Tech Talk - Recent changes for PRSAs and State Pensions

In this edition of TechTalk we look at changes to the PRSA (Personal Retirement Savings Account) contract, changes to the State Pension (Contributory) and how these changes may have an impact on payments from your clients Vested-PRSAs and ARFs (Approved Retirement Funds).

From a pension perspective, one of the major changes in the Finance Bill 2023 was in relation to PRSAs. With effect from 1 January 2024 the current maximum age of 75 has now been removed and assets can remain in a Vested-PRSA beyond age 75 – and, crucially, a Vested-PRSA is now accessible after age 75.

When does a PRSA become a Vested-PRSA?

A Vested-PRSA is a PRSA from which assets of the PRSA have been made available to the PRSA owner. This will usually be in the form of retirement benefits taken on completion of a retirement claim form and in most cases the client will take their retirement lump sum from the PRSA as part of that process.

However, a PRSA also becomes a Vested-PRSA automatically on the PRSA owners 75th birthday as Revenue rules state that this is an Automatic Benefit Crystallisation Event. This occurs if the PRSA assets have not previously been made available to, or paid to, the PRSA owner before age 75.

What has changed?

As stated above, PRSA legislation still requires a PRSA to be automatically vested at age 75 if it has not been previously matured (i.e if retirement benefits have not been paid prior to age 75).

However, from 1 January 2024, the restriction whereby you cannot make further withdrawals from your Vested-PRSA after age 75 has been removed.

Before 1 January 2024, any such PRSA which had automatically vested at age 75 would essentially go into a forced "lockdown" with no further withdrawals allowed (apart from the Imputed Distribution withdrawals). The remaining funds in the Vested-PRSA would only be accessible on death, at which time they would receive the same tax treatment as an ARF on death. This scenario forced clients to mature PRSAs before their 75th birthday and move them into an ARF or Annuity to avoid the negative consequences associated with the automatic benefit crystallisation event at age 75 and subsequent lockdown.

The previous regime also affected Vested-PRSAs where clients had already accessed a PRSA before age 75 – but had chosen to maintain the residual fund (after taking the Retirement Lump Sum) as a Vested-PRSA. Again, those Vested-PRSA's would essentially go into a forced lockdown at age 75 with benefits only accessible on death with those funds receiving the same tax treatment as an ARF on death. Clients were required to transfer those Vested-PRSAs to an ARF or Annuity before their 75th birthday to avoid the negative consequences associated with the automatic vesting and lockdown.

This regime may also have influenced their decision at the point of retirement in terms of choosing a post-retirement product, as many would have purchased an ARF, rather than leaving the residual fund in a Vested-PRSA to avoid this potential future issue.

Key Points

PRSA

- Early Retirement and Normal Retirement rules for a PRSA are unchanged and clients can continue to access their funds under the existing PRSA rules up to age 75.
- No further contributions can be paid into a PRSA (or a Vested-PRSA) beyond age 75.
- PRSAs that have not been "Vested" before age 75, will still automatically vest at age 75 – at which point they will become a Vested-PRSA and their value will be tested against the Standard Fund Threshold limit at that point to determine if any Chargeable Excess Tax is due.
- Where clients wish to allow their PRSA to automatically crystallise at age 75 and become a Vested PRSA, it is still important that they complete a retirement claim form so that they can declare all other pension assets to determine the impact of the vesting of that PRSA against their Standard Fund Threshold and any Chargeable Excess Tax due.
- The automatic vesting of a PRSA at age 75 means that if clients want to take a Retirement Lump Sum from their PRSA, then they must do so before they reach age 75 – as a Vested-PRSA cannot pay a Retirement Lump Sum.

Vested-PRSA

- Existing Vested-PRSA's can now remain beyond age 75 and can continue to pay an income to the PRSA owner beyond age 75. There is no longer an obligation to transition those funds to an ARF or Annuity, although this is still possible and there may be advantages in doing so depending on the circumstances of the client.
- The Vested-PRSA is now comparable to an ARF in that it can provide an income to clients for whole of life. This will change the retirement conversation and options for clients that have used a PRSA to save for their retirement.

- Vested-PRSAs are subject to the imputed distribution requirements, even when there has been an automatic crystallisation event at age 75 (and a transition from PRSA to Vested-PRSA).
- If the total value of their ARF/Vested-PRSA is less than €2M, then Vested-PRSA owners are obliged to take a regular withdrawal each year in order to meet the minimum imputed distribution requirements of at least 4%p.a.from the calendar year when they reach their 61st birthday (up to age 70) and at least 5% p.a. from the calendar year when they reach their 71st birthday onwards. The 4% and 5% rate increases to 6% p.a. if their total ARF/Vested-PRSA value exceeds €2M.
- No further contributions can be paid into a Vested-PRSA beyond age 75.
- The Vested-PRSA is treated the same way as an ARF on death.

What do these changes mean in practice?

These changes mean that the PRSA is now a whole of life product which can be used to save for retirement - and which can also provide an income throughout retirement.

We await to see how this will impact the post-retirement market, but we would stress that clients should always seek independent professional financial advice to determine which route is best for them.

Changes to the State Pension Age

In late 2023, the Department of Social Protection introduced some flexibility to the age at which the State Pension Contributory becomes payable.

From 1 January 2024, people born after 1 January 1958 can choose when they would like to begin receiving their State Pension (Contributory) at any age between 66 and 70. For people born before 1 January 1958 the State Pension Age remains 66 (and no deferral is possible).

Until now, PRSI contributions ceased at age 66 in line with the start of the State Pension (Contributory) payments. However, the deferral of the State Pension (Contributory) means that people reaching age 66 after 1 January 2024 will continue to be liable for PRSI if they decide to defer the State Pension (Contributory) beyond their 66th birthday. This also means that their employers (where applicable) will also continue to be liable for Employers PRSI. PRSI will continue to be paid until the point that they are awarded the State Pension Contributory (right up to age 70).

Delaying the start of State Pension (Contributory) means:

- An increased State Pension will become payable at a later stage following the deferral period.
- PRSI will continue to be payable beyond age 66 (until such time as they decide to draw down the State Pension) – but this gives people an opportunity to continue to pay PRSI which may improve their PRSI contribution record when they do eventually start their State Pension.

You can read more about the options of deferring State Pension (Contributory) here:

gov - A more flexible Contributory State Pension (www.gov.ie)

Those that reach age 66 but have no State Pension (Contributory) entitlement as they do not have a sufficent PRSI record of the required PRSI Class will continue to pay PRSI until the earlier of

- their 70th birthday, or
- the date on which they become entitled to the State Pension (Contributory) and receive payment of same.

Impact on payments from Vested-PRSAs and ARFs

Going forward, a clients eligibility for the State Pension (Contributory) and decision as to whether (or not) to defer the Pension will impact their PRSI status in the context of taxation of payments from Vested-PRSAs and ARFs. Zurich Life will be writing to effected clients on this matter soon with further guidance.

Further Information

You can read more about the PRSI changes here:

gov - Changes to Pay Related Social Insurance (PRSI) (www.gov.ie)

If you have a query on any of the above points, please feel free to contact our **Technical Services Team** on **01 209 2020** or techsupport@zurich.com or your Zurich Life Broker Consultant

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