| | | | |
|---|---|---|---|
| **Client:** | Irish Life | **Keyword:** | Irish Life |
| **Source:** | Munster Express | **Page:** | 12 |
| **Date:** | 07/08/2018 | **Reach:** | 5389 |
| | | **Size:** | 359 |
| | | **Value:** | 1066.23 |



# A tax-free pension gift for the young just what they need

WITH JILL KERBY

Will your children or grandchildren enjoy financial security in their old age? Is there anything practical you can do, right now, to give them a leg up on the pension ladder?

As I have written many times before, the government is perfectly aware that there is a massive, growing pension problem in this country and have produced numerous reports over the past three decades that keep reaching the same 25 solution: the introduction of a soft-mandatory, auto-enrolment pension scheme for the private sector. It now claims that such a scheme will be in place in Ireland by 2023.

Whatever about their good intentions, I think the 2023 target date is over-optimistic. Workers, employers, unions, the Revenue Commissioners, pension companies, fund managers, administrators, trustees and regulators all have to be singing off the same proverbial hymn sheet before it will happen. The economy has to be in healthy, growth mode and vested interests have to be over-ruled.

Ireland is not unique. Other countries like Australia, New Zealand, Chile and more recently (but after about 12 years of planning) the UK, have dealt with met these challenges and introduced auto-enrolment schemes to ensure that all private workers are covered and will not be wholly reliant on the unsustainable state old age pension.

We'll be coming back to this pension impasse in future columns, but anyone waiting another five years for the possible introduction of a mandatory occupational pension is very foolish. Time, lots of it, is one of two essential ingredients in an orderly, affordable retirement. The other is the amount you/your employer contribute.

A recent Irish Life survey (reported here three weeks ago) showed that the average age that pensions are started is now 37, giving the worker a mere 28 years to help fund 20 years of retirement (from age 65.)

The reality is that most workers today will have a number of jobs over their lifetime with varying degrees of pension coverage, or none at all. Few will enjoy the consistent, steady, annual, tax deductible, low cost pension contributions that are needed to produce a decent retirement income by today's standards.

But there is a way to help give our young people (from age 18) a big pension leg-up. And that is via one of the few remaining tax-free opportunities still available (along with pensions and the Rent-a-Room scheme): the €3,000 capital acquisition (CAT) tax-exempt gift which is put into their first personal retirement savings account (PRSA).

A little background may be useful: anyone with €3,000 to spare can gift another person up to that amount every year and it doesn't matter what their relationship: they can be close relatives, friends of even complete strangers. The recipients get the gift entirely tax-free and these annual gifts are not taken into account in determining any lifetime AT liabilities.

This CAT-exemption is commonly used as succession planning device by older family members who want to give away their wealth tax-free when they believe they loved need it most.

In the case of pension funding, the €3,000 annual gift goes into the young person's PRSA because it will have fantastic, long term financial impact.

First, you don't need to have a job to set up a PRSA, but without taxable income you won't be able to claim pension income tax relief of 20% or 40%. However, once the young person does start working – and for many that isn't until age 24 or 25 after the complete third level studies - the gifted contributions in their PRSA can be offset against any income tax they do pay and that offsetting continues until the pension contributions are all used up.

Irish Life's recent pension report included a table that showed the difference between starting a pension at age 25 instead of at 35, 45, or 55. The starting salary (indexed at 3%) was €51k. Salary contributions were a consistent 11.4% and annual fund growth was a 4%.

The 25 year old retired at 65 with a gross fund worth nearly €463,000. The 35 year old with nearly €311,600; the 45 year old with c€187,00 and the 55 year old with just €84,470.

Irish Life told me that the 25 year old whose generous relative had put €3,000 into her PRSA for seven years (from age 18), could expect a gross pension fund at 65 of €563,500 instead of €463,000 and that was even before any investment growth over the seven years had been taken into account.

This is a great example of the practical pension / inheritance options that a proper fee-based financial adviser can recommend to both older, well-off relatives who want to help, and to every young worker.

Waiting for the government to provide solutions is not advised.

***Please send your letters and queries to jill@jillkerby.ie***