

PENSIONS
INVESTMENTS
LIFE INSURANCE



Irish Life

AN ADVISER'S GUIDE TO PENSIONS 2021

UPDATED FOR FINANCE ACT 2020



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AN ADVISER'S GUIDE TO PENSIONS

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Pensions are long term savings plans that can only be taken at retirement.



SECTION

1

PERSONAL PENSIONS

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 million. 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% |

Certain sportspeople can claim income tax relief at 30% of their net relevant earnings irrespective of age. For a full list see [section 8.3](#).

Income tax relief is given at the individual's marginal rate. There is no relief against Pay Related Social Insurance (PRSI) or the Universal Social Charge (USC). Restrictions may also apply where the individual has two sources of earnings one being from pensionable employment, see [section 8.4](#) for more information.

If the individual is self employed they must include their pension contributions in their self assessment tax returns in order to get income tax relief. Employees can apply to their local Inspector of Taxes to have their tax credits adjusted to reflect their pension contributions if income tax relief is being claimed in the year of payment.

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. Self assessed individuals must file their tax return online in order to get tax relief on their pension contributions.

A self assessment tax return must be completed in order to claim income tax relief in 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

PERSONAL PENSION PLANS

Before Age 75

On death before retirement benefits are taken, the full value of the plan is paid gross to the individual's estate. As an alternative the fund could be used to provide a spouse's pension.

The beneficiaries will be liable to inheritance tax on any lump sums received. There is no inheritance tax between legal spouses or between registered civil partners. See [section 7.6](#) for more information on inheritance tax.

Pension income is subject to income tax and USC in the hands of the spouse. See [section 7.1](#) for more information.

From Age 75

A personal pension automatically becomes a vested Retirement Annuity Contract (RAC) at 75 if the individual does not take retirement benefits, see [section 1.6](#) for more information. Vested RACs are treated the same as Approved Retirement Funds (ARFs) on death, see [section 7.5](#) for more information.

PERSONAL PENSION TERM ASSURANCE PLANS

Personal Pension Term Assurance plans can be taken out by anyone eligible for a personal pension – see [Section 1.1](#). There is no restriction on the amount of cover that can be provided (subject to underwriting).

The restrictions are on the amount of tax relief available on the contributions. The individual's personal pension term assurance contributions must be within the limits shown in [Section 1.3](#). These limits will include any other pension contribution the individual may be paying.

Where an individual becomes ineligible to claim tax relief on the personal pension term assurance contributions they can continue to pay the premium in order to keep the life cover, however they will not be able to claim income tax relief.

On death, benefits are paid gross to the individual's estate. As an alternative a spouse's pension could be provided.

The beneficiaries will be liable to inheritance tax. There is no inheritance tax between legal spouses or between registered civil partners. See [section 7.6](#) for more information on inheritance tax.

Pension income is subject to income tax and USC in the hands of the spouse. See [section 7.1](#) for more information.

1.5 RETIREMENT BENEFITS

RETIREMENT AGE

Retirement benefits can be taken at any stage from age 60. Benefits must be taken by age 75. For certain occupations retirement benefits can be taken earlier from age 50 or 55, see [section 8.2](#) for a full list.

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, retirement benefits can be taken from each plan 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 for life of €12,700 a year, or
- used €63,500 to purchase an annuity, or
- invested €63,500 in an Approved Minimum Retirement Fund (AMRF).

The guaranteed pension income can be made up of the State Pension personal rate and other pension income, see [section 7.2](#) for more information.

TRIVIAL PENSION

Where individuals have very small pension funds at retirement they may be able to take their fund as a once off taxable lump sum. This is subject to the limits set out below.

Trivial Pension Limits:

There are two ways a trivial pension can be provided.

Option A:

Where the value of **all** the individual's pension funds after payment of the retirement lump sum is less than **€30,000** then they can take the balance of the fund as a once off taxable payment subject to marginal rate income tax and the universal social charge.

Option B:

If the option available from **all** personal pensions and Personal Retirement Savings Accounts (PRSAs) relating to the same period of employment or self-employment does not exceed **€330** per annum then the fund can be paid out as a taxable lump sum. In this case the calculation should be done before the retirement lump sum is taken and should be based on a single life annuity rate with no escalation.

Under this option the balance of the fund after the retirement lump sum will be subject to income tax at 10%.

TAXATION TREATMENT

RETIREMENT LUMP SUM

| Lump Sum | Income Tax |
|----------------|---|
| First €200,000 | Exempt |
| Next €300,000 | 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:** Total income less than €13,000 is exempt from the USC. Where income exceeds €13,000 USC will be due at the rates below depending on the individual's circumstances.

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:** Total income less than €13,000 is exempt from the USC. Where income exceeds €13,000 USC will be due at the rates below depending on the individual's circumstances.

| Income Amount | USC Rate |
|-----------------------------|----------|
| Income up to €12,012 | 0.5% |
| Between €12,012 and €20,687 | 2% |
| Between €20,687 and €70,044 | 4.5% |
| Income in excess of €70,044 | 8% |

Full medical card holders and those over age 70 pay USC at the following reduced rates unless they have earnings greater than €60,000.

| Income Amount | USC Rate |
|-----------------------------|----------|
| Income up to €12,012 | 0.5% |
| Income in excess of €12,012 | 2% |

1.6 VESTED RAC

Retirement Annuity Contract (RAC) is the technical term for personal pensions. When an individual reaches 75 and has not taken retirement benefits from their personal pension the plan will automatically become a vested RAC. This is the only scenario whereby a personal pension can become a vested RAC.

When a personal pension becomes a vested RAC the individual has 30 days to complete a Benefit Crystallisation Event (BCE) Certificate. If a BCE Certificate is not completed then income tax at the higher rate (currently 40%) will be deducted from the pension fund as if they had exceeded the €2million Standard Fund Threshold (SFT), see [section 6.1](#) for an example of how this tax is calculated.

Once a personal pension becomes a vested RAC the individual will have no access to the plan. No retirement lump sum will be available, no withdrawals are allowed from the plan or transfers to ARFs or annuities. The imputed distribution requirement does not apply to vested RACs.

On death a payment to the individual's estate will be permitted and will be treated in the same way as an ARF on death, see [section 7.5](#) for more information.

| | |
|---|---|
| What happens on the individual's 75th birthday? | The personal pension plan will become a vested RAC. |
| Does the individual have to do anything? | Yes, they must complete a Benefit Crystallisation Event (BCE) Certificate within 30 days of their 75th birthday. |
| Where can the individual find the BCE Certificate? | For Irish Life plans the BCE Certificate is part of the Personal Pension retirement claim form . |
| What happens if the individual does not complete and return the BCE Certificate? | Income tax at a rate of 40% will be applied to their vested RAC. This tax will be paid over to the Revenue Commissioners. |
| Can the individual take a retirement lump sum from their personal pension? | A retirement lump sum is available before their 75th birthday. |
| What retirement options are available? | The retirement options set out in section 1.5 are available up until the individual's 75th birthday. |
| Can the individual take a withdrawal from their personal pension? | <p>Before their 75th birthday the individual can withdraw the balance of their pension after the retirement lump sum subject to meeting one of the following conditions</p> <ul style="list-style-type: none"> • Are in receipt of a guaranteed pension income of at least €12,700 a year • Have invested €63,500 in an AMRF • Have used €63,500 to purchase an annuity <p>The withdrawal will be subject to income tax and USC at the client's marginal rate. PRSI will also be due up to age 66.</p> |
| Can the value be left in the vested RAC after 75? | <p>Yes, but the client will have no access to the funds after their 75th birthday.</p> <p>If they want take a retirement lump sum, invest in an AMRF, ARF or purchase an annuity with their pension they must do so before their 75th birthday.</p> |
| Does the imputed distribution apply to vested RACs? | No. |
| How is a vested RAC treated on death? | A vested RAC is treated the same as an ARF on death, see section 7.5 for more information. |
| If the individual does not complete a BCE Certificate can the income tax deducted from the vested RAC be reclaimed by the estate after their death? | <p>The individual's personal representatives must complete a BCE Certificate and return it to the life office.</p> <p>Assuming the individual's total pension funds were within the Standard Fund Threshold (or Personal Fund Threshold if applicable) the life office will make an application to the Revenue Commissioners for a return of the income tax deducted.</p> |



SECTION

2

PRSA_s

2.1 ELIGIBILITY

Anyone who is resident in the Republic of Ireland with a Personal Public Service Number (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 Additional Voluntary Contribution (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 million. This is a lifetime limit and includes all pension benefits from all sources taken since 7 December 2005, see [section 6](#) for more information.

2.3 CONTRIBUTIONS & 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. Income tax relief is given at the individual's marginal rate. There is no relief against PRSI or the USC. Restrictions may also apply where the individual has two sources of earnings one being from pensionable employment, see [section 8.4](#) for more information.

Certain sportspeople can claim income tax relief at 30% of their relevant earnings irrespective of age. For a full list see [section 8.3](#).

If the individual is self employed they must include their pension contributions in their self assessment tax returns in order to obtain income tax relief. Employees can apply to their local Inspector of Taxes to have their tax credits adjusted to reflect their pension contributions if income tax relief is being claimed in the year of payment. Contributions deducted from salary will receive immediate income tax relief.

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. Self assessed individuals must file their tax returns online in order to get tax relief on their pension contributions.

For a PRSA AVC, contributions can only be backdated if the employee is still in the same employment. See [section 3.4](#) for more information.

A self assessment tax return must be completed in order to claim income tax relief in 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.

EMPLOYERS PRSA CONTRIBUTIONS:

Employers can make PRSA contributions for their employees. Employer PRSA contributions will receive corporation tax relief in the year of payment. See [section 3.10](#) for a comparison between PRSAs and Company Pensions.

Income tax implications: If the employer and employee contributions exceed the above limits, the employee is liable for income tax on the excess paid.

2.4 DEATH BENEFITS

On death before retirement benefits are taken the full value of the PRSA is paid gross to the individual's estate. As an alternative a spouse's pension could be provided from the fund.

The beneficiaries will be liable to inheritance tax. There is no inheritance tax between legal spouses or registered civil partners. See [section 7.6](#) for more information on inheritance tax.

Pension income is subject to income tax and USC in the hands of the spouse. See [section 7.1](#) for more information.

Vested PRSAs & PRSAs After Age 75

Vested PRSAs are treated the same as ARFs on death.

If the individual does not take retirement benefits from their PRSA by age 75 then it will automatically become a vested PRSA and will be treated the same as an ARF on death.

See [section 7.5](#) for more information.

2.5 RETIREMENT BENEFITS

RETIREMENT AGE:

Retirement benefits can be taken at any stage from age 60. Benefits must commence by age 75. For certain occupations retirement benefits can be taken earlier from age 50 or 55, see [section 8.2](#) for a full list.

Early Retirement

Employees who retire may be able to take early retirement from age 50 if,

- They have retired from Schedule E employment, and
- Are not working elsewhere either as an employee or self-employed.

20% directors must also dispose of their shareholding if taking early retirement.

Self-employed individuals cannot take benefits before age 60.

Ill Health Early Retirement

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.

2.5 RETIREMENT BENEFITS CONTINUED

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, retirement benefits can be taken from each plan at different times.

Where individuals have used their PRSA to make additional voluntary contributions (AVCs) their retirement benefits will be paid under company pension /AVC rules and in line with their main scheme. See [Section 3.8](#) for more information.

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 as a vested PRSA
- Invest in a separate ARF*
- Take as taxable cash*

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

- a guaranteed pension income for life of €12,700 a year, or
- used €63,500 to purchase an annuity, or
- invested €63,500 in an AMRF

The guaranteed pension income can be made up of the State Pension personal rate and other pension income, see [section 7.2](#) for more information.

OPTION TO LEAVE IN THE PRSA

Vested PRSA is the term used to describe a PRSA once the individual takes their retirement lump sum and leaves the balance invested in the PRSA.

A PRSA will also become a vested PRSA once an individual reaches age 75 and they have not taken retirement benefits. Restrictions apply to vested PRSAs from age 75 and the individual will have no access to the plan. No retirement lump sum will be available, no withdrawals are allowed from the vested PRSA or transfers to ARFs or annuities from age 75.

For more information on vested PRSAs see [Section 7.3](#).

TRIVIAL PENSION

Where individuals have very small pension funds at retirement they may be able to take their fund as a once off taxable lump sum. This is subject to the limits set out below.

Trivial Pension Limits:

There are two ways a trivial pension can be provided.

Option A:

Where the value of **all** the individual's pension funds after payment of the retirement lump sum is less than **€30,000** then they can take the balance of the fund as a once off taxable payment subject to marginal rate income tax and the universal social charge.

Option B:

If the option available from **all** Personal pensions and PRSAs relating to the same period of employment or self-employment does not exceed **€330** per annum then the fund can be paid out as a taxable lump sum. In this case the calculation should be done before the retirement lump sum is taken and should be based on a single life annuity rate with no escalation.

Under this option the balance of the fund after the retirement lump sum will be subject to income tax at 10%.

TAXATION TREATMENT

RETIREMENT LUMP SUM

| Lump Sum | Income Tax |
|----------------|---|
| First €200,000 | Exempt |
| Next €300,000 | 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:** Total income less than €13,000 is exempt from the USC. Where income exceeds €13,000 USC will be due at the rates below depending on the individual's circumstances.

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:** Total income less than €13,000 is exempt from the USC. Where income exceeds €13,000 USC will be due at the rates below depending on the individual's circumstances.

| Income Amount | USC Rate |
|-----------------------------|----------|
| Income up to €12,012 | 0.5% |
| Between €12,012 and €20,687 | 2% |
| Between €20,687 and €70,044 | 4.5% |
| Income in excess of €70,044 | 8% |

Full medical card holders and those over age 70 pay USC at the following reduced rates unless they have earnings greater than €60,000.

| Income Amount | USC Rate |
|-----------------------------|----------|
| Income up to €12,012 | 0.5% |
| Income in excess of €12,012 | 2% |



SECTION

3

COMPANY PENSIONS

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 percentage 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 percentage 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 below:

| 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 |

Where the employee leaves service with the employer or takes benefits before their normal retirement age the maximum benefits as shown above 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 million. This is a lifetime limit and includes all pension benefits from all sources taken since 7 December 2005.

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

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

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

CF = the capitalisation factor shown in the Capitalisation Factors table across the page

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 | | Female Current Age | Retirement Age | |
|---------------------|----------------|------|-----------------------|----------------|------|
| | 60 | 65 | | 60 | 65 |
| 30 | 72% | 54% | 30 | 67% | 49% |
| 35 | 86% | 63% | 35 | 80% | 58% |
| 40 | 108% | 76% | 40 | 100% | 69% |
| 45 | 144% | 95% | 45 | 133% | 86% |
| 50 | 216% | 126% | 50 | 200% | 115% |
| 55 | 432% | 189% | 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.

SINGLE CONTRIBUTIONS

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

$$[N / NS \times ((B \times CF) - \text{retained benefits})] - \text{value of assets}$$

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 capitalisation factor shown in the Capitalisation Factors table across

CAPITALISATION FACTORS

The capitalisation factors to be used are as follows:

| Normal Retirement Age | Female no spouse / civil partner | Female with spouse / civil partner | Male no spouse / civil partner | Male with spouse / civil partner |
|-----------------------|----------------------------------|------------------------------------|--------------------------------|----------------------------------|
| 60 | 27.5 | 30.0 | 24.4 | 32.4 |
| 61 | 26.8 | 29.2 | 23.6 | 31.6 |
| 62 | 26.0 | 28.4 | 22.8 | 30.8 |
| 63 | 25.3 | 27.5 | 22.0 | 30.0 |
| 64 | 24.6 | 26.7 | 21.2 | 29.2 |
| 65 | 23.8 | 25.9 | 20.4 | 28.4 |
| 66 | 23.1 | 25.1 | 19.6 | 27.6 |
| 67 | 22.4 | 24.3 | 18.9 | 26.8 |
| 68 | 21.6 | 23.5 | 18.1 | 26.0 |
| 69 | 20.9 | 22.6 | 17.4 | 25.2 |
| 70 | 20.2 | 21.8 | 16.7 | 24.4 |

Where the employee has less than three years to normal retirement age the funding calculation can be run using current annuity rates instead of the capitalisation factors above.

CONCURRENT EMPLOYMENT

Pension benefits from a concurrent employment do not have to be taken into account when running a maximum funding calculation. All pension benefits from the same and previous employments must be included.

An employment is concurrent if more than 50% of the service in the employment overlaps with the service in another employment. Where an employee has left service overlap will be determined based on years of service actually completed. Where an employee has not yet left service the overlap will be based on a best estimate of potential service up until normal retirement age.

| | Employment A | | Employment B | | Concurrent? |
|----|--------------|-------------|--------------|-------------|--|
| | Age Joining | Age Leaving | Age Joining | Age Leaving | |
| 1. | 20 | 50 | 30 | 65 | Yes (Overlap for A. is 20 years out of 30 = 67%) |
| 2. | 20 | 60 | 40 | 50 | Yes (Overlap for B. is 10 years out of 10 = 100%) |
| 3. | 30 | 45 | 40 | 60 | No (Overlap for A. is 5 years out of 15 = 33% and overlap for B. is 5 years out of 20 = 25%) |

REVENUE MAXIMUM FUNDING CALCULATIONS

You can use Irish Life's Revenue maximum funding calculator on www.blinc.ie to calculate the maximum regular and single contribution allowed.

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, with a minimum divisor of €6,350.

This is rounded up to two years if greater than one but less than two. Where the number is greater than two it is rounded to the nearer number of years (to a maximum of five). Fractions of exactly a half are rounded down, not rounded up in this case.

There is no option to backdate an employer pension contribution to previous tax years.

For more information on employer company pension contributions and tax relief see [section 3.11](#).

EMPLOYEE AND AVC CONTRIBUTIONS

As well as paying employee contributions, current employees can also pay AVCs or PRSA AVCs to supplement their retirement benefits from the company pension.

Employers who do not provide the facility to contribute AVCs to the main company pension scheme or to a group AVC scheme must give employees the opportunity to contribute AVCs to a Standard PRSA by way of salary deduction.

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. To claim income tax relief an individual must apply to their Inspector of Taxes to adjust their tax credits. Contributions deducted from salary will receive immediate income tax relief.

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 and the total of the employee and AVC contribution cannot exceed the tax relief limits shown below.

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

Certain sportspeople can claim income tax relief at 30% of their relevant earnings irrespective of age. For a full list see [section 8.3](#).

SINGLE CONTRIBUTIONS

A current 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. See [section 7.6](#) for more information on inheritance tax.

DEPENDENTS PENSION

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

Pension income is subject to income tax and Universal Social Charge in the hands of the recipient. See [Section 3.6](#) for more information.

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 gross 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.

See [section 7.6](#) for more information on inheritance tax.

3.6 RETIREMENT BENEFITS

RETIREMENT AGE

NORMAL RETIREMENT AGE

The normal retirement age can be set between ages 60 and 70. For certain occupations retirement benefits can be taken earlier from age 50 or 55, see [section 8.2](#) for a full list.

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 dispose of 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.

TERMINAL ILL HEALTH

Where an employee is terminally ill then the scheme may allow for the pension to be fully commuted and paid to the employee as a lump sum. In such circumstances the scheme administrators will require medical evidence demonstrating that the employee's life expectancy is measured in months rather than years. Prior Revenue agreement must be sought for cases involving 20% directors.

The employee will be entitled to receive a retirement lump sum as allowed for under the scheme rules, subject to overall Revenue maximum limits. The balance will be subject to tax at 10%.

RETIREMENT OPTIONS

The options available on retirement will depend on whether the company pension is a defined contribution or a defined benefit scheme.

| Pension Type | Option 1: Salary & Service | Option 2: ARF Options |
|--------------------|----------------------------|-----------------------|
| DC Pension Scheme* | YES | YES |
| DB Pension Scheme | YES | NO |

* For schemes approved prior to 6 February 2011 employees have the ARF option where the scheme rules allow this. Irish Life Retail one-member pensions are automatically updated at retirement to allow ARF options.

Benefits must be taken at the same time from all company pension, AVC and PRB 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.

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 | 63/80ths |
| 15yrs | 72/80ths |
| 16yrs | 81/80ths |
| 17yrs | 90/80ths |
| 18yrs | 99/80ths |
| 19yrs | 108/80ths |
| 20yrs | 120/80ths |

For more information on how to calculate the maximum retirement lump sum see our Adviser's Guide to Company Pension Retirement Options.

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 for life of €12,700 a year, or
- used €63,500 to purchase an annuity, or
- invested €63,500 in an AMRF

The guaranteed pension income can be made up of the State Pension personal rate and other pension income, see [section 7.2](#) for more information.

PRSA AVCs

If the employee paid AVCs into a PRSA they have the additional options of leaving the balance of the fund in the PRSA as a vested PRSA. See [Section 7.3](#) for more information on vested PRSAs.

3.6 RETIREMENT BENEFITS CONTINUED

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

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 have

- a guaranteed pension income of €12,700 a year, or
- used €63,500 to purchase an annuity, or
- invested €63,500 in an AMRF

The guaranteed pension income can be made up of the State Pension and other annuity income, see [section 7.2](#) for more information.

PRSA AVCs

If the employee paid AVCs into a PRSA they have the additional options of leaving the balance of the fund in the PRSA as a vested PRSA. See [Section 7.3](#) for more information on vested PRSAs.

TRIVIAL PENSION

Where individuals have very small pension funds at retirement they may be able to take their fund as a once off taxable lump sum. This is subject to the limits set out below.

Trivial Pension Limits:

There are two ways a trivial pension can be provided

Option A:

Where the value of **all** the individual's pension funds after the payment of the retirement lump sum is less than **€30,000** then they can take the balance of the fund as a once off taxable payment subject to marginal rate income tax and the Universal Social Charge.

Option B:

If the benefits payable from the pension scheme and any other scheme (including PRBs) relating to the same employment do not exceed **€330** per annum then the fund can be paid out as a taxable lump sum. In this case the calculation should be done before the retirement lump sum is taken and should be based on a single life annuity rate with no escalation.

Under this option the balance of the fund after the retirement lump sum will be subject income tax at a rate of 10%.

TAXATION TREATMENT

RETIREMENT LUMP SUM

| Lump Sum | Income Tax |
|----------------|---|
| First €200,000 | Exempt |
| Next €300,000 | 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:** Total income less than €13,000 is exempt from the USC. Where income exceeds €13,000 USC will be due at the rates below depending on the individual's circumstances.

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:** Total income less than €13,000 is exempt from the USC. Where income exceeds €13,000 USC will be due at the rates below depending on the individual's circumstances.

| Income Amount | USC Rate |
|-----------------------------|----------|
| Income up to €12,012 | 0.5% |
| Between €12,012 and €20,687 | 2% |
| Between €20,687 and €70,044 | 4.5% |
| Income in excess of €70,044 | 8% |

Full medical card holders and those over age 70 pay USC at the following reduced rates unless they have earnings greater than €60,000.

| Income Amount | USC Rate |
|-----------------------------|----------|
| Income up to €12,012 | 0.5% |
| Income in excess of €12,012 | 2% |

3.7 MIXTURE OF DB AND DC BENEFITS FOR THE SAME EMPLOYMENT

Where an employee has a mixture of DB and DC pension benefits relating to the same employment they can avail of the ARF and taxable lump sum options from their DC scheme. However, certain conditions do apply

- As with all company pensions, irrespective of how they actually take retirement benefits their total pension benefits cannot exceed the overall Revenue maximum limits, i.e. a pension of 2/3rds final salary where there is at least 10 years service with the employer.
- If the employee takes their maximum salary & service retirement lump sum from the DB scheme, e.g. of up to 1.5 times final salary, then no further retirement lump sum can be taken from the DC scheme.
- If the employee decides to take their retirement lump sum benefit under the salary & service route, the maximum retirement lump sum can be paid from the DC scheme, or by commuting the DB pension, or a mixture of both. The remainder of the DC scheme assets must be used to purchase an annuity. Any AVCs will continue to have the ARF option.
- If the employee opts to take a retirement lump sum of up to 25% of the DC value, then ARF options will be available from the remainder of the DC scheme and AVC assets.

The DB scheme will only have the salary & service retirement lump sum option. If the 25% retirement lump sum paid from the DC scheme is greater than the maximum salary & service retirement lump sum then no further retirement lump sum is payable from the DB scheme.

However, if the 25% retirement lump sum is less than the maximum salary & service retirement lump sum then a further retirement lump sum is available from the DB scheme. This should be calculated by the DB scheme administrator in line with their scheme rules, but capped at the Revenue maximum salary & service retirement lump sum less the 25% retirement lump sum paid from the DC scheme.

3.8 OPTIONS ON LEAVING SERVICE OR SCHEME WIND UP

On scheme wind up or where an employee leaves service before reaching the normal retirement age of the scheme the options available will depend on the length of service they have completed in the pension scheme.

Preserved benefit: Employees with more than two years qualifying service in the scheme on leaving service are entitled to a preserved benefit under the Pensions Act 1990 and have the options below.

Employees with less than two years qualifying service may also have these options depending on the rules of the pension scheme.

Qualifying Service is where

- the member has completed at least two years service in the pension scheme or any pension scheme with this employer, or
- the member has at least two years service when combining the service in the pension scheme with service relating to any transfer value paid into the scheme

1. PRESERVED BENEFIT IN THE PENSION SCHEME (NOT AVAILABLE ON SCHEME WIND UP):

Assuming the company pension scheme is not being wound up the member may be able to leave their pension benefits in the scheme until they reach their normal retirement age.

Defined Contribution Schemes: For DC Schemes the preserved benefit will be based on the value of the contributions paid to the scheme by the employee and employer on behalf of that member.

Defined Benefit Schemes: For DB Schemes the employee's entitlement will be based on the scheme rules.

2. TRANSFER TO A PERSONAL RETIREMENT BOND (PRB):

The value of the company pension may be transferred to a PRB in the employee's own name.

The options available at retirement will be the options which were available under the company pension scheme. For more information on PRBs see [Section 4](#).

3. TRANSFER TO A PRSA

If the employee has less than 15 years service in the company pension scheme with his employer (including service in any other pension scheme relating to that employer or an associated employer) then he can transfer to a PRSA.

A Certificate of Comparison will be required where

- the transfer value is greater than €10,000, and
- the pension scheme is not being wound up.

See [Section 2](#) for more information on PRSAs and the retirement options available.

NOTE:

If the employee has more than 15 years service in the pension scheme then he does not have the option to transfer to a PRSA.



3.8 OPTIONS ON LEAVING SERVICE OR SCHEME WIND UP CONTINUED

4. TRANSFER TO A NEW EMPLOYER'S COMPANY PENSION SCHEME

If the employee has joined a company pension scheme with a new employer then they may have the option to transfer their benefits from their previous employer to the new scheme.

Alternatively if the company pension scheme with the previous employer is a one-member scheme the new employer may be able to take over the scheme by completing a supplementary letter of exchange.

5. EARLY RETIREMENT

If the employee has reached age 50 then they may be able to avail of early retirement and take their benefits immediately with the agreement of the employer and scheme trustees. Benefits payable will be those available under the company pension scheme on early retirement.

LESS THAN 2 YEARS QUALIFYING SERVICE

REFUND OF CONTRIBUTIONS

Where the employee has less than two years qualifying service in the scheme for retirement benefits then on leaving service they may receive a refund of their own contributions. This refund will be subject to standard rate tax at 20%.

Under the standard Irish Life rules for one-member schemes, it is the employee who decides whether or not they want to take a refund. It is not the employer's decision. Where this option is selected the employer contributions will be refunded to the company who should treat the refund as a trading receipt.

NOTE:

Refund of contribution option is not available to 20% directors.



TRUSTEE OPTIONS

Where the employee has a preserved benefit the trustees can transfer that benefit without the employee's consent either after the employee left service or on wind up of the scheme. See [section 4.2](#) for more information.

DB SCHEMES – DEFICIT OF ASSETS ON WIND UP

In the event that on wind up the assets available from the defined benefit scheme are not enough to secure the required benefits for all employees the Pensions Act sets out the priority order in which benefits must be secured.

For schemes which start to wind up on or after 25 December 2013 one of the following priority orders will apply

- a) If the scheme's employer is solvent at the date of wind up then the single insolvency order will apply
- b) If the scheme's employer is insolvent at the date of wind up then the double insolvency order will apply.

SINGLE INSOLVENCY

Under a single insolvency the priority order for distribution of benefits are as follows:

- 1) AVCs and transfers in of AVCs; and DC benefits, including transfers in of DC benefits.
- 2) Pensions in payment (excluding post retirement increases) in accordance with the following limits
 - a. 100% of the pension if €12,000 a year or less
 - b. For pensions between €12,000 and €60,000 a year, the greater of €12,000 and 90% of the pension will be secured
 - c. If the annual pension is greater than €60,000, the greater of €54,000 and 80% of the pension will be secured
- 3) 50% of active and deferred benefits (excluding post retirement increases)
- 4) Remaining pensions in payment will be secured (excluding post retirement increases)
- 5) Remaining active and deferred benefits (excluding post retirement increases)
- 6) Any remaining benefit, including post retirement increases.

DOUBLE INSOLVENCY

Under a double insolvency the priority order for distribution of benefits are as follows:

- 1) AVCs and transfers in of AVCs; and DC benefits, including transfers in of DC benefits
- 2) 50% of pensioner benefits, including post-retirement increases
- 3) 50% of active and deferred benefits, including post-retirement increases
- 4) Pensioner benefits up to a maximum of €12,000 a year (excluding post retirement increases)
- 5) Remaining pensioner benefits (excluding post retirement increases)
- 6) Remaining active and deferred benefits (excluding post retirement increases)
- 7) Any remaining benefits, including post-retirement increases.

The benefits which scheme members receive in a wind up will depend upon the scheme assets which are available for distribution.

However, in a double insolvency, if the scheme does not have enough assets to pay for the benefits under 2, 3, & 4 above the Government can provide the necessary money to make up the shortfall.

3.9 SUMMARY COMPARISON COMPANY PENSION TRANSFER OPTIONS

| | Staying in old employer's scheme | Transferring to new employer's scheme | Transfer to Personal Retirement Bond | Transferring to a PRSA |
|---|--|---|--|---|
| Retirement Lump sum calculation | (1) Lump sum based on salary and service with old employer. or (2) 25% of fund option available if old employer's scheme is DC. | (1) Lump sum based on salary and service with new employer, plus an additional lump sum calculation based on the salary and service with the old employer. This additional calculation should be no greater than if the member had remained in the original scheme. or (2) 25% of fund option available if new employer's scheme is DC. | (1) Lump sum based on salary and service with old employer. or (2) 25% of fund option available. | No option for lump sum to be based on salary and service with old employer. (1) Retirement lump sum is based on 25% of the fund. |
| Availability of ARF option | Yes - If scheme was a DC Scheme whose rules allow employees to avail of ARF options. Yes - If member was a 5% director. No - If scheme was a DB scheme. | Yes - If scheme is a DC Scheme whose rules allow employees to avail of ARF options. Yes - If member was a 5% director. No - If scheme is a DB scheme. | Yes - ARF options are now available on all PRBs irrespective of whether they came from a DB or DC scheme. | Yes – ARF options available. |
| Option to take benefits at different times | Benefits from old employer's scheme could be taken at a separate time to benefits from new employer's company scheme (if any). | Combined benefits must be taken at the one time. | Benefits from PRB could be taken at a separate time to benefits from new employer's company scheme (if any). | Benefits from PRSA could be taken at a separate time to benefits from new employer's company scheme (if any). |
| Early Retirement Rules | Depends on scheme rules, however generally early retirement will be available from age 50. | Depends on scheme rules, however generally early retirement will be available from age 50 provided member is retiring from the new employer. | Generally early retirement will be available from age 50, unless trustees of old employer's scheme put a restriction on the PRB preventing early retirement before the old scheme NRA. | Available for employees from age 50 provided he is retiring from his current employment. No early retirement option before age 60 for the self-employed. Retirement benefits can be taken from age 60 without leaving employment. |
| Death Benefits | Full value of preserved benefit paid to estate (assuming over 2 years qualifying service). | 4 times salary with new employer, plus a return of value of employee contributions/ AVC. No additional allowance for value transferred from old employers scheme. | Full value of preserved benefit paid to estate (assuming over 2 years relevant service). | Full value paid to estate. |
| Trustee | The benefits remain held in trust under the old employer's scheme, and the trustees of the old scheme remain responsible for the benefits. | The benefits are held in trust under the new employer's scheme, and the trustees of the new scheme remain responsible for the benefits. | The benefits are held under a contract with the life office. The member is the policyholder. | The benefits are held under a contract with the PRSA provider. The member is the policyholder. |
| Preserved Benefit / Refund Option | If member had more than 2 years service then he qualifies for preserved benefits under the Pensions Act 1990 and no refund option is available. | If member had more than 2 years service with the old employer then he immediately qualifies for preserved benefits in respect of the new employer's scheme and no refund option is available. | Refunds are not permitted to either employer or member. | Refunds are generally not permitted. Refunds are only permitted where the value is less than €650 and no amount has been paid into the PRSA in the previous 2 years. |

3.10 COMPARISON PRSAs VS. COMPANY PENSIONS

| Contract Type | Salary Deducted PRSA | Company Pension Scheme (one-member DC arrangement) | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-----------------------------|--|---|-------------|----------|-----|---------|-----|---------|-----|---------|-----|---------|-----|-------------|-----|--|-----|-------------|----------|-----|---------|-----|---------|-----|---------|-----|---------|-----|-------------|-----|
| Policy Owner | The client owns the policy. | Must be set up under trust for the benefit of the employee. The trustee owns the policy. | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Retirement Age | Benefits can be taken between age 60 and 75. An employee who leaves current employment can take benefits from age 50. | Normal retirement age can be set between 60 and 70. An employee who leaves the relevant employment can take benefits from age 50. | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Employer Contributions | The employer does not need to contribute. Any employer payments that bring the total contributions over the limits below will incur a BIK liability for the employee. From 1 January 2016 employees no longer have to pay the Universal Social Charge on employer PRSA contributions. | The employer must make a "meaningful contribution". There is no BIK liability for the employee on employer contributions to a company pension scheme. The employer can contribute as much as is needed to provide the maximum benefits allowed by Revenue at retirement. | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Employee Contributions | The employee and employer can contribute up to the limits below and claim tax relief, subject to a salary cap of €115,000. <table border="1"> <thead> <tr> <th>Age</th> <th>% of salary</th> </tr> </thead> <tbody> <tr> <td>Under 30</td> <td>15%</td> </tr> <tr> <td>30 – 39</td> <td>20%</td> </tr> <tr> <td>40 – 49</td> <td>25%</td> </tr> <tr> <td>50 – 54</td> <td>30%</td> </tr> <tr> <td>55 – 59</td> <td>35%</td> </tr> <tr> <td>60 and over</td> <td>40%</td> </tr> </tbody> </table> | Age | % of salary | Under 30 | 15% | 30 – 39 | 20% | 40 – 49 | 25% | 50 – 54 | 30% | 55 – 59 | 35% | 60 and over | 40% | The employee can contribute up to the limits below and claim tax relief, subject to a salary cap of €115,000. <table border="1"> <thead> <tr> <th>Age</th> <th>% of salary</th> </tr> </thead> <tbody> <tr> <td>Under 30</td> <td>15%</td> </tr> <tr> <td>30 – 39</td> <td>20%</td> </tr> <tr> <td>40 – 49</td> <td>25%</td> </tr> <tr> <td>50 – 54</td> <td>30%</td> </tr> <tr> <td>55 – 59</td> <td>35%</td> </tr> <tr> <td>60 and over</td> <td>40%</td> </tr> </tbody> </table> | Age | % of salary | Under 30 | 15% | 30 – 39 | 20% | 40 – 49 | 25% | 50 – 54 | 30% | 55 – 59 | 35% | 60 and over | 40% |
| Age | % of salary | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Under 30 | 15% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 30 – 39 | 20% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 40 – 49 | 25% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 50 – 54 | 30% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 55 – 59 | 35% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 60 and over | 40% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Age | % of salary | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Under 30 | 15% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 30 – 39 | 20% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 40 – 49 | 25% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 50 – 54 | 30% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 55 – 59 | 35% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 60 and over | 40% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Employee Tax Relief | Tax relief given at source where employer operates a net pay arrangement. | Tax relief given at source where employer operates a net pay arrangement. | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Employer Tax Relief | The company gets corporation tax relief on contributions paid into the PRSA. | The company gets corporation tax relief on contributions paid into the Company Pension. | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Retirement Benefits | The benefits provided will depend on the size of the fund when the employee retires. Lump Sum Option: 25% of the value of the PRSA fund Balance of Fund Options: <ul style="list-style-type: none"> • Purchase an annuity • Leave in the PRSA as a vested PRSA • Invest in an ARF* • Take as taxable lump sum** <p>* This option is subject to meeting either the guaranteed income requirement of €12,700pa or the AMRF / annuity purchase price requirement of €63,500. ** This option is subject to meeting either the guaranteed income requirement of €12,700pa or the AMRF / annuity purchase price requirement of €63,500 or keeping a minimum of €63,500 in the vested PRSA.</p> <p>Annuity payments and withdrawals from ARFs, AMRFs and vested PRSAs will be subject to income tax, USC and PRSI where applicable.</p> <p>There is no access to vested PRSA funds after age 75, see section 7.3 for more information.</p> | The benefits provided will depend on the size of the fund when the employee retires. Option 1: Lump Sum Option: Based on member's salary and service, to a maximum of 150% of final salary based on having 20 years service at Normal Retirement Age. Reduced lump sum available for shorter service and early retirement. Balance of Fund Option <ul style="list-style-type: none"> • Purchase an annuity • AVCs can be invested in an ARF or taken as taxable cash* Option 2 (For DC schemes): Lump Sum Option: 25% of the value of the pension fund Balance of Fund Options: <ul style="list-style-type: none"> • Purchase an annuity • Invest in an ARF* • Take as taxable lump sum* <p>*These options are subject to meeting either the guaranteed income requirement of €12,700pa or the AMRF / annuity purchase price requirement of €63,500. Annuity payments and withdrawals from ARFs, AMRFs and vested PRSAs will be subject to income tax, USC and PRSI where applicable.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Ill Health Early Retirement | Pension benefits can be taken at any age where the employee is permanently incapable of carrying out their own occupation. | Pension benefits can be taken at any age with employer and trustee consent where the employee is permanently incapable of carrying out their own occupation. | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Death Benefits | On death the value of the PRSA is paid to the deceased's estate. All death benefits are subject to inheritance tax, except where inherited by the deceased's legal spouse or registered civil partner. See section 7.6 for more information on inheritance tax. | Death in Service: where the employee dies while still in service with the employer benefits are as follows; <ul style="list-style-type: none"> • lump sum 4 x salary (taking lump sums from previous employments into account) • the value of any employee and AVC contributions • a spouse's / dependant's pension not greater than the employee's entitlement had he retired on ill health grounds. Preserved Benefit: if the employee left service with the employer before he died and had a preserved benefit then the full value of the employee's fund is paid to his estate. All lump sum death benefits are subject to inheritance tax, except where inherited by the deceased's legal spouse or registered civil partner. See section 7.6 for more information on inheritance tax. | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

UNIVERSAL SOCIAL CHARGE AND EMPLOYER PRSA CONTRIBUTIONS

PRSAs

The taxation treatment of an Employer contribution to a PRSA is that it is treated as Benefit-in-Kind for the Employee. This means the tax treatment of an employer contribution to a PRSA is as follows:

- Employer PRSA contributions are subject to income tax.
- The individual employee will immediately receive relief on income tax within limits as if they had paid the contribution themselves. The net effect is that in most cases the employee will be in the same net position for income tax as if BIK did not apply.
- Since 1 January 2016 employees no longer have to pay the Universal Social Charge on employer PRSA contributions. Prior to 1 January 2016 employees had to pay the USC on all employer PRSA contributions.

COMPANY PENSIONS

Employer contributions to an exempt approved company pension arrangement are not a Benefit-In-Kind for the employee.

As a result employer contributions to a company pension do not result in an income tax, PRSI or USC liability for the employee.

3.11 EMPLOYER CONTRIBUTIONS & TAX RELIEF FAQ

REGULAR CONTRIBUTIONS:

Q1. What do Revenue consider a regular contribution (or ordinary contribution)?

A1. A regular contribution is one which is paid for at least three consecutive years. The timing of the contributions for each of the three years as monthly, annual, ad hoc or a mix of these, does not matter for tax relief purposes. All contributions must be within overall Revenue maximum limits.

Q2. What tax relief is available on employer regular contributions?

A2. Employer regular contributions are allowed as a deduction for tax purposes. The employer can avail of corporation tax relief in the year of payment. No tax deduction can be given for a contribution that is due but not actually paid.

Q3. What happens if the employer tops up the regular contribution, will they get tax relief on the top up amount in the year of payment as well?

A3. If the employer will continue to pay the increased regular contribution into future years, they can claim tax relief on the total regular contribution (original amount + top up amount) in the year of payment.

Q4. How does the employer / accountant put through the employer regular contribution in their year-end accounts?

A4. As part of their company accounts the employer regular contribution should be included in the expenses section as a pension contribution. Where the employer is also claiming relief on a single contribution they need to calculate how much of the single contribution can be included and then add that to the regular contribution being claimed. See [Q10](#) for how to calculate the spreading of tax relief on a single contribution.

SINGLE CONTRIBUTIONS:

Q5. What do Revenue consider a single contribution (or special contribution)?

A5. A single contribution or special contribution is a contribution which is not a regular contribution, e.g. it will not continue to be paid in future years. All contributions must be within overall Revenue maximum limits.

Q6. What tax relief is available on employer single contributions?

A6. Employers' can avail of corporation tax relief on single contributions made into pension schemes for their employees. However, depending on the size of the single contribution and their regular contributions they may be required to spread the tax relief over a number of years, to a maximum of five years.

Q7. Can an employer make a pension contribution and backdate it to a previous tax year?

A7. No. There is no option to backdate an employer pension contribution to previous tax years. Employers can only claim relief on contributions made in that year, and in certain cases relief on single contributions is spread over future years, see [Q6](#).

Q8. If an employer is paying a single contribution for one employee do I just need to compare it to the regular contribution for that employee to see how many years the tax relief on the single contribution has to be spread over?

A8. No. The calculation is based on the **total** employer single contribution and the **total** employer regular contribution for **all** employees, in that company year, see [Q10](#) for the calculation.

Q9. How does the employer / accountant put through the employer single contribution in their year-end accounts?

A9. First they need to calculate how many years the tax relief on the single contribution has to be spread over, see [Q10](#).

Once done the amount of the single contribution that can be claimed in the current year is added to the total employer regular contributions for that year and included in the expenses section of the company accounts as a pension contribution.

Q10. How do I calculate the number of years the tax relief has to be spread over?

A10. To calculate this you need to know

- (1) the total employer regular contribution for all directors and employees and
- (2) the total employer single contribution for all directors and employees

Calculation:

$$\frac{\text{Total employer single contribution}}{\text{Total employer regular contribution}} = \text{number of years relief is to be spread forward}$$

Notes:

- If total regular contribution is less than €6,350 a year then divide single contribution by €6,350
- Relief is spread forward to a maximum of five years.
- If the employer is carrying forward relief from a past single contribution this is added to the current year single contribution
- If number of years is greater than one but less than two, round up to two years.
- Where number of years is greater than two, round to the nearest whole number to a maximum of five
- Fractions of a half or less are rounded down
- Fractions greater than a half are rounded up

Example:

| | |
|--------------------------------------|-----------------------------------|
| Total employer single contribution: | €300,000 |
| Total employer regular contribution: | €35,000 |
| No. of years relief spread over: | $300,000 / 35,000 = 8.57$ years |
| Maximum of five years: | $€300,000 / 5 = \mathbf{€60,000}$ |

The employer can get tax relief on the single contribution by including €60,000 in the company accounts each year over the next five years.

TAX RELIEF EXAMPLES:

Example 1: Employer making single contribution and regular contributions.

John Murphy is a director and employee of Company ABC Ltd. The company pays a regular contribution of €2,000 a month to a pension scheme for John. Before the end of the year they want to pay an additional single contribution of €50,000 to John's pension scheme.

The company also makes regular pension contributions of €1,000 a month for each of their four other employees.

| | Regular Contribution | | Single Contribution |
|----------------|---------------------------------|----------------|---------------------|
| John Murphy | $€2,000 \times 12 =$ | €24,000 | €50,000 |
| Four employees | $(€1,000 \times 12) \times 4 =$ | €48,000 | €0 |
| Total | | €72,000 | €50,000 |

As the total employer single contribution of €50,000 is less than the total employer regular contribution Company ABC can claim tax relief on the full €50,000 single contribution in the year it's paid.

Example 2: Employer making single contribution and starting regular contributions.

Company DEF Ltd are setting up a company pension scheme for one of their employees in October. The employer contribution will be €2,000 a month. They are not currently paying into pensions for other employees.

As the pension scheme is being set up in October there will only be three monthly contributions made in the first year so to make up the difference the employer is also making a single contribution of €18,000, giving a total employer contribution of €24,000.

As Company DEF is paying the same total amount in the first year as in future years the single contribution of €18,000 can be treated as a regular contribution for tax purposes and tax relief claimed in the year of payment.

| | Year 1 | Year 2 | Year 3 |
|-------------------------------|----------------|----------------|----------------|
| Employer Regular Contribution | €6,000 | €24,000 | €24,000 |
| Employer Single Contribution | €18,000 | €0 | €0 |
| Total | €24,000 | €24,000 | €24,000 |

Example 3: Employer making single contribution with no regular contributions.

Company LMN Ltd make a single contribution of €70,000 to a pension scheme for one of their employees.

The company is not making regular employer contribution for their employees so the tax relief on the single payment must be spread over five years. The employer can therefore claim relief against a payment of €14,000 every year for five years.

Calculation:

- Normally to calculate the number of years the single contribution is divided by the regular contribution. But with no regular employer payment the minimum divisor of €6,350 must be used.
- $€70,000 / €6,350 = 11.02$
- The maximum number of years tax relief is spread over is five years.
- $€70,000 / 5 = €14,000$



SECTION

4

PERSONAL RETIREMENT BONDS

4.1 ELIGIBILITY

Personal Retirement Bonds (PRBs) also known as Buy Out Bonds are taken out by trustees of company pension schemes for former members. They are personal contracts taken out in the employee's own name and provides retirement benefits instead of the pension scheme.

PRBs can be taken out in the following situations

- when the employee leaves service, or
- when the employee leaves the pension scheme such as on wind up of the scheme

PRBs cannot be used to amalgamate retirement benefits from different employments.

4.2 COMPULSORY TRANSFERS

Trustees can transfer members' benefits to PRBs without their consent in certain situations such as on scheme wind up.

Where the transfer arises other than on wind up of the scheme trustees can only compulsory transfer if

- the transfer is less than €10,000, or if the transfer is more than €10,000 and the Pensions Authority has approved an application from the trustees to make the transfer payment
- at least two years has passed since the member left employment
- the member has not already applied to the trustees to make a transfer payment
- If the scheme is defined benefit, there has been no reduction in the transfer value as a result of the scheme not meeting the funding standard at that time.

4.3 ALLOWED TRANSFERS INTO A PRB

PRBs can accept transfers from the following types of pension arrangements.

- from defined contribution pension schemes
- from defined benefit pension schemes
- from another PRB
- Certain PRBs may be able to accept transfers from UK pension schemes set up under trust if they have registered as QROPS with HM Revenue & Customs (UK Revenue). The Irish Life PRBs do not have QROPS status and therefore cannot accept transfers coming from the UK.

Top ups are generally not allowed on PRBs. A top up is only possible if it relates to the same original employment and trustees.

SPLIT TRANSFERS

Company pension scheme benefits can be transferred to one or more than one PRB. However, where the transfer is split between a number of PRBs and the client takes their retirement lump sum under the salary and service route only one PRB can pay out the retirement lump sum. The trustees must elect when setting up the PRBs which one can pay out the lump sum.

Benefits from all PRBs and company pensions relating to the same employment must be taken at the same time.



4.4 ALLOWED TRANSFERS OUT OF A PRB

PRBs can be transferred to the following types of pension arrangements

- a defined contribution pension scheme with a new employer
- a defined benefit pension scheme with a new employer
- another PRB

PRBs may be able to transfer to a pension arrangement in the United Kingdom. All overseas transfer requests must be assessed on a case by case basis. See [section 5.5](#) for more information.

4.5 DEATH BENEFITS

On death before retirement benefits are taken the full value of the PRB is paid gross 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. See [section 7.6](#) for more information on inheritance tax.

If the employee continues in the same employment and rejoins a company pension scheme then benefits are paid under company pension death in service rules. See [section 3.6](#) for more information.

4.6 RETIREMENT BENEFITS

RETIREMENT AGE

NORMAL RETIREMENT AGE

This will be the retirement age of the original company pension scheme, between ages 60 and 70. For certain occupations retirement benefits can be taken earlier from age 50 or 55, see [section 8.2](#) for a full list.

EARLY RETIREMENT

Can be taken from age 50 on leaving service with the employer, subject to no restrictions being placed on the PRB by the trustees when the contract was taken out. 20% directors must also dispose of their shareholding.

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.

RETIREMENT OPTIONS

| Pension Type | Option 1: Salary & Service | Option 2: ARF Options |
|----------------------|----------------------------|-----------------------|
| PRBs from DC Schemes | YES | YES |
| PRBs from DB Schemes | YES | YES |

All company pension and PRB benefits relating to the same employment must be taken at the same time and under the same route.

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 employment. The trustees will confirm the maximum lump sum available when transferring benefits to the PRB.

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 or PRSA AVCs they can be used to bring their retirement lump sum from the PRB up to the maximum allowed by the Revenue Commissioners under withdrawal from service rules.

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 have

- a guaranteed pension income for life of €12,700 a year, or
- used €63,500 to purchase an annuity, or
- invested €63,500 in an AMRF

The guaranteed pension income can be made up of the State Pension personal rate and other pension income, see [section 7.2](#) for more information.

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 as a vested PRSA. See [section 7.3](#) for more information on vested PRSAs.

OPTION 2: ARF ROUTE

Retirement Lump Sum:

The individual can take a retirement lump sum of up to 25% of PRB and any AVC and PRSA AVC plans relating to the same employment.

Balance of the Fund

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 have

- a guaranteed pension income of €12,700 a year, or
- used €63,500 to purchase an annuity, or
- invested €63,500 in an AMRF

The guaranteed pension income can be made up of the State Pension and other annuity income, see [section 7.2](#) for more information.

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 as a vested PRSA. See [section 7.3](#) for more information on vested PRSAs.

4.6 RETIREMENT BENEFITS CONTINUED

TRIVIAL PENSION

Where individuals have very small pension funds at retirement they may be able to take their fund as a once off taxable lump sum. This is subject to the limits set out below.

Trivial Pension Limits:

There are two ways a trivial pension can be provided

Option A:

Where the value of **all** the individual's pension funds after the payment of the retirement lump sum is less than **€30,000** then they can take the balance of the fund as a once off taxable payment subject to marginal rate income tax and the Universal Social Charge.

Option B:

If the benefits payable from the pension scheme and any other scheme relating to the same employment do not exceed **€330** per annum then the fund can be paid out as a taxable lump sum. In this case the calculation should be done before the retirement lump sum is taken and should be based on a single life annuity rate with no escalation.

Under this option the balance of the fund after the retirement lump sum will be subject income tax at a rate of 10%.

| Income Amount | USC Rate |
|-----------------------------|----------|
| Income up to €12,012 | 0.5% |
| Between €12,012 and €20,687 | 2% |
| Between €20,687 and €70,044 | 4.5% |
| Income in excess of €70,044 | 8% |

Full medical card holders and those over age 70 pay USC at the following reduced rates unless they have earnings greater than €60,000.

| Income Amount | USC Rate |
|-----------------------------|----------|
| Income up to €12,012 | 0.5% |
| Income in excess of €12,012 | 2% |

TAXATION TREATMENT

RETIREMENT LUMP SUM

| Lump Sum | Income Tax |
|----------------|---|
| First €200,000 | Exempt |
| Next €300,000 | 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:** Total income less than €13,000 is exempt from the USC. Where income exceeds €13,000 USC will be due at the rates below depending on the individual's circumstances.

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:** Total income less than €13,000 is exempt from the USC. Where income exceeds €13,000 USC will be due at the rates below depending on the individual's circumstances.

SECTION

5

TRANSFERS

5.1 TRANSFERS ALLOWED

| From: \ To: | PRB | PRSA | Personal Pension | Company Pension | Overseas – Non UK ⁽⁴⁾ | Overseas – UK ⁽⁴⁾ |
|----------------------------------|-------------------|--------------------|-------------------|-------------------|----------------------------------|------------------------------|
| PRB | Yes | No | No | Yes | No | Yes ⁽¹⁾ |
| PRSA | No | Yes | No | Yes | Yes ⁽¹⁾ | Yes ⁽¹⁾ |
| Personal Pension | No | Yes | Yes | No ⁽²⁾ | No | No |
| Company Pension | Yes | Yes ⁽³⁾ | No | Yes | Yes ⁽¹⁾ | Yes ⁽¹⁾ |
| Overseas – Non UK ⁽⁴⁾ | Yes | Yes | Yes | Yes | | |
| Overseas UK ⁽⁵⁾ | No ⁽⁵⁾ | No ⁽⁵⁾ | No ⁽⁵⁾ | No ⁽⁵⁾ | | |

⁽¹⁾ Provided receiving scheme meets certain requirements, see [section 5.5](#) for more information

⁽²⁾ Personal Pension can transfer to PRSA which can then transfer to a Company Pension

⁽³⁾ Certain restrictions apply, see [section 5.2](#) & [section 5.3](#)

⁽⁴⁾ Certain restrictions apply, see [section 5.4](#) & [section 5.5](#)

⁽⁵⁾ Irish Life's pensions are not registered with HM Revenue & Customs in the UK as QROPS and therefore cannot accept UK pension transfers, see [section 5.4](#) for more information.

5.2 COMPANY PENSION TRANSFER TO PRSAs

Transfers are only allowed from company pension schemes to PRSAs if the member has 15 years or less service in pension schemes with this employer, or associated employer, and either

- The scheme is being wound up, or
- The member is leaving service

CERTIFICATE OF BENEFIT COMPARISON

A certificate of benefit comparison and a written statement as to why a transfer is or is not in the interest of the member must be provided where

- The transfer value is greater than €10,000, and
- The scheme is not being wound up

The certificate of benefit comparison must be given to the member before the transfer from the company pension to the PRSA can proceed.

Irish Life Retail will only accept cases requiring certificates of benefit comparison where the transfer is coming from a defined contribution scheme. The certificate of benefit comparison must be produced by a [nominated actuarial consultant](#), for more information please contact your Account Manager.

| Company Pension to PRSA | Transfer Allowed? | Certificate of Benefit Comparison required? |
|---|-------------------|---|
| Where the member is leaving service and has more than 15 years pension scheme service with this employer or associated employer | No | n/a |

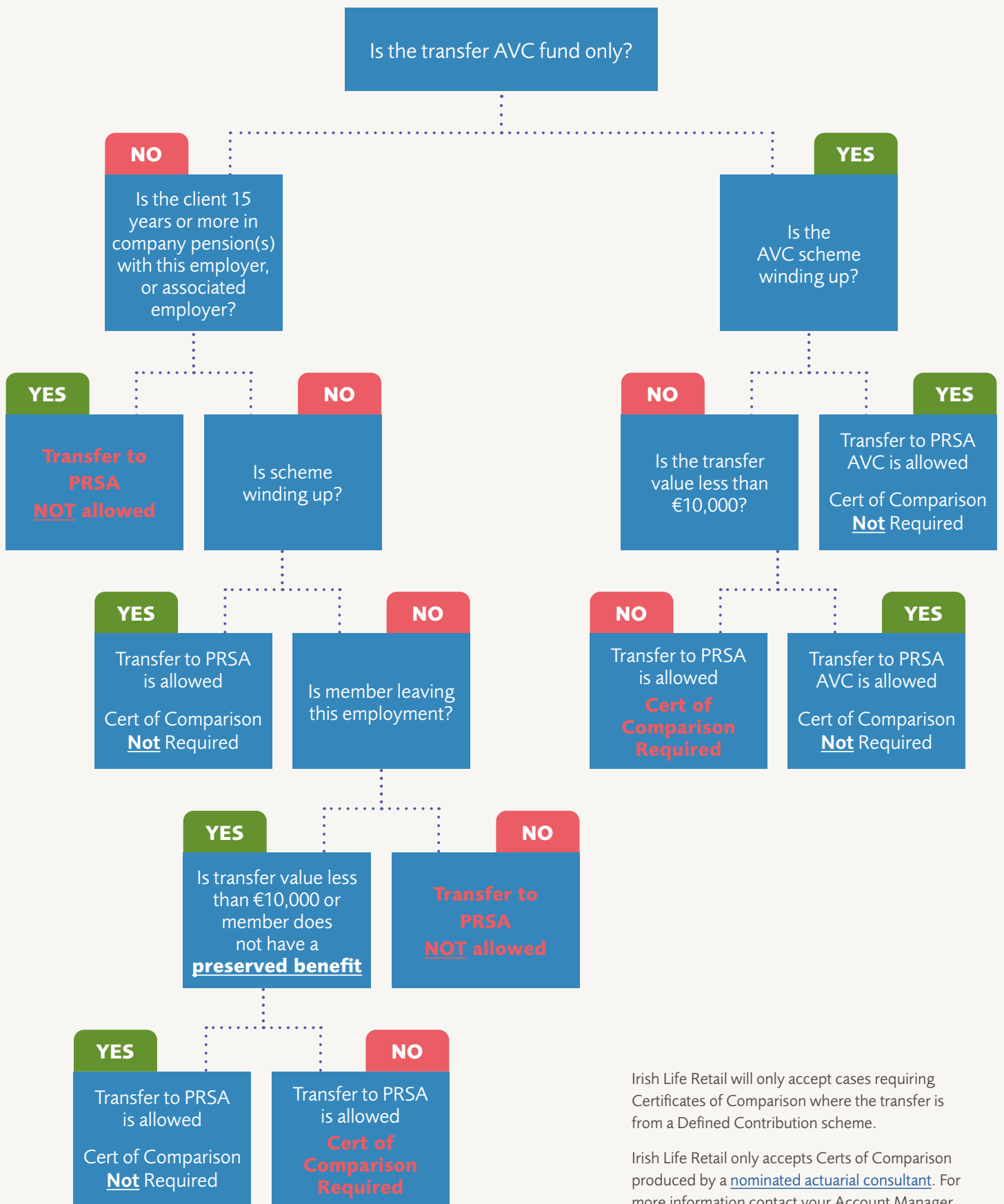
Where the member has less than 15 years pension scheme service with the employer or associated employer, and

| | | |
|--|-----|------------|
| Transfer value is less than €10,000 and the member has left service | Yes | Not needed |
| The scheme is being wound up (no requirement for member to have left service) | Yes | Not needed |
| Transfer represents refund of member's contributions | Yes | Not needed |
| Transfer represents member's accrued benefits where member has less than two years scheme service and has no preserved benefit under the Pensions Act 1990 | Yes | Not needed |

Where the member is leaving service and has less than 15 years pension scheme service with the employer or associated employer, and

| | | |
|--|-----------------------------------|--|
| Transfer from a defined contribution scheme where value is greater than €10,000 and scheme is not being wound up | Yes | Yes |
| Transfer from a defined benefit scheme where value is greater than €10,000 and scheme is not being wound up | Irish Life cannot accept transfer | Yes But Irish Life cannot accept transfers from DB schemes where a certificate of benefit comparison is required. |

5.3 COMPANY PENSION TO PRSA FLOWCHART



Irish Life Retail will only accept cases requiring Certificates of Comparison where the transfer is from a Defined Contribution scheme.

Irish Life Retail only accepts Certs of Comparison produced by a [nominated actuarial consultant](#). For more information contact your Account Manager.

5.4 OVERSEAS PENSION TRANSFERS INTO IRELAND

OVERSEAS NON-UK PENSIONS

PRSAs, Personal Pensions and Occupational Pension schemes can accept transfers from overseas pension schemes provided the following requirements are met.

1. The overseas pension scheme / policy facilitates the transfer
2. The relevant regulatory authority in the transferring country approves the transfer
3. The individual is an Irish tax resident.

Each country will have their own requirements which must be met before they will allow any transfers, these will have to be checked with the administrator or trustee of the overseas pension arrangement.

If an amount is transferred from an overseas pension to an Irish pension then it will be included in the client's maximum benefit calculations, including the Standard Fund Threshold / Personal Fund Threshold and tax free lump sum threshold.

OVERSEAS UK PENSIONS

HM Revenue & Customs (HMRC) in the UK require that plans which receive UK transfers are registered with them as a Qualified Recognised Overseas Pension Scheme (QROPS).

Irish Life does not have any pensions registered with HMRC as QROPS and therefore cannot accept pension transfers from a UK pension, or from a non-UK pension that previously received a UK transfer requiring QROPS.

5.5 TRANSFERRING PENSIONS OVERSEAS

Occupational pension schemes and PRSAs can be transferred overseas provided the conditions below are met.

1. The benefits provided by the overseas arrangement are 'relevant benefits' as defined in Section 770 of the Taxes Consolidation Act 1997

"relevant benefits means any pension, lump sum, gratuity or other like benefit –

- (a) given or to be given on retirement or on death or in anticipation of retirement, or, in connection with past service, after retirement or death, or
- (b) to be given on or in anticipation of or in connection with any change in the nature of the service of the employee in question,

but does not include any benefit which is to be afforded solely by reason of the death or disability of a person resulting from an accident arising out of his or her office or employment and for no other reason"

2. The overseas arrangement has been approved by the appropriate regulatory authority e.g. The Revenue or Financial Services Authority.
3. A fully completed Revenue Overseas Transfer Declaration.

For transfers within the EU: the overseas scheme must be an Institution for Occupational Retirement Provision (IORPs) within the meaning of the EU Pensions Directive. This effectively means that the overseas scheme must be an occupational pension scheme. The scheme administrator must also be resident in an EU Member State.

For transfers outside the EU: the transfer can only be paid to a country in which the member is currently employed.

Tax Due on Overseas PRSA Transfers: Any PRSA that does transfer overseas will be liable to income tax, PRSI and USC under Section 787G of the Taxes Consolidation Act 1997. This tax is deducted before the transfer takes place.

Personal Retirement Bonds can transfer to the United Kingdom if the conditions above are met. PRBs cannot be transferred to any other overseas country.

Note:

- The requirement for overseas transfers may change as a result of the EU Directive IORP II. More information will be known when the regulations are published.
- The requirements for transfers to the UK are current being reviewed.



SECTION

6

STANDARD FUND THRESHOLD

6.1 STANDARD FUND THRESHOLD

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 million.

At the point of taking retirement benefits any amount over the SFT is subject to tax at the higher rate of income tax. This tax will be taken before benefits are paid to the individual.

The individual cannot use any credits or allowances to reduce this tax liability and the tax deducted cannot be offset against any other tax liability.

The only exception to this rule is where the individual paid standard rate income tax on their retirement lump sum. The standard rate tax deducted from the retirement lump sum can be used to offset the tax due on any excess over the SFT, see example.

From the remaining fund the individual can then take their retirement lump sum and use the balance to purchase an annuity or go to an AMRF / ARF.

Annuity income and withdrawals from an AMRF / ARF are subject to PAYE and there is no allowance given for the 40% tax already deducted, so effectively the individual is taxed on the double on this amount over the SFT.

EXAMPLE

| | |
|---|------------|
| Pension Fund Value | €2,200,000 |
| Gross Retirement Lump Sum | €500,000 |
| Standard Rate tax deducted from Lump Sum | €60,000 |
| Standard Fund Threshold | €2,000,000 |
| Excess over €2m SFT | €200,000 |
| Gross Tax on excess over SFT at higher rate of income tax | €80,000 |
| Less tax deducted from Lump Sum | - €60,000 |
| Net Tax on excess over SFT | €20,000 |
| Fund after tax on excess deducted | €2,180,000 |

6.2 PERSONAL FUND THRESHOLD

Those who had funds greater than €2m on 1 January 2014, greater than €2.3m on 7 December 2010 or greater than €5m on 7 December 2005 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.

More information on the SFT and PFT can be found in the [Standard Fund Threshold flyer](#) on bline.ie

6.3 HOW TO CHECK DEFINED BENEFIT PENSIONS AGAINST THE SFT / PFT

Pension entitlements from defined benefit schemes should be split between those accrued up to 1 January 2014 and those accrued after that date. Benefits accrued up to 1 January 2014 are valued using a capitalisation factor of 20; whereas benefits accrued after 1 January 2014 are valued using the age related factors shown below.

Where a DB schemes gives members a choice of a full pension, or a retirement lump sum and a reduced pension, this check must be run assuming the member chooses to take the full pension. This applies even if the member takes a retirement lump sum and a reduced pension.

| Age on date pension benefits paid | Factor for DB benefits accrued after 1 January 2014 |
|-----------------------------------|---|
| 50 (and below) | 37 |
| 51 | 36 |
| 52 | 36 |
| 53 | 35 |
| 54 | 34 |
| 55 | 33 |
| 56 | 33 |
| 57 | 32 |
| 58 | 31 |
| 59 | 30 |
| 60 | 30 |
| 61 | 29 |
| 62 | 28 |
| 63 | 27 |
| 64 | 27 |
| 65 | 26 |
| 66 | 25 |
| 67 | 24 |
| 68 | 24 |
| 69 | 23 |
| 70 (and above) | 22 |



SECTION

7

POST-RETIREMENT OPTIONS

7.1 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 percentage 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 annuity options the individual chooses,
- the level of interest rates on long term fixed interest bonds.

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.

An enhanced annuity may also be an option depending on the annuitant's lifestyle and medical history, and that of their dependant if applicable. Enhanced annuities can offer a higher income than standard annuities because they work on the basis that if the annuitant has a medical condition then it is likely that they will have a shorter life expectancy than somebody in a better state of health.

For more information on Irish Life Corporate Business' Enhanced Annuities see www.irishlifecorporatebusiness.ie/enhanced-annuity

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 €12,012 | 0.5% |
| Between €12,012 and €20,687 | 2% |
| Between €20,687 and €70,044 | 4.5% |
| Income in excess of €70,044 | 8% |

Full medical card holders and those over age 70 pay USC at the following reduced rates unless they have earnings greater than €60,000.

| Income Amount | USC Rate |
|-----------------------------|----------|
| Income up to €12,012 | 0.5% |
| Income in excess of €12,012 | 2% |

7.2 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 for life of at least €12,700 a year, or
- 2) Have invested at least €63,500 in an Approved Minimum Retirement Fund (AMRF), or
- 3) Used €63,500 to purchase an annuity or a combination of annuity and AMRF, for example invested €30,000 in an AMRF and used €33,500 to purchase an annuity.

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 €63,500.
- Only one withdrawal of up to a maximum of 4% of the value of the AMRF can be taken each tax year.
- 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 for €12,700 a year,
- The death of the AMRF holder.

ARF SPECIFIED INCOME REQUIREMENT OF €12,700

The following Social Welfare pensions count towards the €12,700 specified income requirement.

- State Pension (Contributory)
- Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension
- State Pension (Non-Contributory)
- Widow's, Widower's, or Surviving Civil Partner's (Non-Contributory) Pension
- Invalidity Pension
- Blind Pension
- Living Alone Allowance
- Island Allowance

Only the personal rate will count towards the requirement, allowances for dependents cannot be accepted.

The following Social Welfare benefits can be included towards the €12,700 income requirement.

- Christmas Bonus
- Fuel Allowance
- Household Benefit Package
- Telephone Support Allowance

ARF IMPUTED DISTRIBUTION

The imputed distribution requirement applies to all ARFs from the year the ARF holder turns 61 or age 60 for those born 1 January. It will also apply to AMRFs once they become ARFs.

The current imputed distribution rate is 4%. This increases to 5% from the year the ARF holder turns 71 or age 70 for those born 1 January. However, for individuals with ARFs and vested PRSAs (excluding the restricted fund) with a total value greater than €2,000,000 the imputed distribution rate is set at 6%.

The imputed distribution amount will be reduced by the amount of any actual withdrawals taken during the year from their ARF, AMRF or vested PRSA.

See [Section 7.3](#) for more information on imputed distribution and vested PRSAs.

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 the required minimum amount, 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.

Those who have ARFs and vested PRSAs (excluding the restricted fund) greater than €2,000,000 are required to appoint a nominee QFM.

The nominee QFM will be responsible for ensuring a withdrawal of at least 6% is deducted. Irish Life will pay a withdrawal of up to 4% or 5%, depending on age, unless we agree to act as nominee QFM.

The restricted fund is the amount an individual must set aside in their vested PRSA to meet the AMRF requirement, see [Section 7.3](#) for more information.

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 an AMRF as an individual can only have one AMRF at a time.

7.3 VESTED PRSAs

An individual with a PRSA can leave the balance invested in the plan after taking their retirement lump sum; their PRSA will then become a vested PRSA.

Depending on their circumstances at the time their retirement lump sum is taken they may be required to keep up to €63,500 untouched in their vested PRSA – this is referred to as their restricted fund and is the equivalent to the AMRF requirement. They will not be able to take withdrawals that will bring the value of their vested PRSA below the restricted fund.

The requirement to maintain a restricted fund will not apply if the individual meets one of the following:

- Are in receipt of a guaranteed pension income for life of €12,700 a year;
- Have invested €63,500 in an Approved Minimum Retirement Fund;
- Have €63,500 in a separate vested PRSA along with any amount they may have invested in an Approved Minimum Retirement Fund or used to purchase an annuity.
- Used at least €63,500 to purchase an annuity.
- Reaches age 75.
- Individual met the requirements in full when previously taking retirement benefits from another pension arrangement

The individual can take withdrawals from the amount over and above the restricted fund up to age 75 in the same way as an ARF. Tax is due on all withdrawals from a vested PRSA, see [Section 7.4](#).

VESTED PRSA IMPUTED DISTRIBUTION

The imputed distribution also applies to vested PRSAs. The current imputed distribution rate is 4% and applies to the value of vested PRSAs over the restricted fund from the year the individual turns 61 or age 60 for those born 1 January. This increases to 5% from the year the individual turns 71 or age 70 for those born 1 January.

However, for individuals where the value of their ARFs and vested PRSAs (excluding the restricted fund) is greater than €2,000,000 the imputed distribution rate is 6%.

The imputed distribution amount will be reduced by the amount of any actual withdrawals taken during the year from their ARF, AMRF or vested PRSA.

See [Section 7.2](#) for more information on imputed distribution and ARFs.

How Irish Life operates the Imputed Distribution

In December each year Irish Life will review all vested PRSAs with values over the restricted fund and where the individual took no withdrawals or withdrawals less than the required minimum amount 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.

Those who have ARFs and vested PRSAs (excluding the restricted fund) greater than €2,000,000 are required to appoint a nominee QFM. The nominee QFM will be responsible for ensuring a withdrawal of at least 6% is deducted. Irish Life will pay a withdrawal of up to 4% or 5%, depending on age, unless we agree to act as nominee QFM.

The restricted fund is not subject to the imputed distribution. However, if at any stage in the future the requirement to hold a restricted fund ceases as set out above then the imputed distribution requirement will apply to the full value of the vested PRSA.

VESTED PRSAs FROM AGE 75

From age 75 the individual cannot take any withdrawals from their vested PRSA.

The imputed distribution tax will continue to apply and the PRSA provider will deduct income tax and USC from the vested PRSA as if a withdrawal of 5% (or 6% if applicable) had been taken. As actual withdrawals will no longer be permitted the individual will receive no further payments from their vested PRSA.

If the individual wishes to continue to access their vested PRSA funds then they will need to withdraw their funds, transfer to an ARF or use their vested PRSA to purchase an annuity before their 75th birthday.

| | PRSA | Vested PRSA – Plan vested before age 75 |
|--|---|--|
| What happens on the individual's 75th birthday? | The PRSA will become a vested PRSA. | The plan will remain as a vested PRSA. |
| Does the individual have to do anything? | Yes, they must complete a Benefit Crystallisation Event (BCE) Certificate within 30 days of their 75th birthday. | No, they will already have completed a BCE Certificate as part of the PRSA retirement claim when their plan first vested. |
| Where can the individual find the BCE Certificate? | For Irish Life plans the BCE Certificate is part of the PRSA retirement claim form . | Not applicable. |
| What happens if the individual does not complete and return the BCE Certificate? | Income tax at a rate of 40% will be applied to their vested PRSA. This tax will be paid over to the Revenue Commissioners. | Not applicable. |
| Can the individual take a retirement lump sum from their PRSA? | A retirement lump sum is available before their 75th birthday. | No, they will already have received a retirement lump sum when they first vested their PRSA. |
| What retirement options are available? | The retirement options set out in section 2.5 are available up until the individual's 75th birthday. | The retirement options set out in section 2.5 are available up until the individual's 75th birthday. |
| Can the individual take a withdrawal from their PRSA? | <p>Before their 75th birthday the individual can withdraw the balance of their pension after the retirement lump sum subject to meeting one of the following conditions</p> <ul style="list-style-type: none"> • Are in receipt of a guaranteed pension income of at least €12,700 a year • Have invested €63,500 in an AMRF • Have used €63,500 to purchase an annuity <p>The withdrawal will be subject to income tax and USC at the client's marginal rate. PRSI will also be due up to age 66.</p> | <p>Before their 75th birthday the individual can withdraw the balance of their pension after the retirement lump sum subject to meeting one of the following conditions</p> <ul style="list-style-type: none"> • Are in receipt of a guaranteed pension income of at least €12,700 a year • Have invested €63,500 in an AMRF • Have used €63,500 to purchase an annuity <p>The withdrawal will be subject to income tax and USC at the client's marginal rate. PRSI will also be due up to age 66.</p> |
| Can the value be left in the vested PRSA after 75? | <p>Yes, but the client will have no access to the funds after their 75th birthday.</p> <p>If they want take a retirement lump sum, invested in an AMRF, ARF or purchase an annuity with their pension they must do so before their 75th birthday.</p> | <p>Yes, but the client will have no access to the funds after their 75th birthday.</p> <p>If they want take a retirement lump sum, invested in an AMRF, ARF or purchase an annuity with their pension they must do so before their 75th birthday.</p> |
| Does the imputed distribution apply to vested PRSA? | Yes but no actual payment can be made to the client after their 75th birthday. | Yes but no actual payment can be made to the client after their 75th birthday. |
| How is a vested PRSA treated on death? | A vested PRSA is treated the same as an ARF on death, see section 7.5 for more information. | A vested PRSA is treated the same as an ARF on death, see section 7.5 for more information. |
| If the individual does not complete a BCE Certificate can the income tax deducted from the vested PRSA be reclaimed by the estate after their death? | <p>The individual's personal representatives must complete a BCE Certificate and return it to the life office.</p> <p>Assuming the individual's total pension funds were within the Standard Fund Threshold (or Personal Fund Threshold if applicable) the PRSA Provider will make an application to the Revenue Commissioners for a return of the income tax deducted.</p> | <p>Not applicable.</p> <p>The individual will already have completed a BCE Certificate as part of the PRSA retirement claim when their plan first vested.</p> |

7.4 TAXATION TREATMENT OF WITHDRAWALS FROM ARFs, AMRFs & VESTED PRSAs

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

| Income Amount | USC Rate |
|-----------------------------|----------|
| Income up to €12,012 | 0.5% |
| Between €12,012 and €20,687 | 2% |
| Between €20,687 and €70,044 | 4.5% |
| Income in excess of €70,044 | 8% |

Full medical card holders and those over age 70 pay USC at the following reduced rates unless they have earnings greater than €60,000.

| Income Amount | USC Rate |
|-----------------------------|----------|
| Income up to €12,012 | 0.5% |
| Income in excess of €12,012 | 2% |

7.5 ARFs, AMRFs, VESTED PRSA & VESTED RAC ON DEATH

On death an ARF, AMRF, vested PRSA or vested RAC will form part of the deceased policyholder's estate and will be paid out in line with the Will or the Succession Act. It does not automatically transfer to a spouse. See [section 8.5](#) for more information on the Succession Act.

The tax treatment of ARFs, AMRFs, vested PRSAs and vested RACs on death will depend on who inherits the assets, see the tables below.

TAXATION TREATMENT ON DEATH OF FIRST POLICYHOLDER

| ARF, AMRF, vested PRSA or vested RAC 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 |
| If used to purchase an annuity for surviving spouse or registered civil partner | None on the transfer but annuity payments will be subject to PAYE | No |
| Children 21 or over * | Income tax at 30% | No |
| Children under 21 * | No | Yes, taxable inheritance |
| If paid to spouse, registered civil partner or anyone else as a lump sum | Yes subject to tax at the deceased's marginal rate | Yes, taxable inheritance. Spouse and civil partners are exempt |

*Age on policyholder's date of death.

TAXATION TREATMENT ON DEATH OF SECOND ARF HOLDER

| ARF inherited by | Income Tax | Capital Acquisitions Tax |
|------------------------|-------------------|--------------------------|
| Children 21 or over * | Income tax at 30% | No |
| Children under 21 * | No | Yes, taxable inheritance |
| If paid to anyone else | Income tax at 30% | Yes, taxable inheritance |

*Age on policyholder's date of death.

7.6 CAPITAL ACQUISITIONS TAX

Capital Acquisitions Tax (CAT) is the tax which is charged when you receive a gift or an inheritance. CAT comprises two separate taxes - a Gift Tax payable on lifetime gifts and an Inheritance Tax payable on inheritances received on a death.

For new gifts and inheritances received on or after 5th December 2001 tax is calculated according to the total of all gifts and inheritances received from all sources since 5th December, 1991. The following CAT rates currently apply:

| Gift / Inheritance Received | Rate |
|-----------------------------|------|
| Within Group Threshold | Nil |
| Balance | 33% |

The Group threshold amounts vary depending on the relationship between the beneficiary and the donor, i.e. the person providing the gift or inheritance.

| Gift / Inheritance Received | Threshold' |
|-----------------------------|---|
| Group A | €335,000 (Child) |
| Group B | €32,500 (Lineal ancestor/descendant, brother, sister or child of brother or sister) |
| Group C | €16,250 (Others) |

PAYMENT OF CAPITAL ACQUISITIONS TAX

The tax is due and payable on the valuation dates indicated below.

| | |
|-------------------|---|
| 31 October 2021 | Payment of CAT on gift / inheritance from 1 September 2020 to 31 August 2021. |
| Mid November 2021 | Extension where CAT return and payment made through ROS (Revenue Online Service). |
| 31 October 2022 | Payment of CAT on gift / inheritance from 1 September 2021 to 31 August 2022. |

If tax is not paid by the relevant payment dates interest will be charged.

If an individual receives a gift or inheritance they may be obliged to file a return before the above dates even in circumstances where there is no liability to tax on the current benefit.

SECTION 72 LIFE ASSURANCE POLICIES:

As well as being used to fund for the payment of inheritance tax, Section 72 life assurance policies can be used to fund for the income tax arising on the transfer of ARF or vested PRSA benefits to a child over 21 following the death of the plan holder. This means that by using Section 72 policies, assets held within an ARF or vested PRSA can be protected and passed to children in a tax efficient manner.

For more information see our [ARF Succession Planning flyer](#) available on blin.ie

7.7 SUMMARY COMPARISON ANNUITIES VS. ARFs

| ANNUITIES | AMRFs AND ARFs |
|---|--|
| ADVANTAGES | |
| <ul style="list-style-type: none">• 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.<ol style="list-style-type: none">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.• An enhanced annuity may be an option depending on the annuitant's lifestyle and medical history, and that of their dependant if applicable | <ul style="list-style-type: none">• 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, depending on age, a minimum income of 4% or 5% of the value will be paid every year. Where individuals have funds over €2m a rate of 6% applies. This applies to ARF clients from the year they turn 61 or age 60 for those born 1 January. 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 | |
| <ul style="list-style-type: none">• 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 its purchased.• The pension income will stop on death, unless the individual chose a dependent's pension or guaranteed period.• The cost of all the options, i.e. inflation protection and dependent's pension will reduce the annuity income that is payable. The amount of this reduction will depend on the individual's particular circumstances. | <ul style="list-style-type: none">• 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 €63,500 in an AMRF if they do not have a guaranteed pension income of at least €12,700 a year currently in place.• From the year the individual turns 61 (or age 60 for those born 1 January) they must take a minimum level of income from the ARF every year. Currently this is 4% of the value of the fund. This rate increases to 5% from the year the individual turns 71 or age 70 for those born 1 January.. Where individuals have funds over €2m a rate of 6% applies. This will also apply to AMRFs once they become ARFs. These three rates may change in the future. |

7.8 COMPARISON ANNUITIES VS. VESTED PRSAs

| ANNUITIES | VESTED PRSA |
|--|---|
| ADVANTAGES | |
| <ul style="list-style-type: none">• 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.<ol style="list-style-type: none">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.• An enhanced annuity may be an option depending on the annuitant's lifestyle and medical history, and that of their dependant if applicable. | <ul style="list-style-type: none">• An individual with a PRSA can continue to use it in a similar manner as an ARF/AMRF after taking their retirement lump sum up until age 75.• Gives the individual flexibility and control over their pension fund during retirement but only up until age 75.• Withdrawals can be taken from the value of the vested PRSA over the restricted fund (if any) up until age 75. However, depending on age, a minimum income of 4% or 5% of the value will be paid every year. Where individuals have funds over €2 million a rate of 6% applies. This applies to vested PRSA clients with values over the restriction fund from the year they turn 61 or age 60 for those born 1 January.• 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 up until age 75. It would be expected that the older the client the higher the annuity rate will be. |
| DISADVANTAGES | |
| <ul style="list-style-type: none">• 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 its purchased.• The pension income will stop on death, unless the individual chose a dependent's pension or guaranteed period.• The cost of all the options, i.e. inflation protection and dependent's pension, will reduce the annuity income that is payable. The amount of this reduction will depend on the individual's particular circumstances. | <ul style="list-style-type: none">• 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 €63,500 in an AMRF or leave untouched in their vested PRSA if they do not have a guaranteed pension income of at least €12,700 a year currently in place.• From the year the individual turns 61 (or age 60 for those born 1 January) they must take a minimum level of income from the vested PRSA over the restricted fund every year. Currently this is 4% of the value of the fund. This rate increases to 5% from the year the individual turns 71 or age 70 for those born 1 January. Where individuals have funds over €2m a rate of 6% applies. These three rates may change in the future.• No further withdrawals can be taken from a vested PRSA after age 75. The imputed distribution tax will continue to be deducted but no payments can be made to the individual. A vested PRSA cannot transfer to an ARF or be used to purchase an annuity after the individual's 75th birthday. |

7.9 SUMMARY COMPARISON ARFs VS. VESTED PRSAs

| | ARFs | Vested PRSAs |
|---|---|--|
| Potential Disadvantages | <p>New plan required.</p> <p>There will be an immediate cost to the client if ARF/AMRF does not give 100% allocation. Exit charges may apply depending on the ARF/AMRF.</p> | <p>May have limited investment options.</p> <p>No withdrawals can be made from age 75 onwards.</p> |
| Imputed Distribution | <p>Applies to all ARFs from the year the individual turns 61 or age 60 for those born 1 January.</p> <p>Applies to AMRFs once the individual meets the specified income requirement or reaches age 75.</p> | <p>Applies to vested PRSAs over the restricted fund from the year the individual turns 61 or age 60 for those born 1 January.</p> <p>Once requirement to keep a restricted fund ceases, imputed distribution will apply to the full value of the vested PRSA.</p> |
| Guaranteed Income amount AMRF Requirement Applicable Limits: when taking further retirement benefits at a later date | <p>Before the client can transfer their retirement benefits to an ARF they must meet the guaranteed income requirement.</p> <p>If the client does not meet the income amount then they must set aside €63,500 in an AMRF. Any amount over this can be transferred to an ARF.</p> <p>The limits that apply are those in place on the day the client takes their retirement lump sum.</p> <p>If the individual met the limits in full when they took their benefits previously then they are considered to still meet the requirements.</p> <p>However, if the individual did not meet the requirements in full previously then they will have to meet the limits in place at the time they take their subsequent benefits.</p> | <p>Before taking withdrawals from a vested PRSA the client must meet the guaranteed income requirement.</p> <p>If the client does not meet the income limit then they must set aside €63,500 in an AMRF and/or vested PRSA. Only funds over this amount can be withdrawn.</p> <p>The limits that apply are those in place on the day the client takes their retirement lump sum.</p> <p>If the individual met the limits in full when they took their benefits previously then they are considered to still meet the requirements.</p> <p>However, if the individual did not meet the requirements in full previously then they will have to meet the limits in place at the time they take their subsequent benefits.</p> |
| Tax Due | All withdrawals are subject to Income Tax and the Universal Social Charge. There is also a PRSI liability until age 66. | All withdrawals are subject to Income Tax and the Universal Social Charge. There is also a PRSI liability until age 66. |
| Transfer Out Options | <p>An ARF can transfer to another ARF or be used to purchase an annuity at any time.</p> <p>An AMRF can transfer to another AMRF or be used to purchase an annuity at any time.</p> <p>An ARF or AMRF cannot transfer to a vested PRSA.</p> | <p>Fund can be transferred to an ARF/AMRF or used to purchase an annuity up until age 75.</p> <p>In order to transfer to an ARF the client will have to meet either the AMRF or guaranteed income requirement.</p> |
| Transfer in Options | <p>The following can be transferred to an ARF/AMRF at retirement:</p> <ul style="list-style-type: none"> - Personal Pension - PRSA - Company Pension where the member has ARF options - AVCs <p>An ARF can accept transfers from other ARFs.</p> <p>An ARF can also accept transfers from vested PRSAs, the client will have to have satisfied the AMRF / guaranteed income requirement beforehand.</p> | There are no transfer in options. |
| Ability to take withdrawals after age 75 | Yes. | <p>From age 75 the client will have no access to their vested PRSA fund. They cannot take any withdrawals from the vested PRSA nor can they transfer it to an ARF or use it to purchase an annuity.</p> <p>The imputed distribution tax will continue to apply but no payments can be made to the client.</p> |

7.10 STATE PENSION AGE SUMMARY

| Year | State Pension Age |
|-------------|---|
| 2014 | The State Transition Pension was abolished 1 January 2014, thereby increasing pension age to 66. |
| 2021 | The increase in State Pension Age to age 67 in 2021 has been postponed. The Government have established a Commission on Pensions to examine the State Pension. The Commission will outline options to the Government on issues including, State Pension contributions, sustainability, eligibility, and commencement age. |

For more information on State Pension and Social Welfare benefits see www.gov.ie

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SECTION

8

APPENDIX

8.1 PENSION LEGISLATION - MAJOR CHANGES SINCE 1999

Below is a list of the major changes in pension legislation since 1999.

6 APRIL 1999

- Introduction of 'net' ARFs for self employed and 20% Directors.
- Increase in tax relief limits for individual contributions for those over age 30.
- 30 to 39 – 20%,
- 40 to 49 – 25%,
- 50+ – 30%.
- Also certain sports people – 30%.

6 APRIL 2000

- Gross roll up ARF Regime and extension to 5% Directors and AVCs.

2002

- Personal Pensions can be continued even if relevant earnings cease.

25 MARCH 2002

- Maximum spouse's pension for company pensions increased from 2/3rds to 100%.

1 JUNE 2002

- The qualifying service requirement in order to be entitled to a preserved benefit reduced from five years to two years.

7 NOVEMBER 2002

- Introduction of PRSAs, PRSA AVC and vested PRSAs, and
- Removal of new one-member AVC plans.

4 DECEMBER 2002

- Introduction of earnings limit of €254,000 for tax relief on contributions by an individual.

6 FEBRUARY 2003

- Investment restrictions on non-arm's length transactions for ARF and AMRF.

25 MARCH 2004

- Borrowing permitted by company pension schemes.

7 DECEMBER 2005

- Introduction of Standard Fund Threshold of €5,000,000, and
- Introduction of Maximum Tax Free Lump Sum of €1,250,000 (25% of €5,000,000).
- There was an option for these to index which was frozen in 2009.

2006

- Increase in tax relief limits for individual contributions for those over age 55.
- 55 to 59 – 35%.
- 60+ – 40%.
- Imputed Drawdown for ARFs. 1% in 2007, 2% in 2008, 3% in 2009.

2 FEBRUARY 2006

- Investment restrictions on non-arm's length transactions for company pensions.

1 JANUARY 2009

- Earnings limit for tax relief on contributions by an individual reduced to €150,000.
- Income Levy introduced. Pension contributions did not receive relief against the income levy. This meant employees had an Income Levy BIK liability on employer PRSA contributions.

7 DECEMBER 2010

- Standard Fund Threshold reduced to €2,300,000.
- ARF imputed drawdown increased to 5% with effect in 2010.

1 JANUARY 2011

- Maximum Tax Free Lump Sum reduced to €200,000. Lump sum taxed at 20% between €200,000 and €575,000.
- Earnings limit for tax relief on contributions by an individual reduced to €115,000.
- Health Levy and Income Levy removed and replaced with the Universal Social Charge.
- Pension contributions do not receive relief against the Universal Social Charge. This means employees had a Universal Social Charge liability on employer PRSA contributions until 1 January 2016.
- PRSI relief removed for employees in respect of their own individual contributions.
- Employer PRSI relief for employee contributions reduced to 50%.

6 FEBRUARY 2011

- Extension of ARF options to all members of Defined Contribution schemes (extended to PRBs from DC schemes May 2014 and PRBs from DB schemes June 2016).
- AMRF requirement increased to €119,800 and guaranteed income requirement increased to €18,000. Both linked to Social Welfare State Pension (Contributory).
- AMRF will become ARF if individual meets guaranteed income requirement.

30 JUNE 2011

- Pension Levy of 0.6% of the value of pre-retirement pensions to apply for 4 years from 2011 to 2014.

1 JANUARY 2012

- Imputed distribution extended to vested PRSAs and increased to 6% for vested PRSAs and ARFs over €2 million.
- Relief of 50% of employer PRSI for employee contributions via payroll to occupational pension and other pension arrangements is removed.

27 MARCH 2013

- AMRF and guaranteed income requirements reduced back down to €63,500 and €12,700 respectively.

- The reduction of the AMRF limit also applied retrospectively to AMRFs set up since February 2011 under the higher €119,800 limit.
- Early access withdrawal of 30% of AVCs allowed for a period of three years until 26 March 2016.

15 OCTOBER 2013

- Pension levy to increase to 0.75% for 30 June 2014 and then reduce to 0.15% for 30 June 2015.

25 DECEMBER 2013

- Change to the priority order on wind up of DB schemes.

1 JANUARY 2014

- Standard Fund Threshold reduced to €2,000,000.
- Lump sum taxed at 20% between €200,000 and €500,000 (reduced from €575,000).
- State Pension (Transition) abolished.

7 MARCH 2014

- The Pensions Board renamed The Pensions Authority.

26 MAY 2014

- ARF options extended to PRBs that originated from DC schemes (extended to PRBs from DB schemes in 2016).

1 JANUARY 2015

- ARF / vested PRSA imputed distribution reduced from 5% to 4% for those between ages 61 and 70. A rate of 5% applies from year individual turns 71.
- The option to withdraw growth from AMRFs was removed. This was replaced with an option to take one withdrawal of up to 4% of the value of the AMRF in each tax year. The 4% withdrawal option was not extended to vested PRSAs with restricted funds.
- The tax on the excess over the SFT was changed from a specified rate of 41% to the "higher rate of tax".

1 JANUARY 2016

- Employer contributions to PRSAs no longer attract a Universal Social Charge liability for employees.

22 JUNE 2016

- ARF options extended to PRBs which originated from defined benefit schemes.

25 DECEMBER 2016

- PRSAs and Personal Pensions automatically become vested PRSAs and vested RACs when the policyholder reaches age 75.
- There is no access to vested RAC funds, or to vested PRSA funds after age 75. Imputed distribution continues to apply to vested PRSAs, no payment allowed to policyholder. Imputed distribution does not apply to vested RACs.
- Vested RACs treated the same as ARFs and vested PRSAs on death.

13 JANUARY 2019

- Deadline to implement the EU Pensions Directive IORP II, regulations are pending.

8.2 EARLY RETIREMENT AGES

The Revenue Commissioners have approved early retirement ages for the following professions and occupations.

| Profession or Occupation | Early Retirement Age |
|---|----------------------|
| Air Pilots | 55 |
| Badminton Players | 50 |
| Boxers | 50 |
| Brass Instrumentalists | 55 |
| Cricketers | 50 |
| Croupiers | 50 |
| Cyclists | 50 |
| Dancers | 50 |
| Deep Sea and Free Swimming Divers | 50 |
| Distant Water Trawlermen | 55 |
| Firemen (part-time) | 55 |
| Footballers (excluding football league players) | 50 |
| Inshore Fishermen | 55 |
| Jockeys | 50 |
| Moneybroker Dealers | 55 |
| Moneybroker Directors & Managers | 55 |
| Motorcross Motorcycle Riders | 50 |
| Motor Racing Drivers | 50 |
| Motorcycle Road Racing Drivers | 50 |
| National Hunt Jockeys | 50 |
| Offshore Riggers | 50 |
| Rugby Players (Professional) | 50 |
| Saturation Divers | 50 |
| Singers | 55 |
| Speedway Riders | 50 |
| Squash Players | 50 |
| Table Tennis Players | 50 |
| Tennis Players | 50 |
| Tournament Golfers | 50 |
| Trapeze Artists | 50 |
| Wrestlers | 50 |

8.3 SPORTSPEOPLE & INCOME TAX RELIEF AT 30%

The following professional sportspeople can claim income tax relief at a rate of 30% of their relevant earnings irrespective of their age, subject to an earnings cap of €115,000.

- Athlete
- Badminton Player
- Boxer
- Cricketer
- Cyclist
- Footballer
- Golfer
- Jockey
- Motor Racing Driver
- Rugby Player
- Squash Player
- Swimmer
- Tennis Player

8.4 DUAL INCOMES & INCOME TAX RELIEF

PENSION INCOME TAX RELIEF

Income tax relief is available on pension contributions within the age related limits as shown in the table below. These limits include the total contributions paid to a PRSA and personal pensions as well as employee contributions and AVCs paid to company pension schemes.

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

Income tax relief however is also subject to an earnings limit of €115,000. This means for example that if an individual aged 45 has earnings of €150,000 the maximum pension contribution they can pay and receive income tax relief on is €28,750 (25% of €115,000).

DUAL INCOME

There is an added complication where an individual has two sources of earnings, one being pensionable where they are a member of a contributory company pension scheme and the other non-pensionable or from self-employed earnings.

In such cases the pensionable salary uses up the earnings limit first. This can reduce the scope for individuals to receive income tax relief against their non-pensionable / self-employed earnings and in some cases result in no scope at all.

EXAMPLE 1 – INDIVIDUAL HAS PENSIONABLE EARNINGS GREATER THAN €115,000 EARNINGS LIMIT

John aged 45 earns €150,000 from his employment. He is a member of his employer's occupational pension scheme, where he pays an employee contribution of 5% of his salary (€7,500). John also has self-employed earnings of €45,000.

Based on his age the maximum contribution John can make to the occupational pension scheme and claim income tax relief is 25% of his earnings, capped at €115,000. So John's maximum contribution is 25% of €115,000 = €28,750. He is already contributing €7,500 so has scope to make AVCs of up to €21,250.

John's pensionable income uses up the earnings limit first and as that income is greater than the €115,000 earnings limit he cannot claim income tax relief against any personal pension or PRSA contributions made in respect of his self-employed earnings. This applies even if he does not maximise his AVCs to the occupational pension scheme.

EXAMPLE 2 – INDIVIDUAL HAS TOTAL INCOME GREATER THAN €115,000 EARNINGS LIMIT

Kate aged 45 earns €80,000 from her employment where she is a member of an occupational pension scheme, and she pays an employee contribution of 5% of her salary (€4,000). Kate also has self-employed earnings of €55,000.

Based on her age the maximum contribution Kate can make to the occupational pension scheme and claim income tax relief is 25% of her salary i.e. 25% of €80,000 = €20,000. She is already contributing €4,000 so has scope to make AVCs of up to €16,000.

Kate's pensionable income uses up the earnings limit first so she can only make pension contributions against €35,000 of her self-employed earnings i.e. €115,000 - €80,000 = €35,000.

Therefore the maximum pension contribution she can pay and claim income tax relief on against her self-employed earnings is 25% x €35,000 = €8,750. This applies even if she does not maximise her AVCs to the occupational pension scheme.

EXAMPLE 3 – INDIVIDUAL HAS TOTAL INCOME LESS THAN €115,000 EARNINGS LIMIT

Tom aged 50 earns €30,000 from his employment where he is a member of an occupational pension scheme, to which he contributes 5% of his salary (€1,500). He also has self-employed earnings of €60,000.

Based on his age the maximum he can contribute to the occupational pension scheme and claim income tax relief is 30% of his salary i.e. 30% of €30,000 = €9,000. He is already contributing €1,500 so has scope to make AVCs of up to €7,500.

As his total earnings are less than €115,000, the earnings limit has no impact on the personal pension or PRSA contribution he can pay against his self-employed earnings, which based on age would be 30% of €60,000 = €18,000.

8.5 THE SUCCESSION ACT

When a person dies all their property transfers to their **personal representatives** who are responsible for ensuring the assets pass to their beneficiaries.

The way property is transferred will depend on whether or not the deceased made a Will. If there is a valid Will then the personal representatives, known as **executors**, distribute the assets in accordance with the Will.

If there is no Will the deceased is said to have died **intestate** and the property is distributed by the personal representatives, known as **administrators**, in accordance with the **Succession Act**.

The Succession Act 1965 provides a legal spouse, registered civil partner and children with certain minimum legal entitlements as shown below.

No Will – Where a person dies intestate.

| If the deceased is survived by | Minimum legal entitlement |
|--|---|
| Spouse or civil partner and no children | <ul style="list-style-type: none"> Spouse or civil partner entitled to full estate |
| Spouse or civil partner and children | <ul style="list-style-type: none"> Spouse or civil partner entitled to 2/3rds of the estate Civil partner's entitlement is subject to the financial needs of any children being met Children entitled to 1/3rd split equally |
| Children (no surviving spouse or civil partner) | <ul style="list-style-type: none"> Estate divided equally among children |
| Parents (no surviving spouse or civil partner and no children) | <ul style="list-style-type: none"> Estate divided equally between parents or entirely to one parent if only one survives |
| Siblings (no surviving spouse or civil partner, children or parents) | <ul style="list-style-type: none"> Divided equally among brothers and sisters Children of a deceased brother/sister receives their parents share |
| Nieces and nephews only | <ul style="list-style-type: none"> Divided equally among surviving nieces and nephews |
| Other relatives | <ul style="list-style-type: none"> Divided equally between nearest of equal relationship |
| No relatives | <ul style="list-style-type: none"> Passes to the State |

Will – A testate death, regardless of the provisions in the Will there are minimum legal entitlements under the Succession Act.

| If the deceased is survived by | Minimum legal entitlement |
|---|---|
| Spouse or civil partner and no children | <ul style="list-style-type: none"> Spouse or civil partner entitled to minimum ½ of the estate |
| Spouse or civil partner and children | <ul style="list-style-type: none"> Spouse or civil partner entitled to minimum 1/3rd of the estate Civil partner's entitlement is subject to the financial needs of any children being met |

Children do not have a right to a particular share of the estate under a Will. However, children do have the right to apply to the Court for a share of the estate under a Will if in the Court's opinion the parent has *"failed in his moral duty to make proper provision for the child in accordance with his means"*.

This right of the child to apply to the Court will not impact the minimum portion of the estate to which a spouse is entitled to. It can, however, reduce the amount of the estate to which a registered civil partner is entitled to.

8.6 GLOSSARY

BENEFIT CRYSTALLISATION EVENT

Benefit crystallisation event (BCE) is the term used to describe when an individual begins to take their retirement benefits from a scheme or pension plan. This is when those benefits are tested against the standard fund threshold (SFT) or personal fund threshold (PFT) if applicable.

A BCE occurs when any of the following events takes place

- The individual takes a pension, annuity or retirement lump sum from their pension fund
- The individual transfers their pension fund to an AMRF or ARF
- Instead of transferring their pension fund to an AMRF or ARF the individual decides to leave the fund in their PRSA as a vested PRSA
- The individual transfers their pension to an overseas pension arrangement
- The individual's pension in payment or annuity is increased in excess of the permitted margin (that is the greater of 5% p.a. or CPI plus 2%).
- When a personal pension automatically becomes a vested RAC on the individual's 75th birthday (or on 25th December 2016 if the individual was 75 before that date)
- When a PRSA automatically becomes a vested PRSA on the individual's 75th birthday (or on 25th December 2016 if the individual was 75 before that date)

The payment of death benefits from a pension is not a BCE.

When a BCE arises the value of the benefits are tested against the individual's SFT (or PFT if applicable). Where more than one BCE occurs on the same day the individual must determine the order in which they are deemed to have happened.

FINAL SALARY

Final salary can be calculated in one of the following three ways

- 1) (a) Basic remuneration in any 12 month period of the five years preceding the relevant date (i.e. the date of retirement, leaving service or death as the case may be), and
(b) The average of any fluctuating emoluments for any three or more consecutive years ending on the last day used in (a) above.
- 2) The average of the total emoluments for any three or more consecutive years ending not earlier than 10 years before the relevant date.
- 3) The rate of basic pay at the relevant date or at any date within the year ending on that date plus the average of any fluctuating emoluments calculated as in 1(a) above.

Certain conditions apply:

- i) Basis (3) cannot be used where within three years before the relevant date the member
 - a. Was promoted or received a special increase in basic pay,
 - b. The total increase over the relevant three year period is greater than an increase in line with the Consumer Price Index or other increase in line with a National Wage Agreement.
- ii) Where final salary is calculated using a year or years other than the previous 12 months those salaries may be increased in line with the increase in the cost of living from the last day of that year up to the relevant date. This also applies to fluctuating emoluments.
- iii) 20% directors:
 - a. must calculate final salary using basis (2)
 - b. may not index their salaries (condition ii) if it provides for a retirement lump sum greater than one-third of the overall pension fund.

RETIREMENT ANNUITY CONTRACT (RAC)

Retirement annuity contract is the technical term for a personal pension.

RETAINED BENEFITS

Means all pensions an individual has from previous employments or self-employments whether deferred or already in payment. It includes

- Company Pension Schemes
- PRBs
- Personal Pensions
- PRSAs
- Overseas Pensions where the individual received income tax relief in Ireland on payments made to the arrangement

8.6 GLOSSARY CONTINUED

20% DIRECTOR

Means someone who directly or indirectly at any time in the last three years owned or controlled more than 20% of the voting rights in the employer company, or in the parent company of the employer company.

Certain restrictions apply to 20% directors

- Where early retirement benefits are taken from a PRSA or a company pension scheme or PRB the 20% director must sever all links with the business and dispose of their shareholding.
- A 20% director of an investment company may not be included in a company pension scheme.
- See definition of **FINAL SALARY** for restrictions that apply in calculating final salary for a 20% director.
- On death in service before normal retirement age, final salary can be calculated as the rate payable at the time of death, provided it can be verified.
- 20% directors do not have the option to take a refund of contributions in lieu of other benefits on leaving service.
- Prior approval must be sought from the Revenue Commissioners before full commutation of benefits can be paid in the event of terminal ill health.
- Company re-organisations: where the employee is a 20% director prior to and after a re-organisation they will only have continuity of service for pension purposes where a claim has been submitted under Section 400 of the Taxes Consolidation Act 1997.

A spouse of a 20% director who is employed in the company is also considered to be a 20% director for pension purposes.

VESTED PRSA

A vested PRSA is

- A PRSA where the individual has taken their retirement lump sum and left the balance of their fund invested in the PRSA, or
- A PRSA AVC where the retirement lump sum or other benefits have been paid from the main scheme, or
- A PRSA where the individual has reached age 75.

When a PRSA becomes a vested PRSA that is a Benefit Crystallisation Event (BCE) and the value of the pension will be set against the individual's €2 million standard fund threshold (or personal fund threshold if applicable).

VESTED RAC

Personal Pensions are technical known as Retirement Annuity Contracts (RACs). The concept of a vested RAC was introduced on 25 December 2016. A vested RAC is not treated in the same way as a vested PRSA.

- A personal pension will automatically become a vested RAC on the individual's 75th birthday.
- If an individual had a personal pension and was aged 75 or over prior 25th December 2016 their personal pension automatically became a vested RAC on that date.
- There is no other scenario whereby a personal pension can become a vested RAC.

When a personal pension becomes a vested RAC at age 75 it is a Benefit Crystallisation Event (BCE) and the value of the pension will be set against the individual's €2 million standard fund threshold (or personal fund threshold if applicable).



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