

What are my Pension Options?

The types of pension plans
you can use to save for
your retirement



An Bord Pinsean -
The Pensions Board

Authority for Pensions

Foreword by Mary Coughlan TD Minister for Social and Family Affairs



A Chara,

We are all living longer and leading more active lives, which prompts the question: “How do I want to spend my retirement years?”

Because, however far away your retirement years may seem, we all need to plan for our future.

And, it is never too early to start planning and making decisions about the future.

State pensions, which have been significantly increased in recent years, will provide you with a basic level of retirement income. For those who qualify my Department also provides a number of free schemes including a package of household services, such as electricity, gas, TV and phone services.

When planning for your retirement you will need to decide whether you will require additional income. This booklet provides an overview of the pensions arrangements available here in Ireland, and sets out in general terms what pension options might suit particular circumstances and requirements.

I welcome the publication of this booklet, which is one of three that form part of the National Pensions Awareness Campaign, as a useful guide to planning for and providing for the future.

Is mise le meas,

A handwritten signature in black ink, which appears to read 'Mary Coughlan'.

Mary Coughlan TD

Minister for Social and Family Affairs

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1. What are my Pension Options? – An Overview

The aim of this booklet is to set out details of the types of pension plans that people can use to save for their retirement. Savings for retirement are important as:

- People are living longer and leading more active lives in retirement,
- The full single person's State pension is currently €8,179.60 pa.

The three options that you may be able to use to save for retirement and which are covered in this booklet are:

1. **Company pension plans** – These are set up by employers and provide a pension and lump sum at retirement. These benefits will be based on either a member's final earnings or on the value of their retirement fund. The advantage of these plans is that the employer helps pay towards the cost of the benefit. You should check and see if your employer has such a plan and whether you are eligible to join.
2. **Personal pension plans**, such as
 - A. **Retirement Annuity Contracts (RACs)** or
 - B. **Personal Retirement Savings Accounts (PRSAs).**

Personal Pension Plans and PRSAs are normally paid for by personal contributions, although employers can pay contributions to these plans. These plans also provide a tax-free lump sum and pension at retirement.

Both company and personal pension plans can also provide benefits on death before retirement and death in retirement – see sections 5, 6 and 7 for details. Pension Benefits are also portable and need not be “frozen” as used to be the case.

All three types of plans are generally tax approved by the Revenue Commissioners. The advantages of approval are:

- You will receive tax relief on your own contributions,
- You are not taxable on your employer's contributions if any (effectively this is tax free pay),
- Your investments roll up tax-free,
- The lump sum you take at retirement is also tax-free.

The Revenue do place limits on the relief available on contributions and on the benefits. These limits are however more than enough for most people to enjoy a reasonable level of pension.

The key decisions you, taking your own circumstances into account, need to take are:

- What type of pension plan can I use?
- Which type of pension plan would be most suitable?

This guide set out details of the types of pension plans available and the people who can use them. You may also want to think about how much you want to live on in retirement, where your income will come from and how much you will need to save for retirement (see section 8).

Ultimately you are responsible for your own retirement planning and it is up to you to plant the seeds today that will provide the fruits of a comfortable retirement in later years.

2. Why Do I Need a Pension?

Generally people are living longer and leading more active lives in retirement. As a result it is more important than ever for you to think about where your income will come from when you retire.

Your state pension will provide you with a basic level of retirement income, provided you qualify. When planning for retirement you will need to decide whether this is enough to live on in retirement and if not where your additional income will come from.

Broadly speaking most peoples' pensions come from one or more of the following:

- The State pension,
- A company pension plan,
- A personal pension plan.

This booklet sets out an overview of the various pension arrangements that are available in Ireland and are additional to the state pension. It also sets out in general terms what pension options might suit particular circumstances and requirements.

It is important for you to take control of your retirement planning and make decisions regarding your pension.

Notes:

This booklet is based on the legislation, tax rules and limits at the time of writing and you should be aware that these will change over time.

Terms shown in *italics* are defined in the glossary set out in Appendix B.

3. The State Retirement Pensions

The State provides three types of pension:

- The Retirement Pension which is payable at age 65 to people who have retired and who have satisfied certain PRSI conditions,
- The Old Age (Contributory) Pension which is payable at age 66 to people who have satisfied certain PRSI conditions,
- The Old Age (Non-Contributory) Pension. This is a means tested pension for people aged 66 or over and who do not qualify for the Retirement Pension or Old Age (Contributory) Pension based on their social insurance record.

The State pensions are intended to ensure that people receive a basic standard of living in retirement. For example the full Retirement Pension in 2003 is €8,179.60 pa. Some people do not receive a full Retirement Pension or Old Age (Contributory) Pension because they have not been credited with enough social insurance payments. In these cases lower levels of pension may be paid.

In addition to your pension from the State there may also be a Qualified Adult's allowance and/or a Qualified Child's allowance payable, if the conditions for their payment are met.

The State also pays Widow's or Widower's pension, again subject to certain conditions being met.

If you want to find out more about State pensions you should obtain a copy of a Booklet issued by the Department of Social and Family Affairs called "A Guide to Social Welfare Services" ref SW4.

- **Other State Benefits**

In addition to State pensions there are a number of additional benefits payable to retired or older people. These include, free travel, a household package that includes help with electricity, gas, TV licence and your phone costs. There are a number of conditions that need to be met in order to receive these benefits and you will need to check these conditions at the time you retire.

4. Choosing the Right Option

You can increase your income in retirement by using:

- A company pension plan – set up by an employer for its employees,
- A personal pension, such as

A Retirement Annuity Contract (RAC) or

A PRSA

These can be obtained from financial companies such as insurance companies, banks, building societies and *financial advisors*.

All of these options allow for tax relief on contributions, the tax free roll-up of investment and a tax-free lump sum at retirement. They are therefore a very efficient way of saving for your retirement.

The right choice for you will depend on your personal circumstances. You will need to ask yourself a number of questions such as:

- Can I join a company pension plan?
- Will my employer help fund my pension?
- How much can I afford to save?
- How much extra income do I need in retirement?

Set out at the back of this booklet, in a question and answer format, is a flow chart that aims to help you with this decision. This is by its very nature general in its approach. If you are not sure what to do in your own circumstances you should take advice from a *financial advisor*.

5. Company Pension Plans

Company pension plans, or occupational pension plans as they are sometimes known, are set up by employers to provide retirement and death benefits for their employees. There is no legal obligation on a company to set up a company pension plan. These plans are normally set up either under trust or on a statutory basis. Statutory plans are set up by legislation and provide benefits for employees in the public sector or semi-state bodies.

■ Types of company plans

There are two types of company pension plan:

- *Defined benefit* plans provide a set level of pension at retirement, the amount of which normally depends on your service and your earnings at retirement.

A significant number of *Defined Benefit* plans make an allowance for the State Retirement Pension when providing a pension. Typically this is achieved by using an offset from salary in respect of the State Retirement Pension. Many plans that aim to provide 2/3rds of a member's basic salary after 40 years' pensionable service calculate the pension entitlement on the member's basic salary less 1¹/₂ times the State Pension.

- *Defined Contribution* plans, where your own contributions and your employer's contributions are both invested and the proceeds used to buy a pension at retirement. The level of your pension will depend on the amount invested, the return on your investments and the cost of your pension at retirement.

See Appendix B for more details.

- **Joining a company plan**

You should ask your employer if there is a company plan, what sort of plan it is and whether you can join the plan.

Each company pension plan has eligibility rules. These rules set out who can join the plan, when they can join and the benefits available to them. Some companies make it a condition of employment that employees must join the plan when eligible.

Many company plans automatically include employees for a lump sum death in service benefit immediately on joining the company (even if the employee cannot join for pension benefits or can only join for pension benefits at a later date).

In the past many company pension plans only catered for full-time employees. However following part-time worker legislation in 2001 this is generally no longer the case. Employers must now provide pro-rata benefits for part-time employees who work at least 20% of the time worked by a comparable full-time employee, unless there are special circumstances whereby part-time employees need not be included.

New legislation in 2003 in respect of fixed term employees means that in many cases employers will need to make their company pension plans available to such employees.

If you are a member of an occupational pension plan you cannot take out an RAC or a PRSA, unless it is an AVC PRSA or unless you have a separate source of earnings, i.e. a separate job or income.

■ Contributions

Members are often asked to contribute toward the cost of a company pension plan. Contributions tend to be set as a percentage of salary.

In a *defined contribution* plan the employer's contribution is set out in the plan's documents. In a *defined benefit* plan the employer normally pays contributions at the level needed to fund the benefits promised.

■ Additional Voluntary Contributions "AVCs"

AVCs are contributions that a member makes to increase retirement benefits. AVCs are only permitted if the rules of the particular plan permit AVCs to be made. If the rules do not permit AVCs to be made then a member has the right from 15 September 2003 to pay AVCs to a Personal Savings Retirement Account (PRSA) (see section 7).

■ Tax relief

Member contributions

Your contributions to a company pension plan will normally be paid through payroll. As a result you will receive immediate and automatic tax relief together with relief from PRSI and the health levies. You do not have to claim this relief.

The maximum contribution rate (as a percentage of total pay) on which you can receive tax relief is:

Highest age at any time during the tax year	Rate
Under 30	15%
30-39	20%
40-49	25%
50 or over	30%

For tax relief purposes these contributions are limited to earnings up to a maximum of €254,000 in any tax year.

Employer contributions

You are not taxed on any employer contributions paid to a company pension plan.

Investments

All funds invested in a company pension plan roll-up free from income tax and capital gains tax.

■ **Investment of contributions**

If you are a member of a *defined contribution* plan you may be provided with a range of investment options. You should carefully review the information provided on any option offered before making any decisions. It is important that you periodically review any investment decision taken, especially in the years running up to retirement as you may wish to protect any investment gains made.

■ **When and how can a member receive benefits?**

Normal retirement

Company pension plans provide benefits at the plan's normal retirement age. Your pension will typically be based on your years in the company or plan and your earnings at retirement. If you work in the private sector your options would normally consist of:

- a pension, or
- a tax-free lump sum and a reduced pension.

If you work in the public sector your plan would normally provide a fixed level of pension and an additional tax-free lump sum.

Depending on the rules of any particular plan your pension may or may not increase in payment.

Pensions in payment are taxable as income under the PAYE system and are also subject to the health levies.

A plan member with AVCs may, if the rules of the plan permit, use their AVCs to provide:

- All or part of the tax-free lump sum,
- Additional pension,
- A payment to an Approved Retirement Fund “ARF” or an Approved Minimum Retirement Fund “AMRF” (see section 9),
- A taxable lump sum (see section 9).

A company Director who controls more than 5% of the voting rights in their company may use the *ARF*, *AMRF* or taxable lump sum options as a vehicle for all retirement benefits arising from that company’s plan.

Early retirement

Most company pension plans in the private sector permit members to retire early with the employer’s and/or trustees’ consent from age 50 onwards. Many plans allow members to retire due to ill-health at any age.

With a *defined benefit* plan early retirement benefits are normally lower to allow for the additional cost of paying benefits early and for a longer period. With a *defined contribution* plan the fund available to provide your benefits would be lower on early retirement (as fewer contributions will have been paid and those paid would be invested for a shorter period). In addition, the cost of buying your pension would be more expensive.

Death in service

Company pension plans typically provide benefits should you die in employment. The precise form of these benefits will depend on the rules of any particular plan. These benefits may however include one or all of the following:

- A lump sum, often a multiple of your salary,
- A refund of your contributions, including any AVCs,
- A spouse's or partner's pension, payable for life,
- A child's or orphan's pension, normally ceasing at age 18 (later if in full-time education) and may be limited to a maximum of 2 or 3 children.

Death in retirement

It is usual for a company pension plan that is a *defined benefit* plan to provide some form of benefit in the event of your death in retirement. The types of benefits provided on death in retirement include:

- A widow/widower's or dependant's pension, usually expressed as a percentage of your pension or salary,
- A guaranteed minimum payment period, typically 5 years. This ensures that your pension will be paid for a minimum period even if you die shortly after your retirement.

The actual benefit payable depends on the rules of each plan.

Ill-health

Your employer's pension plan may provide a benefit in the event that you are unable to work due to a serious illness. Alternatively your employer may provide some form of insurance to cover such an event.

You may wish to consider taking out some form of disability insurance to ensure an income is available in the event of disability, if the above benefits are not provided by your company pension plan or by your employer's insurance.

Leaving the employer

Membership of a company pension plan ceases when you leave that employment. If you have more than two years *Qualifying Service*, which normally means two years in the plan as a member for pension purposes, you will be able to:

- Leave your benefit in the plan until you retire (known as a deferred or preserved benefit),
- Move or transfer the value of your pension benefits to another pension arrangement.

If you leave a *defined benefit* plan your deferred benefit is not frozen, it increases each year until your retirement by 4% or the annual increase in Consumer Prices Index (CPI) if less. In a *defined contribution* plan your deferred benefit continues to be invested and benefit from investment returns.

You may be obliged if you have less than 2 years *Qualifying Service* when you leave service to take a refund of the value of your own contributions less tax at the basic rate. Some plans may permit you to leave your contributions in the plan even though they are not required to do so by law. AVCs are treated in the same way as main plan benefits.

Portability

If you leave a company pension plan with a preserved benefit you are entitled to move the value of your benefit to:

- Your new employer's pension plan,

- A PRSA if you have less than 15 years service in the company pension plan and subject to its acceptance by the PRSA provider,
- A buy-out bond, which is a life assurance policy designed to receive transfer values from company pension plans,
- An overseas pension plan in certain circumstances.

In a *defined contribution* plan the value paid will be the encashment value of the investments held in your individual fund less any expenses authorised by the plan rules.

In a *defined benefit* plan a value is placed on the benefit payable from the company pension plan using a standard basis of calculations. This value can however be reduced if the company pension plan from which it is being paid does not meet the minimum funding basis set out in the Pensions Acts 1990 - 2002.

■ **Maximum benefit limits**

All benefits paid from a company or statutory plan are subject to maximum limits set by the Revenue or by the relevant Statute. In summary, in a company plan these limits are:

- A pension on retirement from service at normal retirement age of $\frac{2}{3}$ ths your Final Remuneration , if you have completed 10 years service, or
- A tax free lump sum on retirement from service at normal retirement age of $1\frac{1}{2}$ times your Final Remuneration, if you have completed 20 years service and a reduced pension,
- A dependant's pension up to 100% of your own pension.

Final Remuneration is defined by the Revenue. In most cases it is based on an employee's final basic salary plus a 3 years average of their fluctuating emoluments (e.g. bonus or overtime).

6. Retirement Annuity Contracts

A Retirement Annuity Contract “RAC” is the formal name for what is normally called a personal pension. An RAC is a particular type of insurance contract approved by the Revenue.

An RAC is a *defined contribution* pension plan. The value of the ultimate benefits payable from the contract depends on the level of contributions paid, the investment return achieved and the cost of buying the benefits.

■ Who can take out an RAC?

You can take out an RAC if you have, or have had at some stage, *Relevant Earnings*. Broadly, *Relevant Earnings* are earnings from:

- Non-pensionable employment, i.e. earnings from a job that are not being pensioned in a company pension plan,
- A self-employed trade or profession, i.e. assessable under Case I or Case II of Schedule D, for example, the income of doctors, solicitors, farmers.

It is important to note:

- If you are included in a company pension plan **only** for a lump sum death in service benefit you are deemed to be in non-pensionable employment and to have *Relevant Earnings* for the purposes of an RAC,
- If you have more than one source of earnings you can contribute to an RAC in respect of any source of income that is not pensioned in a company pension plan. For example, if you have a full-time job that is being pensioned by your employer and a part-time job you can take out an RAC in respect of your earnings from the part-time job,

- You can contribute to more than one RAC in any one tax-year,
- You can contribute to an RAC and a PRSA in any one tax-year (see section 7),
- Individuals who do not have taxable earnings, such as the unwaged cannot take out an RAC, but may take out a PRSA.

Self-employed individuals who are members of an association or group representing the majority of members of a particular occupation may be able to join a group “RAC” plan set up under trust for that association or group, for example the Law Society or the Dental Association. The same limits and restrictions apply as for insured contracts.

■ Contributions

Normally it is the individual who takes out the RAC who contributes to the policy. Often this is by direct debit to the insurance company concerned. Each insurance company sets a minimum contribution and you need to contribute at least that amount in order to take out an RAC.

■ Tax relief

Personal contributions

You are entitled to income tax relief on contributions paid to an RAC. This relief is normally claimed back from the Revenue in your annual tax return. The maximum amount on which you can receive tax relief is set out in the table following. You can pay more contributions but the tax relief available will be limited.

Highest age during tax year	Tax relief limit
Under 30	15% of <i>Net Relevant Earnings</i>
30-39	20% of <i>Net Relevant Earnings</i>
40-49	25% of <i>Net Relevant Earnings</i>
50 or over	30% of <i>Net Relevant Earnings</i>

Should you contribute to both an RAC and a PRSA in one tax year then the above limits apply to your total contributions to both arrangements.

Net Relevant Earnings are your *Relevant Earnings* reduced by:

- Charges on income such as covenants, allowable interest and maintenance, which are deductible for Income Tax purposes, and
- Losses or capital allowances related to your *Relevant Earnings*.

For tax relief purposes tax relief is limited to *Net Relevant Earnings* up to a maximum of €254,000 in any tax year.

Employer contributions

If an employer pays contributions to an RAC the employee will be taxed on these as a benefit in kind. The employee can then claim income tax relief on these contributions as if he or she had paid the contributions.

Carry forward and carry back of contributions

Should you pay a contribution in a tax year that is more than that on which tax relief is given the contribution can be carried forward. It is then treated as a contribution made in the following tax year.

If you make contributions between the end of the tax year and the following 31 October, you can opt to have those contributions treated as having been made in the previous tax year.

Investments

All funds invested in an RAC roll-up free from income tax and capital gains tax.

■ **Investment of contributions**

When you take out an RAC you will have a range of investment options. You should review the information provided on these options carefully before making any decisions. It is important that you periodically review any investment decision taken, especially in the years running up to retirement as you may wish to protect any investment gains made.

■ **Benefit options**

Retirement – when can the benefit be taken?

You can take a benefit from an RAC as follows:

- At any time after age 60 but before age 75,
- At any time in the event of serious ill-health.

You do not need to retire in order to draw a benefit. In the case of retirement due to serious ill-health you will be deemed to be permanently unable to work.

There are a relatively small number of professions where the Revenue will permit retirement before age 60, such as certain sports people.

Retirement – what benefits can be taken?

The amount of your benefit will depend on the level of contributions paid, the investment return earned on those contributions and the cost of buying your pension. You should ask the insurance company for an illustration setting out the possible level of your pension at retirement. This will enable you to see if you are saving enough.

On retirement you can choose to take up to 25% of your retirement fund as a tax-free lump sum. The balance of the fund traditionally had to be used to purchase an annuity (a pension). This annuity must be payable for the individual's life and could also include:

- A guarantee period of up to 10 years,
- Dependants' pensions, subject in total to a maximum of the individual's pension,
- Pension increases.

All pensions (annuities) in payment are subject to PAYE at source and the health levies.

For RACs taken out after 6 April 1999, or for earlier contracts where the insurance company agrees, there are now two options at retirement in addition to purchasing an annuity. These are:

- Transferring the balance of the retirement fund after any tax-free lump sum has been taken to an *ARF* or *AMRF* (see section 9), or
- Taking the balance of the retirement fund after any tax-free lump sum as a taxable lump sum. Tax at your marginal rate will be deducted at source.

Ill-health

It is possible in some circumstances to draw a benefit from an RAC in the event of serious illness. The benefit payable is often greatly reduced as contributions have been paid for a short time and the cost of buying a pension at a younger age is much higher than the cost at normal retirement age.

You may wish to consider taking out some form of disability insurance to ensure an income is available in the event of disability, as the pension plan may provide no benefit or a benefit that would be insufficient in this event.

Death before retirement

Should you die before you have taken a benefit from your RAC then the value of your retirement fund is payable to your estate. If you die within a few years of your RAC commencing the fund payable may be relatively small, due to the limited time over which contributions have been paid.

To provide a higher death benefit you may wish to take out additional life assurance. This can form part of your RAC.

Portability

All RACs taken out after 6 April 1999, or earlier contracts where the insurance company agrees, can be transferred to another RAC. This transfer value can also be paid to a PRSA, by mutual agreement between you and the insurance company concerned.

7. Personal Retirement Savings Accounts (PRSAs)

A PRSA is a new type of personal pension contract introduced in 2003. It is a contract between an individual and an authorised PRSA provider. It is a *defined contribution* plan. There are two types of PRSA contract;

- A **Standard PRSA** is a contract that has a maximum charge of 5% on the contributions paid and 1% per annum on the assets under management. Investments are only allowed in pooled funds which include unit trusts and life company unit funds,
- A **Non-Standard PRSA** is a contract that does not have maximum limits on charges and/or allows investments in funds other than pooled funds.

Charges may not be expressed as flat amounts and can only be charged as a percentage of contributions or fund value. Charges cannot be applied to transfers to or from PRSAs. This is very important as it ensures that charges are not excessive compared to the level of contributions.

■ Who can take out a PRSA?

Employees, the self-employed, homemakers, carers and the unemployed – in fact every adult under age 75 may take out a PRSA. The relevant legislation does not state a minimum age however, in practice, this may be imposed by contract law. Importantly, unlike RACs, there is no requirement to have taxable earnings in order to pay contributions.

The law that introduced PRSAs gives all “excluded employees” the right to contribute via payroll to a Standard PRSA set up by their employer. In summary excluded employees are:

- employees who are not offered membership of a company pension plan, or
 - employees who are included in a company pension plan for death in service benefits only, or
 - employees who are ineligible to join a company pension plan and who will not, under the rules, become eligible to join the plan for pension benefits within six months from the date they commenced employment, or
 - employees who do not have access to AVCs through their company pension plan.
-
- **Contributions**

Contributions may be paid to a PRSA by both an individual and by an employer, however an employer does not have to contribute. Where an individual is a member of a company pension plan and is included for pension benefits contributions to a PRSA may only be made if the plan rules do not allow for the payment of AVCs (see section 5).

- **Tax relief**

- **Personal contributions**

- Contributions paid to a PRSA will benefit from income tax relief at an individual's highest rate of tax. Contributions paid by an employee via payroll will benefit from automatic tax relief and relief will also be given from PRSI and the health levies, if you pay these charges.

- If you contribute directly to a PRSA you will need to reclaim tax relief directly from the tax office. If you are an employee then tax relief will be given through the PAYE system as an additional tax credit. If you are self-employed tax relief may be claimed on your tax return.

The maximum tax relief available in any one tax year is expressed as a percentage of *Net Relevant Earnings* (broadly, earnings from a trade profession, office or employment less certain allowable expenses and subject to an earnings cap of €254,000) and is set out below:

Age during tax year	Tax relief limit
Under 30	15% of <i>Net Relevant Earnings</i>
30-39	20% of <i>Net Relevant Earnings</i>
40-49	25% of <i>Net Relevant Earnings</i>
50 or over	30% of <i>Net Relevant Earnings</i>

You can pay in more than the tax relief limits set out above, but the tax relief available will be limited to those amounts.

You can claim tax relief on a contribution of €1,525 regardless of age or earnings, except where you are a member of a company pension plan.

Where you are paying AVCs to a PRSA the limits for tax relief are inclusive of your own contributions to the company pension plan. These limits are also inclusive of any contributions paid to an RAC.

Employer contributions

If an employer pays contributions to an individual's PRSA the employee will be taxed on these as a benefit in kind. The employee can then claim immediate tax relief on these contributions as if he or she had paid the contributions. In practice the Revenue has stated that a benefit in kind tax charge will only arise where the total contributions paid in any one year exceed the annual limits set out above.

Carry forward and carry back of contributions

Should you pay a contribution in a tax year that is more than that on which tax relief is given the contribution can be carried forward. It is then treated as a contribution made in the following tax year.

If you make contributions between the end of the tax year and the following 31 October, you can opt to have those contributions treated as having been made in the previous tax year.

Investments

All funds invested in a PRSA roll-up free from income tax and capital gains tax.

■ **Investment of contributions**

When you take out a PRSA you will have a range of investment options. All PRSAs must have a default investment strategy. This is an investment option that is based on general good investment practice that invests in funds expected to meet a typical contributor's retirement savings expectations. Like most investment options there is a level of risk associated with the investments.

You should carefully review the information provided on these options before making any decisions. It is important that you periodically review any investment decision taken, especially in the years running up to retirement as you may wish to protect any investment gains made.

■ **Benefit options**

Retirement – when can the benefit be taken?

You can normally take a benefit from a PRSA when aged between 60 and 75. In certain circumstances you can take your benefits before then such as:

- On retirement from employment at age 50 or over, or
- At any time in the event of serious ill-health.

In the case of retirement due to serious ill-health you must be very ill and be deemed to be permanently unable to work.

Retirement – what benefits can be taken?

On retirement you can choose to take up to 25% of your fund as a tax-free lump sum from a non AVC PRSA. The balance of the fund can be used to:

- Purchase an annuity (a pension). This annuity must be payable for your lifetime and can include, a guarantee period of up to 10 years, dependants' pensions (subject to a maximum of the individual's pension) and/or pension increases, or
- Purchase an *ARF* or *AMRF*, see section 9, or
- Pay a taxable lump sum, see section 9, or
- Take benefits from the PRSA and continue to make further contributions.

All pensions (annuities) are subject to PAYE at source and the health levies.

If you are a member of a company pension plan and have an AVC PRSA then your benefits will be subject to the rules of the plan and the Revenue limits applying to company pension plans.

Ill-health

It is possible in some circumstances to draw a benefit from a PRSA in the event of serious illness. The benefit payable is often greatly reduced as contributions have been paid for a short time and the cost of buying a pension at a younger age is much higher than at normal retirement age.

You may wish to consider taking out some form of disability insurance to ensure that an income is available in the event of disability, as the pension plan may provide no benefit or a benefit which would be insufficient in this event.

Death before retirement

Should you die before you have taken a benefit from your PRSA then the value of your retirement fund is payable to your estate. If you die shortly within a few years of taking out your PRSA the fund payable may be relatively small due to the limited time over which contributions have been paid.

To provide a higher death benefit you may wish to take out additional life assurance. This cannot be included in your PRSA and must be under a separate contract.

Portability

The value of your PRSA can be transferred to:

- Another PRSA,
- A company pension plan,
- An overseas pension plan in certain circumstances.

Your PRSA provider cannot charge you for transferring the value of your fund.

8. Is My Benefit Adequate?

As mentioned, in order to plan for retirement you will need to consider where your income will come from in retirement. You will also need to decide what level of income you will need in retirement. It is important to note that many people have unrealistic expectations as to the level of pension they will receive in retirement.

Potentially your income could come from the State Pension, your company pension plan, if you are in such a plan, your RACs or PRSAs if you have them, and any other non-pension based sources of income you may have.

You can find out the likely level of pension you may receive from your company pension plan by asking the administrator for a statement. You may already receive a statement once a year. Equally, you can ask your RAC provider for a statement. Your PRSA provider must provide you with such a statement.

With *defined contribution* plans you may ask for a statement showing the likely level of benefit you would receive at retirement from your contract. It is often useful in these circumstances to ask for pension amounts to be expressed as a percentage of your final salary, as this gives you a feel for what proportion of your income you will be replacing at retirement.

For example you may want to retire on 60% of your salary (say because you will have finished paying your mortgage). If your current pension plan when taken with the State pension provide a total of 40% of your salary then you will need to plan how best to provide the other 20% of your income in retirement. You may, depending on your circumstances, be able to increase your normal contributions or AVCs to your existing pension plan or take out a new PRSA or RAC.

- **Defined benefit plans**

A *defined benefit* plan provides a fixed level of pension, typically linked to a member's salary at retirement. If you are a member of such a plan then you should be able to get a firm idea as to the level of pension you will receive from that plan at retirement.

- **Defined contribution plans**

The benefits from a *defined contribution* plan depend on the level of your fund and the cost of buying your pension at the time you retire. The level of your fund at retirement will in turn depend on the level of contributions paid in and the investment return achieved on your retirement savings.

In projecting the future value of your fund at retirement your pension plan administrator will have to make a number of economic assumptions, regarding future investment returns, interest rates etc. It is important to note that any figures provided regarding your future benefit levels are only projections and you will only know the level of your retirement benefits shortly before you actually retire.

- **Defined contribution rates**

The following table sets out the total contribution rate required to target a pension of $1/60^{\text{th}}$ of an individual's earnings inclusive of the State Pension as a percentage of salary.

For example it is estimated that somebody age 30 earning €24,897, the current average industrial wage, would need to contribute 13.5% of their salary to be able to buy a pension of $35/60^{\text{ths}}$, whilst somebody earning the same salary but who starts their contributions at age 45 would need to contribute 15% of their salary to buy a pension of just $25/60^{\text{ths}}$.

What are my Pension Options?

	Age 25	Age 30	Age 35	Age 40	Age 45	Age 50	Age 55
Salary of €25,867	12.8%	13.5%	14.2%	14.8%	15%	15.2%	15.4%
Salary of €50,000	18.3%	19.4%	20.4%	21.2%	21.5%	21.8%	22.1%

Table reproduced with the kind permission of the Irish Association of Pension Funds.

Higher contribution levels are needed for someone on a higher wage as the State Pension is a flat rate of benefit. It therefore proportionately makes up less of a higher earner's target benefit.

In arriving at these contribution rates the following assumptions and considerations were made:

- A retirement age of 65,
 - A member's pension of 1/60th of salary (inclusive of the State Pension) for each year contributions are made in accordance with the table,
 - A spouse's pension of 50% of the member's pension is payable on the member's death in retirement,
 - Pension increases of 3% pa are purchased,
 - Assumptions are in line with the Society of Actuaries in Ireland guidelines for projections.
-
- **Impact of transfers between pension plans**
It is important you take advice when considering transferring benefits between pension plans.

9. Retirement Planning

At retirement you will have a number of options available to you. These may include:

- Taking a tax-free lump sum, subject to limits set by the Revenue,
- Receiving a pension (sometimes provided by an annuity),
- Transferring some or all of your retirement savings to an Approved Retirement Fund (*ARF*) or Approved Minimum Retirement Fund (*AMRF*),
- Taking a taxable lump sum.

All pension plans allow you to take a tax-free lump sum. With an RAC or PRSA the maximum you can take is 25% of your fund. With a company pension plan the maximum you can take at normal retirement age with 20 or more years' service is $1\frac{1}{2}$ times your final earnings. Lower amounts are payable if you retire early or have less service.

The amount of your pension will, if you have an RAC, PRSA or are a member of a company *defined contribution* pension plan, depend on the amount of your retirement fund left after you have taken any tax-free lump sum and the cost of buying your pension.

If you are in a company *defined benefit* plan then your pension will typically be based on your service and earnings but will usually be reduced by the pension equivalent of any lump sum received. If you are in a public sector plan you may receive a tax free lump sum in addition to your pension.

The last two options referred to above are available if you

- Have a PRSA,
- Have an RAC set up after 6 April 1999, or an earlier contract where the insurance company permits these options,
- Have AVCs in a company pension plan and the rules of the plan permit these options,
- Are a company director who controls more than 5% of the voting rights in your company.

Investment in an ARF, or the availability of a taxable lump sum, is subject to an income condition. In summary, if you are not entitled to a pension guaranteed for life of €12,700 a year, which can include your State Pension, then you must set aside an amount of €63,000, or the remaining fund available to you if this is less, to buy an annuity (pension) or else invest it in an *AMRF*.

You should consider taking advice when considering your retirement options, especially where you are considering investing in an *ARF* or *AMRF*. In practice with an *ARF/AMRF* you may be giving up a guaranteed income for your life and replacing it with an investment policy which, if you draw a regular income from it, could run out of money before your death.

10. The Pensions Board

The Pensions Board was established by the Minister for Social Welfare under the terms of the Pensions Act, 1990. Its main functions as set out in that Act and amending legislation, most recently the Pensions (Amendment) Act, 2002, are:

- to monitor and supervise the operation of the Pensions Act and pension developments generally, including the activities of PRSA (Personal Retirement Savings Account) providers, the provision of PRSA products and the operation of PRSAs;
- to issue guidelines or Guidance Notes on the duties and responsibilities of trustees of schemes and Codes of Practice on specific aspects of their responsibilities;
- to issue guidelines or Guidance Notes on the duties and responsibilities of PRSA providers in relation to PRSA products;
- to encourage the provision of appropriate training for trustees of schemes, and to advise the Minister on standards for trustees;
- to advise the Minister on all matters in relation to the Pensions Act and on pension matters generally.

Occupational pension schemes must register with the Board, and most schemes must pay an annual fee to meet the Board's administrative costs. The Board can act on behalf of pension scheme members who are concerned about their scheme; it can investigate the operation of pension schemes; it has the power to prosecute for breaches of the Pensions Act and to take court action against trustees for the protection of members and their rights.

In relation to PRSAs, the Board and the Revenue Commissioners are jointly responsible for the approval of PRSA products in order to provide for the protection of PRSA contributors and the need for effective supervision of the production, marketing and sale of such products. The Board can collect fees on an annual basis from PRSA providers to defray the costs of the supervision of this function; it can act on behalf of PRSA contributors who have concerns about their PRSAs; it can investigate the state of a PRSA product, the PRSA provider in respect of its PRSA activities and employers in relation to statutory requirements of the Pensions Act; it has the power to initiate prosecutions for breaches of the Pensions Act.

The Pensions Board includes representatives of trade unions, employers, Government, pension scheme trustees, the pensions industry, consumer interests, pensioner interests and various professional groups involved with occupational pension schemes and PRSAs.

11. Further Information

The following booklets are also available free of charge from the Pensions Board:

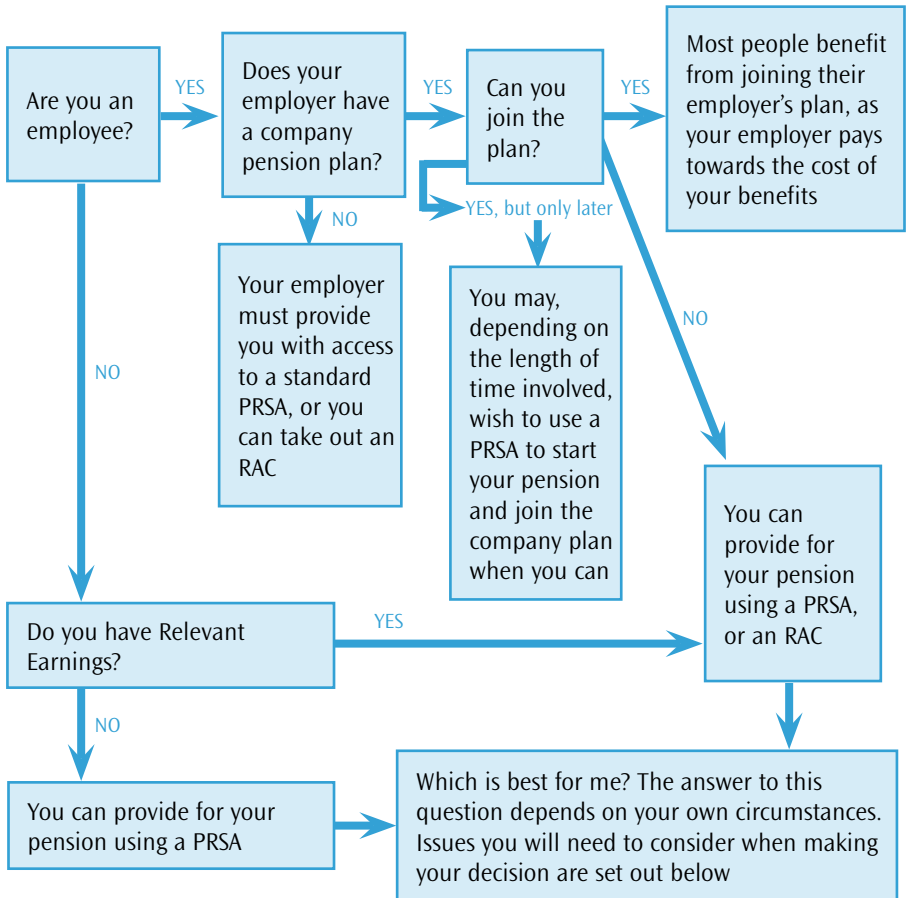
- **So You're a Pension Scheme Trustee?**
A brief guide to the duties and responsibilities of trustees of occupational pension schemes.
- **Is My Pension Secure? ***
A guide to the protections provided by the Pensions Act, designed specifically for members.
- **Selecting Member Trustees**
A guide to the participation by members in the selection of occupational pension scheme trustees.
- **What Do You Know About Your Pension Scheme?**
An overview of the information which trustees of occupational pension schemes must give.
- **The Pensions Board ***
An introduction to the Board, its functions and its membership.
- **What Happens to My Pension if I Leave?**
A guide to the preservation and transfer of benefits for early leavers under the Pensions Act.
- **What Happens When Your Pension Scheme is Wound Up or Merger/Acquisition Takes Place?**
A guide to trustees and pension scheme members on the winding up of a pension scheme and on the effects of mergers/acquisitions on pension schemes.
- **A Brief Guide to Pensions**
A guide to help you understand your pension scheme and its benefits.

- **A Guide to Your Scheme's Annual Report**
A guide to pension scheme members to assist them in reading and understanding their scheme's Annual Report.
- **A Brief Guide to the Pension Provisions of the Family Law, Acts**
Guidance on the pension provisions of the Family Law Act, 1995 and the Family Law (Divorce) Act, 1996.
- **A Brief Guide to Annuities**
A guide to annuities and how they work.
- **A Brief Guide to Integration**
Guidance on the integration of occupational pension scheme benefits with the benefits payable under the Social Welfare system.
- **Women and Pensions**
A guide on pension provision for women.
- **Pensions (Amendment) Act, 2002**
Frequently Asked Questions.
- **Personal Retirement Savings Accounts (PRSAs)**
Employers' Obligations.
- **Personal Retirement Savings Accounts (PRSAs)**
A Consumer Guide

*Also available in Irish

Appendix A

How Do I Choose Which Pension is Best for Me?



Planning considerations

- Standard PRSAs have fixed charges and may offer better value for money
- Standard PRSAs can only invest in pooled funds - these are likely to be more than adequate for most people
- Non-standard PRSA and RACs offer the widest range of investment options, but may have higher charges
- The tax treatment of employer contributions to PRSAs is more straightforward than those to RACs

Appendix B

Glossary

Approved Retirement Fund (ARF)

An *ARF* is an investment contract for the proceeds of any additional voluntary contributions, or in the case of a 5% Director or RAC holder other retirement benefits that are not taken in the form of a lump sum or pension on retirement. Money is invested with a “Qualifying Fund Manager” (which includes banks, building societies and insurance companies) and may be invested in any manner you wish and will accumulate tax-free. Income tax is payable on any money you withdraw from the fund.

Approved Minimum Retirement Fund (AMRF)

An *AMRF* is like an *ARF* except that you cannot withdraw your original investment until you are aged 75. You can only withdraw the investment income in the meantime.

Defined Benefit Plan (also known as “final salary” plan)

Defined Benefit plans provide members with retirement and death benefits based on formulae set out in the rules of the plan. Benefits are often based on a member’s salary close to retirement and on his or her pensionable service. For this reason these plans are sometimes known as “final salary” plans.

Many *defined benefit* plans are “integrated” with the State pension. This means that they provide a level of benefit that makes an allowance for the State pension.

Defined Contribution Plan (also known as “money purchase” plan)

Defined contribution plans provide benefits by using the value of the member’s individual retirement account at the time a benefit is purchased. The value of a member’s retirement account and the ultimate benefit depends on three main factors:

1. The contributions paid into the account,
2. The investment returns on those contributions, and
3. The cost of purchasing the member's pension using annuity rates.

Many company *defined contribution* pension plans also provide benefits should a member die in the service of the employer. These benefits are usually based on the member's salary at death.

Financial Advisor

A *financial advisor* is someone who is regulated by the Irish Financial Services Regulatory Authority to give advice to individual members of the public. Advisors can either be "tied" and only able to advise on products of the employer or can be "independent" and able to advise on a range of providers and products. It is important when selecting an advisor that you understand how they are being paid for the advice that is being given and what impact any commission being paid will have on your pension or investments.

Net Relevant Earnings

Net Relevant Earnings will normally be an individual's *Relevant Earnings* less charges on income such as covenants, allowable interest and maintenance and related losses and capital allowances.

Qualifying Service

Qualifying Service is the total service completed as a member of any company pension plan for pension benefits and any similar service in a previous employer from which a transfer has been received.

Relevant Earnings

Relevant earnings are broadly defined as income from a trade or profession or from an office or employment other than a pensionable office or employment.

Appendix C

What if I have a complaint about my Pension?

Set out below is a summary of the action you can take should you have a complaint about your pension. Any action that you may take depends on whether your complaint is about the State Pension, a company pension plan, an RAC, a PRSA or an ARF/AMRF.

What if I have a complaint about my State Pension?

Should you have a complaint or problem in respect of your State Pension entitlement or any other social welfare entitlement there are a number of bodies you can contact. You can contact the Social Welfare Office dealing with your benefits, the Social Welfare Appeals Office or the Ombudsman's Office.

How do I know who to contact?

Social Welfare Office: You should initially contact the Social Welfare Office dealing with your benefits to try and resolve any complaint directly. The staff there will try and resolve your complaint. However if you are still not satisfied with the response you can have your complaint referred to the Local Manager/Section Manager/Officer designated to handle complaints. Details of how to complain are set out in leaflet SW104.

Social Welfare Appeals Office "SWAO": If you disagree with the decision of your local Social Welfare Office regarding your claim you should contact the section involved to have it reviewed. Subsequently if you are still unhappy with the outcome, you have a right of appeal to the SWAO. The SWAO operates independently of the Department of Social and Family Affairs and is headed by the Chief Appeals Officer. Details of the SWAO and the appeals process are set out in leaflet SW56.

The Ombudsman's Office: If you are not satisfied with the outcome of your complaint or the manner in which it was handled you may bring the matter to the attention of the Ombudsman who will conduct an investigation. Before the Ombudsman can examine your complaint you must avail of any right of appeal open to you, for example the SWAO.

What if I have a complaint about my Company Pension Plan?

Should you have a complaint about your company pension plan you can contact your employer, the administrator of the plan, the trustees of the plan, the Pensions Board and the Office of The Pensions Ombudsman

How do I know who to contact?

Your employer: Initially you should contact the person in your company that deals with the pension plan. This may be a contact in your Personnel or Human Resources Department who can try and resolve your complaint on your behalf.

The administrator: You can contact the administrator of the company pension plan directly. This may be an insurance company or a separate company that administers the plan on behalf of your employer and the trustees. You can find out who the administrator is by asking your employer or getting a copy of the Trustees Annual Report from your employer (as the administrator will be listed in this report).

The Trustees: If you are unhappy with the response to your complaint you can contact the Trustee or Trustees of your plan. Details of the Trustee or Trustees will be set out in the Trustees Annual Report which you can request from your employer. You should note however that the Trustees may refer your complaint back to the employer and/or administrator to resolve.

What are my Pension Options?

The Pensions Board: If you fail to resolve your complaint with your employer or the administrator/trustees of the plan, you can contact the Pensions Board. The Board can act on behalf of pension plan members who are concerned about their plan; it can investigate the state and conduct of pension plans; it has the power to prosecute for breaches of the Pensions Acts and to take court action against trustees for the protection of members and their rights.

Office of The Pensions Ombudsman: You can also refer your case to the Pensions Ombudsman who investigates and decides complaints and disputes concerning company pension plans. The Pensions Ombudsman is completely independent and acts as an impartial adjudicator. His appointment and powers operate under the Pensions Acts 1990 – 2002.

The Pensions Ombudsman investigates complaints that allege maladministration by those responsible for the management of company pension plans. The complaint may be against trustees, managers, employers, former employers and administrators.

The Pensions Ombudsman also investigates disputes of fact or law with trustees or managers or employers concerning company pension plans.

What if I have a complaint about my RAC?

You can contact your RAC provider or the Insurance Ombudsman of Ireland or the Irish Financial Services Regulatory Authority.

How do I know who to contact?

RAC Provider: If you have a complaint about the management of your RAC you should initially contact the RAC provider and try and resolve it directly between you.

The Insurance Ombudsman of Ireland: RAC contracts are insurance policies and you can also refer your complaint to the Insurance Ombudsman, if the insurance company concerned is a member of the Insurance Ombudsman of Ireland Scheme.

Irish Financial Services Regulatory Authority (IFSRA): As the Authority responsible for the regulation of all aspects of the financial services section you can contact the IFSRA if you have a complaint about the sales process undergone in providing you with an RAC or if you feel you have been mis-sold a financial product.

What if I have a complaint about my PRSA?

Depending on the type of complaint you have there are a number of authorities available to help. You can contact the PRSA provider, the Pensions Board, the Office of The Pensions Ombudsman , the Insurance Ombudsman of Ireland or the Irish Financial Services Regulatory Authority.

How do I know who to contact?

PRSA Provider: If you have a complaint about the management of your PRSA you should initially contact the PRSA provider and try and resolve it directly between you.

The Pensions Board: As the Regulator of all approved PRSA products if you are unsuccessful or unable to resolve the issue with your PRSA provider you should contact the Pensions Board who can assist you further in resolving the complaint.

Office of The Pensions Ombudsman: The Pensions Ombudsman has powers in relation to a PRSA to investigate and determine

- a complaint made by or on behalf of an “actual or potential beneficiary” of a PRSA who alleges that he or she has sustained a financial loss occasioned by an act of maladministration done by or on behalf of “a person responsible for the management of a PRSA”,
- any dispute of fact or law that arises in relation to an act done by or on behalf of a person responsible for the management of a PRSA and that is referred to the Pensions Ombudsman by or on behalf of an actual or potential beneficiary.

The Insurance Ombudsman of Ireland: As many PRSA contracts are insurance policies you can also refer your complaint to the Insurance Ombudsman if the insurance company concerned is a member of the Insurance Ombudsman of Ireland Scheme.

Irish Financial Services Regulatory Authority (IFSRA): As the Authority responsible for the regulation of all aspects of the financial services section you can contact the IFSRA if you have a complaint about the sales process undergone in providing you with a PRSA or if you feel you have been mis-sold a financial product.

What if I have a complaint about my ARF/AMRF?

You can contact your ARF/AMRF provider, the Irish Financial Services Regulatory Authority or the Insurance Ombudsman of Ireland.

How do I know who to contact?

ARF/AMRF Provider: If you have a complaint about the management of your ARF/AMRF you should initially contact the ARF/AMRF provider and try and resolve it directly between you.

Irish Financial Services Regulatory Authority: Approved Retirement Funds (ARFs) and Approved Minimum Retirement Funds (AMRFs) are not pension plans – even though the investments they represent may have come from pension plans in the first place. They are personal investments and are regulated as such. If you have a complaint involving an ARF or AMRF that is **not** invested with an insurance company, you should get in contact with the Irish Financial Services Regulatory Authority (IFSRA).

The Insurance Ombudsman of Ireland: If you have an ARF or AMRF that is invested with an insurance company, then any complaint about the product should be submitted to the Insurance Ombudsman of Ireland, if the insurance company concerned is a member of the Insurance Ombudsman of Ireland Scheme.

Appendix D

Useful addresses

The Department of Social and Family Affairs

Pension Services Office
College Road
Sligo
Tel: 071 9169800
LoCall: 1890 500 000
Web: www.welfare.ie

The Ombudsman's Office

52 St Stephen's Green
Dublin 2
Tel: 01 678 5222 Fax: 01 661 0570
Email: ombudsman@ombudsman.gov.ie

Office of The Pensions Ombudsman

36 Upper Mount Street
Dublin 2
Tel: 01 647 1650 Fax: 01 676 9572
Web: www.pensionsombudsman.ie

The Pensions Board

Verschoyle House
28/30 Lower Mount Street
Dublin 2
Tel: 01 613 1900 Fax: 01 631 8602
Web: www.pensionsboard.ie
Email: pb@pensionsboard.ie

Financial Services Ombudsman's Bureau

Regus House
Harcourt Centre
Harcourt Road
Dublin 2
Lo call: 1890 882 090
Tel: 01 662 0899 Fax: 01 662 0890
E-mail: enquiries@financialombudsman.ie
Web: www.financialservicesombudsmansbureau.ie

Financial Regulator

PO Box 9138
College Green
Dublin 2
LoCall: 1890 777 777
Web: www.financialregulator.ie
Email: consumerinfo@financialregulator.ie

The Revenue Commissioners

Financial Services (Pensions) Business

Grattan House, 4th Floor
Lower Mount St
Dublin 2
Tel (01) 647 4022
Fax (01) 647 4748
Website www.revenue.ie
Email: lcdretirebens@revenue.ie



An Bord Pinsean -
The Pensions Board

Authority for Pensions