

What Brokers Need to Know



Finance Act 2016 - important changes to PRSAs and RACs at age 75

The **Finance Bill 2016** proposes to make fundamental changes to the treatment of PRSAs (Personal Retirement Savings Accounts) and RACs (Retirement Annuity Contracts/Personal Pensions) where the client passes, or has already passed, their 75th birthday.

Severe Consequences

For such customers, if action is not taken immediately the consequences are severe:

1. Where a customer is currently age 75 or over there will be an automatic Benefit Crystallisation Event (BCE). This will occur on the date of passing of the Finance Act 2016, which we expect to be around 22nd December 2016.
2. For any clients turning 75 after the 22nd December, if his or her RAC/PRSA has not been matured before then, then the BCE will occur on their 75th birthday.

The key implication of this is that:

- If the customer does not provide a BCE Declaration within 30 days (of the BCE date) then their whole fund will be deemed to be a Chargeable Excess and will be taxed at 40%. (The BCE Declaration is contained in the Zurich Life Pension Claim Form)
- RAC's and PRSA's (including Vested-PRSA's) will go into "lockdown" – in other words, customers will have no further access to their assets.
- Once the RAC or PRSA has gone into lockdown, it will not be possible to access the 25% Retirement Lump Sum or transfer to an ARF.
- Vested-PRSA's (but not Vested-RAC's) will be subject to tax on Imputed Distributions. The Tax will continue to be deducted from the Vested-PRSA fund, even though it is not possible for the Imputed Distribution to be deducted from the fund and paid to the client.
- The tax status on death of the PRSA and RAC will change on the date of passing of the Act to that of an ARF.

We urgently need your help - and your clients need your help too!

Zurich will be writing to all PRSA and RAC clients over age 75 with a view to maturing their policies with immediate effect. This is a difficult issue to explain to a group of elderly and vulnerable customers. We will try to keep this simple but we would ask for your help to ensure that the relevant paperwork is completed and returned by the various deadlines – **as the consequences of NOT DOING ANYTHING are very severe.**

If any of your customers are impacted by this change we will be writing to you in advance with a listing of your impacted customers and a copy of the client letter templates being issued. Other Life Offices will be doing a similar exercise.

Conclusion

The message for any customer over age 75 is very clear – They need to submit their BCE Declaration Form by the 30 day deadline, likely to be around 21st January 2017. They also need to convert (from a PRSA, Vested-PRSA and RAC) to an ARF/Annuity or take as taxable cash by 31 March 2017.

For customers under 75, the message is to mature their PRSA or RAC before their 75th birthday and transfer to an ARF, Annuity or take as taxable cash (and an AMRF if required before 75).

For more information, click here.

Any Queries?

Should you have any queries on this communication or the maturity process then please contact your dedicated Zurich Service Team or your Zurich Broker Consultant.

Kind regards,

Mike Ainsworth
Head of Technical Services

16 December 2016

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