An Adviser's Guide to Pensions

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Section 1: Personal Pensions

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1.1 Eligibility:

Only certain individuals are eligible to contribute to a personal pension.

Contributions can only be made to a personal pension in the current tax year if the individual

1) has earnings from a self employed trade or profession taxed under Schedule D Case I or II,

or

2) has earnings from a non-pensionable employment taxed under Schedule E

An individual in non-pensionable employment is:
an employee in paid employment but is not included by his/her employer in an occupational pension scheme for retirement benefits.

1.2 Maximum Benefits

There are no limits on the size of the fund that can be built up in a personal pension plan. There are limits on the amount of income tax relief available on contributions as shown overleaf.

The maximum fund an individual is allowed at retirement for tax purposes is €2.3m. This is a lifetime limit and includes all pension benefits from all sources taken since 7 December 2005.

1.3 Contributions & Income Tax Relief:

An individual will get income tax relief on their pension contributions up to an annual limit related to their age and net relevant earnings subject to an earnings cap of €115,000

Age	% of net relevant earnings
Under 30	15%
30 – 39	20%
40 – 49	25%
50 – 54	30%
55 – 59	35%
60 and over	40%

The income tax relief is given at the individual's marginal rate. There is no relief against PRSI or the USC.

Backdating income tax relief:

An individual who had relevant earnings in the previous tax year can make a personal pension contribution before 31st October and elect to backdate the tax relief to the previous tax year.

Where the individual both pays and files their tax returns online they have until mid November to pay their pension contribution and backdate to the previous tax year.

Carrying forward tax relief:

If an individual pays more than the income tax relief limit into a personal pension then they can carry forward the unused relief to future tax years and offset it against relevant earnings for those years.

Relevant earnings are:

- non-pensionable earnings taxed under Schedule E, or
- income from a trade or profession taxed under Schedule D (Case I or II)

Net relevant earnings are:

The individual's relevant earnings reduced by

- Any charges to income, such as tax deductible covenant payments and maintenance payments which are deductible for income tax,
- Any losses or capital allowances related to an individual's relevant earnings for example in relation to plant and machinery used in the trade or occupation.

1.4 Death Benefits

On death before retirement benefits are taken, the full value of the plan is paid to the individual's estate.

The beneficiary will be liable to inheritance tax. There is no inheritance tax between legal spouses or between registered civil partners.

1.5 Retirement Benefits

Retirement Age:

Retirement benefits can be taken at any stage from age 60. Benefits must be taken by age 75.

Benefits can be taken at any stage due to ill health if the individual can show that they are **permanently** incapable physically or mentally of carrying out their own occupation or **any other occupation** of a similar nature for which they are trained or fitted.

Retirement Options:

The benefits provided will depend on the size of the fund when the individual retires. If the individual has more than one personal pension, each plan is a contract in its own right, so the individual can take benefits at different times.

Retirement Lump Sum Option:

25% of the value of the fund can be taken as a retirement lump sum

Balance of the Fund:

With the balance of the fund the individual has the following options:

- Purchase an annuity
- Invest in an ARF*
- Take as taxable cash*

* In order to avail of these options the client must either have

- a guaranteed pension income of €18,000 a year, or
- used €119,800 to purchase an annuity, or
- invested €119,800 in an AMRF

The guaranteed pension income can be made up of the State Pension and other annuity income.

Taxation Treatment:

Retirement Lump Sum:

Lump Sum	Income Tax
First €200,000	Exempt
Next €375,000	20% income tax
Balance	Marginal rate income tax, plus PRSI & USC

These limits include all retirement lump sums received since 7 December 2005.

Annuity Income:

- **Income Tax:**

  An individual in receipt of income from an annuity will pay income tax at their marginal rate.

- **PRSI:**

  There is no PRSI liability – Class M.

- **Universal Social Charge:**

  The USC will be due at the rates below depending on the individual's circumstances

Income Amount	USC Rate
Income up to €10,036	2%
Between €10,036 and €16,016	4%
Income in excess of €16,016	7%

Full medical card holders and those over age 70 pay USC at the following reduced rates

Income Amount	USC Rate
Income up to €10,036	2%
Income in excess of €10,036	4%

Withdrawals from ARFs and AMRFs

- **Income Tax:**

  Income tax is due on all withdrawals at the individual's marginal rate.

- **PRSI:**

  PRSI is due at the following rates depending on the individual's age

  4% PRSI is due on all withdrawals before age 66 – Class S

  There is no PRSI liability from age 66 – Class M

- **Universal Social Charge:**

  The USC will be due at the rates below depending on the individual's circumstances

Income Amount	USC Rate
Income up to €10,036	2%
Between €10,036 and €16,016	4%
Income in excess of €16,016	7%

Full medical card holders and those over age 70 pay USC at the following reduced rates

Income Amount	USC Rate
Income up to €10,036	2%
Income in excess of €10,036	4%

Section 2: PRSAs

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2.1 Eligibility:

Anyone who is resident in the Republic of Ireland with a PPS Number can take out a PRSA.

However only those with relevant earnings will be able to claim income tax relief on their PRSA contributions.

An employee who is a member of a company pension scheme can take out a PRSA AVC. The benefits from a PRSA AVC will be paid out under occupational pension rules, see section 3.

Relevant earnings are:

- non-pensionable earnings taxed under Schedule E, or
- income from a trade or profession taxed under Schedule D (Case I or II)

An individual in non-pensionable employment is: An employee in paid employment but is not included by his/her employer in an occupational pension scheme for retirement benefits.

2.2 Maximum Benefits

There are no limits on the size of the fund that can be built up in a PRSA. There are limits on the amount of income tax relief available on contributions as shown overleaf.

The maximum fund an individual is allowed at retirement for tax purposes is €2.3m. This is a lifetime limit and includes all pension benefits from all sources taken since 7 December 2005.

2.3 Contributions and Income Tax Relief:

An individual will get income tax relief on their PRSA contribution up to an annual limit related to their age and net relevant earnings subject to an earnings cap of €115,000

Age	% of net relevant earnings
Under 30	15%
30 – 39	20%
40 – 49	25%
50 – 54	30%
55 – 59	35%
60 and over	40%

These limits also include any employer PRSA contributions. The tax relief is given at the individual's marginal rate. There is no relief against PRSI or the USC.

Backdating income tax relief:

An individual who had relevant earnings in the previous tax year can make a PRSA contribution before 31st October and elect to backdate the tax relief to the previous tax year.

Where the individual both pays and files their tax returns online they have until mid November to pay their PRSA contribution and backdate to the previous tax year.

Carrying forward tax relief:

If an individual pays more than the income tax relief limit into a PRSA then they can carry forward the unused relief to future tax years and offset it against relevant earnings for those years.

2.4 Death Benefits

On death before retirement benefits are taken the full value of the PRSA is paid to the individual's estate.

The beneficiaries will be liable to inheritance tax. There is no inheritance tax between legal spouses or registered civil partners.

2.5 Retirement Benefits

Retirement Age:

Retirement benefits can be taken at any stage from age 60. Benefits must commence by age 75.

Employees who leave employment can take early retirement from age 50. 20% directors must also sell their shareholding if taking early retirement.

Self employed individuals cannot take benefits before age 60.

Benefits can be taken at any stage due to ill health early retirement if the individual can show that they are **permanently** incapable physically or mentally of carrying out their own occupation.

Retirement Options:

The benefits provided will depend on the size of the fund when the individual retires. If the individual has more than one PRSA plan, each plan is a contract in its own right. So the individual can take benefits at different times.

Lump Sum Options:

25% of the value of the fund can be taken as a retirement lump sum

Balance of the Fund:

With the balance of the fund the individual has the following options::

- Purchase an annuity
- Leave in the PRSA
- Invest in a separate ARF*
- Take as taxable cash*

* In order to avail of these options the client must either have

- a guaranteed pension income of €18,000 a year, or
- used €119,800 to purchase an annuity, or
- invested €119,800 in an AMRF

The guaranteed pension income can be made up of the State Pension and other annuity income.

2.5 Retirement Benefits continued

Option to Leave in the PRSA

A vested PRSA is the term used to describe the PRSA once the individual takes their retirement lump sum and leaves the balance invested. Vested PRSAs are treated in a similar manner to AMRFs / ARFs with some differences, see page 23 for more information.

If an individual opts to leave the balance of their fund in a vested PRSA they must meet the guaranteed income requirement every time they look to make a withdrawal from the vested PRSA.

As the guaranteed income amount is linked to the State Pension this amount may change every year.

If the individual does not have the guaranteed pension income amount then they must leave aside an amount equal to the AMRF requirement (currently €119,800) before making any withdrawals from the PRSA.

As the AMRF amount is linked to the State Pension this amount may also change every year.

Taxation Treatment:

Retirement Lump Sum:

Lump Sum	Income Tax
First €200,000	Exempt
Next €375,000	20% income tax
Balance	Marginal rate income tax, plus PRSI & USC

These limits include all retirement lump sums received since 7 December 2005.

Annuity Income:

- **Income Tax:**

  An individual in receipt of income from an annuity will pay income tax at their marginal rate.

- **PRSI:**

  There is no PRSI liability – Class M.

- **Universal Social Charge:**

  The USC will be due at the rates below depending on the individual's circumstances

Income Amount	USC Rate
Income up to €10,036	2%
Between €10,036 and €16,016	4%
Income in excess of €16,016	7%

Full medical card holders and those over age 70 pay USC at the following reduced rates

Income Amount	USC Rate
Income up to €10,036	2%
Income in excess of €10,036	4%

Withdrawals from ARFs, AMRFs and vested-PRSAs

- **Income Tax:**

  Income tax is due on all withdrawals at the individual's marginal rate.

- **PRSI:**

  PRSI is due at the following rates depending on the individual's age.

  4% PRSI is due on all withdrawals before age 66 – Class S

  There is no PRSI liability from age 66 – Class M

- **Universal Social Charge:**

  The USC will be due at the rates below depending on the individual's circumstances

Income Amount	USC Rate
Income up to €10,036	2%
Between €10,036 and €16,016	4%
Income in excess of €16,016	7%

Full medical card holders and those over age 70 pay USC at the following reduced rates

Income Amount	USC Rate
Income up to €10,036	2%
Income in excess of €10,036	4%

Section 3: Company Pensions

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3.1 Eligibility:

In order to be eligible to take out a company pension plan the employee must be in receipt of Schedule E (PAYE) remuneration.

Their employer must be willing to set up and contribute to the company pension plan.

A company director is only eligible to take out a company pension if they are set up as an employee of the company and are in receipt of schedule E income from the company.

20% directors of investment companies cannot be included in a company pension scheme in respect of income from that company.

Remuneration would include

- Salary or wages
- Bonuses and commission payments
- Holiday and overtime pay
- Benefit in Kind

3.2 Types of Company Pensions

Defined Contributions Schemes:

Defined Contribution (DC) schemes are where the employer and employee pay a fixed level of contribution usually as a % of salary. The contributions are invested in a fund for the employee in order to provide retirement benefits.

DC schemes do not provide any guarantee to the employee, the benefits available at retirement will depend on a number of different factors including contribution levels, fund performance, plan charges and annuity rates at the employee's retirement age.

Defined Benefit Schemes:

Defined Benefit (DB) schemes aim to provide a set level of pension and/or lump sum at retirement. The level of benefits depends on the employee's service in the scheme and salary at retirement.

Where employees are required to contribute to DB schemes they usually pay a % of salary. The employer contribution will be set by the scheme actuaries at the level required to ensure the scheme can meet its obligations.

Generally DB schemes in the private sector aim to provide employees a pension of 1/60th of salary for every year of service to a maximum of 40/60ths. The employee may have the option to take a retirement lump sum and a reduced pension.

Public sector schemes tend to provide lump sums of 3/80ths of salary and a pension of 1/80th of salary for every year of service to a maximum of 40 years service.

DB schemes in the public and private sectors are often integrated with Social Welfare, where the pension entitlement from the DB scheme makes allowance for the State Pension (Contributory). This is often done by calculating the employee's entitlement based on their salary less 1.5 times the State Pension (Contributory) personal rate.

3.3 Maximum Benefits

The maximum fund that can be built up in a company pension scheme is the amount required to purchase the employee's maximum pension entitlement at normal retirement age.

The maximum pension that can be provided is a pension of 2/3rds final salary after 10 years service with the employer, including retained benefits. This is reduced for service less than ten years as shown by the table across:

Where the employee leaves service with the employer or takes benefits before their normal retirement age the maximum benefits as shown below are reduced by their actual service divided by their potential service had they remained until normal retirement age.

The maximum fund an individual is allowed at retirement for tax purposes is €2.3m. This is a lifetime limit and includes all pension benefits from all sources taken since 7 December 2005.

Service at normal retirement age	Max. as fraction of Final Salary
1yr	4/60ths
2yrs	8/60ths
3yrs	12/60ths
4yrs	16/60ths
5yrs	20/60ths
6yrs	24/60ths
7yrs	28/60ths
8yrs	32/60ths
9yrs	36/60ths
10yrs	40/60ths

3.4 Contributions and Tax Relief:

Maximum Contributions:

Regular Contributions:

The maximum regular contribution that can be paid to a company pension scheme is calculated by the formula below

$$\frac{\textbf{B x CF – (value of assets plus retained benefits)}}{\text{Term to normal retirement age}}$$

B = the maximum pension based on current salary and service at retirement age

CF = the relevant capitalisation factor as set out in Chapter 5 of the Revenue Practice Notes

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Sample Regular Contribution Rates

Below are some sample maximum contribution rates as a percentage of salary that can be paid to a company pension.

Male Current Age	**Retirement Age** 60	65
30	72%	54%
35	86%	63%
40	108%	76%
45	144%	95%
50	216%	126%
55	432%	189%

Female Current Age	**Retirement Age** 60	65
30	67%	49%
35	80%	58%
40	100%	69%
45	133%	86%
50	200%	115%
55	400%	173%

These tables assume that the employee is married and will have at least 10 years service at normal retirement age. Existing benefits are not included in the above rates. These are calculated using the current capitalisation factors published by the Revenue Commissioners (August 2011).

Single Contributions:

Single contributions can only be paid in respect of back service. The formula for calculating the maximum single contribution is as follows

N / NS x [(B x CF) – value of assets plus retained benefits]

N = number of years service completed

NS = number of years service the employee will have at NRA

B = the maximum pension based on current salary and service at retirement age

CF = the relevant capitalisation factor as set out in Chapter 5 of the Revenue Practice Notes

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Employer Contributions:

Regular Contributions:

Regular employer contributions will receive corporation tax relief in the year of payment.

The Revenue Commissioners will only consider a contribution to be a regular contribution if it is paid for at least three consecutive years.

Single Contributions:

Where an employer pays single premium contributions corporation tax relief will only be given in the year of payment where the total single premium amount is equal to or less than the total employer regular contribution paid in respect of all employees.

If the single premium is greater than the regular premium contributions relief will be spread forward to a maximum of five years.

In order to determine the number of year's corporation tax relief must be spread forward the single premium is divided by the regular contribution.

This is rounded up to two years if greater than one but less than two otherwise rounded to the nearer number of years (to a maximum of five).

Employee and AVC Contributions:

The total of the employee, AVC and employer contributions must be within the maximum allowed by the Revenue Commissioners.

Employees will get income tax relief on their employee and AVC contributions up to an annual limit related to their age and earnings subject to an earnings cap of €115,000.

Income tax relief is given at the individual's marginal rate. There is no relief against PRSI or the USC.

Age	% of earnings
Under 30	15%
30 – 39	20%
40 – 49	25%
50 – 54	30%
55 – 59	35%
60 and over	40%

Regular Contributions:

In practice most employee and AVC regular contributions are deducted by their employer from salary under the 'net pay' arrangement. In such cases income tax relief is given at source the total of the employee and AVC contribution cannot exceed the tax relief limits shown above.

Single Contributions:

An employee can make a single premium contribution to a company pension scheme. Income tax relief can be claimed in the year of payment if the total of the regular and single premium contributions are within the employee's tax relief limits. If contributions exceed the income tax relief limits the excess can be carried forward to future tax years once the employee remains in the same employment.

An employee can backdate their single contribution to the previous tax year if they are still in the same employment and the contribution is paid before 31st October. They must complete a self assessment tax return in order to claim the income tax relief.

3.5 Death Benefits

Death in Service Benefits:

The maximum benefits that can be provided on the death in service is as follows

- A death in service lump sum for dependents, plus
- Refund of any employee or AVC contributions, plus
- A pension for the spouse, registered civil partner and dependents of the deceased.

The trustees of the company pension scheme will determine who the death benefits are payable to in line with the scheme rules.

Death in Service Lump Sum:

The maximum lump sum that can be provided is 4 times final salary at the date of death. This includes any death benefits from company pension schemes in respect of earlier employment. Death benefits from personal pensions or PRSAs are not included.

Alternatively if the death in service lump sum is calculated as twice final salary death benefits from previous employments are not taken into account.

The beneficiary will be liable to inheritance tax. There is no inheritance tax between legal spouses or registered civil partners.

Dependents Pension:

A company pension scheme can provide a pension for a spouse or registered civil partner on the death of the employee.

Where there is no spouse or registered civil partner a pension can be provided for a dependent of the employee.

The maximum pension that can be provided on death is the maximum pension that the employee would have been entitled to at their normal retirement age.

Preserved Benefits on Death:

If the employee had left service and had a preserved benefit under the Pensions Act then the full value of the plan is paid to the estate on death.

The beneficiaries will be liable to inheritance tax. There is no inheritance tax between legal spouses or registered civil partners.

3.6 Retirement Benefits

Retirement Age:

Normal Retirement Age:

The normal retirement age can be set be between ages 60 and 70.

All company pension, AVC schemes and PRSA AVC plans for the same employment must be set up with the same normal retirement age.

When taking retirement benefits an employee must take all benefits relating to that employment at the same time.

Early Retirement:

An employee can take early retirement from a company pension scheme from age 50 onwards with the consent of the employer and trustee. In order to take early retirement, an employee must leave service with no expectation of returning. 20% directors must also sell their shareholding.

Where benefits are taken before the normal retirement age of the company pension scheme the maximum benefits are reduced by the employee's actual service divided by their potential service had they remained until normal retirement age.

Ill Health Early Retirement:

An employee can take early retirement due to ill health at any stage. Employee must be **permanently** incapable to carry on their occupation.

The maximum benefits allowed on leaving service due to ill health are those that would have been available had the employee remained in service until normal retirement age.

Retirement Options:

The options available on retirement will depend on whether the company pension is a defined contribution or a defined benefit scheme and whether or not the employee is a proprietary director.

Pension Type	Option 1: Salary & Service	Option 2: ARF Options
DC Pension Scheme	✔	✔
DB Pension Scheme - Employee	✔	✗
DB Pension Scheme - Proprietary Director	✔	✔
Buy out Bonds from DC	✔	✔
Buy out Bonds from DB – Employee	✔	✘
Buy out Bonds from DB – Proprietary Director	✔	✔

Benefits must be taken at the same time from all company pension and AVC plans relating to the same employment and under the same route.

Where an employee has company pension plans relating to different employments they do not have to be taken at the same time or under the same route.

A proprietary director is a director who either alone or together with his/her spouse or civil partner and minor children controls more than 5% of the voting rights in the company at any time within 3 years of retirement or leaving service.

Option 1: Salary and Service Route

Retirement Lump Sum:

The retirement lump sum available under this option will be calculated in relation to the employee's salary and service in the company.

The maximum retirement lump sum is 150% of final salary after 20 years service in the company, including any retained lump sum benefits. This is reduced for service less than 20 years as shown by the table below.

Service at normal retirement age	Max. as fraction of Final Salary
1 – 8 yrs	3/80ths each year
9yrs	30/80ths
10yrs	36/80ths
11yrs	42/80ths
12yrs	48/80ths
13yrs	54/80ths
14yrs	63/60ths
15yrs	72/80ths
16yrs	81/80ths
17yrs	90/80ths
18yrs	99/80ths
19yrs	108/80ths
20yrs	120/80ths

Balance of the Fund

The balance of the company pension fund must be used to purchase an annuity.

AVC Funds

If the employee has funds built up by AVCs they can be used to bring their retirement lump sum from the company pension up to the maximum allowed by the Revenue Commissioners as shown above.

The balance of the AVC can then be used to

- purchase an annuity
- transfer to an ARF *
- take as taxable cash *

* In order to avail of these options the client must either have

- a guaranteed pension income of €18,000 a year, or
- used €119,800 to purchase an annuity, or
- invested €119,800 in an AMRF

The guaranteed pension income can be made up of the State Pension and other annuity income.

PRSA AVCs

If the employee paid AVCs into a PRSA they have the additional option of leaving the balance of the fund in the PRSA to be treated as an AMRF or ARF.

If an employee leaves the balance of their fund in a vested PRSA they must meet the guaranteed income requirement every time they look to make a withdrawal from the vested PRSA.

3.6 Retirement Benefits continued

As the guaranteed income amount is linked to the State Pension this amount may change every year.

If the employee does not have the guaranteed pension income amount then they must leave aside an amount equal to the AMRF requirement (currently €119,800) before making any withdrawals from the PRSA.

As the AMRF amount is linked to the State Pension this amount may also change every year.

Option 2: ARF Options Route

Retirement Lump Sum:
The individual can take a retirement lump sum of up to 25% of company pension plan and any AVC and PRSA AVC plans.

Balance of the Fund
With the balance of the fund can be used to

- purchase an annuity
- transfer to an ARF *
- take as taxable cash *

* In order to avail of these options the client must either have
- a guaranteed pension income of €18,000 a year, or
- used €119,800 to purchase an annuity, or
- invested €119,800 in an AMRF

The guaranteed pension income can be made up of the State Pension and other annuity income.

PRSA AVCs
If the employee paid AVCs into a PRSA they have the additional option of leaving the balance of the fund in the PRSA to be treated as an AMRF or ARF.

If an employee leaves the balance of their fund in a vested PRSA they must meet the guaranteed income requirement every time they look to make a withdrawal from the vested PRSA.

As the guaranteed pension income amount is linked to the State Pension this amount may change every year.

If the employee does not have the guaranteed pension income amount then they must leave aside an amount equal to the AMRF requirement (currently €119,800) before making any withdrawals from the PRSA.

As the AMRF amount is linked to the State Pension this amount may also change every year.

Taxation Treatment:

Retirement Lump Sum:

Lump Sum	Income Tax
First €200,000	Exempt
Next €375,000	20% income tax
Balance	Marginal rate income tax, plus PRSI & USC

These limits include all retirement lump sums received since 7 December 2005.

Annuity Income:

- **Income Tax:**

  An individual in receipt of income from an annuity will pay income tax at their marginal rate.

- **PRSI:**

  There is no PRSI liability – Class M.

- **Universal Social Charge:**

  The USC will be due at the rates below depending on the individual's circumstances

Income Amount	USC Rate
Income up to €10,036	2%
Between €10,036 and €16,016	4%
Income in excess of €16,016	7%

Full medical card holders and those over age 70 pay USC at the following reduced rates

Income Amount	USC Rate
Income up to €10,036	2%
Income in excess of €10,036	4%

Withdrawals from ARFs, AMRFs and vested-PRSAs

- **Income Tax:**

  Income tax is due on all withdrawals at the individual's marginal rate.

- **PRSI:**

  PRSI is due at the following rates depending on the individual's age.

  4% PRSI is due on all withdrawals before age 66 – Class S

  There is no PRSI liability from age 66 – Class M

- **Universal Social Charge:**

  The USC will be due at the rates below depending on the individual's circumstances

Income Amount	USC Rate
Income up to €10,036	2%
Between €10,036 and €16,016	4%
Income in excess of €16,016	7%

Full medical card holders and those over age 70 pay USC at the following reduced rates

Income Amount	USC Rate
Income up to €10,036	2%
Income in excess of €10,036	4%

Section 4: Transfers

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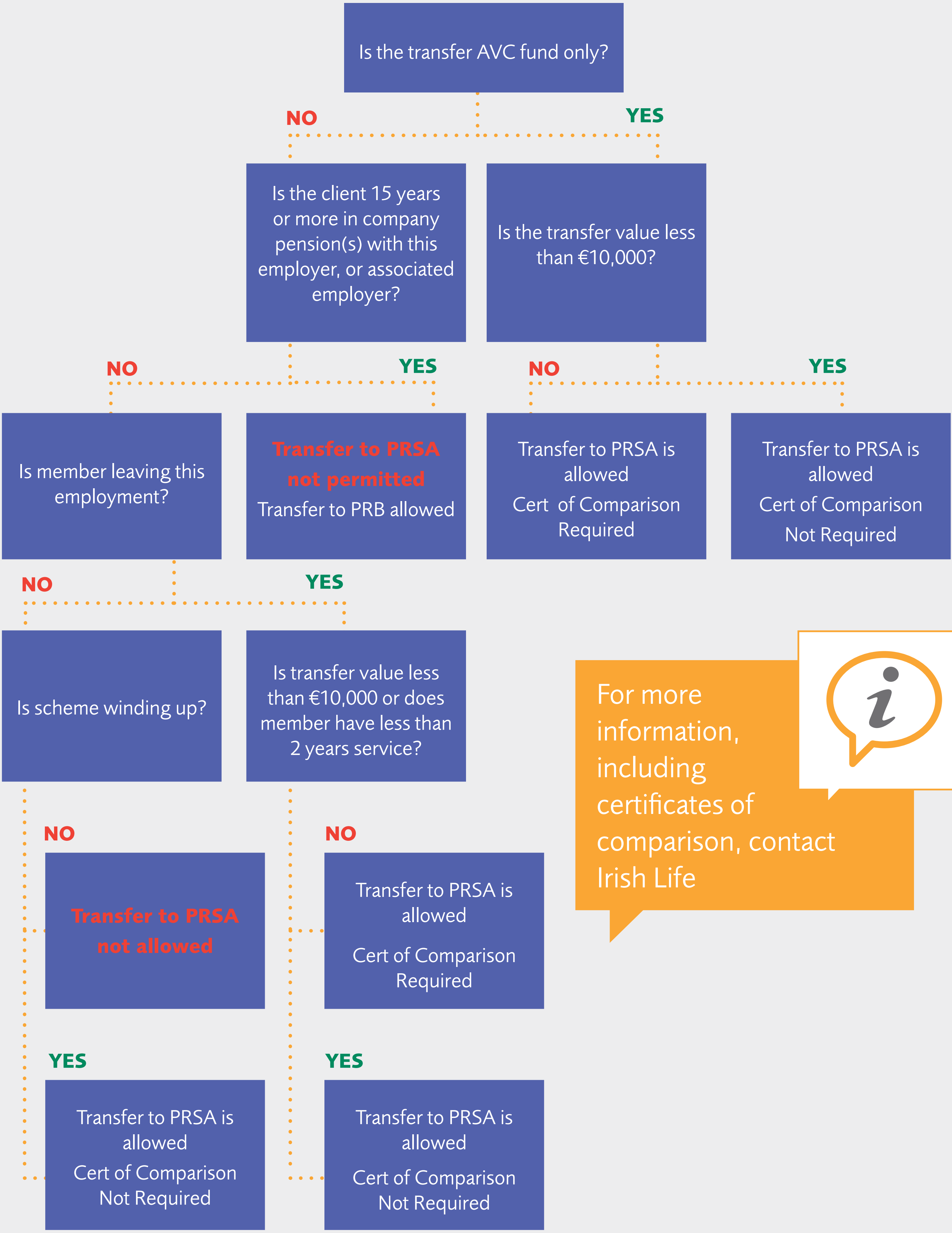
4.1 Transfers Allowed

From: \ To:	PRB	PRSA	Personal Pension	Company Pension	Overseas Pension
PRB	Yes	No	No	Yes	Yes (1)
PRSA	No	Yes	No	Yes	Yes (1)
Personal Pension	No	Yes	Yes	No (2)	No (3)
Company Pension	Yes	Yes (4)	No	Yes	Yes (1)
Overseas Pension	Yes	Yes	Yes	Yes	

(1) Provided receiving scheme meets certain requirements
(2) Personal Pension can transfer to PRSA which can then transfer on to a company pension
(3) Personal Pension can transfer to PRSA which can then transfer overseas, provided scheme meets certain requirements
(4) Certain restrictions apply, see page 16

4.2 Company Pension to PRSA Flowchart



For more information, including certificates of comparison, contact Irish Life

Section 5: Standard Fund Threshold

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The Standard Fund Threshold (SFT) is the maximum pension fund an individual is allowed at retirement for tax purposes. This is a lifetime limit and includes all pension benefits taken since 7 December 2005.

The SFT is currently €2.3m.

At the point of taking retirement benefits any amount over the SFT is subject to tax at 41%. This tax will be taken before benefits are paid to the individual. The individual cannot use any credits or allowances to reduce this 41% tax liability and the tax deducted cannot be offset against any other tax liability.

Example:

Company Pension Plan – Value	€2,400,000
Standard Fund Threshold	€2,300,000
Excess over €2.3m SFT	€100,000
Tax on excess (41%)	€41,000
Fund after taxation	€2,359,000

With the remaining €2,359,000 fund from the example above the individual can then take their maximum pension lump sum and use the remainder to purchase an annuity or go AMRF / ARF.

Annuity income and withdrawals from an ARF / AMRF are subject to PAYE and there is no allowance given for the 41% tax already deducted, so effectively the individual is taxed on the double on any amount over the SFT.

Those who had funds greater then €2.3m on 7/12/10 or greater than €5m on 7/12/05 had the opportunity to apply to the Revenue Commissioners for a Personal Fund Threshold (PFT) based on the value of their pension benefits at that date.

The Revenue will have issued them with a PFT Certificate which replaces the SFT for that individual.

Section 6: Post-Retirement Options

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6.1 Annuities

An annuity is a single premium insurance policy issued by a life assurance company where the life company guarantees to pay a specified level of income for the life of the individual in return for a lump sum payment now.

The annuity rate is the % of a lump sum which a life company will agree to pay annually for life in return for that lump sum.

For example:

An annuity rate of 5% means that for a purchase price of €150,000 the life company will pay an annual pension of €150,000 x 5% = €7,500pa.

The annuity rate available at a particular time will depend on a number of factors, including

- the individual's age,
- the individual's gender,
- the annuity options the individual chooses,
- the level of interest rates on long term fixed interest bonds.

6.1 Annuities continued

Annuity Options

There are a number of different options that can be added to an annuity:

- Joint life annuity, where a spouse's or dependent's pension will become payable on the death of the annuitant. The maximum dependent's pension that can be included is 100% of the annuitants.
- A guaranteed period of up to 10 years. If the annuitant dies within the guaranteed period the annuity will continue to be paid to the annuitant's estate for the balance of the period.
- A level or escalating annuity.
- Investment Protection Annuities – see below.

Taxation Treatment:

All annuity income is subject to income tax in the hands of the individual. The life company operates PAYE on the annuity payment as if it were the individual's employer. Income tax will be deducted at the individual's marginal rate.

The Universal Social Charge will also be due at the rates below depending on the individual's circumstances.

Income Amount	USC Rate
Income up to €10,036	2%
Between €10,036 and €16,016	4%
Income in excess of €16,016	7%

Full medical card holders and those over age 70 pay USC at the following reduced rates

Income Amount	USC Rate
Income up to €10,036	2%
Income in excess of €10,036	4%

Irish Life Investment Protection Annuities

An investment protection annuity provides a middle ground between annuities and ARFs. It is an annuity taken out via the ARF route and is only available to those who have ARF options at retirement.

The difference between an investment protection annuity and a traditional annuity is that on death under an investment protection annuity the purchase price less all annuity payments is paid to the estate and is taxed in the same way as an ARF would be.

Due to the additional protection on an investment protection annuity it is more expensive to buy than a traditional annuity. The reduction in annual income depends on the case but typically varies between 12% and 18%.

6.2 AMRFs and ARFs

An Approved Retirement Fund (ARF) is a post retirement investment contract between an individual and a Qualifying Fund Manager (QFM) for the proceeds of retirement benefits not taken in the form of a lump sum from eligible contracts.

The individual is the beneficial owner of the contract. The assets are invested in a tax exempt fund.

ARF Eligibility Rules

Before an individual can invest their retirement benefits in an ARF they must meet one of the following requirements:

1) Be in receipt of a guaranteed pension income of at least €18,000* a year, or

2) Have invested at least €119,800* in an Approved Minimum Retirement Fund (AMRF), or

3) Used €119,800 to purchase an annuity or a combination of annuity and AMRF, for example invested €50,000 in an AMRF and used €69,800 to purchase an annuity.

* The specified income amount is set at 1.5 times the State Pension (Contributory) rate and is currently €18,000 a year.

The AMRF amount is set at 10 times the State Pension (Contributory) personal rate and is currently €119,800.

Both of these amounts will change when the State Pension

(Contributory) rate changes.

Approved Minimum Retirement Funds

An AMRF is treated almost the exact same as an ARF with a few exceptions:

- An individual can only have one AMRF at a time.
- The maximum amount that can be invested in an AMRF is 10 times the State Pension (Contributory) personal rate, currently €119,800.
- The individual cannot withdraw any of the capital from an AMRF until such time it becomes an ARF. They can only withdraw investment growth from the AMRF.
- The imputed distribution requirement does not apply to AMRFs. It will apply once the AMRF becomes an ARF.

An AMRF becomes an ARF on the earlier of:

- The AMRF holder reaching age 75,
- When the AMRF holder starts receiving a guaranteed pension income of 1.5 times the State Pension (Contributory) personal rate, currently €18,000 a year,
- The death of the AMRF holder.

Vested PRSAs

Clients with PRSAs have the option to take their retirement lump sum and leave the balance in the PRSA to be treated in a similar manner to an AMRF or ARF.

See page 23 for a comparison between ARFs and Vested PRSAs.

ARF Imputed Distribution

The imputed distribution requirement applies to all ARFs from the year the ARF holder turns 61. It will also apply to AMRFs once they become ARFs.

The current imputed distribution rate is 5% but this may change in the future.

The imputed distribution amount will be reduced by the amount of any actual withdrawals taken during the year. So if an individual took a withdrawal of 5% or more of the value of the fund then no imputed distribution would be due at the end of the year.

How Irish Life operates the Imputed Distribution

In December each year Irish Life will review all ARFs and where the individual took no withdrawals or withdrawals less than 5% a balancing withdrawal will be paid to them. Irish Life will pay the tax due to the Revenue Commissioners and the net amount will be paid to the individual.

Taxation Treatment:

- **Income Tax:**

  Income tax is due on all withdrawals from ARFs, AMRFs and vested PRSAs at the individual's marginal rate.

- **PRSI:**

  PRSI is due at the following rates depending on the individual's age.

  4% PRSI is due on all withdrawals before age 66 (Class S PRSI)

  There is no PRSI liability from age 66 (Class M PRSI)

- **Universal Social Charge:**

  The USC will be due at the rates below depending on the individual's circumstances

Income Amount	USC Rate
Income up to €10,036	2%
Between €10,036 and €16,016	4%
Income in excess of €16,016	7%

Full medical card holders and those over age 70 pay USC at the following reduced rates

Income Amount	USC Rate
Income up to €10,036	2%
Income in excess of €10,036	4%

Transfers

An individual can at any time:

- Use their ARF or AMRF to purchase an annuity
- Transfer their ARF to another ARF with the same or different QFM
- Split their ARF into a number of different ARFs by way of a partial transfer
- Transfer their AMRF to another AMRF with the same or different QFM. A partial transfer cannot be done from AMRFs as an individual can only have one AMRF at a time.

ARFs and AMRFs on Death

On death the ARF will form part of the deceased ARF holder's estate. The taxation treatment on death depends on who inherits the fund.

Taxation Treatment on death of first ARF holder

ARF or AMRF inherited by	Income Tax	Capital Acquisitions Tax
If paid to ARF for surviving spouse or registered civil partner	None on the transfer but subsequent withdrawals will be subject to PAYE	No
Children 21 or over	Standard rate income tax	No
Children under 21	No	Yes, taxable inheritance
If paid to spouse, registered civil partner or anyone else as lump sum	Yes subject to tax at the deceased's marginal rate	Yes, taxable inheritance. Spouse and civil partners are exempt.

Taxation Treatment on death of second ARF holder

ARF or AMRF inherited by	Income Tax	Capital Acquisitions Tax
Children 21 or over	Standard rate income tax	No
Children under 21	No	Yes, taxable inheritance
If paid to anyone else	Standard rate income tax	Yes, taxable inheritance.

Where a client has a vested PRSA the tax treatment on death is the same as for ARFs and AMRFs.

6.3 Summary Comparison Annuities vs. ARFs

Annuities	AMRFs and ARFs
Advantages	
• Annuities provide certainty • The individual is paid a known pension for the rest of their life. • The following options are available at an additional cost. i. The pension payment can have a guaranteed period for up to 10 years regardless of whether the individual dies within that period. ii. A spouse's, civil partner's or dependent's pension in the event of death and is paid for the life of the dependent iii. Inflation protection iv. Investment protection option can be purchased to provide for a payment to the estate in the event of death. This is an alternative to the guaranteed period. The payment available on death is a return of the initial investment less all annuity income that has been paid. This option is only for customers who have ARF / AMRF options	• Gives the individual flexibility and control over their pension fund during retirement. • They can choose the level of income / withdrawals they want to take each year, however a minimum income of 5% of the value will be paid every year. This applies to ARF clients from the year they turn 61. It will also apply to AMRFs when they become ARFs. • ARFs can invest in a wide range of assets, with the potential for the fund to continue growing. • On death the fund value at that date passes to the estate. • AMRFs and ARFs can be used to purchase an annuity at any stage. It would be expected that the older the client the higher the annuity rate will be.
Disadvantages	
• Annuity rates are linked to long term interest rates and life expectancy. When interest rates reduce and life expectancy increases then annuity rates would be expected to fall. • The annuity rate is fixed at the time the annuity is purchased and is not affected by later changes in interest rates or life expectancy. • The individual's pension fund no longer exists because you have changed it into an income for life. • Lack of flexibility, the options chosen under the annuity cannot be changed once it's purchased. • The pension income will stop on death, unless the individual chose investment protection, a dependent's pension or guaranteed period. • The cost of all the options, i.e. inflation protection, dependent's pension, investment protection will reduce the annuity income that is payable. The amount of this reduction will depend on the individual's particular circumstances	• If the individual takes an income from their fund there is a high risk that their fund may not provide an income for the rest of their lifetime and the fund may be depleted before they die. This may be due to poor fund performance and / or if they take excessive levels of income from the fund. • The individual is taking on investment risks. This means that the initial capital could go down as well as up. • The individual may have to put at least €119,800 in an AMRF if they do not have a guaranteed pension income of at least €18,000 a year currently in place. • From the year the individual turns 61 they must take a minimum level of income from the ARF every year. Currently this is 5% of the value of your fund, but this may change in the future. This will also apply to AMRFs once they become ARFs.

6.4 Comparison Annuities vs. Vested PRSAs

Advantages

Annuities

- Annuities provide certainty
- The individual is paid a known pension for the rest of their life.
- The following options are available at an additional cost.
    i. The pension payment can have a guaranteed period for up to 10 years regardless of whether the individual dies within that period.
    ii. A spouse's, civil partner's or dependent's pension in the event of death and is paid for the life of the dependent
    iii. Inflation protection
    iv. Investment protection option can be purchased to provide for a payment to the estate in the event of death. This is an alternative to the guaranteed period. The payment available on death is a return of the initial investment less all annuity income that has been paid. This option is only for customers who have ARF / AMRF options

Vested PRSA

- An individual with a PRSA can continue to use it in a similar manner as an ARF/AMRF after taking their retirement lump sum.
- Gives the individual flexibility and control over their pension fund during retirement.
- They can choose the level of income / withdrawals they want to take each year.
- Vested PRSAs can invest in a wide range of assets, with the potential for the fund to continue growing.
- On death the fund value at that date passes to the estate in the same way as an ARF or AMRF.
- A vested PRSA can be used to purchase an annuity at any stage. It would be expected that the older the client the higher the annuity rate will be.
- The imputed distribution requirement on ARFs currently does not apply to vested PRSAs but this may change in the future

Disadvantages

Annuities

- Annuity rates are linked to long term interest rates and life expectancy. When interest rates reduce and life expectancy increases then annuity rates would be expected to fall.
- The annuity rate is fixed at the time the annuity is purchased and is not affected by later changes in interest rates or life expectancy.
- The individual's pension fund no longer exists because you have changed it into an income for life.
- Lack of flexibility, the options chosen under the annuity cannot be changed once it's purchased.
- The pension income will stop on death, unless the individual chose investment protection, a dependent's pension or guaranteed period.
- The cost of all the options, i.e. inflation protection, dependent's pension, investment protection will reduce the annuity income that is payable. The amount of this reduction will depend on the individual's particular circumstances

Vested PRSA

- If the individual takes an income from their fund there is a high risk that their fund may not provide an income for the rest of their lifetime and the fund may be depleted before they die. This may be due to poor fund performance and / or if they take excessive levels of income from the fund.
- The individual is taking on investment risks. This means that the initial capital could go down as well as up.
- The individual may have to put at least €119,800 in an AMRF or leave untouched in their vested PRSA if they do not have a guaranteed pension income of at least €18,000 a year currently in place.
- Both the €119,800 and €18,000 limits are linked to the State Pension (Contributory) and will change in the future. When making withdrawals from a vested PRSA the individual will have to meet the limits in place at that time.
- No further withdrawals can be taken from a vested PRSA after age 75.

6.5 Comparison ARFs vs. Vested PRSAs

	ARFs	Vested PRSAs
Imputed Distribution	Applies to all ARFs from the year the individual turns 61. Applies to AMRFs once the individual meets the specified income requirement or reaches age 75.	Currently there is no imputed distribution on vested PRSAs
Guaranteed Pension Income Requirement	The individual must meet the specified income amount at the time the ARF is taken out. Any future change in the income amount will not affect existing ARF plans. Should they individual have retirement benefits from other sources they will have to meet the income requirement in place at that time in order to ARF those benefits.	The individual must meet the specified income amount every time they look to take a withdrawal from their vested PRSA. Any change in the income requirement will affect those with vested PRSAs and may prevent them taking withdrawals from their plan.
AMRF requirement	When taking retirement benefits, if the individual does not meet the guaranteed pension income requirement they must invest 10 times the State Pension (Contributory) into an AMRF.	Where the individual does not meet the guaranteed pension income requirement they must leave 10 times the State Pension (Contributory) invested in their vested PRSA. They can only withdraw any amount over this limit.
Ability to take withdrawals after age 75	Yes.	No, from age 75 no further withdrawals can be taken from a vested PRSA. The individual can, - purchase an annuity - transfer to an ARF - leave in the vested PRSA to be passed to their estate on death

6.6 State Pension Age Summary

Year	State Pension Age	Year of birth of those at State Pension Age
2014 to 2020	Abolish State Transition Pension, thereby increasing pension age to 66	1948* to 1954
2021 to 2027	Increase to 67	1955 to 1960
2028 onwards	Increase to 68	1961 or later

* Some people born in 1948 may qualify for the State Pension at 65 in 2013

The information and tax rates contained in this booklet are based on Irish Life's understanding of legislation as at August 2011 and may change in the future.

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