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The Changing Pension Landscape

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

Warning: Past performance is not a reliable guide to future performance.

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 any access to your money until you receive your superannuation benefits.

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Agenda

1. Overview of the Pension Landscape
2. Your Pension Scheme - Superannuation
3. Notional Service Purchase Scheme (NSP)
4. AVCs, PRSAs and Retirement Savings

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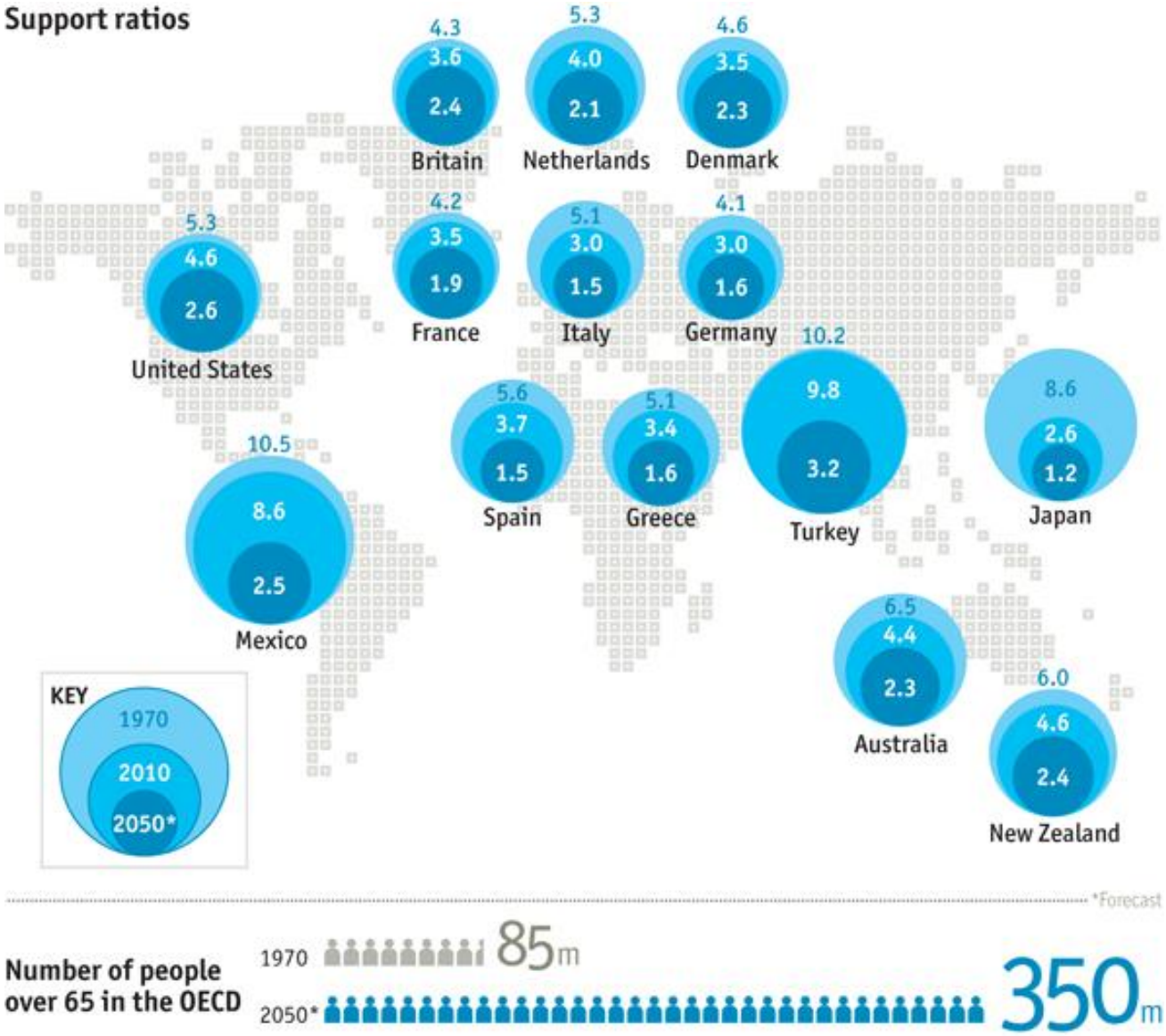
1. Overview of The Pension Landscape

The need for pension planning is greater than ever.

Source: The Economist – 07.04.11



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People Live Longer

In the USA, if a married couple both retire at 65, there's a 50% chance one will live to 90+

longevity

↓

increased health costs

↓

additional pressure on health care services

↓

greater need for private health care nursing homes

Source: The Economist – 07.04.11

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People living longer in retirement

Source: The Economist – 07.04.11

1950: 7.2 people aged 20-64
for every 1 person over 65

1990: 5:1

2012: 3.5:1

2050: 1.8:1

*"Ireland's numbers in retirement will double before 2040 to over 1m people with the biggest increase in the over 85s age group"**

**Source – Department of Health*

In other words, every couple will be supporting a pensioner

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CSO Population projections

	2011	2021	2031	2041
Over 65	535,716	769,484	1,060,496	1,396,585
% of population	11.4%	14.1%	18.0%	22.5%
Over 80	130,598	189,051	311,312	457,962
% of population	2.8%	3.5%	5.3%	7.3%
Dependency ratio (popn 65+/popn 18-64)	0.18	0.23	0.30	0.38
Inverse of the dependency ratio	5.7	4.4	3.3	2.6

Source: The Economist – 07.04.11

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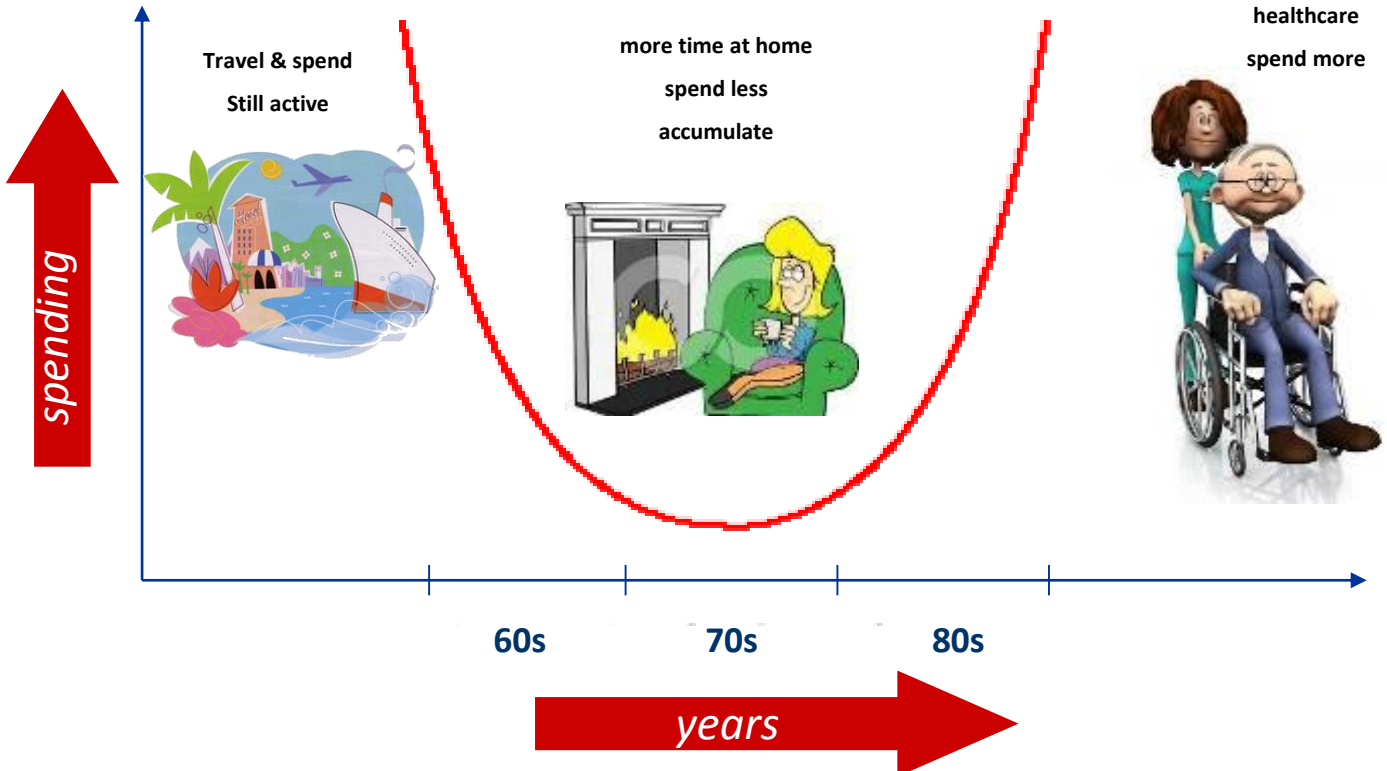
Spending in Retirement

In retirement, people's spending profile is U-Shaped



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Defined Benefit Schemes

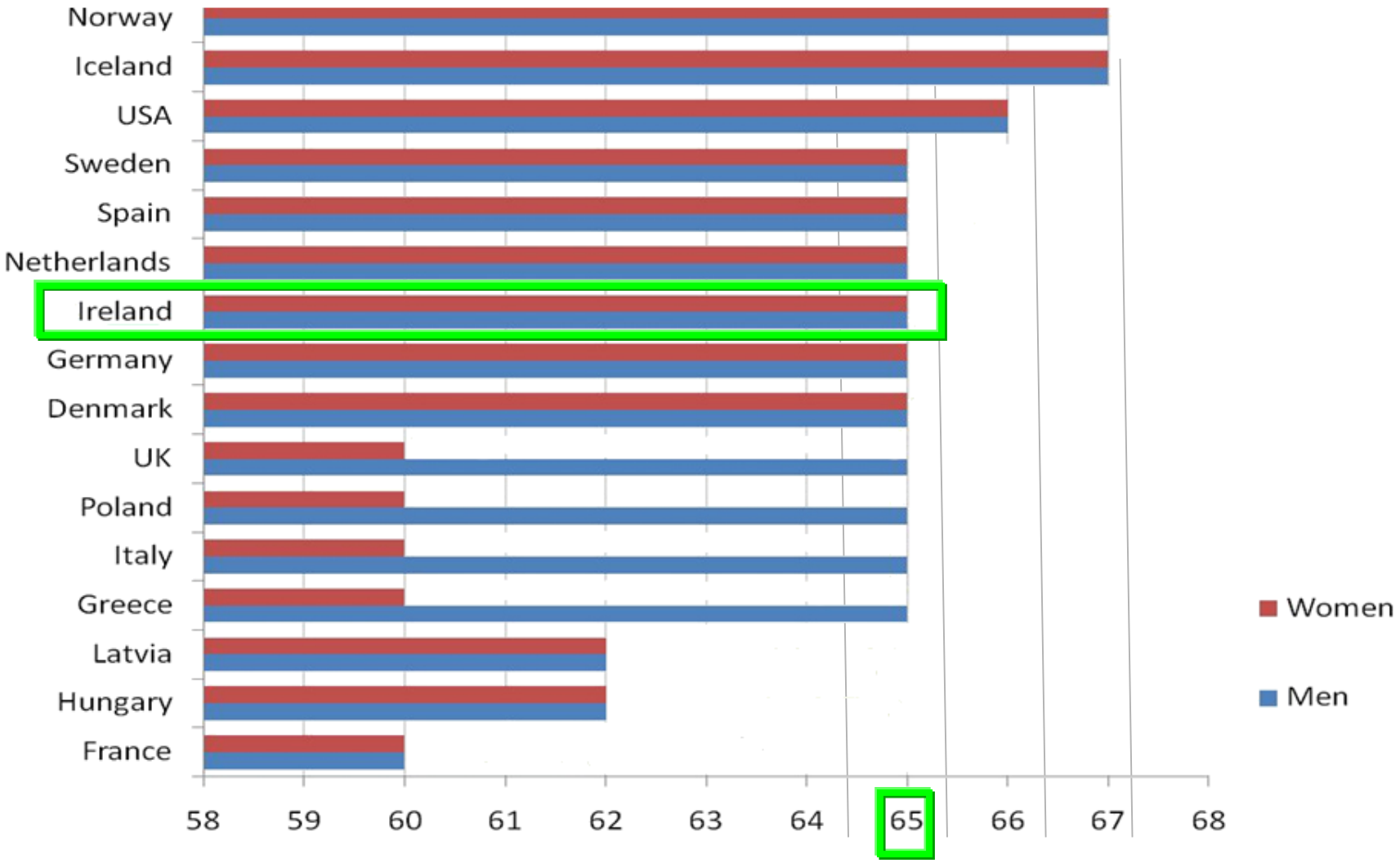
Governments and companies and getting more and more stretched to offer and maintain DB Schemes.

They are looking to reduce cost or burden by:

- Raising taxes for existing workers
- Current generation of workers fund more to pension
- Raise retirement age
- Halt practice of early retirement (cost neutral)
- Auto-enrolment – compulsory for everyone to pay into a pension
- Link retirement age to longevity.

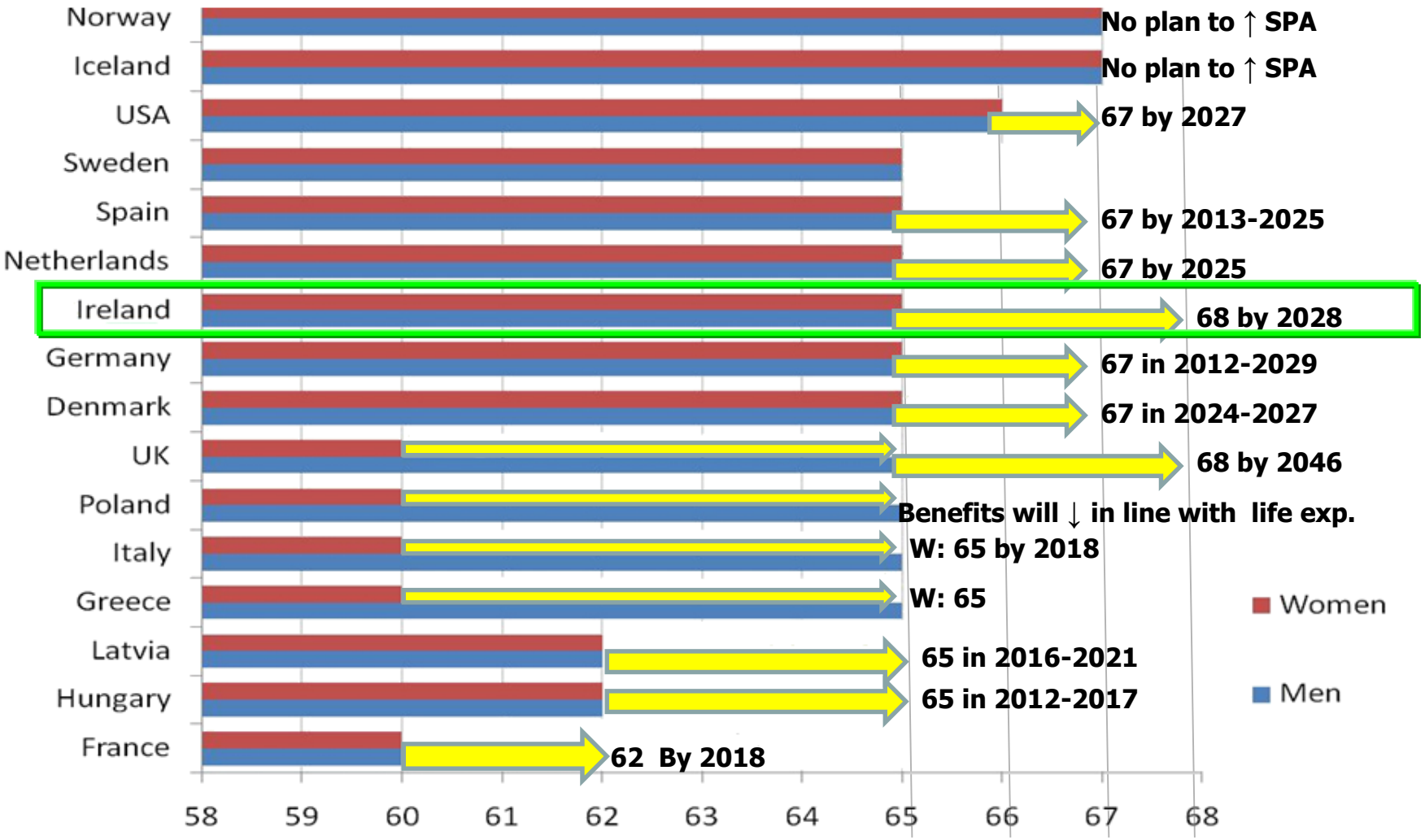
Current Retirement Dates

…so what is being done?



Proposed Retirement Dates

…so what is being done?



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"The rich will always have a comfortable retirement, the poor will be supported by the state. Those in the middle will have to fend for themselves and make adequate provisions"

"Young people are often unwilling or unable to consider retirement. It is difficult to defer instant gratification…..they need to be encouraged or nudged"

"Never underestimate the value of compound interest…..start early and its much more affordable"

2. Your Pension Scheme - Superannuation

4 different Pension Schemes in the Public Sector

Which one applies to me?

1. **Pre 1995**
2. **1995 to 2004**
3. **2004 to 2012**
4. **2013 +**

What's important when working out my pension?

- Starting Dates & re-entry dates
- Service History
- Final Salary (except for 2013 + Scheme)
- Relevance of Social Welfare in your pension.

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Benefits payable from your Superannuation Scheme

Contribution level of 6.5%

Pension

**Taxed &
Paid for Life**

Lump Sum

**Tax-Free &
Paid Once**

**Spouse &
Child
Benefit**

Payable on Death

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How do I calculate my Pensionable Entitlements?

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D1 PRSI Staff

Pre 1995

Officers Modified PRSI

Lump Sum

Salary
X
Years' service
X
3/80ths

Pension

Years' service
x
1/80

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D1 PRSI Staff

Pre 1995

Example

Officers Modified PRSI

Lump Sum

€60,000
x
40
X
3/80

€90,000

Pension

€60,000
x
40
x
1/80

€30,000 p.a.

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A1 PRSI Staff

'95-'04 & Post April '04

Class A
Full PRSI

Lump Sum

Salary
X
Years' service
X
3/80^{ths}

Pension

Years' service x 1/200th x (CSP* x 3.333)
+
Years service X 1/80th
x
(Salary – (CSP x 3.333))

*CSP – Contributory State Pension.

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A1 PRSI Staff

'95-'04 & Post April '04

Class A
Full PRSI

Lump Sum

€60,000
x
40 Yrs
x
3/80ths

€90,000

Pension

40 x 1/200th x (12,017* x 3.333): €8,011
+
40 X 1/80th
x
(60,000 – (12,017 x 3.333)): €9,973

€ 17, 984 p.a. **

*CSP – Contributory State Pension.
** Eligibility for CSP €12,017 (or Supplementary pension if retirement before age 66) on top of employer pension.

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New Pension Scheme for 2013

1. **New Single Public Service Pension Scheme**
   (Career average earnings)

2. **Retirement in line with State Pension Age: 66 to 68**

- ✓ **Minimum** pension age of 66
- ✓ to 67 in 2021
- ✓ to 68 in 2028
- ✓ Pensions being linked to life expectancy
- ✓ From 65 to 66 in 2014.

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How will it work?

- Referable amounts will accrue for each year service
- Accrual rates of 0.58% on first €45k and 1.25% on balance
- Lump-sum accrual rate of 3.75%
- Annual increase in referable amounts in line with CPI.

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Pre 1995

Salary	Age	Service	Pension
€60,000	60	34 yrs	**€25,500 p.a.**

Post 2004

Salary	Age	Service	Pension
€60,000	60	34 yrs	**€11,433**

Cost Neutral Early Retirement

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Cost Neutral Retirement

If your normal retirement age is 60

i.e. you were appointed before 1st April 2004

Age last birthday at retirement	Pension will be reduced to	Gratuity 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%

If your normal retirement age is 65

i.e. you were appointed after 1st April 2004

Age last birthday at retirement	Pension will be reduced to	Gratuity 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%

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Supplementary Pension ('95- April '04 only)

- ✓ You must be a fully Insured Public Servant i.e. A1 Contributor
- ✓ Eligible from NRA
- ✓ Pre 01 April '04 Entrant
- ✓ Must fail to qualify for any other social welfare payments.
- ✓ Must not be employed in any capacity post retirement
- ✓ Must not be retiring on ill-health grounds.

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Example

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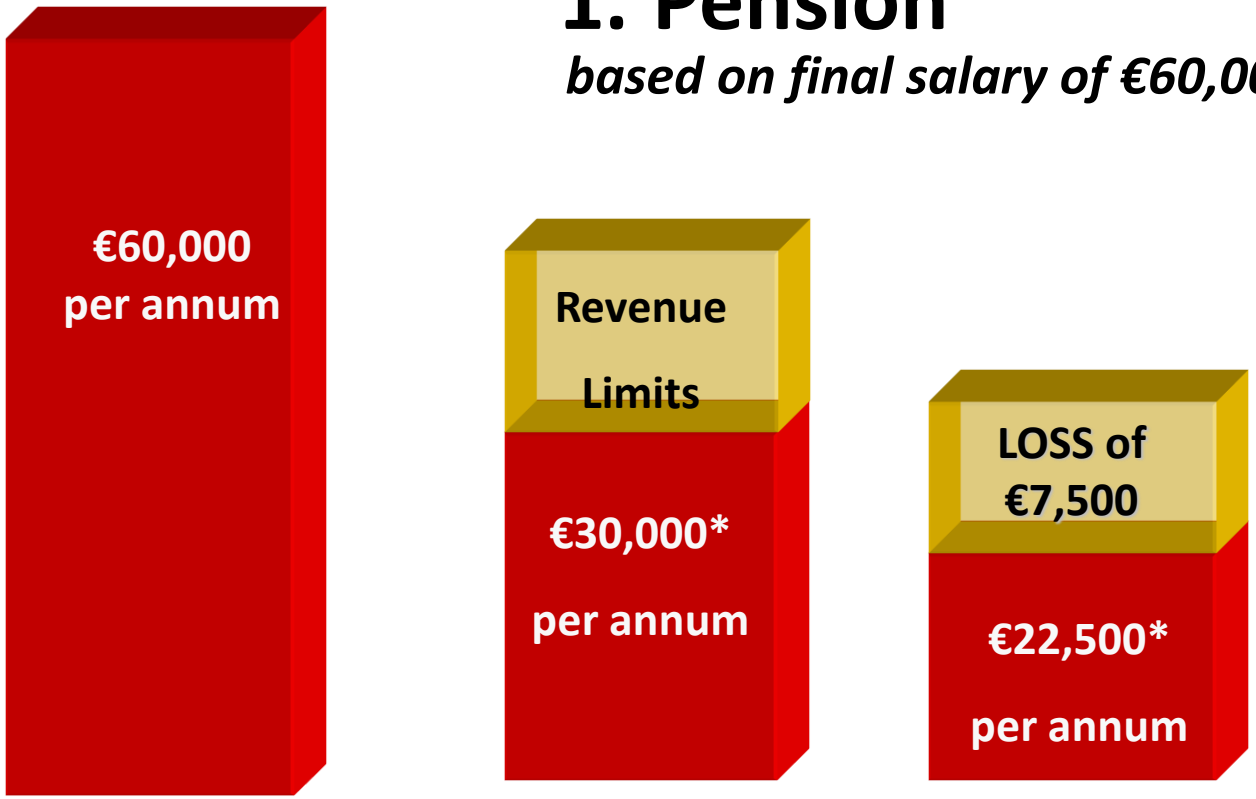
1. Pension

based on final salary of €60,000



Final Salary

1/80 x
40 years

1/80 x
30 years

*** Inclusive of CSP €12,017 or Supplementary pension if retirement before age 66 & A1 PRSI**

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2. Lump Sum

based on final salary of €60,000

3/80 x
40 years

3/80 x
30 years

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3. Spouse & Child Benefit

Example: Public Sector Employee who dies with Salary of €60,000 with 25 years service

*** Inclusive of CSP €12,017 or Supplementary pension if retirement before age 66 A1 PRSI .**
**** Assumes D1 PRSI payer. A1 benefit integrated with state benefits.**

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3. Notional Service Purchase Scheme (NSP)

- Need 9 yrs actual reckonable service at retirement/resignation date i.e. 60/65 yrs
- Your service at retirement would not be sufficient to qualify for maximum benefits (i.e. 40 years equivalent)
- You can exercise an option to join the Scheme at any time
- You can purchase shortfalls in service with an expected retirement age of 60/65
- New entrants (post 2004) can only purchase shortfalls in service to age 65
- You can purchase Notional service by regular contribution or Lump Sum.

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4 . AVC and PRSAs

Provide you with a way to make

Additional Voluntary Contributions

towards your retirement benefits

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Reasons why an AVC/PRSA might make sense

- Early Retirement
- Shortfall in Service
- Service in excess of 40 years service
- Non pensionable earnings (overtime)
- Revenue maximum pension.

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Still a very tax efficient way to increase your retirement benefits

Contribution	**€100**
Less tax relief	**€ 40**
(assuming tax @40%*)	
NO PRSI rate	
(removed in Budget 2011)	
Real cost to you for every €100	**€ 60**

For the typical employee, this means a 'saving' each month of 40%.

***As of 01/01/2015**

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What options do I have for the money in my AVC/PRSA Investment Account?

These are entirely subject to personal circumstances and choice, and certain Revenue limits.

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Example

- ✓ **Final Salary of €60,000 with 32 years of service**
- ✓ **AVC/PRSA fund value €100,000**

Full Gratuity	**€90,000**
Actual Gratuity	**€72,000**
Shortfall in Gratuity	**€18,000**

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1. You may be able to take part or all of your AVC as a <u>Tax free Lump Sum</u>

Your AVC/PRSA

€100,000

€18,000

For the Rest of your AVC Investment Account you have a number of options.

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2. You can invest in an Approved Retirement Fund (ARF)

Your AVC/PRSA

€82,000

ARF
€82,000

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

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To invest in an ARF you must:

- ✓ Have a guaranteed income of €12,700 p.a.*

Or

- ✓ Have the 1st €63,500 of your fund invested in a AMRF** (can use an ARF for the balance).

***Finance Act 2011 moved the guaranteed income limit to €18,000, it was reversed back to €12,700 in the Finance Act 2013. It is likely to be reviewed again. ** you can only withdraw 4% of capital per annum from the year you turn age 61.**

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3. Buy Superannuation benefits through your employer (deductions from gratuity)

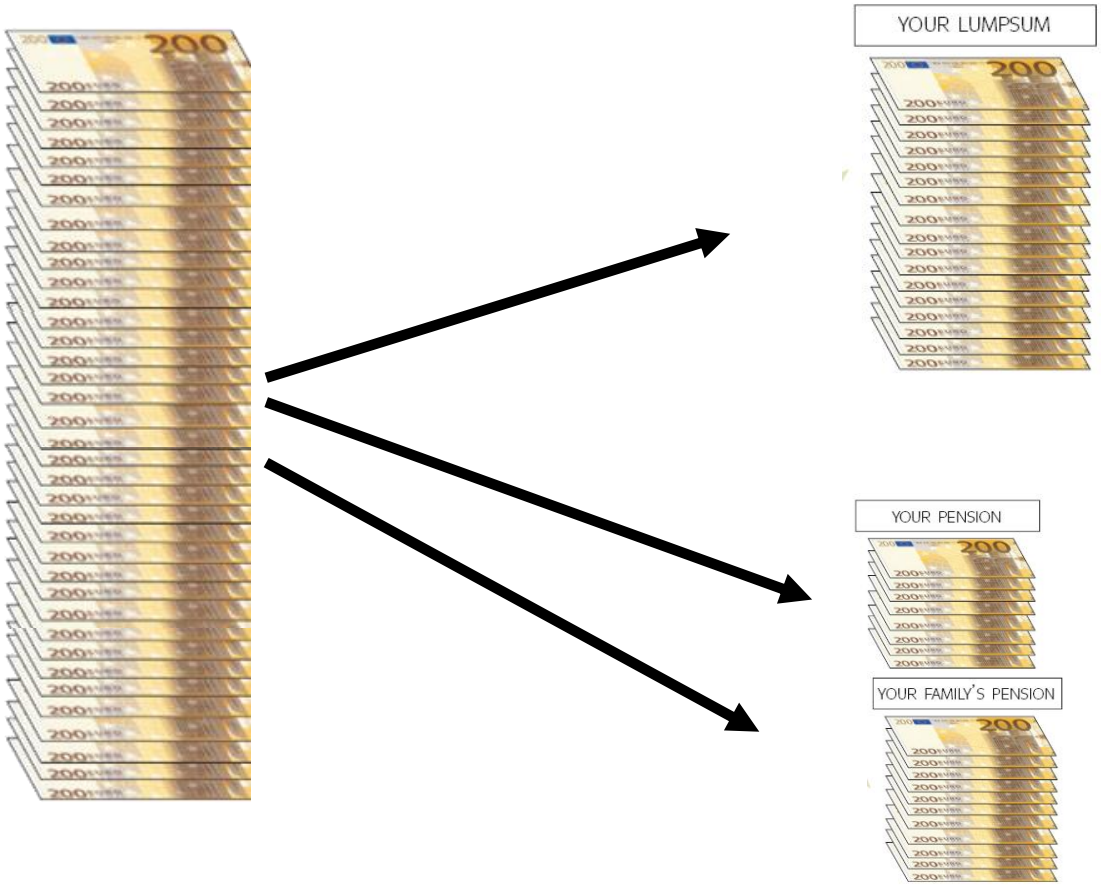
Your AVC/PRSA

- Repay any marriage gratuity
- Buyback credit for years spent in training or temporary service.

Note: This must be decided prior to retirement.

4. At retirement you can purchase benefits under the Notional Service Purchase Scheme (NSPs)

Your AVC/PRSA



Note: Cannot pick and choose which benefits you want. This must be decided prior to your actual retirement date.

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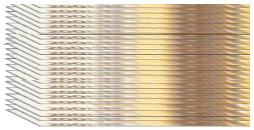
5. You can buy an income for life (annuity)

Your Balance of AVC/PRSA

€82,000



Additional Pension €1,927 p.a.

Annuity rate 2.35% from November 2014 – person aged 60, single life, indexed at 3%.

Source: LIA, Professional, November 2014.

Note: Annuity income is liable to Income Tax, PRSI & the Universal Social Charge similar to any other income.

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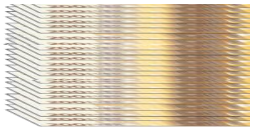
6. You can take the rest of your AVC as taxable cash

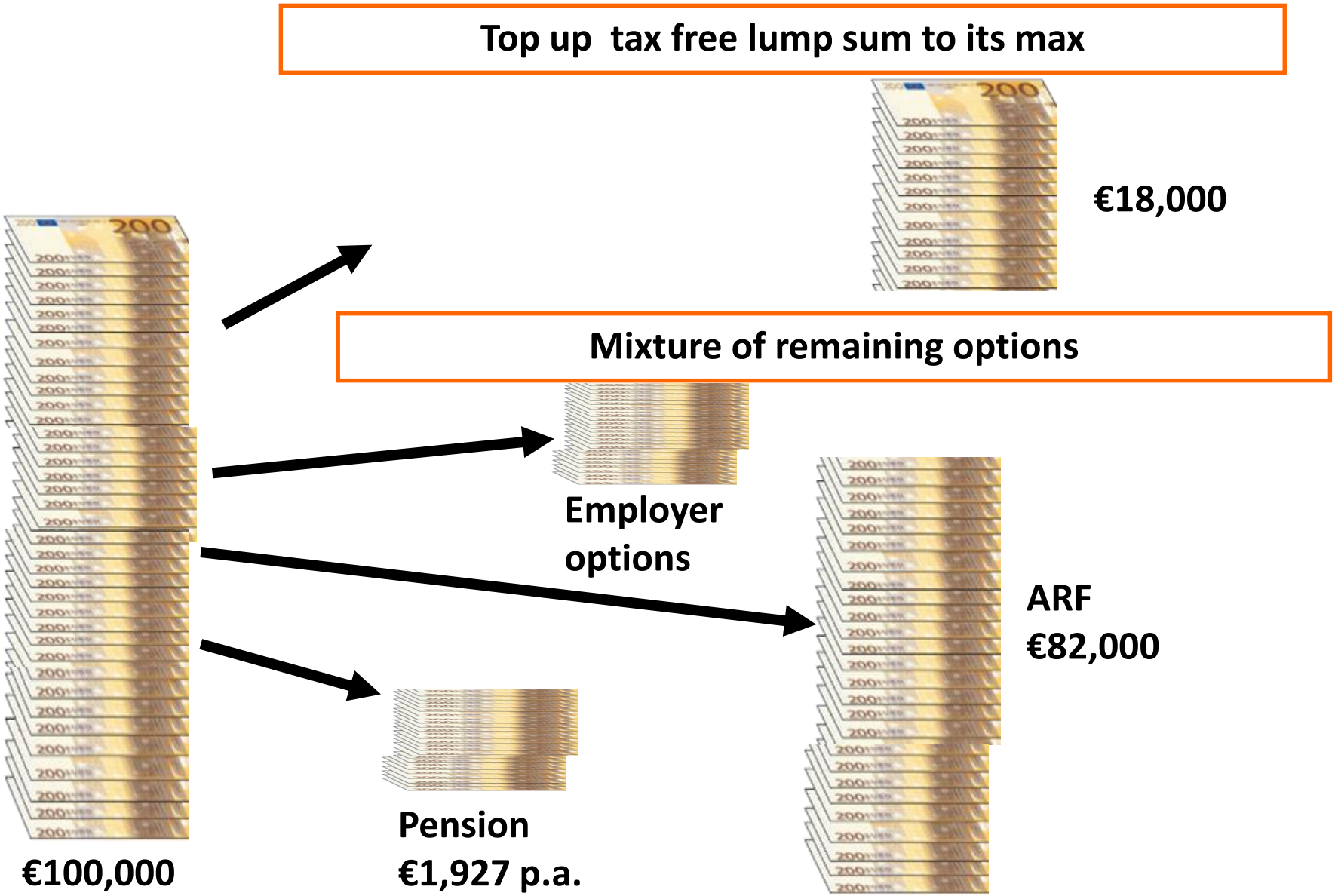
Your AVC/PRSA



Payment made net of Tax & USC (Universal Social Charge).

If buying a pension i.e. guaranteed income in retirement is your priority, you should consider NSPs.

7. A mixture or combination of the options



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How much can you contribute?

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Age	% Of Salary
Under 30	15%
30-39	20%
40-49	25%
50-54	30%
55-59	35%
60+	40%

Need to be careful of **Overfunding** and **Personal Fund Threshold** (currently €115,000)

IMPORTANT: maximum % of salary contributable is dictated by the age you turn in that year. Pension Levy <u>is not</u> taken into account when accessing funding limits.

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Overall contribution limit takes into account:

- Superannuation Scheme
- Spouses' & Children's Scheme
- NSPs
- Purchase of temporary/training years
- Repayment of refunded pensionable years/marriage gratuity, etc.
- AVC Scheme.

Pension Tax Relief limits will not be affected by Pension Levy Contributions.

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Issues to be aware of when Retirement Planning

1. Public Service Superannuation Act 2004
2. Public Service Pension Reform – “Cost Neutral Early Retirement”
3. Personal tax rates
4. ARF and AMRF options versus Annuity
5. Social Welfare entitlements
6. Tax Relief Scope
7. Standard Fund Threshold (SFT)
8. Personal Fund Threshold (PFT)
9. Fee, Charges and Commissions
10. Partner Pension Details.

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Key Budget Announcements Pensions

Approved Retirement Fund (ARF) changes:

- ✓ **Year you turn age 61:** minimum income withdrawal is 4% (was 5%)
- ✓ **Year you turn age 71:** minimum withdrawal is 5%
- ✓ **If fund is over €2 million:** minimum withdrawal from age 61 is 6%.

Approved Minimum Retirement Fund (AMRF) changes:

- ✓ **Option to withdraw up to 4%** per annum of fund value (based on value as at 1st Feb)
- ✓ **Previously,** you could only withdraw interest on capital prior to your 75th birthday.

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Where a ‘Last minute’ AVC/PRSA may be worthwhile for Superannuation Scheme members

IMPORTANT INFORMATION FOR PUBLIC SECTOR EMPLOYEES NEARING RETIREMENT

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1. If you are nearing retirement and your Tax-free Lump Sum is likely to be less than the maximum allowed because you:

- **Are short service and/or**
- **Have service over 40 years**
- **Have non-pensionable earnings;** e.g. exam supervision, correcting of exam papers
- **Had experienced a reduction in pay.**

There is a special tax break under Revenue rules that you might be able to take advantage of before you retire. This is known as a Last Minute AVC.

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What is a Last Minute AVC?

It is an excellent way of funding any shortfall in Pension provision between the Tax-free cash lump sum provided for within the Superannuation Scheme and the maximum Revenue approved tax-free cash entitlement.

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The benefits of investing in a Last Minute AVC include:

- **Receiving a refund of tax on Pension contributions**
- **Maximising your tax-free cash lump sum at retirement.**

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How does a ‘Last Minute’ AVC work?

- You can **top up** your tax-free lump sum through a ‘Last Minute’ AVC with a single investment
- You can then **claim back full tax relief** after retirement (subject to Revenue limits).

Note: you cannot avail of a ‘Last Minute’ AVC after retirement.

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Example

Tax-free Lump Sum shortfall of €10,000*

Gross Payment to 'Last Minute' AVC (including charges)	€10, 526
Claim back tax relief @ 40%	**€ 4,210**
Actual cost to member	€ 6, 316

*assumes a 5% contribution charge. Actual charge may differ depending on circumstances. Figures correct as at 01/01/2015.

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Dynamisation

- Relevant to all who experienced a reduction in pay
- The calculation of final salary under Revenue Rules differs from Superannuation Rules.

For example, Revenue allows the following calculations:-

Basic Salary (including allowances, etc.) in any 12 month period in the last 5 years.

Plus

Average of 3 or more consecutive years for fluctuating emoluments up to the end of date chosen.

(CPI can then be applied to the above once retirement date is over 12 months).

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How do I know if I am eligible?

- Cornmarket can establish the maximum tax rebate available to you.
- It is possible to use up any unused allowance for 2013 in addition to 2014.
- Your service, age and tax band must be considered in establishing your eligibility.

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Do I need to be a current member of an AVC Scheme?

- **No, this is open to all members of Superannuated Schemes.**
- **The process varies slightly but the result is the same – maximising your tax-free cash.**

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When does the process begin?

The review or consultation must happen in advance of your retirement to ensure that the process is completed before you retire.

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How long does the process take?

Usually 6 – 8 weeks.

N.B. The process must be completed in advance of retiring. We cannot guarantee to complete the process if the application is left too late.

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Is a ‘Last Minute’ AVC/PRSA right for you?

No single right answer.

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Each individual is different.

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Pension planning is COMPLEX.

Expert advice is recommended.

The Cornmarket Retired Members Life Cover Plan for Public Sector Employees

Affordable Life Cover in retirement

A tax-free lump sum payable in the event of death for **0.5% of Full-Time Equivalent Pensionable Salary.**

AGE AT DATE OF DEATH	LEVEL OF DEATH BENEFIT
age 50 - 59	150% x salary*
age 60 - 64	100% x salary
age 65 - 69	75% x salary
age 70 to 74	50% x salary
age 75 to 84	20% x salary

Cover and premiums cease at age 85.

Example is for illustrative purposes. Actual level of benefit paid will depend on the age of the member at death. *Salary is defined as Full-Time Equivalent Pensionable Salary and is determined at the date of retirement.

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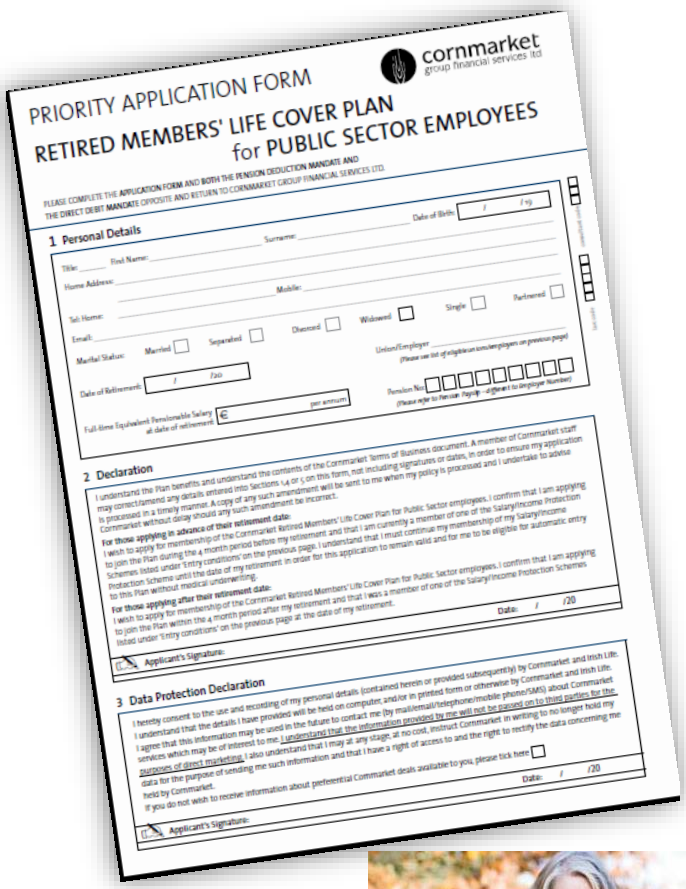
How to join

Priority form
No medical underwriting

- ✓ Public Sector employee who is a member of a Cornmarket **Income/Salary Protection Scheme** listed
- ✓ Must apply for cover during the 4 month period **before** retirement or within the 4 month period **after** retirement.

Preferential form
6 medical questions

- ✓ A Public Sector employee **retiring** within the next 4 months or, if retired, retired within the last 12 months
- ✓ **Over age** 50 and under age 70.



PRIORITY APPLICATION FORM

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RETIRED MEMBERS' LIFE COVER PLAN
for PUBLIC SECTOR EMPLOYEES

PLEASE COMPLETE THE APPLICATION FORM AND BOTH THE PENSION DEDUCTION MANDATE AND THE DIRECT DEBIT MANDATE OPPOSITE AND RETURN TO CORNMARKET GROUP FINANCIAL SERVICES LTD.

1 Personal Details

Title: First Name: Surname: Date of Birth: / /19

Home Address: Mobile:

Tel: Home: Email:

Marital Status: Married ☐ Separated ☐ Divorced ☐ Widowed ☐ Single ☐ Partnered ☐

Date of Retirement: / /20

Union/Employer (Please see list of eligible unions/employers on previous page)

Pension No: (Please refer to Pension Payslip - different to Employee Number)

Full-time Equivalent Pensionable Salary at date of retirement: € per annum

2 Declaration

I understand the Plan benefits and understand the contents of the Cornmarket Terms of Business document. A member of Cornmarket staff may correct/amend any details entered into Sections 1.4 or 1.5 on this form, not including signatures or dates, in order to ensure my application is processed in a timely manner. A copy of any such amendment will be sent to me when my policy is processed and I undertake to advise Cornmarket without delay should any such amendment be incorrect.

For those applying in advance of their retirement date:
I wish to apply for membership of the Cornmarket Retired Members' Life Cover Plan for Public Sector employees. I confirm that I am applying to join the Plan during the 4 month period before my retirement and that I am currently a member of one of the Salary/Income Protection Schemes listed under 'Entry conditions' on the previous page. I understand that I must continue my membership of my Salary/Income Protection Scheme until the date of my retirement, in order for this application to remain valid and for me to be eligible for automatic entry to this Plan without medical underwriting.

For those applying after their retirement date:
I wish to apply for membership of the Cornmarket Retired Members' Life Cover Plan for Public Sector employees. I confirm that I am applying to join the Plan within the 4 month period after my retirement and that I was a member of one of the Salary/Income Protection Schemes listed under 'Entry conditions' on the previous page at the date of my retirement.

Applicant's Signature: Date: / /20

3 Data Protection Declaration

I hereby consent to the use and recording of my personal details (contained herein or provided subsequently) by Cornmarket and Irish Life. I understand that the details I have provided will be held on computer, and/or in printed form or otherwise by Cornmarket and Irish Life. I agree that this information may be used in the future to contact me (by mail/email/telephone/mobile phone/SMS) about Cornmarket services which may be of interest to me. I understand that the information provided by me will not be passed on to third parties for the purposes of direct marketing. I also understand that I may at any stage, at no cost, instruct Cornmarket in writing to no longer hold my data for the purpose of sending me such information and that I have a right of access to and the right to rectify the data concerning me held by Cornmarket.

If you do not wish to receive information about preferential Cornmarket deals available to you, please tick here ☐

Applicant's Signature: Date: / /20

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For a copy of today's presentations, please visit

www.cornmarket.ie/retirement-seminars

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Thank You
Any Questions?

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