# ARF Withdrawals and the State Pension (Contributory)

**Although an Approved Retirement Fund's primary purpose in retirement is to provide a source of income for the retiree,** another factor to consider for those that have an ARF is that ARF withdrawals can result in a PRSI record being accrued for the individual which can be very useful for boosting their PRSI credits and accessing state benefits such as the State Pension (Contributory).

The Department of Social Protection has advised that PRSI Class S should be deducted by Qualifying Fund Managers on ARF withdrawals. That is the same class of PRSI that applies to self employed workers. In theory Class S PRSI applies only where the individual has relevant income of €5,000 more. However as the ARF provider will not know whether the individual has other earnings, they will most likely deduct Class S PRSI @ 4% on any ARF withdrawals made.

Therefore those who have relevant income of less than €5,000 but who paid PRSI on their ARF withdrawals could seek a refund of any PRSI paid from their local tax office. We are aware of cases where the Revenue and Department of Social Protection have identified such cases and refunded the PRSI paid whilst also rescinding any PRSI credits which may have been accrued for that individual in the year in question.

To ensure that a PRSI record accrues towards the State Pension (contributory) a withdrawal of at least €5,000 in the relevant year would be required.* That €5,000 withdrawal can be taken monthly, quarterly, half yearly or as a single payment. In all cases where the total withdrawal or withdrawals equal €5,000 or more then the individual will accrue 52 Class S PRSI contributions which is essentially a full year's worth of PRSI contributions. This is a different approach to that of a standard private sector employee who would pay Class A PRSI and would only receive one Class A contribution for each week of work. Therefore one ARF withdrawal of €5,000 or more will accrue 52 weeks' worth of a PRSI record which it would take a private sector worker a full year of working to match. Clients with more than one ARF should ensure that at least €5,000 is taken across all the relevant ARFs if they require PRSI credits. It is not a requirement to take €5,000 from each ARF they hold to accrue such a record. Care should also always be taken to ensure the income payable does not expose the client to the risk of the ARF fund being reduced to nil in future years due to excessive withdrawals.

### When do ARF withdrawals commence?

ARF withdrawals can commence at any age and must commence by at least the year of the individual's 61st birthday. The minimum ARF withdrawal in the year of the 61st birthday is 4%** but a higher withdrawal could be put in place if necessary to accrue PRSI credits. As the State Pension is currently not payable until age 66, this gives an opportunity to accrue credits towards that pension possibly over a 6 year period (age 61 – 66) but potentially even for a longer period if ARF withdrawals commence at an earlier date. This could be especially important for those individuals with gaps in their PRSI record due to time spent out of work or time spent living abroad.

## State Pension (Contributory) and PRSI

The State Pension (Contributory) entitlement of an individual takes into account their PRSI record and is then assessed under two methods (Yearly Averaging & Total Contributions Approach) with the individual's entitlement being based on whichever provides the best outcome. In both cases it is a requirement that the individual has paid at least 10 years' worth of PRSI.

The Yearly Averaging approach is based on the average PRSI contributions per year paid by the individual taking into account the PRSI paid from when that individual started working until their retirement. An average of 48 PRSI contributions per year is required to qualify for the maximum rate of State Pension Contributory. Lower averages can still qualify for the pension (assuming they have paid at least 520 contributions) but with payment reduced to allow for same. The Yearly Averaging approach is expected to be phased out in the future and replaced with the Total Contributions' Approach. The Total Contributions Approach requires 40 years worth of PRSI to qualify for the maximum rate of State Pension with lower rates payable for those with between 10 – 39 years of contributions calculated on a pro rata basis.

## Conclusion

In conclusion, the potential PRSI record accrued due to ARF withdrawals could be very helpful to an individual in terms of:

- Qualifying for a State Pension
- Boosting the rate of pension for which they qualify.

Although often overlooked this aspect of managing an ARF in retirement should form part of discussions with clients along with managing how ARF assets are invested, providing an adequate income to maintain lifestyle and avoiding the risk of bombout of the fund.

*This assumes that the individual has no other relevant income on which Class S PRSI would apply in the relevant year. Where other income exists and this income is subject to Class S PRSI the total amount when combined with the ARF income would need to meet the €5,000 threshold.

**This increases to 5% for those 71 and older and 6% regardless of age where total ARF funds are €2,000,000 or higher.

**For further information please contact your Broker Consultant or Zurich Technical Services on 01 209 2020.**



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