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DEFINED CONTRIBUTION PENSIONS

ESSENTIAL GUIDELINES FOR MEMBERS

The Member

The purpose of this section to provide you, the member, with:

- Guidelines to help you understand your responsibility as a member of a DC plan and how early, and frequent, engagement can assist in managing your potential income in retirement
- An overview of the importance of understanding the interaction of contribution levels, investment returns and benefit conversion rates at retirement on DC retirement outcomes

MEMBER GUIDELINES

Trustee Communication Guidelines

- Seek advice, early and often, in relation to pension benefits throughout your working career. Ask your employer, the trustees or their professional advisers for help in planning for your retirement.
- Take ownership of your retirement planning and understand the issues that will affect retirement savings.
- Review the information that is provided to you. You will have access to information and tools that will help you decide on the level of retirement savings and the choice of investment, such as your plan booklet, benefit statements, intranet sites with projection tools and investment manager fund fact sheets. Attend staff presentations on pensions.
- Formulate a realistic plan to save for your retirement – how much can you afford to save, understand what replacement income is that projected to provide at retirement; compare that to the level of retirement income you might actually require and then determine the level of contribution necessary to deliver this income.
- Consider if you are fully availing of any contributions payable by your employer.
- Discuss your retirement plans with your family, spouse, partner and/or dependants as you save for retirement.
- Know your appetite for investment risk relative to your requirements for capital growth, capital protection, income protection and length of time before retirement.
- Ensure your long term investment goal is still appropriate at least once a year. If you are in the default fund

option, you should familiarise yourself with the nature and characteristics of that fund and ensure it meets your objectives.

- Pay particular attention to your investment portfolio in the ten years prior to retirement, with particular emphasis on the level of risk you are taking over that period and reducing this risk where appropriate.

Member Communication And Investment Essentials

Members should be aware of the degree of responsibility which rests with them in a DC plan. Members should ensure that they have access to information and tools that will help them to consider important issues such as the level of retirement savings and the choice of investment. Typically, such information is available in plan booklets, benefit statements, intranet sites with projection tools and investment manager fund fact sheets.

In overall terms, members are responsible for their own financial affairs - planning for their retirement, availing of all information (e.g. pension plan information, State provision and other assets) and seeking out and acting on other information which is required to enable them to make informed decisions.

Members should take ownerships of their retirement planning and understand the issues that will affect their retirement savings and ideally, members need to plan for retirement early in their careers. From a member's perspective, the aim is to save as much as is affordable in the hope that they can achieve a desired level of retirement fund.

The amount of the retirement fund will ultimately determine the overall level of income and cash lump sum which can be made available. This in turn is dependent on:

- the amount of contributions being invested
- the investment gain during the period of pension investment
- the amount of charges or fees incurred in the management of the fund, and
- the cost of purchasing a pension at retirement (if applicable).

Members should take stock of their own retirement fund position and to be aware of the various stages which require careful consideration at different points in time:

- PRE-RETIREMENT: The adequacy of pension contributions is ultimately dependent on an individual's pension expectation at retirement. Whilst for many, pension funding through DC arrangements is the only retirement provision they are making, there are a growing number of people who have other assets which form part of their overall asset portfolio. The contribution levels required to meet pre-determined levels of retirement income can be estimated using the Pensions Authority modelling tool. This tool can be accessed and personalised via www.pensionsauthority.ie. Many plans also have their own projections tools which are available to members.
- AT RETIREMENT: When retirement age is reached, the retirement fund that has been accumulated can be used to provide for a pension income alone or a lump sum with a reduced pension. Some or the entire retirement fund may be invested in an Approved Retirement Fund (ARF) for income drawdown in retirement. There are limits set by the Revenue Commissioners around the levels of both pension income and lump sums at retirement.
- POST RETIREMENT: After drawing down a lump sum (if any), the retiree may use the balance of their pension funds to purchase a retirement income with an annuity or transfer to an ARF. An annuity is normally secured by the payment of these funds as a single premium to a life assurance company. The annuity may remain level (that is, not increase) during payment, or increase to compensate in whole or in part for increases in the cost of living. It can be designed to be paid only to a retiree for life, or may be paid on to a surviving dependant on the death of the retiree.

There is an additional option of rolling these funds ARFs and/or AMRFs depending on the members circumstances at retirement. An ARF allows continued investment of retirement savings after retirement. An AMRF works in a similar manner to an ARF with the exception that no income can be drawn from the initial AMRF investment until age 75. Unlike annuities, ARFs and AMRFs can be inherited after death of the members. However, unlike an annuity, ARFs and AMRFs do not provide certainty of income payments. To avail of an ARF, based on current rules, members must have approximately €12,700 per annum of guaranteed income for life or individuals who do not have that level of income must invest an amount of €63,500 in an AMRF.

Member Contribution Considerations

The adequacy of pension contributions is ultimately dependent on the individual member's pension expectations at the time they choose to retire. Members are encouraged to follow these suggested steps to help manage and achieve these expectations.

- STEP 1: Invest the time in educating yourself on issues that might affect your retirement funds. Ensure you have access to all communication documents relating to the pension plan e.g. Plan booklet, most recent annual benefit statement, Investment information including the choices available, potential projected fund at normal retirement (through statements of reasonable projection attaching to the annual benefit statement). Read these documents and where questions arise, seek further information from the HR or pension contact. Read the small print. Where there are specific questions, always ask for confirmation in writing for future reference
- STEP 2: Use this information to assess when you wish to retire.

Members should:

➢ Familiarise yourself with what your pension benefit (if any) will be from the State and when it is payable.

➢ Decide when the retirement benefit should be payable. This may be different to the age that State benefits are payable.

➢ Set out for themselves the total of their pension assets from all sources e.g. previous employment in Ireland, overseas employment, existing pension income.

➢ Discuss retirement plans with other family members/partner and take account of the impact of any other possible future income.

➢ Factor in any dependency by partners on their retirement income.

➢ Take account of the value of other assets e.g. investment properties, stocks and shares etc.

- STEP 3: Determine what pension contributions are required in order to achieve your targeted level of retirement fund.

To help members understand what retirement fund they can achieve, we have highlighted different approaches to help members determine how they may wish to consider saving for retirement. In doing so members should also be aware of the income tax reliefs available on contributions made, investment growth and cash at retirement.

HOW MUCH CAN I AFFORD?

The following table shows the impact on pension income of contributing a fixed percentage of salary to a retirement fund at varying starting ages.

TABLE 1: PROJECTED PENSION FROM AGE 65 AS % OF FINAL SALARY Age of commencement										
		20	25	30	35	40	45	50	55	60
CONT AS % OF SALARY	5	9%	8%	7%	6%	5%	4%	3%	2%	1%
	10	19%	17%	14%	12%	10%	8%	6%	4%	2%
	15	28%	25%	21%	18%	15%	12%	9%	6%	3%
	20			28%	24%	20%	15%	11%	8%	4%
	25					24%	19%	14%	10%	5%
	30							17%	11%	6%
	35								13%	7%
	40									8%

Please note the pension projections shown in the above table are based on an investment return assumption as shown overleaf. The sensitivity of the projected pension at retirement to the investment return assumption is illustrated in the following table (where the contributions payable are 15% of salary):

PROJECTED PENSION FROM AGE 65 AS A % OF FINAL SALARY Age of commencement				
	25	35	45	55
+1% p.a.	30%	21%	13%	6%
Current Assumption	25%	18%	12%	6%
-1% p.a.	20%	15%	10%	5%