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Irish Life

Options After Taking Retirement Benefits

Pension Advisory Services – Irish Life

Clients who took their retirement benefits at their normal retirement age and continued working in the company have two options if they want to continue pension funding.

Option 1 – Set up a PRSA	Option 2 – Top up existing benefits
Maximum Contribution 40% of salary Fund can provide additional: ▪ Retirement Lump Sum ▪ Annuity / ARF benefits	**Employer Contribution only** Can be used to enhance existing benefits, either ▪ Annuity, or ▪ ARF

Option 1 Setting up a PRSA

As the employee is now in non-pensionable employment he can take out a PRSA and receive income tax relief on the contribution paid. Assuming this client will be at least age 60 he can pay 40% of salary capped at €115,000.

Can the employer make contributions to the PRSA?

Yes. However the total employer and employee contributions must not be greater than 40% of the employee's salary. Any contributions over this amount will be treated as BIK for the employee.

The employee will have to pay the Universal Social Charge on any employer contributions to a PRSA.

Can the employee get a retirement lump sum from the PRSA?

Yes. When the client takes his benefits from the PRSA he can take 25% of the fund value as a retirement lump sum. The maximum tax free lump sum is €200,000 from all sources since 7 December 2005.

The balance can be used to purchase an annuity or be transferred to an ARF (subject to AMRF requirements) or left in the PRSA.

Does the employee have to retire in order to take benefits from the PRSA?

No. Once the client is age 60 he can take his benefits from the PRSA and does not have to retire.

If he is still in non-pensionable employment (or has income from a self employed profession) after taking benefits from the PRSA he can set up another PRSA and continue paying pension contributions until age 75. Income tax relief will only be granted if the client has relevant earnings.

Benefits must be taken by age 75.

Contributions can continue to be paid into PRSA plans after the retirement lump sum has been taken, however the client will not be entitled to another retirement lump sum. If the client wishes to receive another retirement lump sum he will need to take out a new PRSA policy.

Option 2 Top Up Existing Benefits

Where an employee takes benefits from their company pension scheme at normal retirement age and remains in employment the employer may be able to increase retirement benefits. The increased amount should follow the original investment route i.e. ARF or annuity.

When can an employer 'top-up' an employee's benefits?

If the employee remains in employment after taking his retirement benefits at normal retirement age from his company pension, then the employer can make additional contributions in order to make up for a shortfall in the employee's fund.

This is an employer company pension contribution and the money can then be used to increase the employee's existing ARF or annuity benefit.

What is the maximum additional payment an employer can pay?

The employer is making up for a shortfall in the member's fund in order to bring it up to the Revenue maximum based on the employee's salary and service at his normal retirement age. This will be capped at the Standard Fund Threshold.

The maximum contribution an employer can make will be the difference between the fund required to purchase an annuity of 2/3rds salary (reduced if less than 10 years service at NRA) and the actual fund available when the employee took his benefits.

Can an employee 'top-up' his ARF?

No. An employee can not pay employee contributions or AVCs to top up his ARF once he has taken his benefits.

However, the employee can contribute to a PRSA in respect of his current earnings, see option 1.

Can an employee get an additional retirement lump sum if the employer makes additional contribution to top-up his ARF?

No. Once a member has taken his retirement benefits no further retirement lump sum can be taken.

Can an employer make a contribution in respect of an ex-employee?

The Revenue has stated that such payments cannot be made for former employees except when allowing for inflation increases for pensions in payments. As such, the option of increasing retirement benefits is only open to those who remained in service after taking their benefits at normal retirement age.

Option 2 - Continued

A) ELIGIBILITY

1) Did the employee take retirement benefits on or after the scheme's NRA?
2) Did the employee remain in the same employment after taking retirement benefits?

If the employee can answer 'yes' to both of these questions then the employer may be able to increase the employee's retirement benefits.

B) HOW TO CALCULATE THE FUNDING GAP

How did the employee take their retirement benefits?

25% Lump Sum and ARF

1. Calculate the employee's maximum pension based on their salary and service up to their NRA. This will normally be 2/3rds of final salary (assuming at least 10 years service).
2. Run an annuity quote on www.pensionchoice.ie to determine the fund required to purchase that maximum pension based on employee's age today.
3. Using that purchase price subtract the value of their total pension benefits at NRA and any retained benefits they have from previous employments.
4. That final figure is the maximum single contribution the employer can pay.

Final Salary Lump Sum & Annuity

1. Calculate the employee's maximum pension based on their salary and service up to their NRA. This will normally be 2/3rds of final salary
2. Subtract the total annuity income the employee is currently receiving.
3. Run an annuity quote on www.pensionchoice.ie to determine the fund required to purchase the income difference based on the employee's age today
4. Subtract all pension lump sums and retained benefits.
5. That figure is the maximum single contribution the employer can use to purchase an additional annuity income for the employee.

Summary of Options

	Top Up ARF or Annuity	PRSA / Personal Pension
Contributions	Maximum contribution is shortfall between the Revenue maximum fund allowable and the actual fund value at NRA, capped at the SFT	40% of earnings, capped at €115,000. Assuming age 60+
Retirement Lump Sum	Not available	Yes, 25% of the fund
Choice ARF or Annuity?	No, must follow original route chosen when retirement benefits were first taken from that employment	Yes, normal retirement options available
BIK on employer contribution?	No	Yes, employee will pay USC on any employer contribution

The information contained in this document is based on Irish Life's understanding of legislation and Revenue practice as at April 2012 which may change in the future.