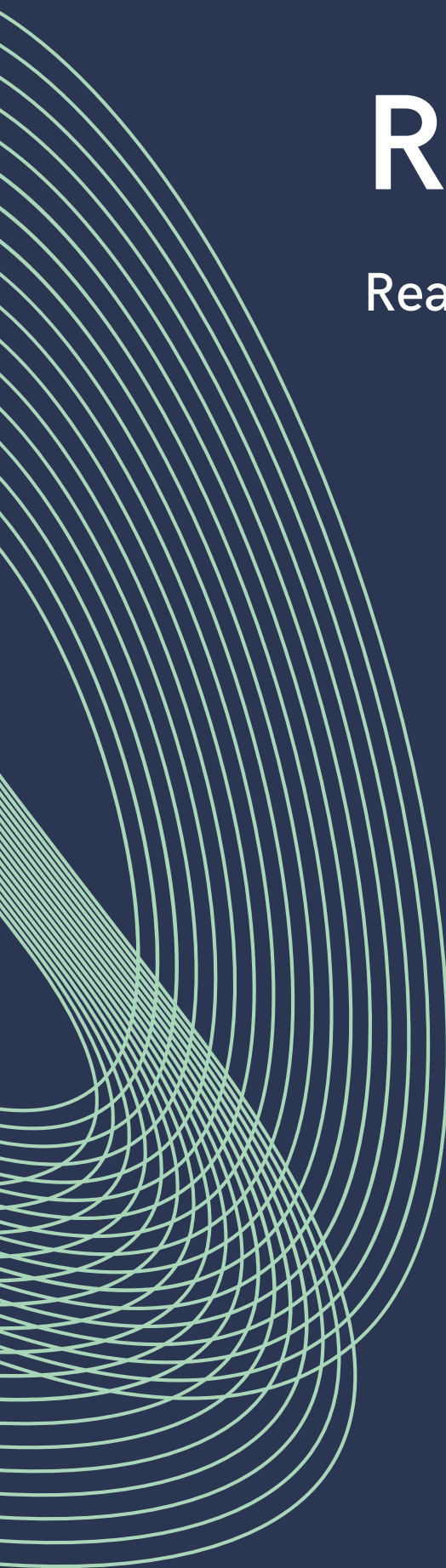


MARCH 2022



RETIREMENT

Reaping what you sow



Investing for retirement now is the most direct way of providing for your future income. The greater the contributions now, the greater the income in retirement. This on its own should be a strong motivator towards maximizing one’s pensions investment.

Seniors are oftentimes at the greatest risk of hardship. Given this, governments across the world want their citizens to invest more towards retirement; hence Governments incentivize pensions investments through various tax benefits.

In Jamaica, there is a tax-deferral on a maximum of 20% of an individual’s annual remuneration for contributions to an employer-sponsored superannuation fund or an approved retirement scheme in any given year. This includes the employee’s contribution as well as the contribution of the employer, where applicable. Employees are not limited to their basic contributions and are encouraged to make voluntary contributions once the total combined contributions by both the employer and employee do not exceed 20% of the employee’s annual pensionable salary. Given the foregoing, it is in your best interest as an employee to contribute your maximum allowable percentage towards retirement, as this will increase the benefits associated with pension investment.

An individual will pay less in taxes, the more they increase their pension contribution. The table below shows the differences in income tax liability at different contribution levels.

Table Showing Differences in Annual Income Tax Liability with Varied Contribution Levels

Annual Income (\$)	Tax Liability at 0% Contribution (\$)	Tax Liability at 10% Contribution (\$)	Tax Liability at 15% Contribution (\$)	Tax Liability at 20% Contribution (\$)
3,000,000.00	355,288.50	280,288.50	242,788.50	205,288.50
5,000,000.00	855,288.50	730,288.50	667,788.50	605,288.50
8,000,000.00	1,701,350.99	1,461,350.99	1,341,350.99	1,221,350.99

You should also note that the reduction in your tax liability, also leads to a reduction in the amount you pay towards education tax.

Pensioners also enjoy tax exemptions in addition to the general income tax threshold. The government provides a tax exemption of \$80,000 per annum for persons who retire before age 55 and receive income from an approved pension plan. This exemption applies only to income received from the pension plan. At 55 years and older, the aforementioned tax exemption applies to any source of income. An additional age relief exemption of \$80,000 per annum is also accessible to pensioners upon reaching age 65.

However, there's more.

Retirement savings are typically invested in a wide range of assets. These assets are able to grow relatively quickly since the investment gains made by pension plans are also tax-deferred. In other words, if the financial securities purchased today with your \$20,000 retirement savings, grow to a value of \$25,000 by the end of the year, your \$5,000 gain will not be subject to taxation in that year. So, not only are the funds that are put towards retirement tax-deferred, but the gains on the investments purchased with the funds, are also tax-deferred. This means that the taxes are levied only upon withdrawal of the funds in retirement, if applicable.

Maximizing voluntary contributions is therefore one of the best approaches for persons who want to maintain a good standard of living in retirement. How do you envision your day-to-day life after you retire? Will you be taking frequent leisure trips with family and/or friends? Will you be able to afford to tick some of the most exciting items off your bucket list? The answers will depend largely on the size of the monthly contributions you make to your pension fund. Additionally, due to the compounding effect of retirement savings, it is also critical for employees to start saving for retirement as early as possible. Once you are receiving an income, it can never be too early to start investing for retirement. The key to financial security in retirement is therefore two-fold: Start early and sow generously.

Remember, you owe it to yourself to start investing towards a tomorrow you actually want to live. Your future self will thank you for it!