Pensions Training

Retirement Options

Agenda

- Retirement Options
- ARFs
- AMRFs
- Tax treatment of withdrawals
- Tax treatment on death
- Annuities
- ARFs v Annuities
- Issues to consider

Retirement Options

Retirement Options

Irish Life

- Source of fund must be from a “retirement benefit scheme”

ARF Options available to

- Personal Pensions
- PRSAs
- Company Pensions / Buy Out Bonds
  - Defined Contribution Schemes
  - Defined Benefit Schemes – Proprietary Directors
- AVC fund

Retirement - Personal Pension

- Can take benefits at any time between 60 and 75
  - Client does not have to stop working
- Take 25% as a lump sum

- Balance
  - 1. Buy annuity with life company, OR
  - 2. Invest in ARF, OR
  - 3. Take as taxable cash sum
- Restriction on Options 2 and 3
  - must invest €63,500 or balance of fund if lower in annuity or AMRF
  - Restriction does not apply if in receipt of pension of at least €12,700 pa

Retirement - PRSA

- Can take benefits at any time between 60 and 75
  - Client does not have to stop working
- An employee can taken benefits from age 50 if they leave employment
- Take 25% as a lump sum
- Balance
  1. Remain in the PRSA, effectively treated as an ARF *
  2. Purchase an annuity
  3. Transfer to an ARF *
  4. Take as taxed cash *

* Client must have guaranteed income of €12,700 or €63,500 to AMRF / Annuity / remain untouched in vested PRSA

Retirement Age – Company Pension

- Normal retirement age between 60 and 70 depending on the scheme rules
- Early retirement from age 50 on leaving employment and with the employer & trustee's agreement
- 20% Directors must sell shareholding if taking early retirement

Retirement Options – Company Pension

Irish Life

Defined Contribution Schemes

- Everyone has two options on retirement
  - Salary & Service Route, or
  - ARF Route

Defined Benefits Schemes:

- Proprietary Directors have choice
  - Salary & Service Route, or
  - ARF Route
- Employees must go salary & service route
  - Can only access ARFs using funds built up by AVCs

Definition of Proprietary Director

- Director with more than 5% of voting rights together with spouse and minor children anytime

- within 3 years of:
    - Normal Retirement Age
    - Earlier retirement date where applicable
    - Leaving service

Company Pension – Salary & Service Route

- Can take up to 150% of salary as a tax free lump sum
  - With 20 years service with that employer.
  - Less than 20 years service and lump sum is reduced.
  - Lump sum also reduced on early retirement
- Balance of fund must be used to purchase an annuity
- Fund built up by AVCs can be transferred to an ARF or AMRF

Company Pension – ARF Route

Irish Life

- Take 25% as a lump sum

- Balance
  1. Transfer to an ARF *
  2. Take as taxed cash *
  3. Purchase an annuity

* Client must have guaranteed income of €12,700 or place €63,500 in an AMRF or use to purchase an Annuity

Buy Out Bond / PRB

- A PRB will replicate benefits that were available under the company pension scheme

So

- PRBs from DC schemes will have ARF options
  - If the DC scheme provided ARF options at date of transfer

- PRBs from DB schemes
  - Those who were proprietary directors within 3 years before transferring to PRB will have ARF options
  - Employees can only access ARFs with any funds built up by AVCs

Taxation of Lump Sums

Taxation of Lump Sums at Retirement

- Lump Sums that exceed €200,000 are subject to tax as follows

Lump Sum Amount	Income Tax
First €200,000	Exempt
Next €300,000	Standard Rate Tax only
Balance	Marginal rate income tax plus PRSI & USC

- These limits include all retirement lump sums taken since 7th December 2005

ARFs

What is an Approved Retirement Fund (ARF)?

Irish Life

- A post retirement investment contract between individual and a Qualifying Fund Manager (QFM)
- The individual is the owner of the contract
- Assets invested will accumulate tax free
- Income tax is payable on any withdrawals
- QFM can be a life assurance company, bank, building society, stockbroker etc…

AMRFs

What is an Approved Minimum Retirement Fund (AMRF)?

Irish Life

- Similar to an ARF

But

- Capital can't be drawn on until
  - Client meets the guaranteed income requirement, or
  - Reaches age 75
- Until then can only withdraw growth on original investment amount

- An AMRF becomes an ARF
  - When the guaranteed income requirement is met
  - At age 75
  - On death

Approved Minimum Retirement Fund (AMRF)

Irish Life

- If a client does not have a guaranteed pension income of €12,700 they must
  - Put €63,500(or balance of fund if less) into an AMRF, ***or***
  - Use that amount to buy an annuity
- The client can split the €63,500 between annuity and AMRF
  - i.e. use €30,000 to purchase an annuity and place €33,500 in an AMRF
- Cannot have more than 1 AMRF plan
- An AMRF can be used to purchase an annuity at any time

Guaranteed Pension Income

- You must be <u>in receipt</u> of pension guaranteed for life of €12,700 pa at time you take ARF (or place €63,500 in AMRF / annuity)

- Full State Pension
  - Single - €230.30 per week (€11,975 pa)
  - Married €436.60 per week (€22,703 pa)

- A client in receipt of full state pension (€11,975) could use part of their fund to purchase an annuity of €725pa and will then meet the €12,700 requirement

Revenue only allow the single social pension to be taken into account as guaranteed income

Tax treatment of withdrawals

Tax on withdrawals

- All withdrawals are subject to income tax at client's marginal rate
  - PRSI and Universal Social Charge also due on withdrawals

- QFM must deduct tax at source

- QFM will deduct tax at higher rate unless provided with a Tax Credit Certificate
- The client will need to contact Revenue and quote the QFMs tax reference number
- Revenue will issue the Tax Credit Cert

  directly to the QFM

ARF & Vested PRSA Imputed Distribution

- Applies to ARFs set up after 6/4/2000
- Applies to the ARF equivalent held in Vested PRSAs
- Applies from the year client turns 61
- Will apply to AMRFs once they become ARFs
- Imputed annual withdrawal of 5% of the fund value less any withdrawals actually taken during the year
- Imputed distribution increases to 6% for clients with ARF and Vested PRSA funds over €2 million

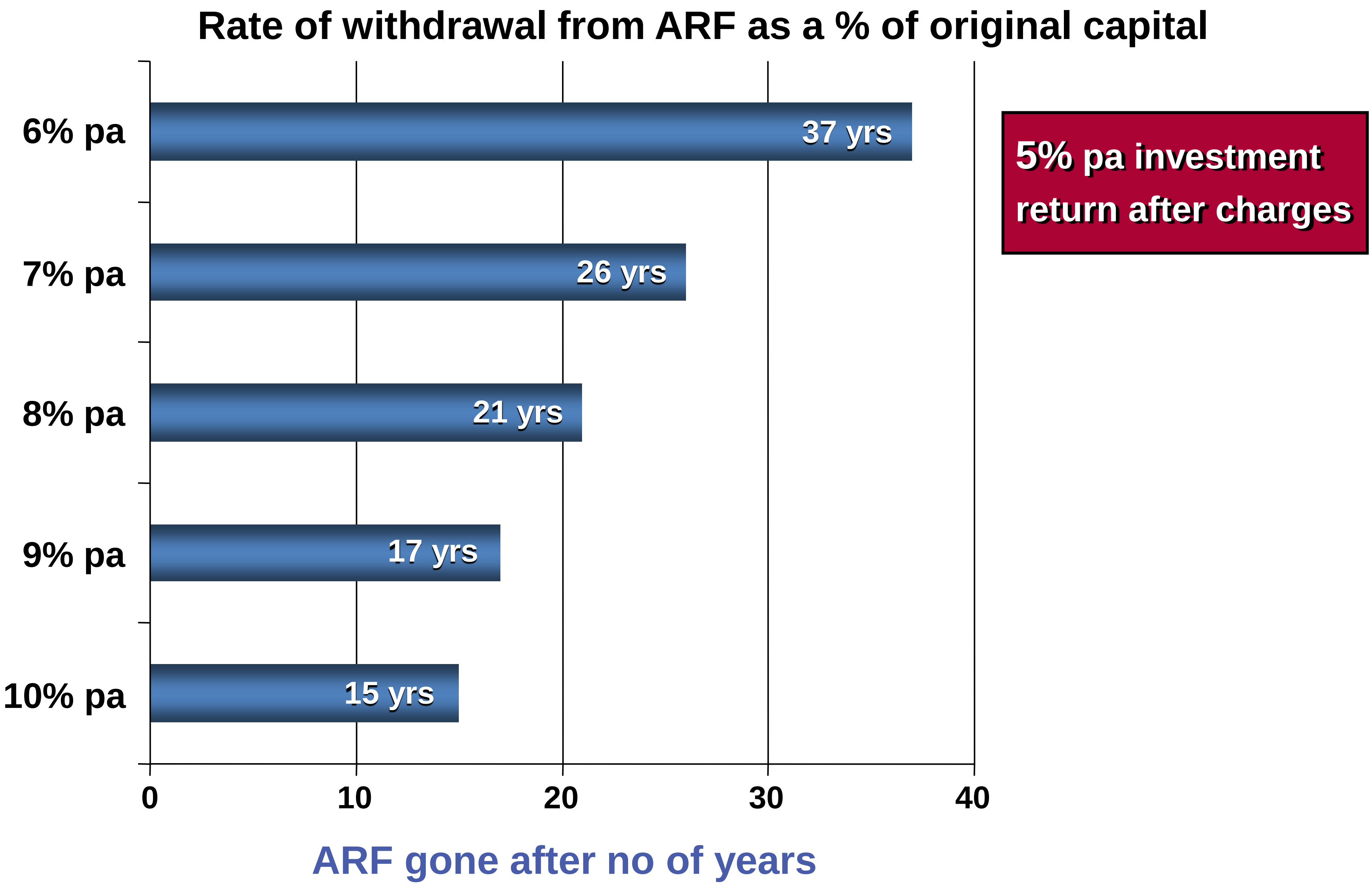
How Irish Life deal with this

- Minimum Annual Withdrawal Amount of 5%
- All Irish Life ARFs and Vested PRSAs checked mid-December to see if client has already taken a withdrawal
- If no withdrawal taken, or insufficient withdrawal (less than 5%) taken then an actual drawdown will be made for the shortfall and paid to client net of tax
- We will deduct appropriate income tax, PRSI & USC and send to Revenue

Example

- ARF €1m in December, Client aged 65
- Actual distribution 5% of €1m = €50,000
- QFM must deduct tax 41%, 4% PRSI & 7% USC
- 52% x €50,000 = €26,000
- QFM must pay €26,000 to Revenue
- ARF value after withdrawal = €950,000
- After tax amount client received = €24,000

Danger of income drawdown



Tax treatment on death

ARF, AMRF & Vested PRSA – Tax on Death

Irish Life

	Income Tax	Capital Acquisitions Tax
Transfer to ARF in spouse's or registered civil partner's name	None on transfer to ARF but future withdrawals from ARF subject to PAYE	None. Spouse's / Civil Partner's Exemption
Spouse / Civil Partner takes fund as a cash lump sum	Yes at deceased's marginal rate	None. Spouse's / Civil Partner's Exemption
To child 21 or over	Yes at 30% Rate	None
To child under 21	None	Yes. Child can inherit up to €225,000 without paying CAT. Excess subject to CAT at 33%
Anyone else	Yes at deceased's marginal rate	Yes. Can inherit up to certain limit any excess subject to CAT at 33%

ARF – Tax on Death

Irish Life

- Where individual dies after inheriting proceeds of ARF following death of their spouse or registered civil partner

	Income Tax	Capital Acquisitions Tax
To child 21 or over	Yes at 30% rate	None
To child under 21	None	Yes. Child can inherit up to €225,000 without paying CAT. Excess subject to CAT at 33%
Anyone else	Yes at 30% rate	Yes. Can inherit up to certain limit any excess subject to CAT at 33%

Annuities

What is an Annuity?

Irish Life

- A lump sum investment in return for a guaranteed income for life
- Ceases on death, unless
  - there’s an attaching dependants pension or
  - Guaranteed period (max 10 years)

- But capital control now gone

Annuity Types

- Single life - Ceases on death of annuitant and balance of fund reverts to life company

- Joint Life – on death of the annuitant pension paid to their spouse or dependant

- Guaranteed – annuity guaranteed paid for a certain period typically between 5 and 10 years

Example:

- annuity with 5 year guaranteed period
- Annuitant dies after 2 years
- Annuity will continue for another 3 years
- Life office may offer a lump sum payment in lieu of the outstanding annuity payments (if guaranteed period does not exceed 5 years)

Annuity Types

Irish Life

- Overlap – if death occurs within guaranteed period dependants element commences immediately plus a continuing payment of original annuity amount for balance of guaranteed period
- Without overlap – dependants element commences only at end of guaranteed period
- Level – annuity payments constant throughout
- Escalating – annuity payments increase each year by e.g. 3%

Annuity Types

Irish Life

- N.B. – options chosen at outset cannot subsequently be altered
- An annuity setup as joint life, 100% spouses pension, 10-year guarantee, with overlap and escalating at 3%
- A significantly reduced annuity rate
- Remember – one opportunity to get it right

Guaranteed Minimum Annuity Rates

- Available under some older contracts

- Maybe restrictive e.g.
  - Only apply to single life pension
  - Only available at NRA

- Always check as client may not be aware of existence of GAR

Irish Life's
Investment Protection Annuity

- This is a type of annuity available to those with ARF / AMRF options
- Same as a normal annuity, except

On Death

- Guarantees return of fund less total annuity payments already made
- Fund treated under ARF death rules

Sample Cost

The reduction in annuity rate will depend on the case but is typically between 12% and 18%

Taxation

- Annuity income subject to income tax and USC
- Individual set up as if employee of life company so Tax Credit Certificate required
- Client can contact Local Inspector of Taxes to get Tax Credit Certificate issued to us

ARF v Annuity

Advantages

Annuity

- Client buying a certainty
- Guaranteed income for life
- Pension can be guaranteed for 10 years
- Dependants pension can provide income in event of death and is guaranteed for life

ARF / AMRF

- Client can choose amount of income required
- Can invest in wide range of funds
- Fund passes to estate on death
- Older clients can avail of higher income when buying an annuity

Disadvantages

Irish Life

Annuity

- Annuities linked to long term interest rates and increasing life expectancy
- Annuity rates are very low at present
- Pension stops when client dies if not guaranteed for 5 or 10 years
- Dependants pension and escalation can be expensive option

AMRF/ARF

- High draw-down can deplete fund
- Fund could run out
- Client could invest in high risk fund which can fall in value
- Client is taking on investment risks

Issues to consider

Issues to consider on Retirement

Irish Life

- Retirement Age
- Does client need an income
  - amount required
- Size of fund
- State of health
- Current Annuity rates
- Financial and personal circumstances
- Dependants

- Income
  - State Pension ?
  - Other pensions - €12,700 pa ?
  - Other income
- Attitude towards
  - Own life span
  - Investment risk
  - Risk v return

Summary

- Full single state pension €11,975 pa
- Client must invest €63,500 in AMRF/ARF
- Annuity might be an option if client
  - wants guaranteed income
  - is risk adverse
- ARF might be an option if client
  - wants to pass fund onto estate
  - wants to defer purchasing annuity
  - wants control over investment
  - has a short life expectancy

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