SPECIAL NEEDS *Pension*

Information booklet for parents who have a child with additional needs

Financial Wellbeing
SPECIAL NEEDS TRUST PLANNING

INTRODUCTION

For many parents, getting through their day-to-day challenges is more than enough. Planning for their retirement seems less important and a long way off, so they tend to put it to the back of their minds. However, you've probably not given it a thought but it is worth noting that you are in a unique situation when it comes to retirement.

For the majority of my families I help, I notice that there is generally only one parent contributing to a pension, but it is highly likely that there could be three people living off the pension *(parent, spouse and adult child with additional needs)*.

I feel that parents don't realise what is coming down the road at retirement time.

This is why I decided to write about pensions, as I feel parents need to become better informed to deal with this key area of their financial future. Otherwise, parents only have the guidance of Banks, Insurance Companies and Financial Advisors who don't really care if you have a child with additional needs or not. I am generalising but I find it true, all these people seem to care about is making the most they can get away with in charges, fees and confusing products.

REASONS FOR A PENSION

Here are my top 4 reasons why I think you should start or contribute more to your pension:

1. You may need an income for up to 30 years or more after you retire. Parents are living longer, which means you may be retired for up to a third of your life. That's why it's so important to have a pension that ensures that the money you earn during your working life lasts your whole life.
2. Your income could drop by almost 70% in retirement. When you retire, you would probably like to have the same standard of living. However, unless you put a pension plan in place, you will only have the State Pension to live on.
3. Qualifying for the State Pension can be difficult, in particular for Carers, and the age you can get access to it keeps getting pushed out. It used to be parents would get access at age 65 but this seems to be a moving goal post and best-case scenarios seems to suggest younger parents will be at least 68 or older before they will qualify for future State Pensions.
4. A pension provides you with the opportunity to take control of your financial future and can give you options when you are older. The better financially you are in retirement, the more assets you can leave to your family and most importantly the more assets that can be passed into a Trust for your child.

WHAT IS A PENSION?

A Pension is a long-term savings plan set up by you to save for your retirement. It is a tax efficient savings plan that has been designed to help parents build up a fund for their retirement in a flexible manner.

On retirement, the fund can be used in a number of different ways to meet your financial needs at that stage in your life. A pension is very flexible with a variety of options to suit you.

You can:

- increase or reduce your contribution amounts
- pay contributions monthly, quarterly, half yearly or yearly
- stop contributions and restart at a later date
- make lump sum payments into your pension at any time
- change the fund(s) that your contributions are invested in.

STATE PENSION

Before you ever investigate pensions, you need to understand the State Pensions first which should ensure you a basic level of income in retirement. You should not rely on the State Pension alone otherwise you will need to substantially cut back on your lifestyle in retirement if this is all you have to live off.

There are two State Pensions available to parents, the main one is called the State Pension Contribution and is paid to people from the age of 66 who have built up enough PRSI contributions or as we like to say in Cork "Me stamps boy!" The full payment is around €248 per week with extra amounts for dependants, i.e. qualified adult dependant and/or dependent children.

Because the State Pension Contribution is not means tested but based on having sufficient PRSI contribution, this can be an issue for Carers who had to stay out of the workplace for long periods of their career.

However, under the Homemaker's Scheme, parents can bridge this gap by claiming credits as a Carer for a child who has additional needs. Years spent out of the workforce looking after your child, are credited. Credits are awarded at the same rate as your last paid PRSI contribution and parents can get up to 20-years credit. In my experience this can work well if Carers return to part-time or full-time work when their children grow up.

If this is not possible then the Carers who are unable to return to work will probably not have sufficient PRSI contribution to gain access to the State Pension Contribution. The only option is to apply for the means-tested State Pension through your spouse or apply yourself for the State Pension Non-Contributory. If your means are under the set criteria then you may qualify for the full payment of around €237 per week with extra payments for dependants.

TWO TYPES OF PENSIONS

1. Define Benefit Pensions

Are provided by the employer and have the lowest risk, as you are not reliant on stock market performance. Typically, these types of pensions are provided to public servants' employees and promise to pay a lump sum on retirement and a regular pension, depending on how many years' service an employee has.

If parents have a shortfall in service, they may have the option to buy back years or pay Additional Voluntarily Contribution *(AVC)* to boost their final pension. Define Benefit Pensions also tend to have the added benefit of paying out for your spouse and child with additional needs when you pass away. Spouses may get up to half and children with additional needs can receive up to one-sixth of their parents' pension until they pass away.

2. Define Contribution Pensions

Are heavily reliant on stock market performance and how much you put into your pension over the years. Some employers may contribute to your Define Contribution Pension. This is a tax deduction for the employer and basically free money for you. There might be clauses such as you have to contribute a certain percentage of your salary and your employer will match your contribution. This allows you to build up a large pension pot because of the added employer's contribution and if you leave the company, you can take your full pension including your employer's contribution once you have over 2-years of contributions.

If your employer provides a pension then start there.

Other employees or self-employed parents are totally reliant on their own contribution and these type of pensions in general provide a much smaller pension when compared with Define Benefit Pensions or Employer Define Contribution Pensions. Parents who fall into this category have a lot more information to gather and need more regular reviews of their pension situation.

WHEN TO START A PENSION?

The industry will always put out slogans such as "it is never too early to start a pension." They will also show you tables and examples of the great benefits in starting a pension when you are really young.

As a parent of a child/children with additional needs knows, life doesn't follow a simple straight line. You might have high costs in sending your child to therapies or you have other financial pressures that need prioritising and starting contributing to a pension might need to be put on the back burner for a few more years.

This is life, so please don't beat yourself up about it. However, when the opportunity arises and you have more disposable income, then you have to focus on building up your pension.

UPSIDES OF A PENSION

The Government has put a range of incentives in place, giving you even more reasons to save into a pension.

Income Tax Relief

This is the number one reason why I encourage all parents to have a pension. If you pay tax then you should have a pension, as this will lower the amount of tax and transfer it into your pension fund.

If you are a higher rate taxpayer, for every €1 you save, you can benefit from up to 40% in tax relief. So, if you make an overall monthly contribution of €100, this means it will actually only cost you €60 after tax relief.

If you are a standard rate taxpayer, for every €1 you save, you can benefit from up to 20% in tax relief. Again, if you make an overall monthly contribution of €100, this means it will only cost you €80 after tax relief.

The Government has set certain limits on the percentage of earnings on which you can benefit from tax relief. The limits depend on your age and marginal rate of income. These limits only really apply to parents who are trying to maximise their yearly contribution and there is also a ceiling on the fund you can accumulate. For the majority of parents this is not an issue.

It is important to note that tax relief is not automatically granted. You must apply for it, and satisfy Revenue requirements. If you pay little to no tax because credits such as Incapacity Child Tax Credit minimises your tax liability, then the main reason for taking out a pension might not apply to you.

Get more advice because it might not make financial sense to pay into a pension right now if you don't pay tax.

Tax-Free Growth

Unlike other savings plans, your pension fund is allowed to grow without being subject to tax. You have to pay Deposit Interest Retention Tax of up to 41% on any interest earned on saving products and exit tax on any gains made on investments *(except State Saving products – again why I am such a fan of these saving products for parents)*. You pay 0% tax on any growth within your retirement fund. This means that you can benefit from any growth and income that your fund may earn until you draw down your retirement benefits.

Tax-Free Cash

On reaching retirement, you may be able to take up to 25% of your retirement fund as a tax-free lump sum, subject to a limit of €200,000. Even where the retirement lump sum is greater than €200,000, the next €300,000 is only taxed at the standard rate of income tax. Therefore, the retirement lump sum is an attractive option at retirement.

Maintain Your Entitlements

When saving through a pension, the money you accumulate in your pension fund does not count against you when applying for the majority of means-tested entitlements. If anything, it can help your access, as the money going into a pension can be deducted off your means-tested calculation for certain entitlements. Because you only gain access to the pension when you draw it down at retirement, the Department give you a break and ignores the fund as you are building it up.

DOWNSIDES TO A PENSION

The main downside of a pension is that parents are disappointed with the level of pension they get in retirement. They expect that their pension will give them a larger boost to their state pension. Unless parents have put away a substantial amount of money into their pension, then parents need to reduce their expectations.

There is also a risk that your pension fund could perform poorly and you may get back less than you put in. Thankfully this is rare enough when parents are getting good financial advice and monitoring their pension as they get closer to retirement.

When you take out a pension you will see lots of warning signs on the documentation. There is a reason for these warnings as pensions are not guaranteed, and fluctuate throughout the time you have a pension. You may read signs such as:

Warning: The value of your investment may go down as well as up.

Warning: This product may be affected by changes in currency exchange rates.

Warning: If you invest in this product you may lose some or all of the money you invest.

Warning: If you invest in this product you will not have access to your money until you retire.

HOW TO CHOOSE A FUND

There are thousands of funds to choose from as the industry tries to appeal to all customers preferences. The funds range from very low risk to very high risk funds designed to suit different types of investors. Typically but not always true, the higher risk funds will have a more volatile route. Advisors like to show parents graphs on how a fund has performed over the last 5/10 years but past performance is not a guarantee to future fund performance.

The reality is nobody actually knows which funds to choose as it is all a bit of a guessing game.

My advice is to stay with the main insurance companies which are: New Ireland, Zurich, Aviva and Irish Life and try stay with the mainstream products. The more complicated a pension fund is, the harder it will be to analyse, the more hidden charges can apply and the higher the chance that it could perform poorly over time.

RISK PROFILE

Before taking out a pension, your Financial Advisor will carry out a risk profile on you. This is a standard document with lots of questions for you to answer. The purpose of this risk profile is to assess your attitude to risk and narrow down your fund selection. The risk profiling is not a perfect system but will help you match your attitude to risk with funds in a similar profile.

After you have completed the survey, your Advisor will show you the options they believe will best suit you. Most funds are managed by a team of professional investment managers who try to outperform the markets. Your Advisor will give you more specific information when you are going through the application process of how your fund is made up with different stocks.

But always remember that the risk is on you, and so if you don't feel comfortable then I encourage parents to seek a second Advisor, to see if you feel more comfortable with their advice.

PENSION CHARGES

What is often hidden in pensions is the cost to having a pension. Your Advisor, Insurance Companies and Investment Managers all want to be paid for their time and expertise. None of us have an issue in this but the impact of these charges can have a dramatic impact on the size of your final pension fund.

The amount of commission your Advisor charges for arranging your pension will reflect the type of charges you will have on your pension. In plain English the more your Advisor earns in commission the higher the charges on your pension. This might be seen in your pension statement as commission, annual management charges, fund base charges, monthly fees, etc.

Always ask your Advisor to break down all the charges and feel free to call us to check if the pension charges are fair or excessive.

CLOSE TO RETIREMENT

Each year you will get a statement from the Insurance Company on how your pension performed. This is an ideal time to have an annual review on your pension to see if you are on track to building up a large enough retirement fund that can support your families' needs. I recommend more regular reviews and longer meetings when you are five years out from taking your pension.

Extra monitoring of your pension the closer you get to retirement makes good financial sense

Around five years before retirement is also the timeline where I would encourage parents to transition from high-risk funds into low-risk funds. This is to ensure if the markets happens to perform poorly then it will have little to no impact on your pension fund, as your portfolio should be made up of bonds and cash funds. This allows parents to maximise the growth in their pension at the early years and minimise the potential losses just before you take your retirement.

Another consideration for parents is reducing your hours in work as you come closer to retirement and utilising Carer's Benefit to subsidise your income. Remember, Carer's Benefit is not means tested but mainly based on your PRSI and reducing your working hours to 18.5 per week or less. You can potentially take Carer's Benefit for up to 104-weeks before you reach retirement age and receive around €220 per week. Again always feel free to contact us to discuss gaining access to Carer's Benefit.

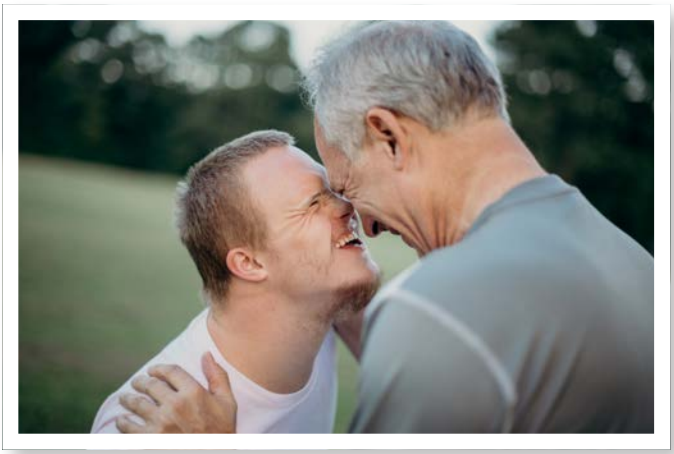
TIME TO RETIRE

In general, you can start to take your pension at any time between ages 60 and 75. There are some exceptions for retiring earlier than 60 such as ill health, but the earlier you take your pension benefits the less you will receive per year. When you retire, you can take the fund you have built up in a number of ways.

RETIREMENT LUMP SUM

When you come to retirement age then the first thing you are able to do is take up to 25% of the value of your fund as a lump sum at retirement. Currently, up to €200,000 can be taken tax free. Normally when parents retire they will maximise their lump sum, this makes logic sense and they can put the money into their bank account. This should really help set you up for retirement by allowing you to clear any debts you have so that in retirement you should be financial free.

When you are a parent of a child with additional needs then this might not work for you. If your family are in receipt of any means-tested payments such as Carers Allowance, then taking the maximum lump sum and putting it into your bank account might not work for your situation. Any assets such as money will form part of your means when you are in receipt of entitlements or intend to apply for means-tested entitlements. It might set your family back financially and cost you more money in the long run.



AFTER TAKING YOUR LUMP SUM

Once you have figured out if you are taking your full 25% lump sum or not then you potentially have three options to choose from with the remaining fund.

Option 1

You can use your entire fund to buy a pension *(also known as an annuity)*, which provides a regular secure income paid for the rest of your life. This is a straight forward option with no hidden future surprises. You don't have to worry about future stock market performance or have to make complex financial decision each year as you get older.

Option 2

You could invest your pension fund in an Approved Retirement Fund *(ARF)* which allows you to invest your fund as you see fit and draw down an income on either a regular or ad-hoc basis. This is a more riskier option than the annuity and lots of Financial Advisors encourage parents to go down this road. It will suit some parents, but just be aware that your Advisor will earn more commission, so buyer beware: is the advice really in your best interest.

If you take the second option of Approved Retirement Fund then you also run the risk of burning through your pension pot if you live long into retirement. On the flip side to this if you die and you haven't really used up the pension fund, then it can be passed on to your family but there will be tax implications.

Option 3

You can take your remaining fund as a taxable lump sum, subject to taxation at your marginal rate. Most parents rarely would benefit from this option unless they only had a small pension and taking the lump sum didn't trigger a tax bill.

PENSIONS & TAX

Very strict tax laws apply to all pensions as you fund your retirement and on how you draw your pension down in retirement. On a positive note, most parents don't pay any tax on their modest pensions, as the Government allow parents over 65 to earn €18,000 per year without paying any tax and this doubles up to €36,000 for couples. This would mean that if you are a couple over the age of 65 your pension and earned income is below the €36,000 each year then you wouldn't pay any tax at all.

DEATH & PENSIONS

If you die before any benefits have been taken, the pension fund may pass in its entirety to your estate free of income tax. Inheritance tax rules will apply in the normal way but again remember, there is no inheritance tax between spouses.

If you retire and you then should die after you have taken your pension benefits, different rules will apply, depending on how you took your pension in the first place. There are even options available to parents at retirement to ensure their pension continues for their spouse when they pass away.

CARERS & PENSIONS

Not all full-time stay-at-home Carers should take out a private pension. The reason I say this is that if you don't have income from work then it is highly likely that you will have little to no tax liability. As I mentioned earlier, if you are not paying tax then you will get very little financial benefit in having a pension.

It might make more financial sense for your spouse to increase their contribution to their pension, as if they were paying for two. I encourage at least one of the parents to build up a large pension pot through their working career and maximise their tax relief. It is so important that you have built up enough of a fund to enable you to have choices at retirement. This is easier said than done as it takes a great deal of investment into have a worthwhile pension.

ENTITLEMENTS & PENSIONS

Parent are pleasantly surprised when they retire to find out that because they are now in receipt of a pension which is lower than their salary, they now can access a range of entitlements that were not available to them during their working career. Some of my families might have never received Carer's Allowance due to the income they were receiving during their working career, and now qualify for this payment and other entitlements in retirement.

Parents who qualify for the State Pension can still qualify for Carer's Allowance in retirement. The only downside is that the Department of Social Protection do not allow anyone to qualify for two full social welfare payments. So the parent can end up with the full State Pension and half rate Carer's Allowance.

Financial Wellbeing

ALLAN'S MOTIVATION

I felt very compelled to write all I know on pensions for parents. I gained my pension qualifications in 2007 and I am regulated by the Central Bank of Ireland to advise parents on pensions.

I don't personally arrange pension for parents as I couldn't live with myself if I thought a parent with a child with additional needs took out a pension through me and the stock markets performed poorly and they lost money. I would find it very hard to sleep at night with that type of worry so I don't set up any pensions.

I see my role as being a source of independent advice that parents can always trust, as they know I don't have any hidden agenda. My sole aim is to help parents of children with additional needs make the best financial decisions for their family.

A PERSONAL NOTE FROM DOLORES

When it comes to financial stuff then I normally just switch off as much as I can, as it's not my forte. I find it quite difficult to understand and as my mind is just full of other stuff, I've never read the small print. Having a pension was never something I ever thought about. It was always a future worry not a "here and now" worry but as I get closer to retirement age it got me thinking.

As you know, being a Carer takes up nearly 100% of your time. My main focus was getting David the best therapists and treatment and just dealing with everyday challenges. In hindsight maybe just setting aside a small bit of head space to understand pensions or other financial areas would have benefited me in the long term.

I now encourage all Carers to take more control and even more so when it comes to their retirement.

Remember, it is your pension too. Just because the direct debit might be coming from your spouse's wage slip, don't for a second just think that is their thing.

I suggest when a pension review is happening or the documents come in the post then read it thoroughly. If you don't understand it then get the Advisor to explain it in plain English. Don't just rely on other people to make all the right choices and be more the driver of your life. Find out if you should start a pension or if your spouse's pension will be enough to allow you to keep being a Carer in later life.

You don't want to reach retirement age and then realise that you have no access to a pension because you dedicated your life to being a Carer. Hopefully with the right pension you, your spouse and your beautiful son or daughter will have a more enhanced life in retirement.

All Carers deserve to have some element of comfort as we get older.

About the Authors

DOLORES CROWLEY'S STORY

I have 3 children, David aged 25 and twins, Sean & Kate who are 21. David was born prematurely at 28 weeks and weighed in at just under 2lbs. As we were both in intensive care at different hospitals, I did not hold him until he was nearly 3 weeks old. He had suffered from a brain haemorrhage and his lungs had collapsed. His skin was transparent, he was not able to take a bottle, he had lost weight and was on a machine to help him breathe. Yet, when I eventually got to hold him, I thought he was the most beautiful baby I had ever seen in my life. My only wish was for him to breathe, as I held him. It didn't matter what the consultants/nurses/doctors told me, I just needed him to live.

I love David as I do all my children, but I have greater concerns for his future. I am involved in Financial Wellbeing because I feel I can understand parents, having been a Carer for my mum for over 30-years and now for David. I want to be there to give parents the knowledge that I have attained as a Carer.

DAVID CROWLEY'S STORY

I started working with Financial Wellbeing in October 2014. I ask people to sign up to our free monthly newsletter and get the names and the email address of the people we meet at different events. I add these names to the database and I proof read our newsletter to check for any spelling mistakes.

I attend all the workshops and I do the opening and closing formalities. I also organise the sat-nav so we can find the venues and I prepare the room for the workshop. I like to wear my Financial Wellbeing t-shirt. I like to go for a cup of tea with Allan and Dolores and discuss how the workshops went. I write articles about different things that I find interesting, I hope everyone likes these.

ALLAN CUTHBERT'S STORY

I am married to Lisa and we have two children, Zara is 17 and Ryan is 16. My niece Laura was born in 2000 with Down Syndrome and this was our family's first introduction into the special needs world. It was not until years later that I realised the financial pressures that is put on a family with a child who has additional needs. It shocked me how difficult it was for my brother Pierce, and other parents, to gather information and professional advice, not only on finance but on lots of aspects of their child's care.

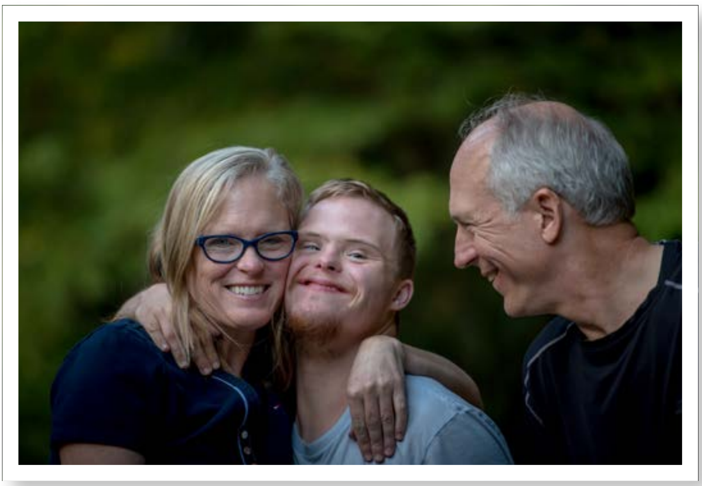
That was when I decided that I wanted to make a difference. I founded Financial Wellbeing in 2008, a company dedicated to Special Needs Trust Planning. It gives me great joy to help ease the financial worries of parents who are raising a child with additional needs. This is my way of helping parents who are constantly faced with difficult choices and challenges. I hope this booklet motivates you into creating a brighter and more secure future for your child.

YOUR CHILD'S FINANCIAL FUTURE IS SECURE IN OUR HANDS

We hope that this booklet will help parents to make better decisions when it comes to planning for their retirement. Please understand there are lots of other aspects that we haven't been able to cover here.

Feel free to contact us when you have a change in your circumstances, especially if you are planning to retire. We are constantly helping parents navigate this difficult time with so much complicated financial information to deal with. We can be on your side as you deal with the Department of Social Protection, Financial Advisors and Insurance Companies, to ensure you make the right decision for your family. We can be that extra source of information so you can make the right decisions that will have a positive impact on your family's future financial security.

Financial Wellbeing has made every effort to ensure the accuracy of the information it supplies, it will not take responsibility for any information which may be incorrect. Readers are advised to consult their solicitor, accountant and professional advisors before taking any steps on foot of information provided. This booklet is intended as a general guide and should not be regarded as a substitute for professional advice.



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