MadeSimple

Teacher Guide to Early Retirement

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Who is this guide for?

- Teachers who aim to retire early
- Teachers with shortages in service
- Teachers who wish to maximise their pension benefits

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Introduction

The Teacher Dream of Early Retirement

Early retirement is a key financial goal for many teachers we speak to. Especially, with the **Single Scheme members** (entered employment after 1st Jan 2013), they are looking at retirement in their late 60s. Most teachers do not see themselves teaching until that age and seek to **explore options for early retirement**. Furthermore, some teachers may have breaks in service or missing years which may reduce their pension.

Although teachers would like to retire early, they do not want to be short of cash in retirement. This inspired me, **Eamon Lynch**, teacher pension expert, to put together this detailed guide of what teachers can do to ensure a comfortable early retirement. Even if you are someone who wants to work for as long as they can, building extra pension benefits for retirement can be very rewarding. Therefore, no matter what your situation, is you are guaranteed to find something useful in this Guide.

MadeSimple.ie

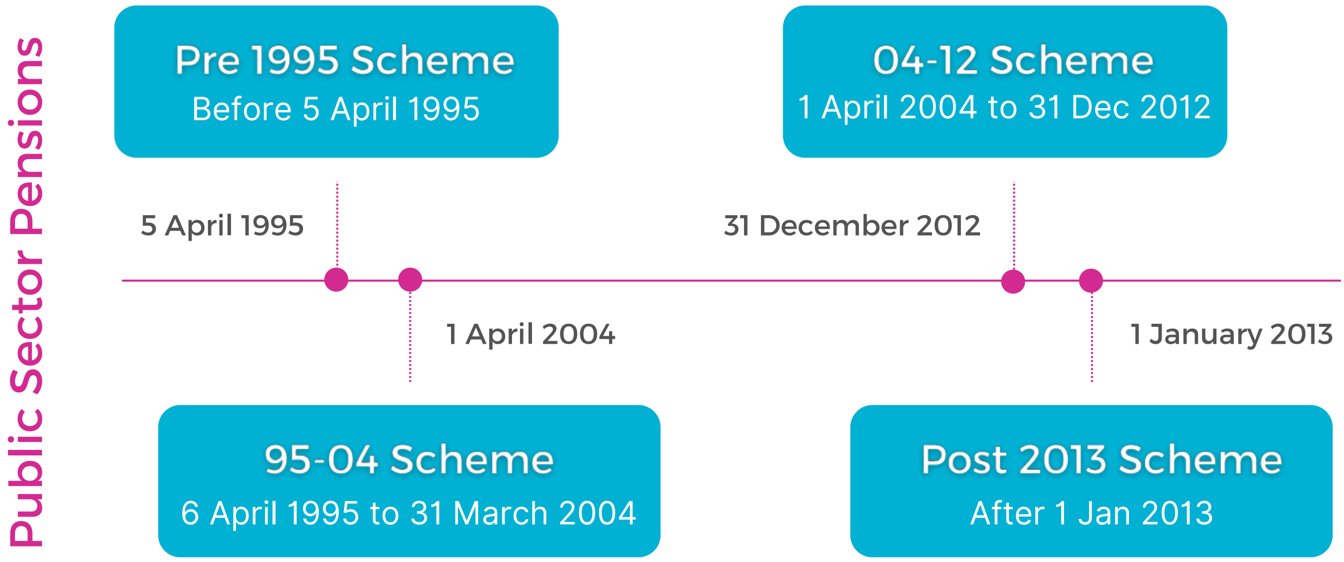
MadeSimple is a digital financial education and financial planning platform. Eamon Lynch founded MadeSimple to de jargon teacher pensions. He has become well-known in teaching circles for hosting monthly informational webinars to help teachers get to grips with their pension scheme benefits.

Eamon Lynch

What Happens If You Retire Early?

The main issues that can arise from early retirement are shortages in your Annual Pension and Tax Free Lump Sum. These shortages will depend on your pension scheme. There are four pension schemes based on when you became member of the pension scheme.

The figure below outlines the key dates when changes occurred to public sector pensions in Ireland.



Note that your scheme is determined by the date you became a member of the pension scheme.

If you did years of subbing and didn't join the pension scheme, your pension scheme will be determined by the date you actually joined the scheme.

If you are not sure which pension scheme you are in, your payslip will have that information.

Example:

Mary graduated in 1992. She did some subbing from 1992 to 1995 but did not join the pension scheme. She got a permanent position in 1996 and became a member of the pension scheme.

Therefore, Mary is in the 95-04 Pension scheme.

1.1 Pre 5 April 1995 Entrants

The normal retirement age for this scheme is 60 with 40 years of service. The Contributory State Pension is not a factor as this group pays Class D PRSI and will not be entitled to a Contributory State Pension.

Benefits at Retirement Calculation

Tax Free Cash	Annual Pension
Yrs Service x Salary x 3/80	Yrs Service x Salary x 1/80
35 x €72,989 x 3/80 €95,798	35 x €72,989 x 1/80 €1,224 pfn

QUICK TIPS

***Note:** You may still be able to secure a portion of the Contributory State Pension using your AVCs. Talk to us if you would like to explore this option.*

Option to Retire at 55 under 35/55 Rule

Teachers appointed before 1st April 2004 who have at least 35 years of service and want to retire from age 55 may do so with no actuarial reduction in their retirement benefits, i.e. if you have 35 years of service, you will be paid for 35 years of service. Credit for pre-service training of either 1 or 2 years is given in order to help teachers to reach the 35-year threshold for retirement.

However, such credits do not count as pensionable service, i.e. a teacher eligible for the maximum credit of 2 years would be able to retire after 33 years of service (having reached age 55).

Cost Neutral Early Retirement from Age 50

Teachers who began service before 1st April 2004 and who want to retire after age 50 and before age 60 (regardless of their years of service) may be able to retire under the Cost Neutral Early Retirement Scheme.

In such cases, retirement benefits will be reduced by a formula designed to reflect the additional cost to the state of paying these employees' pensions over a longer period. Table 1 below sets out the reduced % of normal benefits paid if you choose to retire early.

Table 1 Cost Neutral Early Retirement Entrants before 1st April 2004

Age	Pension will be reduced to	TFLS will be reduced to
50	62.4%	82.2%
51	65.1%	83.9%
52	67.9%	85.5%
53	71.0%	87.2%
54	74.3%	88.9%
55	77.8%	90.7%
56	81.6%	92.4%
57	85.7%	94.3%
58	90.1%	96.1%
59	94.8%	98.0%

QUICK TIP

Note: With the Cost Neutral Early Retirement, the pension benefits will be reduced because you will have less service years, less final salary and actuarial reduction. The 35/55 Rule can be a much better option.

Note: Although with 35/55 Rule there is no actuarial reduction, you will still be 5 years short in your pension and lump sum!

Table 2 Cost Neutral Early Retirement Entrants after 1st April 2004

Age	Pension will be reduced to	TFLS will be reduced to
55	58.2%	82.4%
56	61.1%	84.0%
57	64.1%	85.6%
58	67.4%	87.3%
59	71.0%	89.0%
60	74.8%	90.7%
61	79.0%	92.5%
62	83.6%	94.3%
63	88.5%	96.1%
64	94.0%	98.0%

QUICK TIP

Note: Early retirement before the NRA of 65 for this scheme will lead to a shortfall not just in the Annual Pension and Lump Sum, but also the Contributory State Pension!

Note: Retiring at 60 would mean a 5-year gap to the Supplementary pension!

1.2 6 April 1995 to 31 March 2004

The normal retirement age for this scheme is 60 with 40 years of service. This scheme is still a defined benefit salary scheme like the previous one with one major difference – it is integrated with the Contributory State Pension (CSP). This means that at retirement, you will receive a pension from the Department, plus a pension from the State.

Benefits at Retirement Calculation

Tax Free Cash	Annual Pension
Yrs Service x Salary x 3/80	Yrs x (Salary - 2xCSP) x 1/80
35 x €72,989 x 3/80 €95,798	35 x (€72,989 - 2x13,000) x 1/80 €790 pfn

Cost Neutral Early Retirement from Age 50 35/55 Rule from Age 55

Members of this pension scheme have the options to retire under the 35/55 Rule and Cost Neutral Early Retirement Scheme, same like the previous scheme. See Section 1.1 for 35/55 Rule and Cost Neutral Early Retirement.

However, the pension income for this scheme is made up of your Department pension and the CSP. Therefore, retiring before the Supplementary Pension has kicked in at 60, will lead of a CSP gap and also a reduced CSP at state retirement age.

Supplementary Pension from Age 60

The integration of this pension scheme with the State Pension creates a gap in income from NRA 60 to the state retirement age.

- Preserved Pension Age is 60, but State Pension age is from 66.
- Pension Scheme is integrated with State Pension.
- A supplementary pension may be paid to the retired member to bring the member to the equivalent pension that would have been payable under the pre ‘95 scheme.
- **The retired member must be unemployed.**

1.3 1 April 2004 to 31 Dec 2012

The normal retirement age for this scheme is 65 with 40 years of service to receive the full pension. This scheme is also integrated with the Contributory State Pension. Hence, there is a supplementary pension from the NRA of 65 to state pension age.

Benefits at Retirement Calculation

Tax Free Cash	Annual Pension
Yrs Service x Salary x 3/80	Yrs x (Salary - 2xCSP) x 1/80
35 x €72,989 x 3/80 €95,798	35 x (€72,989 - 2x13,000) x 1/80 €790 pfn

Cost Neutral Early Retirement from Age 55

Teachers in the 2004-2012 Scheme, and who want to retire after age 55 and before age 65 (regardless of their years of service) may be able to retire under the Cost Neutral Early Retirement Scheme.

In such cases, retirement benefits will be reduced by a formula designed to reflect the additional cost to the state of paying these employees' pensions over a longer period. See Table 2 for the actuarial adjustments applied to Cost Neutral Early Retirement.

Supplementary Pension from Age 65

- Preserved Pension Age is 65, but State Pension age is from 66-68.
- Pension Scheme is integrated with Social Welfare
- A supplementary pension may be paid to the retired member to bring the member to the equivalent pension that would have been payable under the previous pension scheme.
- **The retired member must be unemployed.**

Note: There is no 35/55 Early Retirement Rule for this scheme!

1.4 Post 1 Jan 2013

The scheme is fully integrated with the State Pension which means that your retirement age is your state pension retirement age. Therefore, there is no Supplementary Pension with Cost Neutral early retirement available from age 55. The "Single Scheme" is a career averaging scheme, and so significantly differs from previous arrangements.

Benefits at Retirement Calculation: How You Earn Your Pension

Tax Free Cash	Annual Pension
Accrued annually at 3.75% annual income (pensionable income x % work pattern)	First €48,455 x 0.58% + Excess x 1.25%

Age	Service	Salary	TFLS	Pension	Cost Neutral Reductions	Cost Neutral Reductions
24	1	€36,953	€1,386	€214		
25	2	€38,466	€1,442	€233		
48	25	€65,655	€2,462	€543	TFLS	Pension
55	32	€69,407	€2,603	€543	€65,224	€8,081
56	33	€69,407	€2,603	€543	€68,428	€8,692
57	34	€69,407	€2,603	€543	€70,953	€9,324
58	35	€69,407	€2,603	€543	€73,477	€9,978
59	36	€69,407	€2,603	€543	€76,002	€10,654
60	37	€69,407	€2,603	€543	€79,336	€11,506
61	38	€69,407	€2,603	€543	€81,887	€12,230
62	39	€69,407	€2,603	€543	€84,438	€13,141
63	40	€69,407	€2,603	€543	€86,988	€14,085
64	41	€69,407	€2,603	€543	€90,453	€15,061
65	42	€69,407	€2,603	€543	€93,029	€16,069
66	43	€69,407	€2,603	€543	€95,606	€17,111
67	44	€69,407	€2,603	€543	€98,183	€18,376
			€99,175	€19,141 p.a.		

2. How to Fund the Shortfall in Income?

In this guide to early teacher retirement, we looked at how retiring early can affect your income for the four teacher pension schemes. Although there are some differences, retiring early will reduce the pension income and TFLS.

With good financial planning, teachers can retire early:

- With the same income as they would have had if they retired in NRA
- With the same income as they are earning pre-retirement! Yes, it is possible!

Table 3 below summarises the key points teachers need to have in mind if they plan to retire early based on their pension scheme.

Table 3 Differences in Pension Schemes - Early Retirement

	Pre 1995	1995-2004	2004-2012	Post 2013
Retirement Age	60	60	65	State Pension Age
35/55 Rule	Yes	Yes	No	No
Cost Neutral Early Retirement	From age 50	From age 50	From age 55	From age 55
Integration with CSP	No	Yes	Yes	Yes
Supplementary Pension	No	Yes, from 60	Yes, from 65	No

There are three main options to fill the possible shortfall in retirement income:

- Notional Service Purchase (NSP)
- Programme for Competitiveness and Work (PCW)
- Additional Voluntary Contributions (AVCs)

We will look at each one of these options and in what situations they can be applied.

2.1 Notional Service Purchase

Notional Service Purchase (NSP) allows members to make up shortfalls in service. This option applies to all teacher pension schemes; however, it may be quite expensive. It can be used to make up for years that you did not work, i.e. breaks in service, unpaid leave, working abroad, job sharing, part-time hours, etc.

For NSP must have minimum 9yrs actual @ NRA

What is the cost, and the benefit, to buy 1 Year?

Pre 1995 Scheme

Current salary is €72,989.
Currently aged 56
Buying for NRA @ 60 : 31.2%

	Gross of Tax	Net of Tax
Cost of Buying	€22,773	€13,664
Value of TFLS	€2,737	€2,737
Additional Pension	€912	€689
Break Even		20 years

2004-2012 Integrated Scheme

Current salary is €50,000
Age 39 next birthday
Buying for NRA @ 65 : 29.8%

	Gross of Tax	Net of Tax
Cost of Buying	€14,900	€8,940
Value of TFLS	€1,875	€1,875
Additional Pension	€300	€227
Break Even		31 years

QUICK TIPS

***Note:** Notional service can be very expensive, and in most cases you will not recover your investment if you die before 90! Before you commit to this arrangement, it is recommended to speak to a financial advisor who can evaluate if this is the best option for you.*

2.2 Programme for Competitiveness & Work (PCW)

The PCW Agreement was introduced in 1997 for the purchase of actual service worked, but not recognised for pension purposes in secondary, community and comprehensive schools. PCW is suitable for purchase of substitute, part-time or temporary service in the Irish Public Service for entrants until 1st Jan 2013.

Furthermore, it allows for the purchase of service years for which a refund was received. PCW is calculated as 6% of the retirement salary which is very good value. If you qualify for PCW purchase, this is usually a very good option to increase your retirement income.

The difference between Notional Service and PCW is that Notional Service allows the purchase of service not worked, while PCW allows for purchase of service actually worked, but not pensioned.

- Only available for Secondary School Teachers
- Not available for New Entrants, Post 2013
- Allows for the purchase of pensionable service for work completed, but not pensioned
- Calculated at 6% of the retirement salary
- If previously received a refund, then it is the gross value of that refund plus compound interest

QUICK TIPS

Can a year be purchase under PCW where career break started mid-year?
No, a career break is not pensionable service, so it will have to be purchased under Notional Service.

What about service abroad?
No, PCW is only for service worked in Ireland.

Does it matter if PCW years are purchased earlier, is it cheaper?

Yes, it will be cheaper if your wage is not on top of scale yet. A teacher who has applied to purchase up-front, i.e. on the basis of pay at date of application, will have 2 months from the date of issue of the quotation. The other option is to purchase at retirement on the basis of pensionable remuneration at retirement.

2.3 Additional Voluntary Contributions (AVCs)

AVCs, as the name indicates, are additional contributions which a pension scheme member can opt to pay on top of an existing pension scheme. These contributions aid to supplement your lump sum and/or income when you retire. One of the main benefits of AVCs is their tax efficiency, especially for teachers who pay the higher rate tax of 40%.

What we find from our teacher clients is that many of them may have AVCs, but they are unclear how they work and what they will use them for. Some worry if they are paying enough, or maybe even too much into their AVCs.

How do AVCs work?

Your AVC contribution **€100** - You get tax relief **€40** = Actual cost to you **€60**

*Assuming 40% income tax relief on a regular contribution of €100. If you receive tax relief at 20% then €100 in your account will cost, you €80. Assuming there is no contribution charge on a regular premium payment - please check your Scheme to confirm actual charges. If your contributions are not taken directly from salary, then you will need to file a tax return to claim the tax relief.

How Can AVCs be Used?

- Top-up Tax Free Sum – long/short service and non-pensionable SEC/old Acting Up role
- Notional Service, PCW buybacks
- Guaranteed pension for life – Annuity
- Flexible drawdown of fund - ARF
- Qualify for Irish Contributory State Pension benefit (Class D PRSI)

Last Minute AVCs?

Example:

Breda earns €80,000 and is due to retire in the next couple of years.

1. Possible TFCS top up = €15,000
2. Breda Invests €15,000 in an AVC
3. Claims back from Revenue 40%
4. Tax relief of €5,775
5. At Retirement, the €15,000 is withdrawn as part of the TFLS

Gain for Breda = €5,775

QUICK TIPS

Note: *AVCs are invested in funds, and they also incur management charges. Your financial advisor will compare different funds and match them to your attitude to investment risk. The value of your investment may go down as well as up; however, in the long-term investments tend to go up.*

3. Planning for Retirement

Ideally, planning for retirement should start from the first day you start teaching!

The three basic questions of financial planning which are incorporated in the MadeSimple Pension & Benefits Review:

1. What happens when I get to retirement?
2. What happens if I get ill along the way?
3. What happens if I die before retirement?

Figure 1. (Early) Retirement Planning Steps

4. Case Studies

4.1 Early Retirement Planning, Pre 1995 Pension Scheme Member

Breda was born on 1/9/1970. She started teaching on 1/9/94 and currently earns €72,989. In 2020, when Breda was 50 years old, she started thinking about retirement. She would like to keep her living standard the same in retirement, so she sought advice how much she needs to start putting away and when is the earliest she can retire.

Spending Income Now vs. Retirement

- Breda would like to retire at 57 under the 35/55 Rule, when CNER does not apply
- Breda earns €2,798 pfn gross, €1,650 net after tax and deductions
- She has a mortgage of €225 pfn which will be cleared at 57
- She saves €250 pfn in the Credit Union
- **Her actual income left to spend Now is €1,175 pfn**
- Her pension at 57 will be €1,045 net pfn
- **In Retirement, she will have a shortfall of spending money of €130 net pfn**

Saving for the Shortfall

If she wants to make up for the shortfall for 20 years (until Age 77)
She will need a pot of €91,000 (AVC)
She has just 7 years to save it!

If she saves the €250 from the Credit Union into an AVC for 7 years
and adds €50 pfn to the €250, she will achieve her goal!

***Note:** Breda will have to put away only €50 extra per fortnight for the last 7 years of her career in order to achieve her goal of retiring at 57 with the same spending income as when she was working.*

4.2 Early Retirement Planning, 04-12 Pension Scheme Member

Marie started teaching when she was 24 and joined the 04-12 pension scheme. She has 15 years service now and earns €59,502 per annum. Take home pay €1,450 pfn.

Marie would like to retire at 60, but wants to have the same amount of money to spend at retirement.

Spending Income Now vs. Retirement

- Retires at 60 under Cost Neutral Early Retirement (74.8% reduction)
- Marie earns €59,502 pa gross, €1,450 net after tax and deductions
- Paying her mortgage down by €325 pfn to clear it by 60
- Saves €200 pfn into the Credit Union
- **Her actual income left to spend Now is €925 pfn**
- Her pension at 60, €433 net pfn, after 65, €433 + Supplementary/CSP (€806)
- **In Retirement, there will be a shortfall of spending income of €492 net pfa before 60**

Saving for the Shortfall

Marie will need a pot of €141,350 (AVC)

Saves the €200 from the Credit Union into an AVC
Taxman adds €80 = €280 pfn
Saves half of all future pay increase into the AVC (€5,795 pa)

At age 60, she will have a fund of €193,000 available.
Enough to fund the State Pension shortfall and retire comfortably.

Note: *Marie's spending income is calculated at the time when she has 15 years service. She will be putting away half of her future pay increases towards her retirement. However, she will still have half to spend. So her spending income is not going to suffer while putting money away for retirement.*

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