th birthday. The Government have recently introduced a change from the normal retirement age of 66, over the coming years, to age 68. If you are in a company pension plan, the retirement age will be specified in the scheme rules- normally this date allows retirement any time between the ages of 50 (with trustee consent) & 70. If you have your own pension plan, you can choose your retirement age, provided it is between 60 and 75.

**What about charges**

Your Pension provider will charge you for setting up & operating your pension plan. These charges will be automatically deducted from each contribution you make to your plan. This will, of course, eat into its value – so, if you are starting a new plan, please make sure that the scale of charges is competitive, we check all the Pensions companies before issuing any recommendations.

**How can I follow the progress of my plan**

If you are a member of a company Pension Scheme, you should receive an annual benefit statement which is issued by the scheme trustees. Trustees are legally obliged to write to each member at least once a year and provide you with an update of your plan.  The report should include detail on the progress of your plan and the performance of your chosen investment funds. Most Companies today provide an on-line access facility, which allows you track the progress of your plan on a daily basis if desired.