A SIMPLE GUIDE TO PENSIONS

MAPFRE | MSV Life

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DID YOU KNOW...

According to UN statistics, Malta is expected to be the country with the 9th highest life expectancy in the world in 2050, with people expected to live up to age 84!

In 2100, the average Maltese person will be expected to live up to age 90, placing 4th!!

From 2150 onwards, Malta will rank 2nd in the world, with life expectancy ranging from 95 to 105!!!

ABOUT US

MORE THAN JUST LIFE INSURANCE...

MAPFRE MSV Life is Malta's leading provider of life insurance protection, long term savings and retirement planning solutions. We are committed to providing a comprehensive range of high quality products and services and in fostering mutually beneficial relationships with our customers, whom we keep at the core of our business philosophy.

MAPFRE MSV Life was formed in 1994 and is jointly owned by Bank of Valletta Plc. and MAPFRE Middlesea Plc. As at 31 December 2015, MAPFRE MSV Life had more than 91,000 customers, with more than 102,000 policies. Total funds under management amounted to €1.7bn.

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WHAT IS A PENSION?

Your pension is the money you will live on when you retire, so saving for your pension is one of the most important investments you will ever make.

Pensions can normally be paid from one or more of three different sources. These are sometimes referred to as the Three Pillars:

Pillar 1 - The State Pension

Designed to provide all members of society with a basic standard of living. Financed through your Social Security Contributions.

Pillar 2 - Employer's Pension Schemes

An arrangement between employers and staff where savings are made into a pension fund set up for the employee's benefit. Payment into these schemes are normally voluntary for both employer and employee.

Pillar 3 - Personal Pensions

Private voluntary savings which individuals may choose to make to enhance their income in retirement. Designed to help you achieve that higher standard of living you deserve when you retire.

What is available in Malta?

In Malta we currently have the State Pension with very few employers offering employee pension schemes. Personal Pensions are also available with valuable tax benefits.

Why do I need a pension?

We all need money to live on when we retire, and the amount needed will depend on what you would like to do during your retirement years. Where will you get sufficient income to last you the rest of your lifetime? Putting money aside for retirement should be one of the biggest investments you make, maybe even bigger than buying your home.

YOUR STATE PENSION

How much will I receive?

The most common State Pension benefit (Pillar I) is the Two-Thirds Pension, which pays a pension equivalent to two thirds of your salary, up to a maximum amount as shown below:

Maximum Pensionable Income for 2018 (MPI)			
Year of Birth	**Maximum Pensionable Income**	**Maximum 2/3rds Pension p.a.**	**Weekly Pension**
1962 or later	€23,702	€15,801	€304

If you earn less than the Maximum Pensionable Income then your Two-Thirds Pension is simply two-thirds of your salary, i.e. if you earned €15,000 as a salary and were entitled to the maximum pension you would receive €10,000p.a. or €192 per week.

If your salary is higher than the Maximum Pensionable Income (MPI), then your state pension is capped at two thirds of the MPI.

The Two-Thirds Pension is available to all eligible persons who have paid enough social security contributions when they reach state retirement age.

When will I receive my State Pension?

The age at when you can receive your State Pension is increasing, depending on your date of birth:

Year of Birth	Age at Retirement
Between 1952 and 1955	62 years
Between 1956 and 1958	63 years
Between 1959 and 1961	64 years
Born during 1962 or later	65 years

Interesting Fact

The number of those aged 65 was equivalent to 41% of the Maltese working population in 2013. This means that there were 2.5 **employed persons** contributing to each retiree's State Pension.

In 2060 this is expected to increase to 62% - that is, there will be less than 2 employed persons contributing to each retiree's State Pension!

Source: NSO Demographic Review 2013

How do State Pension Benefits work?

State Pensions are based on a Pay As You Go system which means that part of what you pay in Social Security Contributions today is used to provide a pension to those already retired. The problem with this system is that the number of people paying into the Social Security "pot" is getting smaller and smaller compared to those who are retired and are receiving pensions from it.

This means that in order to keep the current pension system going, employees will need to contribute more, and/or retirees will have to receive less pension. This is where personal pensions help to make a difference.

Guaranteed National Minimum Pension (GNMP)

The Guaranteed National Minimum Pension is the least amount of State Pension one can expect to receive if you were born in or after 1962. In 2016, the GNMP was set at €39.09 per week.

To find out what your projected level of state pension will be, you can use our online retirement planning tool at www.msvlife.com.

HOW MUCH DO YOU NEED?

How much will I need at Retirement?

Of course, most of us would not like to live on the bare minimum when we retire, particularly after working hard for potentially 45 years! Most people would want to at least enjoy the same standard of living we had whilst earning a salary. But what level of pension income will we need in order to do so?

As a general rule of thumb two-thirds of your salary should be sufficient to provide you with the same standard of living, considering that by retirement you will hopefully have repaid your home loan and any expenses related to work will stop.

If you are not going to receive the maximum State Pension, and/or your salary is greater than the maximum pensionable income, then you will not receive two-thirds of your salary as a pension and might not have enough funds to support your desired lifestyle.

The interactive Retirement Planning Tool on our website can help you calculate your personal shortfall and also calculates the amount we would recommend you start saving in order to make up for it. Visit www.msvlife.com.

How much will I need to save today?

That all depends on what savings you already have and what income you would like to provide for in retirement. However, as an example, consider Mary who is 25 years old and earning €25,000p.a. Let's assume that she would like two-thirds of her salary as a pension when she retires.

Because she is earning more than the Maximum Pensionable Income, her State Pension will eventually represent just 58% of her salary and therefore will not give her the full two-thirds she is looking for.

In order to make up for this shortfall we have calculated through our Retirement Planning Tool that she will need a pension fund at age 65 of €68,000. In order to achieve this she would need to start saving approximately €50 per month (which is approximately 2% of her current salary).

For more information on the maths behind this please visit our Retirement Planning Tool, or Meet Mary on our Facebook Page.

We would always recommend that you seek advice from a qualified Intermediary before starting any long term savings plans.

PERSONAL RETIREMENT SCHEMES

If your expected State Pension is unlikely to stretch far enough to reach your retirement objectives then you need to think about saving something for yourself.

SAVINGS CAN TAKE MANY FORMS BUT THE MOST IMPORTANT RULE IS TO START SAVING SOMETHING AS SOON AS POSSIBLE.

Legislation introduced in 2015 introduced incentives for you to save into a Personal Pension Plan.

Saving in an approved personal pension plan is the most tax-efficient way to save for your retirement, and could make a big difference to your lifestyle in retirement. A personal pension plan is your own private scheme that you can set up with an authorised provider and contribute to on a regular basis.

TAX BENEFITS

Contributions towards your Personal Pension Plan are eligible for a 25% tax credit, up to a maximum credit of €500 per year for individuals, and €1000 per couple.

You choose where your savings are invested, and can access the benefits between the ages of 50 and 75. Under current rules you will be able to take up to 30% as a tax-free cash lump sum with the remainder being used to provide an income for life.

A PRACTICAL EXAMPLE

A 25-year old saving €200 of her salary each month, equivalent to €2,400 in a year, will be eligible for a tax credit of 25% on the first €2,000. She will therefore receive a credit against her tax due of €500 each year (€2,000 x 25% = €500).

By the time she is 65, her total contributions after receiving the tax credits would have been €76,000. Assuming a 5% net return on her savings (after charges) she will have accumulated a pension fund of €306,476, which will be used to provide her with a pension for life.

She will have received tax credits of €20,000 over the 40 years. If these credits were also added to her Retirement Scheme then her pot will have increased by another €63,849 (at 5% net growth), which means that she will have more income at retirement to enjoy!


THE POWER OF
SAVING EARLY

You've heard it over and over, and deep down you know it's true – saving and doing so as soon as possible can make a huge difference to your future well-being. It can be mathematically proven that smaller investments made earlier in life will yield much greater returns than larger investments made later on, even if these are made over a longer period.

This can be illustrated in a simple short story.

Twin brothers, Alex and Robert, are 22 years old and are discussing their savings for retirement. Alex decides to start saving €150 each month, whereas Robert thinks it's too early for him to start doing so.

Flash forward 12 years to when the twins are 34 years old: Unfortunately, Alex is unable to commit any further savings into his scheme because of family commitments, but will leave the accumulated amount invested. On the other hand, Robert has now started earning a decent salary and has decided to start saving €150 each month, which he continues to do for the next 31 years.

By the time they are aged 65... Alex paid in €21,600 over 12 years, then stopped making payments; however the money continued to be invested over the next 31 years. Robert started saving 12 years after Alex, but paid in €55,800 (€34,200 more than Alex).

Believe it or not, although Alex paid in much less than Robert, both brothers would have accumulated approximately the same amount of €130,000 by the time they are aged 65 (assuming net returns of 5%).

HOW WE CAN HELP YOU...

Personal Pensions Plans are a simple and flexible solution to save for your retirement. Payments made into these plans can qualify for tax credits of up to €150.

You can save from just €40 a month to supplement your state pension when you stop working.

If your circumstances change, you can change the amount you save, or take a break from saving altogether.

You can select to save in:

- With Profits Fund - a secure, tax efficient investment with capital guarantees;
- a range of professionally managed funds are available, which give you access to a variety of investments with greater potential returns, as may suit your needs.

You will be able to access your pension between the ages of 50 and 75, at which time you can choose to receive 30% of the value as a tax free cash lump sum. The remaining 70% must be used to provide you with a regular income (example: a monthly pension).

HOW TO CONTACT US

If you would like more information about pensions and retirement planning solutions contact MAPFRE MSV Life on freephone 8007 2220 or visit our website at www.msvlife.com. You may also call at any branch of Bank of Valletta or APS Bank, or contact your Insurance Broker or any of our Tied Insurance Intermediaries.

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