

Understanding your retirement options

You're approaching
retirement – what now?



Congratulations, it is now time to look forward to your retirement.

As you approach your retirement you can look forward to a future free from work. Of course, you will have to plan your finances and with your pension, you'll probably have a variety of options on how to provide for the future ahead.



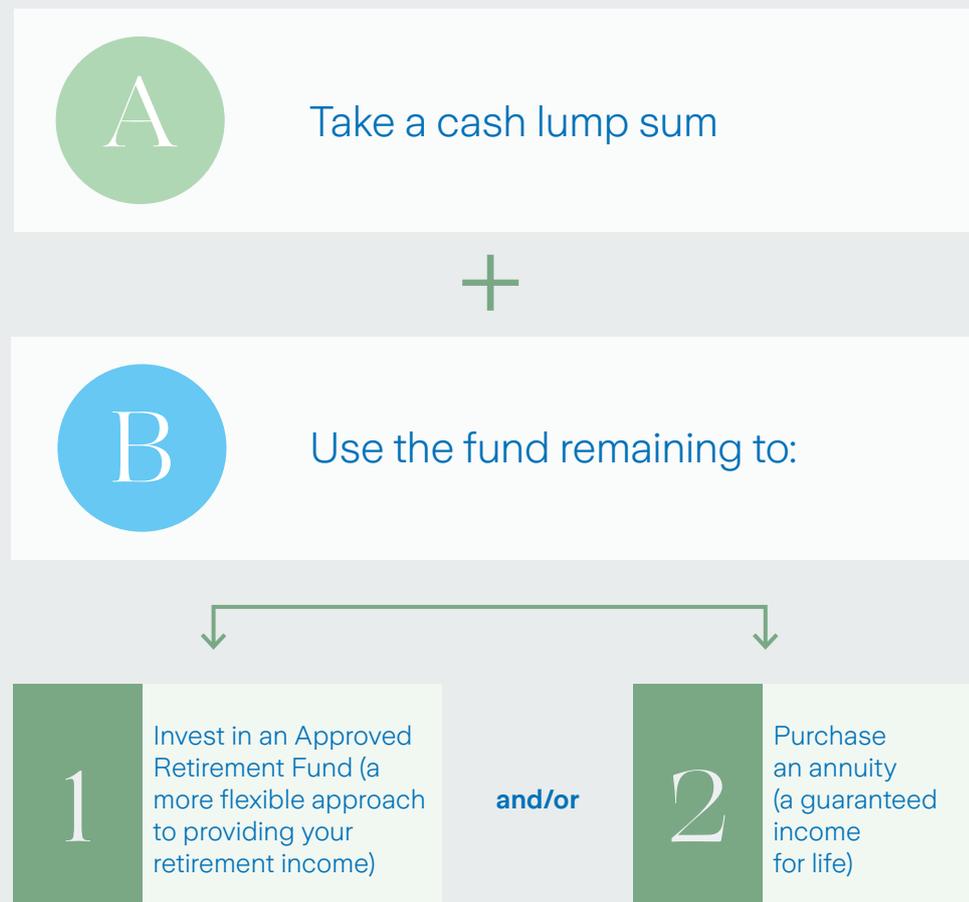
Choosing the right options for your retirement is a big decision and it is important to get professional financial advice.

This publication has been prepared to give you a general guide and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining such advice.

This guide aims to clearly explain the options on retirement. If 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

The good news is that you are able to take a cash lump sum when you retire. With the balance of your pension fund you will have several options:



These options are explained on the following pages.



Take a cash lump sum

You are entitled to take a cash lump sum from your pension fund if you wish.

The lump sum is calculated based on the type of pre-retirement pension contract you had and how you opt to take your retirement benefits (see below) 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 €500,000 will be taxable at the your marginal rate of income tax, USC and PRSI (if applicable).

Cash Lump Sum	Tax Rate
Up to €200,000	Tax free
Next €300,000	Taxable at 20%
Over €500,000	Taxable at marginal rate of income tax, USC and PRSI (if applicable)



How is the cash lump sum calculated?

The amount of cash lump sum you can take depends on the type of pension contract you had prior to retirement. Have a look below to see which of the two categories you fall into:

1. Defined Contribution (DC) Pension Scheme/Personal Retirement Bond (PRB)/ Additional Voluntary Contribution (AVC) Scheme/PRSA AVC
2. Personal Pension Retirement Annuity Contract (RAC)/Personal Retirement Savings Account (PRSA)

1

- DC Scheme
- PRB
- AVC Scheme
- PRSA AVC

Option A

Take a cash lump sum, the value of which is based on the number of years' service completed with your employer and your final salary. The maximum lump sum is 150% of your final salary where you have accrued 20 years or more service which ends on or after your normal retirement age.*

or

Option B

Take a cash lump sum up to a maximum of 25% of your pension fund.

* Pension fund size permitting.

Please note that the cash lump sum based on your salary and service (Option A above) may be higher than in Option B but if it is taken in that form, you can only purchase an annuity with the residual fund (see details of annuities following).

If you have an Additional Voluntary Contribution (AVC) fund or a PRSA AVC fund you still have the option to purchase an Approved Retirement Fund (details on page 6) even if you take your cash lump sum based on your salary and service. However, the benefits from the AVC and/or PRSA AVC must be taken at the same time as the "Main Scheme" benefits.

2

- Personal Pension RAC
- PRSA

Take a cash lump sum up to a maximum of 25% of your pension fund.



Important Note

The availability of these options can be impacted by other factors such as pensions from other employments, Pension Adjustment Orders or redundancy calculations. Professional advice should be sought.

B

Options with the balance of your pension fund

So, once you take a cash lump sum from your pension, the options with the balance are as follows:



** If your pension contract at the date of your retirement is a PRSA or PRSA AVC, then after payment of the cash lump sum, the remaining fund can be left in the PRSA 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 be transferred to an ARF.

1

Purchase an annuity

What is an annuity?

An annuity is a regular income payment that is guaranteed for the rest of your life.

After taking your cash lump sum, the balance of your pension fund can be used to buy an annuity from a life insurance company. You have the option to 'shop around' the life insurance companies to get the best annuity rate for you, which is referred to as the Open Market Annuity Option (see page 5 for other types of annuities).

Income amount

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.



You should discuss the options with your Financial Broker or Advisor as your annuity rate will be impacted by the factors mentioned on the next page.

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. A higher annuity rate will produce a higher income in retirement.
- 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 either 5 or 10 years but the maximum guaranteed period allowed is 10 years. A longer guarantee period will produce a lower annuity rate (and lower income in retirement).
- Do you wish to have your annuity payment remaining fixed (level) or increasing (escalating). Some people like to have an increase in their annuity to allow for future inflation in the prices of goods. An increasing annuity is generally more expensive, so the corresponding annuity rate will be lower than when compared to a level annuity but your income will increase at a predetermined rate over time.
- How do you want your pension paid - monthly or annually?

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 insurance company. Income tax, USC and PRSI 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 guaranteed period after your death, or for a proportion to continue to be paid to your spouse or registered civil partner for the remainder of their lifetime.

Other types of annuities

Other types of annuities are available 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:

- Guaranteed Annuities
- Impaired Annuities.



Guaranteed Annuities were available on pension plans sold in the past and can be a very valuable option. The rate of the annuity was set from outset of the pension plan. If you have such an option please be aware that if you have made any changes to your contract, the annuity rate could 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.



Impaired Annuities are available through some life insurance companies (Zurich does not currently provide these) and they may offer a higher annuity rate due to the person having been diagnosed with a condition which will reduce their 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 ARF (see overleaf).

B

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

2

3

Investing in an Approved Retirement Fund (ARF), or Vested PRSA*

An ARF allows you to preserve, manage and control your retirement fund. You can invest your money in 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 60 or over for a whole calendar year (i.e. the year when you have your 61st birthday). Unlike the annuity option, it does not provide a guaranteed income for the rest of your life.

This is an option if you'd like to grow your investment fund during your retirement years. You can use an investment strategy such as RetireRight from Zurich or you can choose funds depending on the level of risk you are prepared to take. You also benefit from tax free growth on these funds.



* If you have a PRSA or a PRSA AVC fund you may leave the residual funds in your existing contract after taking any available lump sum. This policy is then referred to as a 'Vested PRSA'.

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

Tax treatment of payments from an ARF

Any withdrawal from an ARF is treated as income and taxed under the PAYE system by the life insurance company. Income tax and USC apply subject to your personal circumstances. PRSI is chargeable up to age 66.

From the calendar year when you have your 61st birthday, 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 the calendar year when you reach your 71st birthday. This is known as an “imputed distribution”. All income taken from the ARF is taxable.

A big plus in favour of ARF's is that 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.

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 on death?

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

Receiver	Death of Holder		Death of Spouse	
	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 this, 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 the spouse's / registered civil partner's marginal rate of tax ^{**} .
Child under 21	No income tax liability, however, they will be subject to Inheritance Tax (at a tax rate of 33% ^{***}) on amounts received in excess of CAT [†] Threshold A which is currently €335,000.
Child over 21	No Inheritance Tax liability, however, they will be 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 the deceased's marginal rate of tax. A family member would have a CAT [†] liability on the amount received in excess of Group B Threshold which is currently €32,500. Anyone else would have a CAT [†] liability on amounts in excess of Threshold C which is currently €16,250.

Notes:

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

^{*} 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 61 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.

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 pension 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 spouse's/dependant's pension and/or had a guaranteed period.

An ARF allows you to preserve, manage and control your pension fund. You can invest your money in 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 a guaranteed income but on death any balance in your ARF is payable to your dependants.



		Features of an annuity	Features of an ARF
Income for life		Offers an income for life which is guaranteed.	No guaranteed income for life, subject to a minimum withdrawal from the calendar year when you have your 61 st birthday and up to your 75 th birthday (4%/5%*) annually
Flexibility		No flexibility, you cannot make changes to your annual income, once annuity purchased.	Flexibility to withdraw an income annually, subject to the minimum of 4%/5%* and the ability to use the ARF funds to purchase an annuity at a later date when annuity rates have potentially increased.
Potential for future growth?		None, you are locked into a set annuity rate fixed on date of annuity purchase 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.	Potential to benefit from future growth if your fund is invested in suitable assets. Note, depending on the performance of the assets your fund invests in the 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 annuity purchase with no possibility that your fund will be depleted.	Without careful planning and management, funds 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).

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

Warning: The income you earn from this 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.





Now that you have gone through the options available to you, it is time to speak with with us and we can give you more information on these options, and advice based on your own individual circumstances.

For more information



Call our Financial Planning Team on 0818 202 102



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