Understanding General Pension provision

Pension Series

What is a pension?

A pension is a long-term savings plan into which you can input a regular amount or lump sum amounts to build up a fund for your retirement.

Is there any law which protects pension schemes?

The Pensions Act 1990 and the Pensions (Amendment) Act 2002 were enacted to establish minimum standards for occupational pension schemes and to provide for proper supervision of such schemes. This act also established the Pensions Board (weblink) which carries out the supervision of schemes.

The amendments of 2002 also provide for new types of pension arrangements, Pension Retirement Savings Accounts (**PRSAs**).

What types of pensions are available?

There are 3 main types of pension plans:

- Employer pension plans (company pension plans)
- Personal Pension plans (Retirement Annuity Contract)
- Personal Retirement Savings Accounts (PRSAs)
- The State pension

Note: If your employer is offering a company pension plan, you should opt for this where possible. It is one of the best ways to save for your retirement as your employer also contributes to your pension [not PRSAs]

If you are unsure whether an employer pension plan is available, you can contact your local union representative or union official for further information.

Where can I find information about my pension scheme?

Under the Pensions Act, both trustees (a trustee in this context means an institution or group of people holding property on behalf of others in this case your pension) and employers are required to provide certain information to members of the pension scheme. As with all employment legislation, this is a MINIMUM requirement of the law. Trustees & employers are not prohibited from providing additional information and any information given should be in an accessible and easily understood format.

What information should I receive about my pension scheme?

Trustees (and your employer)should provide information to members about the operation of the scheme. Even though the day-to-day running of the scheme is usually delegated to a fund manager or pensions consultant, the trustees retain their responsibility for ensuring all information is readily available to members.

Employers are also required to provide details to trustees and members regarding the contributions to be made to the scheme.

Employer Pension Plans

Is an employer legally obliged to provide a pension plan?

There is no general obligation on an employer to provide a pension plan. However, employers in some sectors are obliged to provide a pension plan under the terms of a registered employment agreement REA. The best known instances are in construction and electrical contracting.

There is an obligation on each employer to give each employee ACCESS to a PRSA. However this is merely a payroll deduction facility.

What is an employer pension plan?

This is a pension plan which your employer sets up to provide pension benefits (regular pension payment and lump sum) on retirement for their employees. One of the key advantages of this type of plan is that both you and your employer make regular contributions to it which pays towards the cost of the benefit.

The rules of the pension plan are generally set up by the employer and the fund is usually established as a **trust**. Pension **trustees** are then appointed to look after it. Your contributions are automatically taken from your salary before your tax liability is calculated. Paying into a pension means that you automatically get tax relief as you don't pay tax on your pension contribution.

Personal Pension Plans [PPPs] & Personal Retirement Savings Accounts (PRSAs)

What is a personal pension plan and can anyone have one?

A personal pension plan is a pension policy which is managed by a life assurance company or investment bank. Anyone who has an income or is self-employed can buy one of these plans.

What is a personal retirement savings account (PRSAs)?

A PRSA is a more flexible type of pension and has different conditions than the Personal Pension Plan [PPP]. If you are 75 or under you can take out a PRSA and you don't have to be earning. Like the PPP, money can be paid in by regular monthly contributions or as lump sum payments.

One can be a member of an occupational pension scheme and also set up a personal pension too. However, it may not be possible to avail of the tax benefits in both situations

Operation of a pension fund

What is a trust?

If a pension scheme is set up as a trust, this means that money is set aside in a trust fund, separate to the employer's business to finance what benefits are to be paid to members and their families on retirement.

The reason that the scheme is separated from an employer's assets is to ensure that pension benefits can still be paid to beneficiaries, even if the business closes down.

It is a condition for approval by the Revenue Commissioners that an irrevocable trust is established. It means that the employer cannot revoke or set aside the trust or apply the fund to a different purpose or for an alternative objective that was not agreed to by the relevant parties in question.

What is a pension trustee?

As a pension is considered to be a trust (institution or group of people holding property on behalf of others), those who look after a pension are called trustees. Trustees are at the core of the system whereby the legal structures places them at the heart of the pension schemes. Trustees need to start asking questions and looking to their responsibilities in a meaningful way - what can go wrong and take the precautions before it is too late.

Trustees have a fiduciary duty to look after the assets of a pension scheme as if they are their own. The Pensions Board provides support and guidance to trustees. Meetings should be organised on a regular basis, the structure

Who can be a trustee?

Anyone can be a trustee once they are over 18 years of age and they meet certain criteria. There are restrictions on people becoming trustees

- where they are bankrupt
- have been convicted of an offence involving fraud or dishonesty, OR
- have committed offences under the Companies Act, restricting them from becoming involved in the formation or promotion of a company for a period of time,

What is the role of pension trustees?

Pension trustees have duties under trust law and the Pensions Acts, to carry out the trust according to its rules and procedures (**trust deed & rules**). They should also act in the best interest of the beneficiaries (those who expect to receive the pension benefit), act fairly, supervise those who have specific responsibilities for pension investment, not profit from the trust and ensure conflicts of interest are avoided.

The trustees DO NOT have powers of negotiation to alter any aspect of the trust and must only carry out the terms of the scheme as set out in the rules.

Their duties in terms of the operation of the trust include ensuring;

- it is registered with the Pensions Board
- contributions are correctly received
- proper investment of the scheme's resources [usually delegated to an investment/fund manager].

Who manages the pension fund?

Pension funds are usually administered by life assurance companies and investment firms who employ specialist fund managers.

Pension Contributions

Where do my pension contributions go?

The fund manager invests your contribution in a pension fund which can buy/sell assets such as property, bonds and cash deposits. Each investment fund has a different mix of these assets and the growth rates are dependent on the performance of these assets. Although a pension fund is expected to grow each year, the precise rate at which it grows is not known.

Do my pension contributions remain the same during my working life?

No, your provider (employer or assurance company) may increase your contribution in line with general price increases or inflation. This is called “indexation”. If you do not want them to increase your contribution you will need to inform them. Increasing your pension contributions means your pension fund will build up faster, but this may incur charges. You should check with your pension provider whether any charges apply.

Pension benefits

How much will my pension be when I retire?

This depends on whether your pension is a **defined contribution scheme**, or a defined benefit scheme. The **income you receive on retirement is dependent on the type of plan you have. There are 2 types of plan:**

Defined benefit. This is related to your final salary before you retire and your years of service with that employer. This plan allows contributors to predict final retirement income.

Defined contribution. This type of pension plan is not linked to final salary but on the value of the pension fund when you retire. The final value can only be estimated. Defined contribution schemes are also known as ‘money purchase schemes’. The employee’s direct benefit in the scheme is determined according to the scheme contributions by the employer in the circumstances.

The factors which influence the final figure include:

- The actual contributions paid by you and your employer
- The performance of the pension fund
- The fees and charges which the investment company applies.

To ensure you are aware of your final pension figure, it is advisable to read your annual pensions statement and review the contributions which you are making. Your union representative should also be in a position to provide you with information and advice on pensions.

Do I pay tax on my pension?

Pensions are taxable like all other forms of income but paying into a pension means that you automatically get tax relief as you don’t pay tax on your pension contribution. Pension contributions are tax deductible (within Revenue limits in certain circumstances) and are considered to be a very tax efficient way of planning for the future. In other words contributions paid to a pension scheme, PRSA or RAC will benefit from income tax relief at the highest rate of tax.

I have a number of questions about pensions. Who should I speak to?

Difficulties which arise in the area of pensions normally occur in three areas. These are:

- Insolvency of a company
- Failure by a company to pass on deducted pension contributions to the pension scheme administrator AND
- Procedures where a worker changes job.

These issues are regulated by the **Pensions Board** and the Pensions Ombudsman. There are additional procedures in the construction and electrical contracting industries. Any queries which arise in situations where an employer is insolvent should be raised with the Pensions Board. This body has also produced regulations which set out what happens to your pension when you change employers.

The Pensions Ombudsman deals with disputes between pension schemes and their members. Such disputes may include a failure by an employer to hand over pension contributions. The ombudsman takes a very serious view of breaches of this nature and has, on occasions appeared in court seeking to have employers committed to prison.

[Note: regarding Construction and electrical contracting

There are industry wide pension schemes in cooperation here and there is a legal obligation on employers to enrol their employees in the scheme, make a n employer's contribution and deduct an employees contribution and forward it to the scheme. The monitoring of compliance is carried out by the Construction industry monitoring agency CIMA in construction and by EPACE in electrical contracting.]

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