A guide for customers

You're approaching retirement – what now?

Understanding your retirement options

As you approach your retirement age you begin to look forward to a future free from work. Of course, it may be daunting to think about finances but hopefully with your accumulated retirement fund, you'll have various options of how to use that fund to provide for the future ahead.

Choosing the right options for your retirement is a big decision and it is important to get independent and professional financial advice.

This publication has been prepared for general guidance and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice.

This guide will explain what those options are in a clear understanding manner. When you think one or more of these options might be suitable to you, you can then discuss them with your Financial Broker or Advisor who will be happy to assist you with further information.

Options available with your Pension fund

Your options regarding your pension fund are as follows:

(A) Take your retirement lump sum

and then

(B) use the residual fund remaining after taking your retirement lump sum to:

1. purchase of an annuity (a guaranteed income for life)

and/or

2. invest in an Approved (Minimum) Retirement Fund (a more flexible approach to your retirement income)

These options are explained on the following pages.

(A) Take your retirement lump sum

You are entitled to take a lump sum from your retirement fund if you wish. This lump sum is calculated based on the type of pension contract and is TAX FREE up to a maximum lifetime limit of €200,000. The next €300,000 of any lump sum is taxable at 20%. Anything over that €500,000 in total will be taxable at your marginal rate of income tax and USC.

The amount of retirement lump sum you can take depends on the type of pension you were contributing to prior to your retirement.

Ask yourself:

(a) Was it a Defined Contribution Pension Scheme provided for you by your employer?

(b) Or was it a Personal Pension/Retirement Annuity Contract (RAC) or a Personal Retirement Savings Account (PRSA)?

How is the Retirement Lump Sum Calculated?

This depends on the type of pension as follows:

Defined Contribution (DC) Pension Scheme/Personal Retirement Bond (PRB):

(a) if the pension was a DC or PRB, you have two options on how to take your retirement lump sum

1. a retirement lump sum which is calculated on the number of years service you completed with your employer, and the final salary you were earning from that employment (pension fund size permitting).

or

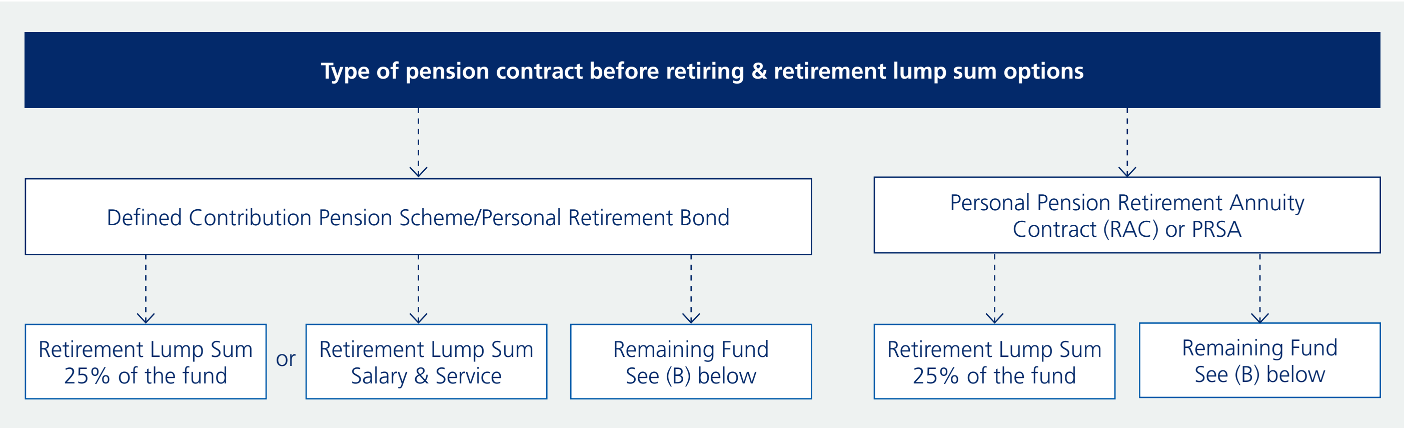
2. a retirement lump sum based on a maximum of 25% of the pension fund.

It is important to note that the retirement lump sum based on salary and service in **1.** above may be higher than in **2.** but if it is taken in that manner, you can only purchase an annuity with the residual fund (see details of annuities following).

If you have an Additional Voluntary Contribution (AVC)/a PRSA AVC fund you still have the option to purchase an A(M)RF (details on page 7) even if you take your retirement lump sum based on salary and service.

Personal Pension Retirement Annuity Contract (RAC)/Personal Retirement Savings Account (PRSA)

(b) if the pension was a Personal Pension (RAC) or a PRSA, you may only take a retirement lump sum based on a maximum of 25% of the fund.



For calculations of your retirement lump sum, refer to your Financial Broker or Advisor.

Important Notes

- If there is a Pension Adjustment Order attaching to your pension, the above option may not apply
- If you have waived your right to a Tax Free Cash at retirement under a Standard Capital Superannuation Benefit (SCSB)/Increased Exemption redundancy payment, the above option will not apply.

(B) Options with the balance of your fund

So, now you have taken a retirement lump sum from your pension, the options with the residual balance are as follows:

1. Purchase of an annuity:

and/or

2. invest in an Approved (Minimum) Retirement Fund (A(M)RF)

and/or

3. Vested PRSA – If the pension contract at the date of retirement was a PRSA, then after payment of the retirement lump sum, the remaining fund can be left in the contract until age 75 (at latest) and will be known as a 'Vested PRSA'. At any time before age 75 the Vested PRSA can be used to purchase an annuity or transferred to an AMRF/ARF.

1. Purchase of an annuity

An annuity is a guaranteed regular income payment made to you for the rest of your life.

With the balance of your fund, you buy this annuity from a life insurance company who will pay you a regular income for the rest of your life. You have the option to 'shop around' the life insurance companies to get the best annuity for you, which is referred to as the **Open Market Annuity Option**.

Tax treatment of payments from an annuity

Any payment from an annuity is treated as income and taxed under the PAYE system by the life company. Income tax and USC apply subject to your personal circumstances.

What happens to an annuity on death?

When you die, the annuity will stop unless you have made provision for the annuity to continue for a period after your death, or for a proportion to continue to be paid to your spouse or civil partner for the remainder of their lifetime.

The actual amount of income you will receive from the balance of your pension fund is determined by the "annuity rate". This rate is calculated by the life insurance company and is based on a number of factors.

Factors which affect the annuity rate:

- How old you are when you purchase an annuity. The older you are the higher the annuity rate, as the life insurance company will estimate that your life expectancy is lower.
- Whether your annuity will be based on your own life, or also include a spouse/registered civil partner. When you die, some or all of the annuity may continue to be paid to your spouse/registered civil partner
- The guaranteed period, if you have chosen one. This is an initial period for which the annuity is guaranteed to be continued to be paid even if you die. You can generally choose between 5 or 10 years but the maximum guaranteed period allowed is 10 years.
- Do you require to have your annuity payment remaining as it is (level) or will it increase while in payment (escalating). Some people like to have an increase in their annuity to allow for future inflation in the prices of goods.
- How do you want your pension paid, monthly or annually? This will also affect what annuity rate will be applied to your fund.

You should discuss the options with your Financial Broker or Advisor as your annuity will be affected by these factors.

You might hear of different types of annuities in the market, but these annuities may not actually be applicable to you, so your Financial Broker or Advisor can advise you on this.

Two examples of different annuities in the market are **1. Guaranteed Annuities** and **2. Impaired Annuity**.

1. **Guaranteed Annuities** were available on pension plans sold in the past and can be a very valuable option. The rate of the annuity is set from outset of the pension plan but if you made any changes to your contract, the annuity rate would be affected and the guarantee might be lost.

   You should check your pension policy to see if a guaranteed annuity applies and if so, compare it with current annuity rates on the market to give you the best option. Not all life insurance companies will have had pension products with guaranteed annuity rates so it is best to check your policy.

2. **Impaired Annuities** are available through some life insurance companies (Zurich Life does not currently offer these) and they offer a higher annuity rate due to the person having been diagnosed with a condition which will reduce overall life expectancy.

Choose an Annuity if

- you want the certainty of a guaranteed income for life.
- you don't want to take investment risks with your retirement fund.
- you want to avoid having to invest in an AMRF (see Section 2).

(2) Investing in an Approved Retirement Fund (ARF) and Approved Minimum Retirement Fund (AMRF) or Vested PRSA*

If you have opted to take a maximum of 25% of your pension as a retirement lump sum and you do not wish to purchase an annuity, then you have the option to reinvest the balance of your fund in an Approved Retirement Fund, commonly known as an ARF.

An ARF allows you to preserve, manage and control your retirement fund. You can invest your money into suitable assets and decide how much taxable income you want to withdraw each year, subject to a minimum withdrawal amount, from when you are aged 61 or over. Unlike the annuity option earlier, it does not provide any guaranteed income.

This is an option if you'd like to grow your fund during your retirement years. You can use your own investment strategy investing in a range of different investment funds. You choose the funds depending on the level of risk you are prepared to take with the types of funds. You also benefit from tax free growth on these funds.

Tax treatment of payments from an Approved Retirement Fund/Approved Minimum Retirement Fund

Any withdrawal from an A(M)RF is treated as income and taxed under the PAYE system by the life company. Income tax, USC and PRSI (to age 66) apply subject to your personal circumstances.

When you are aged 61 or over you must take a minimum withdrawal from your ARF as income, but you have the option to take more if you wish. The minimum amount you must take is 4%** of the fund each year, which increases to 5%** of the fund from age 71. All income taken from the ARF is taxable.

The value of your ARF can be passed to your family, spouse or children after your death. The downside of an ARF is that without careful planning it is possible to reduce your fund to zero before you die.

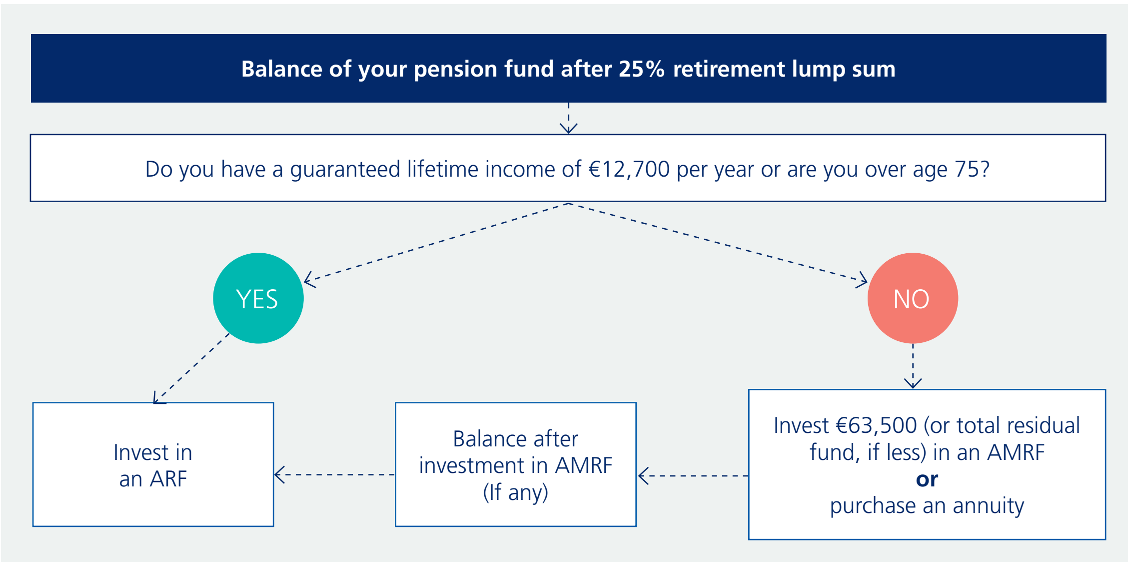
In order to invest in an ARF, you must satisfy the following conditions:

- you must have a guaranteed lifetime income of €12,700 per year. This must be paid to you personally, any income payable to a spouse/registered civil partner does not count.
- if you do **not** have a guaranteed lifetime income of €12,700 per year, then you must invest the balance of your pension fund or at least €63,500 in an Approved Minimum Retirement Fund (AMRF).

The original balance invested in the AMRF must stay invested in the AMRF until you have a guaranteed lifetime income of €12,700 per year or you have reached the age of 75, at which point your AMRF will automatically become an ARF. You do have an option to take 4% of the value of your AMRF Fund annually but unlike the ARF, this option is voluntary.

* For those with a PRSA or a PRSA AVC fund you may leave the residual funds in your current policy after taking any available lump sum. This policy is then referred to as a 'Vested PRSA'. The access to fund is similar to a combined AMRF and ARF. However, you must leave (ring-fenced) €63,500 in your policy with no option to take 4% (available on AMRF), unless you have satisfied the guaranteed life time income requirement.

** This amount increases to 6% if the total ARF Fund is more than €2,000,000



Choose an Approved Retirement Fund if

- you want your retirement fund to have the potential to continue to grow.
- you want more control over how your fund is invested.
- you want to pass on the balance of your fund after your death.
- you want to make withdrawals as and when you need to.
- you can tolerate a certain level of investment risk.

What happens an ARF and AMRF on death?

On death of an AMRF holder, the AMRF becomes an ARF.

An ARF is taxed depending on who receives the value of the ARF as follows:

	Death of Holder		Death of Spouse	
Receivor	Income Tax	CAT	Income Tax	CAT
Spouse	No	No	–	–
Child under 21	No	Yes	No	Yes
Child over 21	Yes	No	Yes	No
Others	Yes	Yes	Yes	Yes

Expanding on the above, the tax treatment is as follows:

Spouse/Registered Civil Partner opting to fully encash the ARF	This is considered a distribution from the ARF and subject to income tax at the deceased's marginal tax rate.
Spouse/Registered Civil Partner opting to maintain ARF for investment purposes:	Availing of the exemption to CAT/Inheritance Tax†, the fund remains in place however it will be subject to an imputed distribution on 30 November each year*.
Spouse/Registered Civil Partner opting to maintain the ARF to provide an income:	Availing of the exemption to CAT/Inheritance Tax, the fund remains in place to provide a regular income, which will be subject to income tax at their usual marginal rate of tax**.
Child under 21	No income tax liability however they will be subject to Inheritance Tax on the full value, currently at a tax rate of 33%***.
Child over 21	No Inheritance Tax liability however subject to income tax on the full value, currently at a rate of 30%***.
Other	If the ARF is left to another person in a will, the ARF is payable first to the estate less deceased's marginal rate of tax. The family member would then have a CAT liability on the amount received, less the Group C Threshold €30,150 if applicable

Notes:

* Subject to the usual rules for imputed distribution i.e. minimum age 60 and 4%/5%/6% depending on fund size and age.

** If the regular income from the ARF has not reached the required amount for imputed distribution purposes, i.e. 4% of the value of the ARF as at 30 November each year if aged between 60 and 70; 5% if aged over 70 (or 6% if value is over €2m), the imputed distribution will apply.

*** In both cases of a child over or under 21 years, the ARF must be encashed.

† CAT – Capital Acquisitions Tax, often known as inheritance tax.

What are the main differences between an Annuity and an ARF?

The key differences between an Annuity and an ARF are flexibility and risk.

An annuity converts the money in your retirement fund into guaranteed income payable for your lifetime, fixed on the date you buy the annuity. However on death, there will be little or no return for your dependants unless you purchased a spouses/dependants pension and/or had a guaranteed period.

An ARF allows you to preserve, manage and control your retirement fund. You can invest your money into suitable assets and decide how much taxable income you want to withdraw each year, subject to the minimum withdrawal once you are aged 61 or over. Unlike an annuity, it does not provide any guaranteed income but any balance in your ARF on death is payable to your dependants.

	Features of an Annuity	Features of an ARF
Income for life	This offers an income for life which is guaranteed	No guaranteed income for life, subject to withdrawals (minimum 4%/5%*) annually.
Flexibility	No flexibility, you cannot make changes to your annual income, once annuity purchased	Flexibility to withdraw how much you wish to annually, subject to the minimum of 4%/5%*
Potential for future growth?	None, you are locked into a set annuity rate fixed on date of investment with no potential for growth. If you have selected a fixed rate of escalation on your annuity then it will increase by that amount each year.	You might benefit from future growth if your fund is invested in suitable assets, though value of your fund could drop.
Potential for fund to be drained?	None, you are locked into a set annuity rate fixed on date of investment with no potential for growth.	Without careful planning and management, the fund in an ARF could be depleted depending on your withdrawals and investment strategy.
When death occurs?	Income stops when you die (assuming single life annuity). There's likely to be little or no payment to your dependants.	Any funds left in an ARF may be left to your dependants (subject to tax).

*6% of ARF fund greater than €2,000,000.

Now that you have gone through the options available to you, it is time to speak with your financial adviser who will give you more information on these options, and based on your own individual circumstances.

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

Warning: If you invest in this product you may lose some or all of the money you invest.

For More Information

Talk to your financial broker or advisor

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