

QFA Pensions

2026/2027 Textbook

Copyright © LIA July 2026

All rights reserved. All materials published for this study course are copyright and may not be reproduced in whole or in part, including photocopying or recording, for any purpose without the written permission of the copyright holders. Such written permission must also be obtained before any part of this publication is stored in a retrieval system of any nature.

Disclaimer

This textbook has been prepared and provided solely as an educational aid for LIA students taking the Certificate in Professional Financial Advice programme. The objective of the textbook is to support students in preparing for their examinations in conjunction with all other module materials. The textbook is not intended as an industry reference guide and should not be used as such.

Every effort has been made to ensure that the material contained in this textbook is as accurate as possible at the date of completion. Any changes (legislative, regulatory, taxation, etc) thereafter are not included in this textbook. Examinations will be based **ONLY** on the material contained within this textbook. LIA, the author(s), verifiers, consultants or other contributors accept no responsibility for loss or damage incurred, or alleged to have been incurred, directly or indirectly, by any person or entity as a result of the information contained in this textbook. Professional advice should always be sought before acting on any interpretation of the legislation described in this textbook.

Contents

Section	Page	Section	Page
1 The Need for Retirement Planning	1	5.2 Eligibility	
1.1 Main Types of Personal Financial Needs		5.3 Contributions	
1.2 Different Pillars of Retirement Provision		5.4 Investment	
1.3 Tax Incentives for Private Retirement Provision		5.5 Charges	
		5.6 Transfers In/Out	
		5.7 What Benefits are Provided?	
2 State Pensions	14	6 Transfers	127
2.1 Introduction		6.1 Introduction	
2.2 Social Insurance		6.2 Allowed Transfers	
2.3 Social Assistance Pensions		6.3 Transfers Not Allowed	
2.4 Taxation		6.4 Potential Risks of Taking a Transfer Value	
		6.5 Potential Benefits of Taking a Transfer Value	
3 Personal Contracts	29	7 Investment	133
3.1 Introduction		7.1 Introduction	
3.2 Who Can Take Out an RAC and a PRSA?		7.2 Investment Asset Classes	
3.3 Income Tax Relief		7.3 Collective Investment Funds	
3.4 Charges		7.4 Default Investment Strategy (DIS)	
3.5 When Can Benefits Be Taken from an RAC or PRSA?		7.5 Investment Restrictions	
3.6 How Can Benefits Be Taken from an RAC or PRSA?		7.6 With Profit System	
3.7 Provision of Information		8 Pension Adjustment Orders	152
3.8 Cooling-Off Period		8.1 What is a Pension Adjustment Order?	
3.9 Pension Term Assurance		8.2 Earmarking Retirement Benefits	
3.10 Pan-European Pension Product		8.3 Variation	
		8.4 A Nil PAO	
4 Employer Pension Schemes	62	8.5 Taking a Transfer Value	
4.1 Introduction		8.6 Death Before Leaving Service or Retirement	
4.2 Approval		8.7 Death of PAO Beneficiary Before Getting Benefits	
4.3 Who Can Be Included?		8.8 Death in Service Benefits	
4.4 What Benefits Can a Scheme Provide?		8.9 Lapsing of PAO	
4.5 Charges		8.10 ARFs	
4.6 When Can Retirement Benefits Be Taken From a Scheme?		9 Taxation	162
4.7 How Can Retirement Benefits Be Taken?		9.1 Income Tax	
4.8 Maximum Approvable Benefits		9.2 Universal Social Charge (USC)	
4.9 Maximum Contributions to DC Schemes		9.3 Tax Calculation Example	
4.10 Tax Relief on Contributions		9.4 Income Tax Age Exemption Limit	
4.11 Additional Voluntary Contributions (AVCs)		9.5 Chargeable Excess Tax	
4.12 Provision of Information		10 Annuities	181
4.13 Termination of Employment		10.1 What is an Annuity?	
4.14 Public Service Retirement Benefits			
5 Auto Enrolment	117		
5.1 Introduction			

Contents

10.2	Annuity Rates		15.3	The Financial Planning Advisory Process	
10.3	Using Annuity Rates		15.4	The Consumer Protection Code	
10.4	Open Market Annuity Option		15.5	Quantifying the Retirement Funding Need	
10.5	Guaranteed Minimum Annuity Rates		15.6	Suitability	
10.6	ARF Purchasing an Annuity		15.7	Assessing a Consumer's Attitude to and Capacity for Investment Risk	
10.7	Taxation		15.8	Making a Recommendation	
10.8	Benefits of Annuities		15.9	Execution Only	
10.9	Risks of Annuities				
11	Approved Retirement Funds (ARF)	192			
11.1	What is an ARF?				
11.2	Qualifying Fund Managers (QFMs)				
11.3	Lifetime Withdrawals from an ARF				
11.4	Taxation of Withdrawals				
11.5	Investment Returns				
11.6	Charges				
11.7	Death				
11.8	Benefits of ARFs				
11.9	Risks of ARFs				
11.10	Transfers				
12	Regulatory Bodies	203			
12.1	The Pensions Authority				
12.2	The Revenue Commissioners				
12.3	The Central Bank of Ireland				
12.4	The Society of Actuaries in Ireland				
12.5	The Financial Services and Pensions Ombudsman				
12.6	Whistleblowing				
13	Inflation and Compound Interest	211			
13.1	Calculations and Projections				
13.2	Inflation and Deflation				
13.3	Real Returns				
13.4	Compound Interest				
14	Comparing Options and Plans	220			
14.1	Introduction				
14.2	RACs or PRSAs?				
14.3	Retain a Preserved Benefit or Take a Transfer Value?				
14.4	Traditional Benefit or ARF Option?				
14.5	ARF or Annuity				
14.6	Comparing Similar Products				
15	Providing Advice	239			
15.1	Personal Financial Needs				
15.2	Authorisation to Provide Advice				

01

The Need for Retirement Planning

This Chapter will give you the backdrop to retirement planning. What is meant by earned income? Different ways clients can save for their future. The four pillars of retirement provision are covered. Tax incentives that are available for those who wish to save for retirement are also outlined.

Learning Outcomes – after studying this chapter you should be able to:

understand the nature of earned and unearned income;

appreciate the four possible pillars of income provision in retirement; and

know the three main tax incentives available to retirement savers.

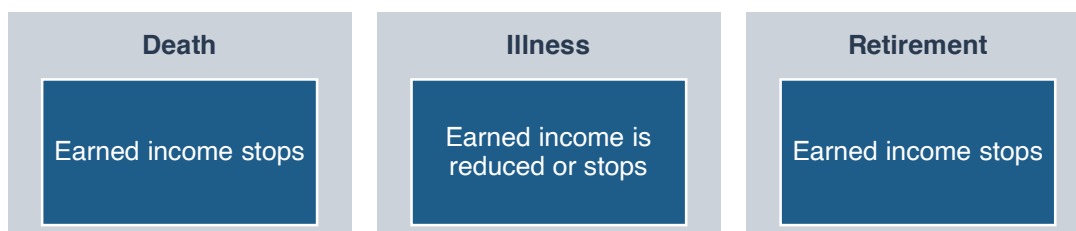
Chapter weightings	Number of questions which may appear		
	Chapter	Minimum	Maximum
In the exam, questions are taken from each Chapter based on the following approximate chart:	1	1	3

1.1 Main Types of Personal Financial Needs

All of us will have at any time, one or more personal **financial needs**.

Some of our financial needs relate to a need to provide funds to replace earned income in certain eventualities.

Earned income is regular income obtained by working, such as wages and salaries from an employment and income from a self-employed trade or profession:



Earned income depends on continuing human effort, i.e. getting up and going to work each day. Pension income is deferred earned income, i.e. earned income not taken at the time it was earned but invested and taken later in retirement.

Unearned income on the other hand, is income that arises from investments. The main types of unearned income are:

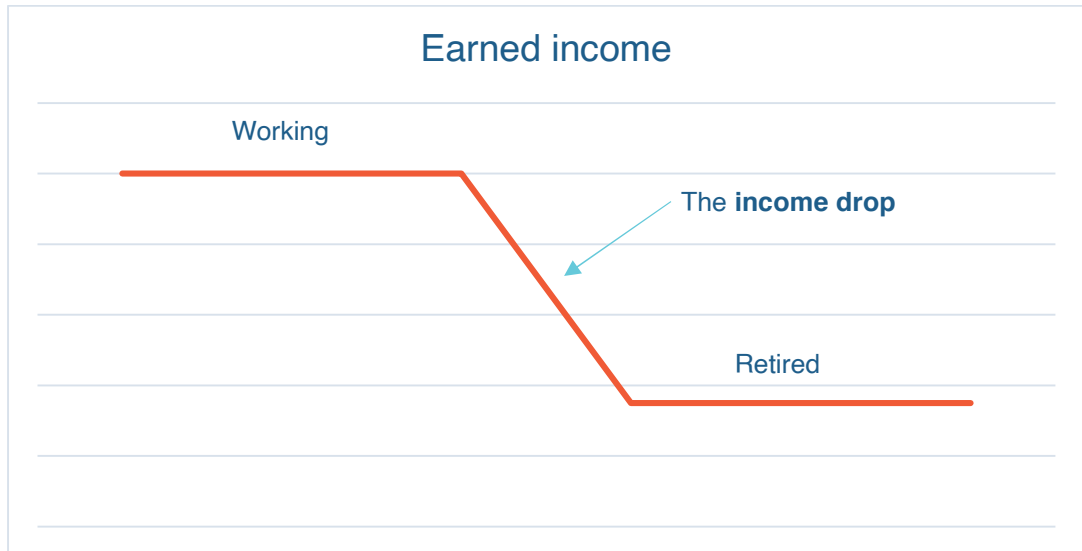
- Dividends/interest income from shares/bonds.
- Deposit interest.
- Rents from rental properties.
- The important difference between these two different types of income is that earned income stops very quickly if the client stops working.
- Unearned income, on the other hand, can be reasonably expected to continue whether the individual is working or not; for example, dividend income from shares would continue as long as the individual continues to hold the shares and the shares pay out dividends, even if the owner is ill and unable to work.

The need to replace earned income on death and serious illness are referred to as **protection needs**.

Other personal financial needs are **savings**, **investment** and **borrowing**:

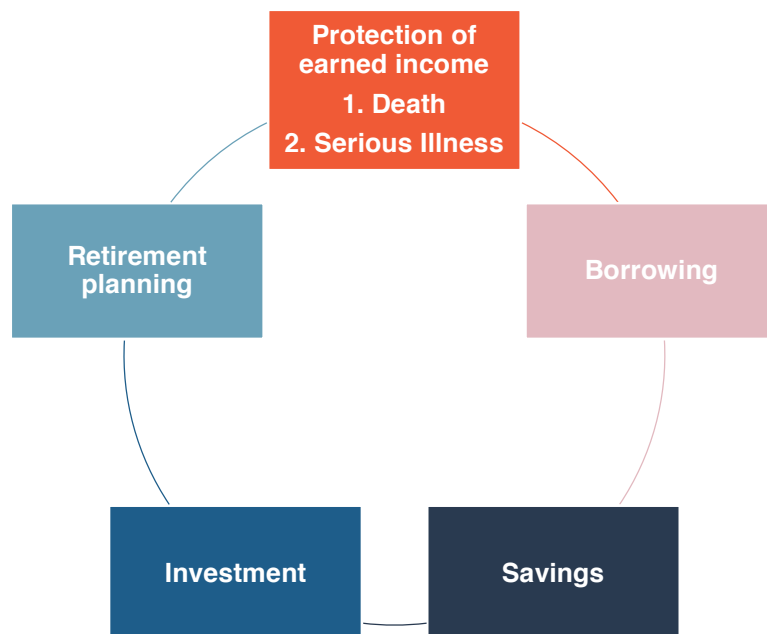


A **retirement planning need** is a need to accumulate funds from earned income during an individual's working life to provide a replacement income in retirement, when earned income will stop or substantially reduce:



Making provision for retirement focuses on replacing part of the client's earned income in retirement.

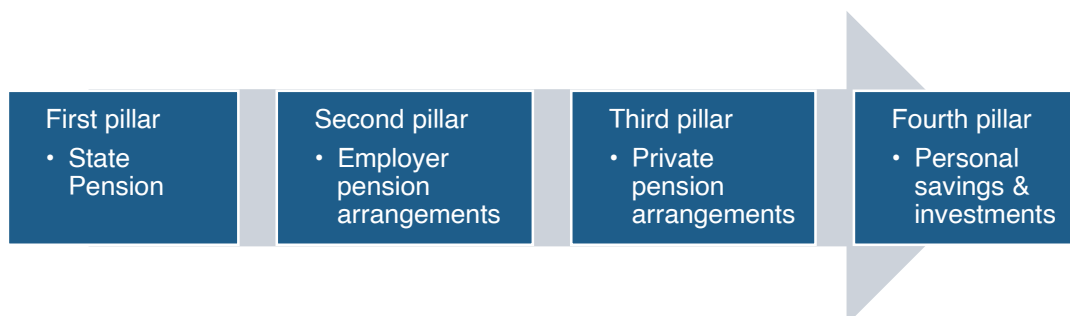
Therefore, clients may have one or more of the following personal financial needs at different stages in their lifetime:



1.2 Different Pillars of Retirement Provision

There are four possible **pillars** or means of providing for an income in retirement.

They are frequently referred to as the **first, second, third** and **fourth** pillars.

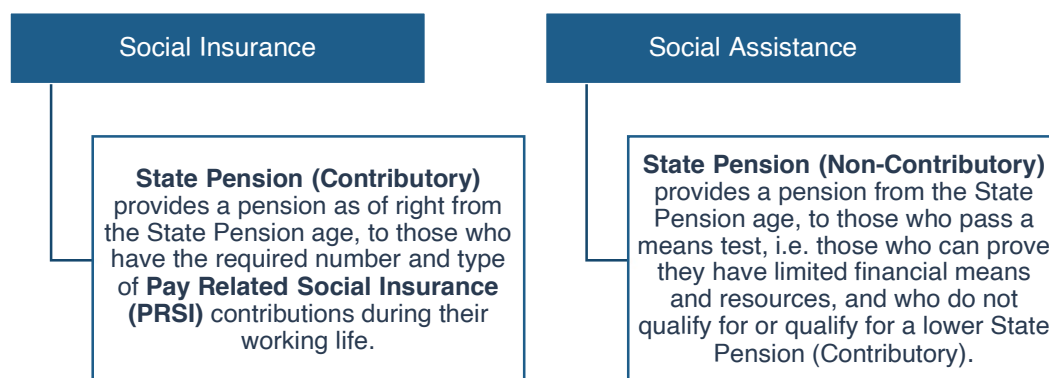


This QFA Pensions module concentrates on the first three pillars of retirement provision:

- State Pensions;
- Employer pension schemes; and
- Private voluntary provision through personal pension arrangements.

1.2.1 First Pillar: State Pensions

The State Pension is retirement provision made by the State for all individuals. There are two separate State Pensions systems:



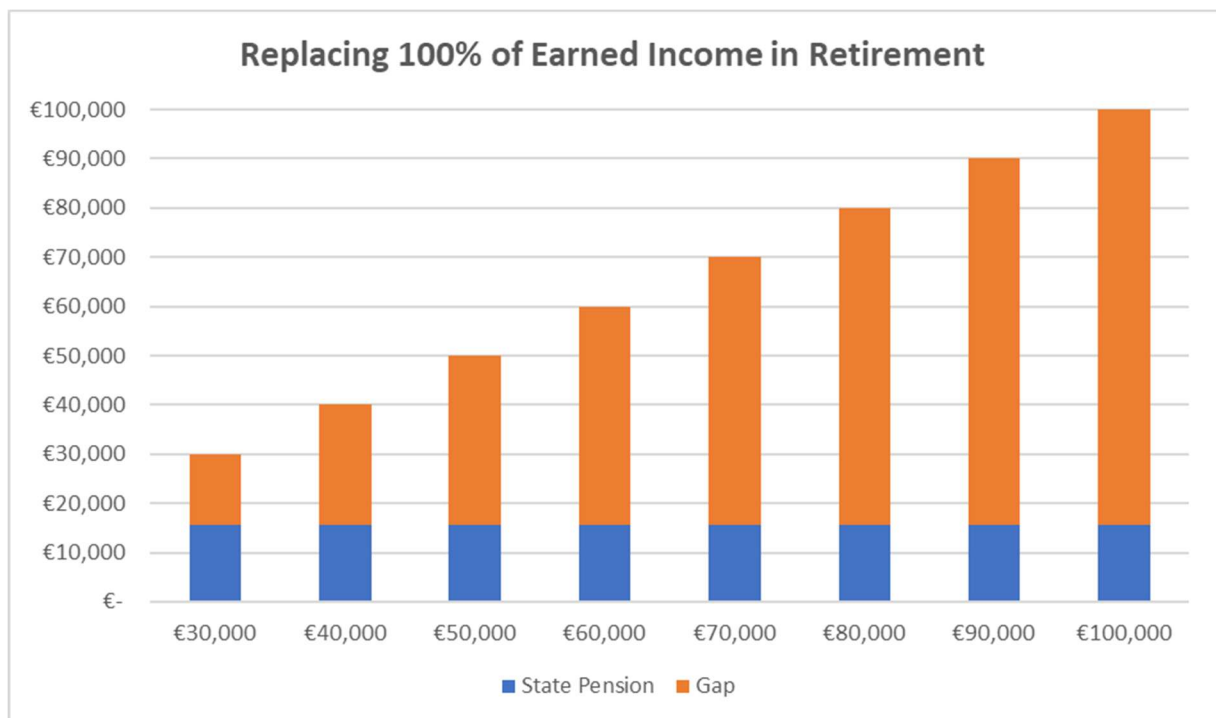
An individual can only qualify for **one** State Pension under these systems; you can't get two State Pensions simultaneously.

State Pensions are designed to provide the basic necessities of life.

The current 2026 **maximum** State Pensions payable per week (pw) are:

	State Pension (Contributory)	State Pension (Non-Contributory)
Maximum personal rate (under age 80)	€299.30 pw	€288.00 pw
Maximum increase for a qualified adult dependant	€268.40 pw (when the adult dependant is over age 66)	€190.20 pw (under age 66) ¹

For many the State Pension on its own, while welcome, will not be enough to replace a substantial proportion of their earned income in retirement:

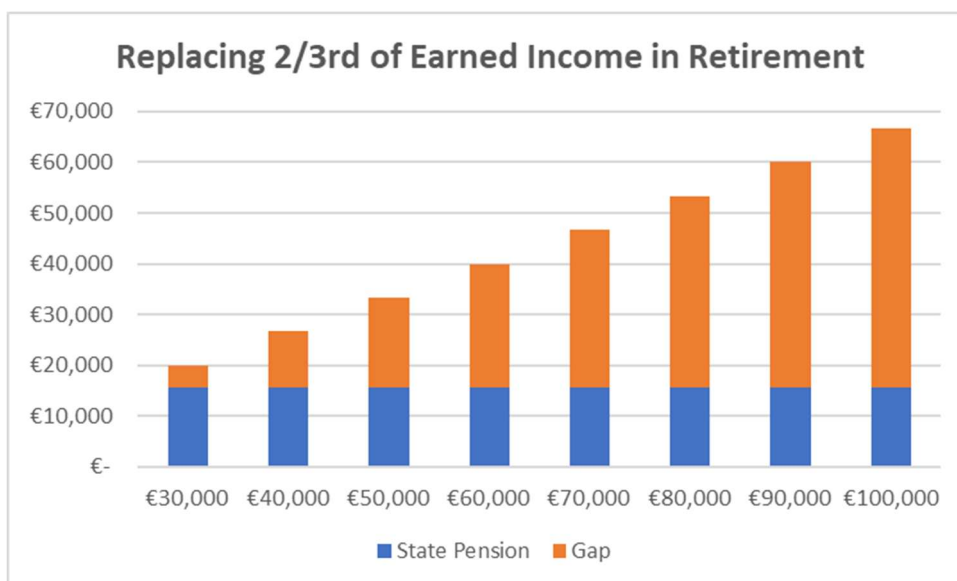


So while the maximum State Pension (Contributory) personal rate might replace 52% of pre-retirement income of €30,000 pa, for pre-retirement income of €50,000 pa it only replaces 31% and for €100,000 pa income it only replaces about 15% of earned income.

Therefore, retirement planning is concerned with replacing, as far as can be afforded, in retirement the desired % pre-retirement income, for example, 50% or 67%.

For example, if a client wants to replace 2/3rds of their pre-retirement income, the *income gap* to be replaced in retirement, after allowance is made for the State Pension (Contributory), rises significantly with the level of pre-retirement income:

¹ The increase for a spouse/partner ceases when the spouse/partner reaches their State Pension age. However, the spouse/partner may then be able to apply for a State Pension in their own right.



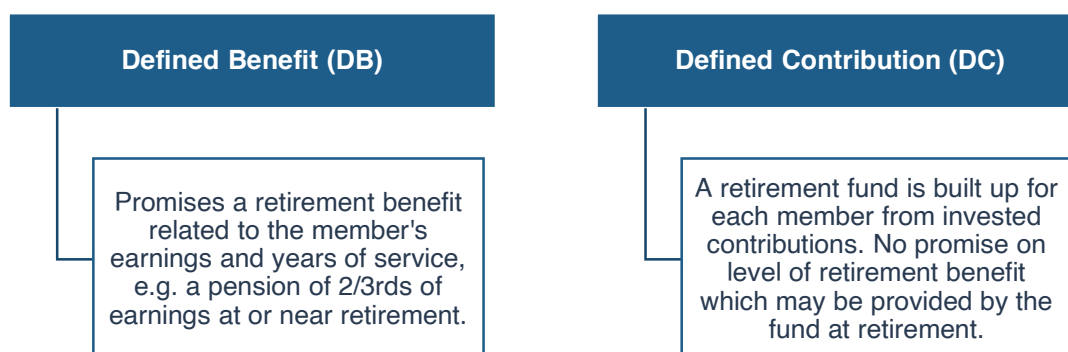
1.2.2 Second Pillar: Employer Pension Schemes

A second layer of provision is made through employer sponsored pension schemes (often called occupational pension schemes) which includes the Auto-Enrolment Scheme, also known as 'My Future Fund'.

Employer Pension Schemes

Employer pension schemes are set up to provide retirement and/or other associated benefits for some or all of the employer's employees. In some cases, only the employer contributes to the scheme, but in most cases both the employer and the employees contribute to the scheme.

There are two main types of employer pension schemes:



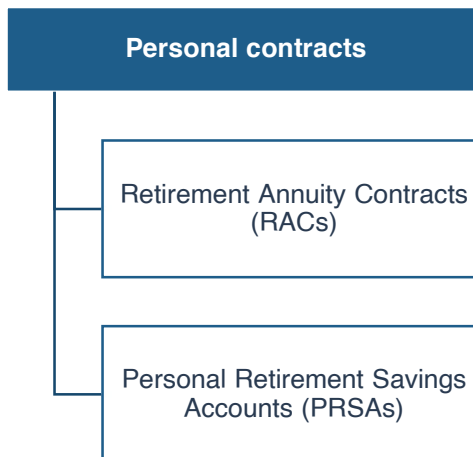
Auto-Enrolment

Auto Enrolment ("AE"), also known as MyFutureFund, is a new auto-enrolment retirement savings scheme for employees that was introduced in January 2026. AE is a government led initiative where employees who do not have an occupational or supplementary pension are automatically enrolled into a retirement savings scheme.

The purpose of AE is to address the currently low levels of supplementary pensions coverage within the private sector. AE is not intended to replace private pensions, rather it is designed to supplement private pensions to ensure broader occupational pension coverage.

1.2.3 Third Pillar – Voluntary Private Arrangements

Personal pension contracts are mainly used by the self-employed, and employees whose employer does not operate a pension scheme at work for them.

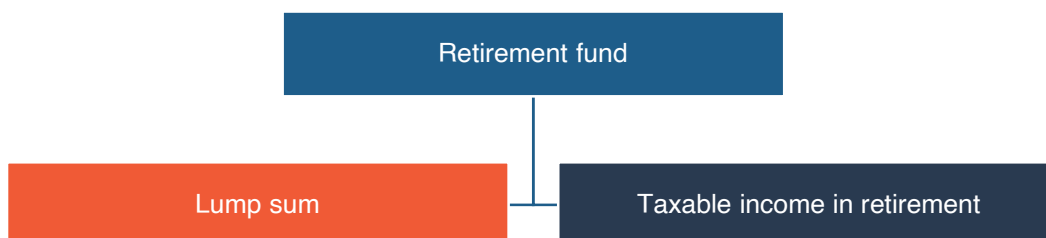


There are two main types of personal contracts, retirement annuity contracts or RACs for short, and Personal Retirement Savings Accounts or PRSAs for short.

Voluntary contributions are made by the individual (and in the case of PRSAs sometimes by their employer) to these personal contracts during the individual's working life to build up a retirement fund.

1.2.4 Benefits

Both employer pension schemes and personal contracts accumulate contributions (which are tax deductible within certain limits) made over the individual's working lifetime to provide a retirement fund which is then used at retirement to provide a lump sum (which is tax free within certain limits) and a taxable income for life:



1.2.5 Personal Savings and Investments

Some individuals may alternatively, or in addition to a private pension arrangement, save and invest funds outside a pension arrangement with a view to drawing on these funds in retirement.

However, as these personal savings and investments are not dedicated solely for retirement provision, an individual could draw on them at any time and spend part or all of the funds on something else before or during retirement, for example, gift to children, a new house or car.

Some individuals may also look on their own business or farm as a form of retirement provision.

Relying on selling a **family business or farm** as the sole or main provision for retirement suffers from a number of disadvantages:

- The business could fail or become less successful between now and retirement, and hence be not worth as much at retirement as envisaged.
- It may not be possible to sell the business at retirement or sell it at an acceptable price, to convert into retirement capital. There is no guarantee that there will be a willing buyer with readily available capital when the owner wants to sell.
- In the case of a family business, in which other family members are involved and depend on the business for their livelihood, it may not be feasible to sell the business.

Therefore if the business can't be sold, the owner may have to depend on other family members, for example, children, to pay him or her a regular income out of the family business in retirement. This is not an ideal arrangement from the owner's point of view.

Others may also look on their **family home** as a retirement nest egg, with the intention of selling it at or during retirement and moving to a smaller house or apartment. In this way funds would be released to provide an income in retirement. However, this means of providing solely or mainly for retirement also has some disadvantages and risks:

- Property values can fall as well as rise, so that the realisable value of the property at retirement is uncertain. There is a risk that the property owner may need to sell at a time of low property values.
- For health or other family reasons and wishes at the time, selling the family home at retirement and moving to a smaller property may not be feasible, for example, where the property owner or his or her spouse/partner are in poor health and/or want to remain living near their children or friends.

Relying substantially on selling either the family home or the family business to provide an income in retirement is therefore a risky strategy. One of the benefits of private pension provision is the accumulation of funds not linked to the fluctuating value of the home or business and not requiring the sale of the home or business in retirement.

1.2.6 Continued Earnings in Retirement

Some may work on at a reduced or part-time level or take up a new part time job in 'retirement' to supplement their retirement income.

For most, the level of additional income that might be earned in retirement will be relatively small and so will not usually replace a significant proportion of their pre-retirement earned income.

With the exception of the self-employed and farmers, those who are receiving the State Pension (Non-Contributory) (on a means-tested basis) can currently earn up to €200pw without impacting on their State Pension (Non-Contributory). Any amount above this is assessed as means. If your means are more than €30 pw, a reduction in the pension payable applies. The pension is reduced by about €2.50 each week for every €2.50 pw of weekly means, so that no State Pension (Non-Contributory) is payable where the individual has means (including investment income and any other pension income) of more than €280 pw in retirement.

However, the State Pension (Contributory) is **not** means tested and hence is payable (from the relevant State Pension age) even if the individual continues to work and earn income in retirement.

1.3 Tax Incentives for Private Retirement Provision

Governments fear that individuals with no other substantial regular income in retirement will fall back on the State for the State Pension (Non-Contributory), medical care and other financial supports, and hence impose a significant financial burden on future taxpayers.

In order to try to prevent or reduce this, successive Governments have provided substantial tax incentives for individuals and employers to make advance provision for retirement through pension arrangements:

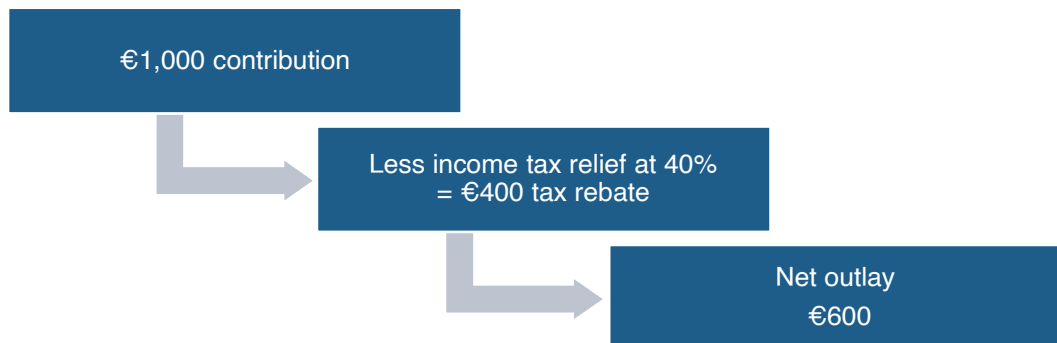


1.3.1 Auto Enrolment

There is no tax relief on personal contributions to AE, but the government top up is equal to 25% tax relief (i.e. €1 from the State for every €3 you contribute).

1.3.2 Tax Relief

Personal contributions made to pension arrangements are deductible against earned income for income tax (but not for PRSI or USC), within certain limits, and so this reduces the cost of such contributions to the individual. For example, take a higher rate taxpayer paying in €1,000 to a pension arrangement:



Where an employer pays a contribution to an employer pension scheme or a PRSA to provide retirement benefits for an employee, to the extent that the employer contribution **does not exceed 100% of the employee's salary**, the contribution is:

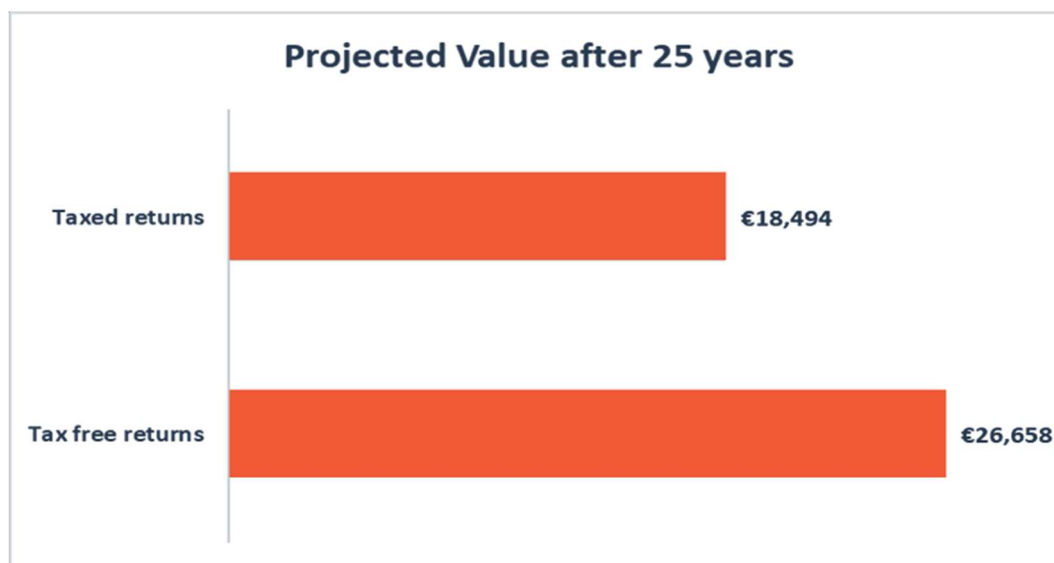
- Deductible for the employer against their trading income for income tax/corporation tax purposes, as a business expense; and is
- Not treated as a benefit in kind ("BIK") for the employee for income tax purposes

If the 100% of salary limit is exceeded, then the employer contribution is not deductible for the employer and is treated as a BIK for the employee.

1.3.3 Tax-Free Investment Returns

All investment returns earned by Irish pension arrangements are exempted from Irish income tax, DIRT, exit tax on collective investment funds, and Irish capital gains tax; this is called **gross roll-up** as invested funds can 'roll up' or accumulate over a long period of time faster than if investment returns were taxed.

For example, compare the respective value of €10,000 after 25 years based on an investment return of 4% pa (tax free) and on a return of 2.49% pa (i.e. 4% pa less assumed/exit tax on returns of 41% every 8 years):

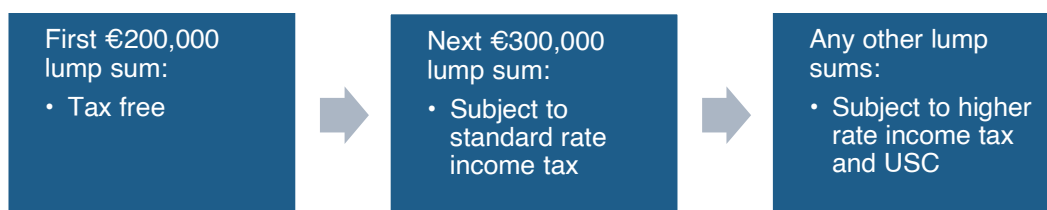


After 25 years the projected value with tax-free return is 44% higher than if investment returns were subject to tax @ 41% every 8 years throughout.

1.3.4 Lump Sum at Retirement

When the individual comes to take their retirement benefits from an employer pension scheme or private pension contract, part can usually be taken as a lump sum which is tax free up to a limit on all pension tax free lump sums of €200,000:

The lifetime limit on pension tax-free lump sums which can be taken by an individual from all pension arrangements including foreign pension arrangements is currently €200,000.



1.3.5 Restrictions

Because of the tax incentives given to encourage people to make provision for retirement through pension arrangements and to ensure that the funds saved are used to provide a retirement income, various restrictions, rules and regulations apply to the operation of these arrangements.

Examples of some of the restrictions include:

- A restriction on the maximum level of personal contribution which can qualify for income tax relief in a year. These limits are related to an individual's age and earnings.
- Restrictions on the maximum level of benefits which an employer pension scheme can provide for an employee.
- These limits, usually referred to as **Revenue limits** or **maximum approvable benefits**, are usually set by reference to the member's earnings at or just before retirement and completed service with his or her employer.
- A current maximum of €2.2 million (referred to as the Standard Fund Threshold or SFT) applies to the total value of benefits which can be taken from all pension arrangements since 7th December 2005 before a super tax of 40% applies to the value of retirement benefits taken over this limit. There are phased increases in the SFT from 2026 onwards. Further detail on this can be found in Chapter 9.

More details of the various restrictions are covered in later Chapters.



Review

Now consider the main teaching points, which were introduced in this Chapter. They are listed below. Tick each one as you go through them.

-
- | | |
|---|--------------------------|
| Main types of personal financial needs | ☐ |
| Three pillars of retirement provision | ☐ |
| Tax incentives for private retirement provision | ☐ |

Sample Questions

The answers to these questions can be found in your Study Hub.

1. Which of the following is/are earned income?

- (i) Rent.
- (ii) Deposit interest.
- (iii) Self-employed trading income.

- A. (iii).
- B. (i) and (ii) only.
- C. (ii) and (iii) only.
- D. (i), (ii), and (iii).

2. A PRSA is an example of which pillar of provision for retirement?

- A. First.
- B. Second.
- C. Third.
- D. Fourth.

3. A property investment held outside of a pension arrangement is an example of which pillar of provision for retirement?

- A. First.
- B. Second.
- C. Third.
- D. Fourth.

4. George matured a PRSA last year and took a tax-free lump sum of €150,000 from it. He is now maturing a Retirement Annuity Contract (RAC) from which he will take a lump sum of €100,000. Assuming George has not previously taken any pension lump sums other than from the PRSA what tax, if any, will be deducted from the €100,000 lump sum to be taken by him from the RAC?

- A. Nil.
- B. € 10,000
- C. € 20,000
- D. € 50,000

02

State Pensions

State Pensions are explained in this Chapter. You will get an overview of the various State Pensions available, the amount payable, and how individuals qualify for them.

Learning Outcomes – after studying this chapter you should be able to:

identify the main State Pensions which may be claimed by individuals in certain circumstances;

explain the main conditions which must be met by an individual to qualify for a State Pension; and

calculate an individual's State Pension entitlement, given certain information about the individual.

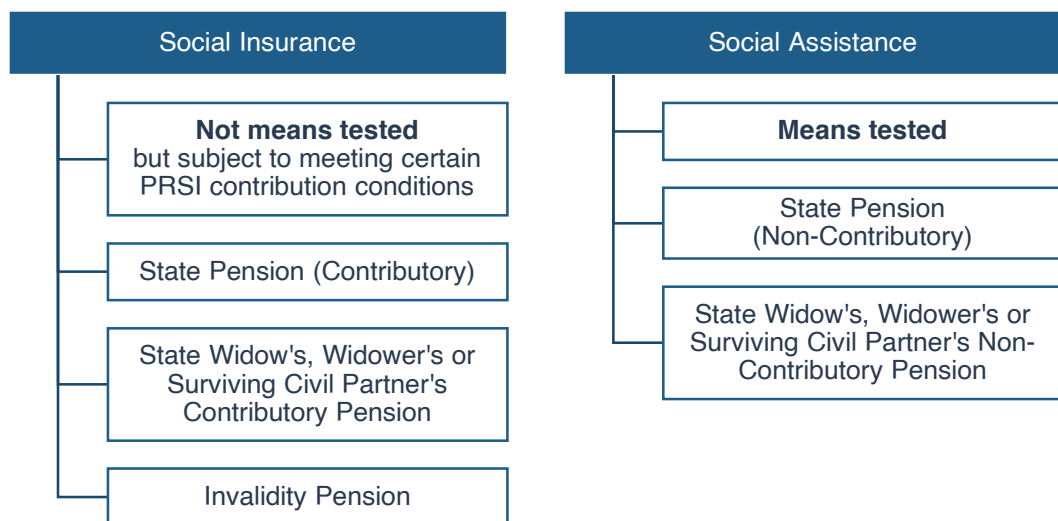
Chapter weightings	Number of questions which may appear		
In the exam, questions are taken from each Chapter based on the following approximate chart:	Chapter	Minimum	Maximum
	2	6	8

2.1 Introduction

We have already seen in Chapter 1 that the first pillar of provision for retirement for all individuals is the State Pension system. There are two separate State Pension systems, the Social Insurance and the Social Assistance systems.

Both systems provide:

- A pension in the event of long term disability.
- A pension in retirement.
- A pension for a surviving spouse or civil partner, following death.



An individual may qualify for only one of these pensions in retirement.

2.2 Social Insurance

Entitlement to Social Insurance benefits depends on the payment of a required number and type of PRSI contributions.

2.2.1 The PRSI System

Nearly everyone who works, i.e. employees, directors and the self-employed, pays **Pay Related Social Insurance (PRSI)** contributions on their earned income. The self-employed and some employees also pay PRSI on their unearned income, such as rental income. Employers also pay PRSI related to their employee's income.

Individuals who pay PRSI contributions are automatically entitled to most Social Insurance benefits provided they meet certain minimum number and type of PRSI contribution conditions.

Not everyone pays the same rate of PRSI. There are different PRSI contribution **classes**, which differ according to the nature of the individual's employment, occupation and level of income, and different classes may carry entitlement to different benefits.

The three main PRSI contribution **classes** are:

PRSI Class	Covers
A	Employees in the private sector. Public service employees who joined the public service <i>after</i> 6 th April 1995.
B and D	Permanent civil servants, including doctors and dentists employed in the civil service, teachers and Gardaí, who joined the public service <i>before</i> 6 th April 1995.
S	The self-employed and proprietary directors.

The standard PRSI rates and earning levels to which the contributions apply are set out below. The rates shown in brackets below are effective from October 1st 2026.

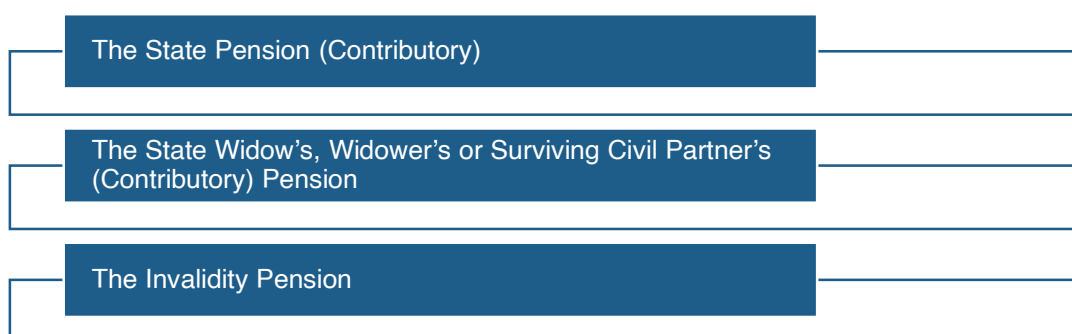
PRSI Class	Employee contribution	Employer contribution
A	4.2% (4.35%) on all earnings over €352 pw; a reduced rate applies for gross earnings between €352 pw and €424 pw.	11.25% (11.40%) on all earnings, where income exceeds €552 pw. 9.0% (9.15%) where earnings are €552 pw or less.
B	1.10% (1.25%) between €352 pw and €1,443 pw. 4.2% (4.35%) on earnings over €1,443 pw.	2.21% (2.36%) on all income.
S	4.2% (4.35%) on all income.	Nil.

PRSI is usually collected along with income tax under PAYE. The self-employed pay PRSI contributions along with their income tax and USC directly to Revenue through the self-assessment taxation system.

Prior to 2024, PRSI liability automatically ceased at age 66. Since 1st January 2024, the upper age limit for PRSI exemption changed from age 66 to age 70, except for people who have already been awarded the State Pension (Contributory) and people who had already reached 66 years of age by 1 January 2024 (born before 1 January 1958).

2.2.2 Main Social Insurance Pensions

The main pensions provided by the Social Insurance system are:



The term **contributory** is used in relation to Social Insurance pensions because entitlement to the pension is subject to having **contributed** a specified number and type of PRSI contributions.

Each Social Insurance pension is now covered in more detail.

2.2.3 The State Pension (Contributory)

The State Pension (Contributory) (also known as the 'SPC') is potentially payable to individuals once they reach age 66. Individuals are able to draw down their SPC at any age between 66 and 70 and so can choose to continue to work and pay PRSI which may improve their contribution record at the date they later decide to draw down the SPC.

In 2026, to qualify for some level of SPC the individual must have:

- Started paying PRSI before age 56; and
- Paid PRSI contributions of the required type for at least 10 years, i.e. have paid at least 520 weekly reckonable PRSI contributions.

The main category of workers who do **NOT** qualify for the State Pension (Contributory) are public service employees who joined the public service **before** 6th April 1995, i.e. those who pay PRSI Class B & D.

The main PRSI contribution classes who qualify for entitlement to the SPC (i.e. the PRSI contributions which are '**reckonable**' for the SPC) are:

- **A**, most private sector employees, and public service employees who joined the public service **after** 6th April 1995.
- **S**, self-employed sole traders, partners, and proprietary directors.

The above PRSI contribution classes are sometimes referred to as '**full rate**' or '**reckonable**' PRSI contributions.

Credited PRSI contributions are awarded in certain circumstances when the individual is not working and paying PRSI but claiming certain Social Welfare benefits such as the Jobseekers and the Illness Benefits.

The current maximum rate of State Pension (Contributory) is €299.30 pw. To get the maximum rate an individual must have at least 2080 (40 years) contributions.

Where an individual qualified for the SPC on or after 1st September 2012, the rate of pension payable was the **higher** of the amount determined on the following two different methods:

1. **Yearly Average Method:** the SPC payable is scaled according to the individual's annual average of weekly reckonable PRSI full rate (paid or credited) from the year they first started paying PRSI contributions to the end of the year before they reach their State Pension Age, currently 66.

State Pension (Contributory) Yearly average contributions over working lifetime	State Pension Contributory Personal rate Rate pw
48 or over	€299.30
40 – 47	€293.50
30 – 39	€269.10
20 – 29	€254.80
15 – 19	€195.00
10 – 14	€119.60

Periods spent working in the home from 6 April 1994 caring for a child under age 12 or caring for an incapacitated person are disregarded in calculating the yearly average, to a maximum disregard of 20 years; this is called the **Homemaker scheme**.

AND

2. Total Contributions Approach (also referred to as the Aggregated Contributions Method)

Under this method, a % of the maximum rate of SPC (currently €299.30 pw) is payable determined by:

$$\frac{[\text{total number of weekly paid and credited reckonable PRSI contributions} + \text{Home Caring periods}]}{100/2080} \times 100$$
, rounded to the nearest 10 cent

subject to:

- The maximum number of weekly credited contributions which can be taken into account is 520;
- The maximum number of weekly home caring credits which can be taken into account cannot exceed 1,040;
- The maximum total of weekly credited plus home caring credits cannot exceed 1,040;
- The overall maximum reckonable contributions cannot exceed 2,080.

Home Caring periods (HCPs) are given for any week during which the individual was unable to work because of full-time minding children under 12 or an incapacitated adult. Note that unlike the Homemaker scheme disregard used in the yearly average test, Home Caring periods before 6th April 1994 qualify.

Individuals who cared for someone full time, can also apply to be awarded a Long-Term Carers Contribution on their PRSI record for each week that they provided full-time care to an incapacitated person. These periods can only be used for the SPC once they have reached a minimum of 1040 weeks (20 years).

Since January 2025 there is a 10-year phased removal of the Yearly Average Method, which means that all pensions will be calculated using only the Total Contributions Approach by 2034.

During the 10-year transitional period, pensions are being calculated using the two methods, with the higher rate out of the two methods being paid. The two methods being used are:

- The Total Contributions Approach (TCA). If the maximum State Pension Contributory rate is awarded using this calculation, no further calculation is necessary; or
- The combined rate approach. This method calculates what your pension would be under the Yearly Average Method. For 2026, the pension rate of payment will then combine 80% of this yearly average rate with 20% of the Total Contributions Approach rate. The proportion accounted for by the Yearly Average Rate will then reduce by 10% over each of the subsequent 9 years until the pension calculation is fully based on the Total Contributions Approach method only. See table below:

Year	Option 1 TCA	Option 2 Combined Rate Approach
2025	TCA only	10% TCA + 90% YA
2026	TCA only	20% TCA + 80% YA
2027	TCA only	30% TCA + 70% YA
2028	TCA only	40% TCA + 60% YA
2029	TCA only	50% TCA + 50% YA
2030	TCA only	60% TCA + 40% YA
2031	TCA only	70% TCA + 30% YA
2032	TCA only	80% TCA + 20% YA
2033	TCA only	90% TCA + 10% YA
2034	TCA only	



Example

Maggie was born in 1960. She draws down her State Pension at age 66, which is in 2026.

She has a mixture of paid and credited Class A PRSI contributions, i.e. reckonable for SPC purposes, as follows from when she first started working in 1981 to the end of 2025, i.e. to the end of the year before she qualifies for the SPC in 2026:

	Paid reckonable contributions	Credited reckonable contributions	Total
1981	52	0	52
1982	52	0	52
1983	52	0	52
1984	32	20	52
1985	13	39	52
1986	0	0	0
1987	0	0	0
1988	0	0	0
1989	0	0	0
1990	0	0	0
1991	0	0	0
1992	0	0	0
1993	0	0	0
1994	52	0	52
1995	52	0	52
1996	52	0	52
1997	52	0	52
1998	52	0	52
1999	52	0	52
2000	52	0	52
2001	52	0	52
2002	52	0	52
2003	52	0	52
2004	52	0	52
2005	52	0	52
2006	52	0	52
2007	52	0	52
2008	52	0	52
2009	52	0	52
2010	52	0	52
2011	52	0	52
2012	52	0	52
2013	52	0	52
2014	52	0	52
2015	52	0	52
2016	52	0	52
2017	52	0	52
2018	52	0	52
2019	52	0	52
2020	52	0	52
2021	52	0	52
2022	52	0	52
2023	52	0	52
2024	52	0	52
2025	52	0	52
	1,865	59	1,924

For the 11 year period 1986 to 1993 inclusive, she was off work minding her children under age 12.

She meets the initial qualifying conditions for the SPC, i.e. she:

- First started paying PRSI before age 56; and
- Has paid more than 520 reckonable PRSI contributions.

We first work out her SPC entitlement on the **yearly average method** basis.

Her annual average of full rate PRSI contributions is calculated as follows:

- Total number of reckonable PRSI weekly contributions paid/credited over her working life, from 1981 to 2025: $1,865 + 59 = 1,924$
- Working life, i.e. the number of years from when she first started paying PRSI in 1981 to end of 2025 inclusive, i.e. $2026 - 1980 = 45$ years. Note the contribution years spent as a homemaker are included as they were all pre 6th April 1994.
- PRSI annual average of reckonable weekly contributions = $1,924/45 = 42.76$ weeks which is rounded to the nearer whole number, i.e. 43 in this case.

Based on current rates, Maggie would qualify under the Yearly Average method basis for a State Pension of €293.50 pw, i.e. the rate applicable to an annual average of 40-47 weekly PRSI contributions.

We now work out her SPC entitlement under the **Total Contribution Approach**.

Using the same information as before, her total number of reckonable PRSI contributions paid/credited over her working life is: $1,865 + 59 = 1,924$.

There are 8 years of Home Caring credited periods, i.e. 8×52 weeks, 416, added to her PRSI record to give a total of $1,924 + 416$ or 2,340 weekly reckonable contributions, which is restricted to a maximum of 2,080.

Maggie would therefore qualify for $2080/2080 \times 100$ i.e. 100% of the State Pension (Contributory), i.e. the maximum of €299.30. As Maggie qualifies for the maximum SPC, there is no need to compare this amount with the 2026 Combined Rate Approach of 80% of the Yearly Average method and 20% of the Total Contributions Approach.

If an individual qualifies for a SPC, an additional pension may be payable directly to a **qualified adult dependant** of that individual,² on a means tested basis. The means test applies to the dependant's financial resources only, and not to the individual qualifying for the SPC.

The maximum rate of additional pension for a dependant adult applies if their weekly gross income is less than €100 pw and the rate is tapered until no benefit is payable if the dependant's gross weekly income is greater than €310 pw.

The qualified adult dependant increase is payable directly to that qualified adult but is treated for income tax purposes as income of the individual who qualifies for the SPC.

² Typically, the spouse, civil partner or cohabitant of the client.

2.2.4 Flexible Options

If the SPC is drawn down between the ages of 67 to 70, an actuarially increased rate of pension is payable. If an individual is entitled to less than 100% TCA, the amount of the actuarial increase is reduced proportionally.

The rate of increase for a Qualified Adult payment will also be increased in line with the main State Pension actuarial increase.

Age at drawdown	State Pension Contributory Personal rate Rate pw
66	€299.30
67	€313.40
68	€328.90
69	€345.70
70	€363.90

2.2.5 The Bereaved Partner's Contributory Pension

This pension is payable to an individual who:

- Has become widowed or a surviving civil partner or a surviving qualified cohabitant of a deceased person.

AND

- Is not cohabiting with someone else.

AND

- Satisfies the necessary PRSI conditions. Classes A, S, B and D contributions are all reckonable for this pension.

Since 21 July 2025, surviving Qualified Cohabitants are eligible for Bereaved Partner's (Contributory) Pension. A person will be considered a qualified cohabitant for the purpose of the payment if the cohabiting couple lived together as a couple in an intimate and committed relationship for a period of two years where there are children of the relationship or five years where there are no children of the relationship.

An individual who was divorced from his or her spouse, before the spouse's death, and has not remarried can qualify for this pension on the death of their former spouse, provided all other requirements are met.

The PRSI conditions can be satisfied by either:

- The deceased's PRSI record.

OR

- The surviving spouse's or civil partner's PRSI record.

Entitlement to the Bereaved Partner's Contributory Pension is not affected by any other income of the survivor, for example, a spouse's pension from an employer pension scheme, investment income, etc.

The maximum current personal rate is:

- €259.50 pw for claimants aged **under** 66, with
- An increase for each qualified child of €58.00 pw for a child under 12 and €78.00 pw for a qualified child over age 12; a child is a qualified child if they are under age 18 and living with the claimant, or are under age 22 and in full time education.

The pension is payable for as long as the individual remains a widow/widower or a surviving civil partner or a surviving qualified cohabitant. The pension stops, however, if the individual marries or remarries, or starts to cohabit with someone else.



Example

Conor and Aoife are married to each other and have two young children, aged 7 and 9. Both work and pay Class A PRSI. Conor dies suddenly in a car crash. Aoife, in addition to her own income now qualifies for a spouse's pension from Conor's employer's pension scheme.

She can qualify for a Bereaved Partner's Pension based on either:

- Her own PRSI contribution record.
- OR
- Conor's PRSI contribution record.

If she meets the necessary conditions Aoife will qualify for a pension of:

Personal rate: €259.50 pw (Aoife assumed to be under age 66).

Qualified child: €58.00 pw x 2 (The rate for children under 12).

Total benefit: €375.50 pw.

Aoife can continue to receive this pension whether she continues to work or not. The fact that she also gets a pension from Conor's employer's pension scheme does not impact on her entitlement to the Bereaved Partner's (Contributory) Pension. The Bereaved Partner's (Contributory) Pension would only cease if she remarried or started to cohabit with someone else.

The child supplement to the Bereaved Partner's (Contributory) Pension would, of course, cease when the children reach age 18 or 22 if in full time third level education.

2.2.6 Invalidity Pension

A State Invalidity Pension is payable to individuals who satisfy the necessary PRSI contribution conditions and:

- Have been incapable of work for at least 12 months and are likely to be incapable of work for at least another 12 months or
- Are **permanently** incapable of work again, or are over age 60 and have a serious illness or incapacity.

The Invalidity Pension is therefore, payable where sickness or disability is likely to be permanent and hence cause a permanent incapacity to work.

A different benefit, called the Illness Benefit, is payable for short-term sickness or disability causing an inability to work. Therefore, recipients of the Invalidity Pension are likely to have first claimed the Illness Benefit for a period, before being transferred to the Invalidity Pension if they are deemed to be permanently incapable of work again.

Public service employees who joined the public service before 6th April 1995, i.e. Class B and D PRSI contributors, do **not** qualify for the Social Insurance Invalidity Pension.

The self-employed, i.e. Class S contributors, do not qualify for the short-term illness benefit but do qualify for the Invalidity Pension.

The current maximum State Invalidity Pension is:

- Personal rate: €259.50 pw.
- Addition for a qualified adult, i.e. a spouse, civil partner or cohabitant of the claimant, who is wholly or mainly maintained by the claimant: €185.40 pw.
- Addition for qualified child: €58.00 pw under 12 or €78.00 pw when over age 12.

The State Invalidity Pension is payable for as long as the individual is:

- Permanently incapable of work; and,
- Does not work.

However, the Pension ceases if the individual is awarded any other State Pension, for example, individuals claiming the Invalidity Pension are automatically moved to the State Pension (Contributory) once they reach their State Pension age, at which point payment of the Invalidity Pension ceases.

2.2.7 Summary of Entitlement to Social Insurance Pensions

This table shows which of the main PRSI class contributions can potentially qualify for the various Social Insurance benefits covered above:

Benefit	Class A	Class S	Class B and D
State Pension (Contributory)	✓	✓	✗
Bereaved Partner's (Contributory) Pension	✓	✓	✓
State Invalidity Pension	✓	✓	✗

2.3 Social Assistance Pensions

The retirement pensions provided by Social Assistance are:

The State Pension (Non-Contributory)

The State Widow's, Widower's or Surviving Civil Partner's (Non-Contributory) Pension

The term **non-contributory** is used in relation to Social Assistance benefits, as entitlement to benefit does not depend on the payment of PRSI contributions; instead entitlement is **means tested**.

The individuals who may qualify for Social Assistance benefits include:

- Those who have paid some PRSI contributions during their working life but not enough to qualify for a particular Social Insurance benefit.
- Those who never worked or paid PRSI and so cannot qualify for Social Insurance benefits; and
- Those who have exhausted their entitlement to a Social Insurance benefit, where payment of the benefit stops after a certain period of time.

2.3.1 State Pension (Non-Contributory)

This pension is payable to individuals who:

- Reach their State Pension Age;
- Are habitually resident in the State.
- Have a PPS number; and
- Satisfy a means test.

The current maximum rate of State Pension (Non-Contributory) pension is:

- Personal rate (under 80): €288.00 pw.
- Addition for a qualified adult living with the claimant, i.e. a spouse, civil partner or cohabitant of the claimant, who is wholly or mainly maintained by the claimant: €190.20 pw.

The Pension payable is scaled according to the level of the individual's weekly earnings (called weekly means), including the notional income the individual is deemed to receive from any savings and investments they may have.

2.3.2 Bereaved Partner's (Non-Contributory) Pension

This pension is payable to an individual who:

- Is widowed, a surviving civil partner or a surviving qualified cohabitant. Is **not** cohabiting with someone else;
- Satisfies a means test;
- Has no dependent children; and
- Is habitually resident in the State.

An individual who was divorced from his or her spouse, before the spouse's death, and has not remarried can qualify for this Pension on the death of their former spouse, provided all other requirements are met.

The current maximum rate of the Bereaved Partner's Non-Contributory Pension is €254.00 pw.

The Pension is payable for as long as the individual remains a widow/widower, a surviving civil partner or surviving qualified cohabitant until the individual becomes entitled to a higher state assistance payment (i.e. a State Pension in their own right). The Pension stops, however, if the individual marries or remarries, or starts to cohabit with someone else.

Individuals with dependent children must claim the **One Parent Family Payment** instead of this Pension. The One Parent Family Payment is also means tested.

2.4 Taxation

All State Pensions are taxable income for income tax purposes (but not for USC or PRSI). However, income tax is **not** deducted from State Pensions when paid out so that they are paid in full to the retiree, i.e. the pensions are not subject to PAYE when paid out.

However, if the recipient has other taxable income their tax allowances and credits are adjusted to collect the income tax, if any, due on the State Pension.

Many retirees benefit from the **age income tax exemption** relief ³ which exempts individuals aged 65 and over from income tax (but not from the USC) where their total income from all sources (**before** reliefs and tax credits) in the year does not exceed €18,000, or €36,000 for a married couple/civil partners where at least one of them is age 65 or over.

Therefore, retirees receiving a State Pension whose total taxable income is within the relevant limit above, will have no income tax liability on their State Pension or other income.

³ See Chapter 8.4 for more information on the income tax exemption limit.



Review

Now consider the main teaching points, which were introduced in this Chapter. They are listed below. Tick each one as you go through them.

The main *Social Insurance* pensions, including who is entitled to claim them, the qualifying conditions, the rate of pension payable.

☐

The main *Social Assistance* pensions, including who is entitled to claim them, the qualifying conditions, the rate of pension payable.

☐

Sample Questions

The answers to these questions can be found in your Study Hub.

1. Sarah's husband, Oisín, died recently. Which one of the following conditions must Sarah meet in order to qualify for the Bereaved Partner's (Non-Contributory) pension?
 - A. Have never worked in the past.
 - B. Be over age 40.
 - C. Not cohabiting with someone else.
 - D. Have paid reckonable PRSI contributions for at least 20 years.

2. Under the Aggregated Contributions Method, what is the MAXIMUM number of weekly Home Caring credited PRSI contributions which can be taken into account in determining the level of State Pension (Contributory) an individual may be entitled to?
 - A. 260
 - B. 520
 - C. 780
 - D. 1040

3. Which one of the following factors does NOT impact on Alistair's ability to claim the State Bereaved Partner's (Contributory) Pension following the recent death of his wife?
 - A. The level of his income from other sources.
 - B. Whether he has remarried since his wife's death.
 - C. His PRSI contribution record.
 - D. His late wife's PRSI contribution record.

4. Jack is in receipt of the State Invalidity Pension. This pension will automatically stop when Jack:
 - A. reaches age 60.
 - B. reaches age 65.
 - C. starts to receive the State Pension (Contributory).
 - D. starts to receive a private pension.

03

Personal Contracts

Personal pension contracts are examined in this Chapter; in particular Retirement Annuity Contracts (RACs) and Personal Retirement Savings Accounts (PRSAs). The main attributes of both types of contracts are discussed, including eligibility to contribute, together with their differences. The various charges that may be applied are covered. The retirement benefit options of both contracts are analysed in detail, and when and how benefits can be drawn down. Pension Term Assurance is also introduced in this Chapter.

Learning Outcomes – after studying this chapter you should be able to:

know the eligibility criteria to take out and contribute to an RAC or PRSA;

compare the features of an RAC and a PRSA;

understand how Income tax relief works for RACs and PRSAs;

be familiar with the likely charges on both contracts;

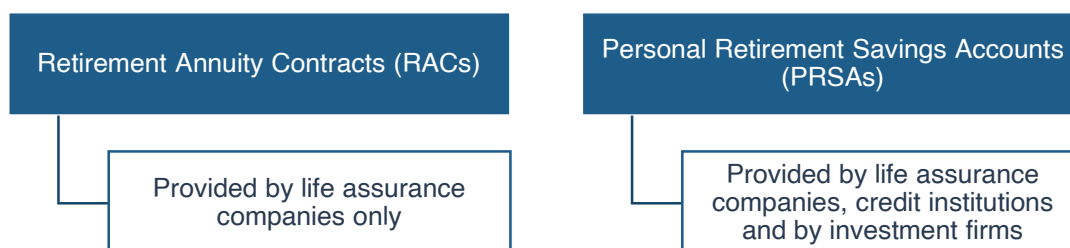
understand when and how retirement benefits can be accessed under RACs and PRSAs; and

understand what Pension Term Assurance is and its benefits and restrictions.

Chapter weightings	Number of questions which may appear		
	Chapter	Minimum	Maximum
In the exam, questions are taken from each Chapter based on the following approximate chart:	3	16	18

3.1 Introduction

The two main types of **personal** pension contracts used by individuals to accumulate a retirement fund from contributions (which may be deductible for income tax against certain earned income) paid over their working life are:



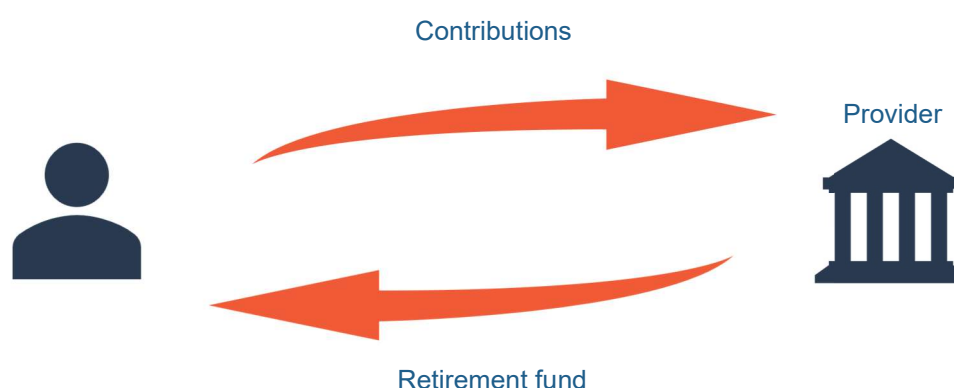
RACs are also known as **Personal Pension Plans** and under other brand names. The investment firms which can provide PRSAs include wealth managers, credit institutions and other investment firms authorised under MiFID Regulations.⁴

There are two different types of PRSAs:



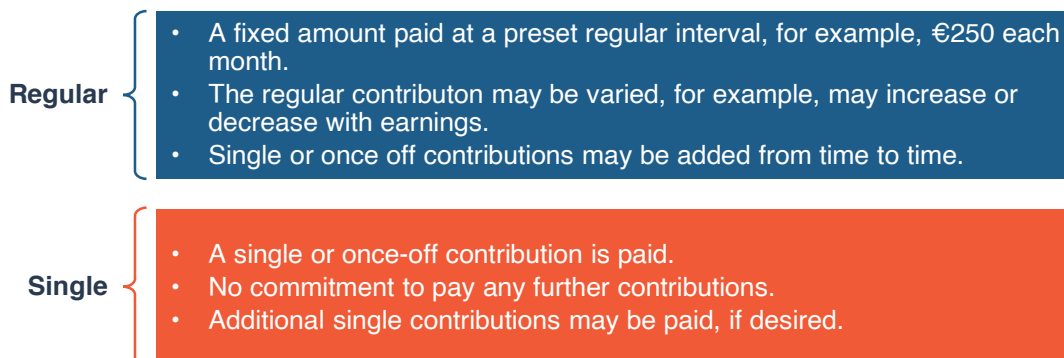
Standard PRSAs have limits on the maximum charges they can make. See Chapter 3.4.5 and Chapter 3.5 for more details on the difference between Standard and non-Standard PRSAs.

RACs and PRSAs are both **contract** arrangements, i.e. the individual enters into a legal contract with the relevant financial institution (also called a **provider**), for example, a life assurance company, under which the provider undertakes to provide a retirement fund in the future in return for one or more contributions paid by the individual to the provider.



⁴ Markets in Financial Instruments Directive 2014 commonly known as MiFID II, is a legal act of the European Union. It provides a legal framework for securities markets, investment intermediaries, and trading venues.

Contributions paid to an RAC or PRSA may be either:



RAC contracts are approved by the Revenue Commissioners while PRSA contracts are jointly approved by the Revenue Commissioners and the Pensions Authority.

Rather than approve each individual RAC or PRSA contract taken out by an individual, the Revenue/Pensions Authority approve a **master** contract submitted by the provider for approval, if it conforms with various requirements set out in legislation.

Since 1st January 2024, the Revenue Commissioners will not approve any new RAC master contracts, however life companies can continue to issue new RACs after 1st January 2024 based on existing RAC master contracts in place before this date.

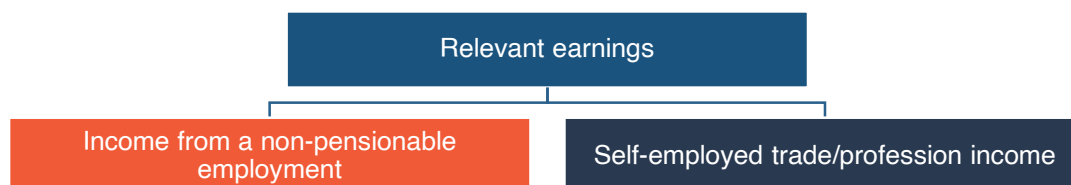
The provider can then sell this RAC or PRSA contract to all suitable individuals, provided it makes no material change from the master contract conditions approved by the Revenue/Pensions Authority.

3.2 Who Can Take Out an RAC and a PRSA?

3.2.1 RAC

A retirement annuity contract (RAC) can be taken out by an individual who currently has **relevant earnings** liable to income tax, i.e. income earned from a self-employed trade or profession or from a non-pensionable employment.

A non-pensionable employment is an employment where the individual's employer has not included that individual in an employer pension scheme for retirement benefits.



Examples of individuals who can contribute to an RAC include:

- Self-employed professionals, for example, accountants, solicitors, dentists, doctors, etc, as well as partners in partnerships.
- Self-employed individuals engaged in a trade, i.e. not trading through a company, for example, plumbers, decorators, builders, etc.
- Farmers.

- Employees in non-pensionable employment.
- Individuals engaged in contract type work on a self-employed basis, i.e. not as an employee.

Note that:

- An individual may have more than one source of earnings and may be able to contribute to an RAC if at least one of the sources of income is relevant earnings.

For example, an individual may be employed in the civil service in pensionable employment but have a separate part time farming income (which is relevant earnings) which could be pensioned separately with an RAC, even though they are in pensionable employment in the civil service.

- A spouse/civil partner who has their own relevant earnings is eligible to take out an RAC in respect of their income, even if their spouse/civil partner is in pensionable employment and they are assessed to income tax under joint assessment.



Example #1

Sean works in a software company and is included in the company's pension scheme for retirement benefits. Sean therefore does not have relevant earnings, i.e. his earnings are pensionable. He cannot contribute to an RAC.

His wife, Niamh, also works but is not included in a pension scheme at her work. She therefore, has a source of relevant earnings, i.e. income from a non-pensionable employment.

They are assessed for income tax under joint assessment.

Niamh can take out an RAC in respect of her employment income, even though her husband is in pensionable employment, and claim income tax relief on the RAC contributions but only against her income.

An individual who doesn't currently have relevant earnings but in the past had and contributed to an RAC at that time, can contribute to their RAC now even though they do not currently have relevant earnings.



Example #2

Some years ago, Una was a self-employed dentist and contributed to an RAC at that time.

Two years ago, she gave up work temporarily to look after her elderly parents; she is not currently working.

Una can continue to pay into her RAC if she wants to, as she had relevant earnings in the past and contributed to an RAC at that time.

But if she does continue contributing to the RAC, she won't get any income tax relief on the contributions unless and until she goes back to work and restarts her relevant earnings.

3.2.2 PRSA

Unlike an RAC, anyone can take out a PRSA; you don't have to have relevant earnings to take out a PRSA.

However, income tax relief on personal contributions to a PRSA can only be obtained against:

- Income earned from a self-employed trade or profession or from a non-pensionable employment, i.e. relevant earnings referred to above.
- OR
- Income from a pensionable employment, where the contributions to be paid to the PRSA are additional voluntary contributions (AVCs) to top up their employer's pension scheme benefits. (see Chapter 4.11 for more details on AVCs).

Employers who do not include some or all of their employees in an occupational pension scheme for retirement benefits within six months of joining, must allow those employees to contribute to at least one Standard PRSA nominated by the employer, and allow such employees to contribute to the PRSA by deduction from earnings **before** applying PAYE, thereby providing immediate relief against income tax. This is usually referred to as the **net pay system** of providing income tax relief on pension contributions.

An employer is not obliged to contribute to an employee's PRSA but can do so if they wish.

3.3 Income Tax Relief

3.3.1 Personal Contributions to RACs and PRSAs

An individual who pays into an RAC and/or PRSA can deduct the contributions from their relevant earnings for income tax purposes (but not for USC or PRSI), up to a limit each year related to the individual's age and **net relevant earnings (NRE)** in that tax year:

Age attained during year	Income relief limit (as a % of NRE)
Less than 30	15%
30 to 39	20%
40 – 49	25%
50 – 54	30%
55 – 59	35%
60 and over	40%

There are three exceptions to the table above:

- Certain professional sportspeople, for example, football and rugby players, are allowed a higher 30% of net relevant earnings limit on RAC/PRSA contributions made under age 50, for earnings derived 'wholly or mainly' from their sports occupation.
- An individual can claim income tax relief on PRSA contributions of up to €1,525 pa, even if above the limits above.
- The maximum **net relevant earnings** that can be taken into account for the purposes of the tax relief limits on RAC and PRSA contributions is currently €115,000.

**Example #1**

Ciara is a self-employed dentist. Her net relevant earnings for 2026 are €100,000. She is aged 32 in 2026.

The maximum total contributions to RACs and PRSAs combined which Ciara can offset against her relevant earnings for income tax purposes in 2026 is:

$$20\% \times €100,000 = €20,000.$$

**Example #2**

Caoimhin is a professional footballer. His net relevant earnings derived from his football occupation for 2026 are €150,000. He is aged 28 in 2026.

The maximum total contributions to RACs and PRSAs combined, which Caoimhin can offset against his relevant earnings for income tax purposes in 2026 is:

$$30\% \times €115,000 \text{ (the NRE limit)} = €34,500.$$

** The normal limit applying to a 28 year old is 15% but because his earnings arise from a professional sport he is entitled to the 30% limit.*

**Example #3**

Shane is a self-employed doctor. His net relevant earnings for 2026 are €250,000. Shane is aged 53 in 2026.

The maximum total contributions to RACs and PRSAs combined, which Shane can offset against his relevant earnings for income tax purposes in 2026 is:

$$30\% \times €115,000 \text{ (the NRE limit)} = €34,500.$$

**Example #4**

Una is in non-pensionable employment. Her net relevant earnings from this employment for 2026 are €89,000. She will turn 40 in 2026.

Una is already contributing €2,000 pa to an RAC and another €1,000 pa to a PRSA.

The maximum additional RAC and PRSA contributions combined Una could pay in 2026 and offset against her relevant earnings for income tax purposes in 2026 is:

$$25\% \times €89,000 - €2,000 \text{ (existing RAC contribution)} - €1,000 \text{ (existing PRSA contribution)} = €19,250.$$

The limits are related to the individual's **net relevant earnings (NRE)**, which are the individual's relevant earnings reduced by:

- Any charges on income, such as tax-deductible covenant payments and maintenance payments.
- Any business losses or capital allowances related to the individual's relevant earnings, for example, capital allowances in relation to plant and machinery used in the individual's self-employed trade or occupation.



Example #5

Daniel is a self-employed plumber. He makes his accounts up to the 30th June each year. Daniel is aged 44 on the 1st September 2026.

His profits for the year ending 30th June 2026 will be his taxable income for the 2026 tax year, i.e. the profits of his 'accounting period' which ends in the tax year.

Let's say that these accounts show his 'relevant earnings' for 2026 of €78,000. Let's also assume that he has tax deductible capital allowances of €2,500 related to his machinery, tools, etc., which he uses in the business.

- | | |
|--------------------------|---------|
| • Relevant earnings: | €78,000 |
| Less | |
| • Capital Allowances: | € 2,500 |
| • Net Relevant Earnings: | €75,500 |

Income tax relief limit on all RAC and PRSA contributions for 2026 =

$$25\% \times €75,500 = €18,875.$$

Personal contributions to RACs and PRSAs are NOT deductible for PRSI or USC purposes.

3.3.2 Employer Contributions to an employee's PRSA

Where an employer pays a contribution to an employee's PRSA:

- If the value of the total employer contributions to an employee's PRSA in a given year exceeds 100% of the employee's salary, then the employer contribution is treated for income tax purposes as a **benefit in kind (BIK)** provided to the employee and hence liable to income tax and PRSI but not USC.
- If the value of the total employer contributions to an employee's PRSA in a given year does not exceed 100% of the employee's salary, then the contribution is deductible for the employer against their trading income for income tax/corporation tax purposes as an expense of the business and is not treated as a BIK provided to the employee.



Example #6

Rachel is aged 48 and her current earnings from her job in a small manufacturing company are €35,000 pa.

Rachel is contributing €100 per month before tax relief to her PRSA, by deduction from salary. Her employer is also contributing another €150 per month to her PRSA.

The employer's contribution of $€150 \times 12 = €1,800$ pa, is deductible for the employer against their trading income for income tax/corporation tax purposes, as a business expense.

Rachel can claim income tax relief only on her own PRSA contributions of $€100 \times 12 = €1,200$ pa, which is within her annual limit of $25\% \times €35,000 = €8,750$ pa.



Example #7

Ivan is aged 35 and owns his own painting and decorating company. He is currently drawing a salary of €42,000 pa from his company.

Ivan is contributing €250 per month personally to his PRSA by deduction from salary (net pay). The company is also contributing another €250 per month to his PRSA.

The company has done well this year and decides to make a once-off contribution of €50,000 to his PRSA.

The company's regular contribution of $€250 \times 12 = €3,000$ pa, would have been deductible as a business expense for the company against their trading income for corporation tax purposes, had no additional contribution been made. As the total employer contributions now exceed 100% of Ivan's salary ($€50,000 + €3,000 = €53,000$), the entire €53,000 will be treated for income tax purposes as a BIK for Ivan.

Ivan's own personal contributions are unaffected and he can claim income tax relief on his own PRSA contributions of €3,000 pa, which is within his annual income tax relief limit of $20\% \times €42,000 = €8,400$ pa.

3.3.3 Employee Paying AVCs to a PRSA

An employee in pensionable employment can pay additional voluntary contributions (AVCs)⁵ to a PRSA to top up, at their own expense, their employer's pension scheme benefits.

Income tax relief can be claimed on such contributions as if they were employee contributions to the employer's pension scheme, within the normal limits and earnings limit of €115,000. See Chapter 4 for more details.

3.3.4 Carrying Forward Income Tax Relief

If an individual pays RAC or PRSA contributions in a year in total more than the tax relief limit allowed on such contributions in that year, the part of the contributions on which tax relief is not obtained in the year of payment can be carried **forward** to the following tax year and allowed as a deduction against relevant earnings for income tax in that year, within the usual limits.

⁵ See Chapter 4 for more information on AVCs.

RAC/PRSA contributions
not allowed for income
tax relief in 2023.



Allowed as a deduction
against relevant earnings
in 2024.



Example

Sue is self-employed. She was aged 39 in 2025. Her net relevant earnings in 2025 were €130,000. She expects to earn at least this amount in 2026.

Her maximum RAC/PRSA contributions deductible for income tax in 2025, was:

$$20\% \times €115,000 \text{ (the NRE limit)} = €23,000.$$

She contributed €35,000 to an RAC in 2025. She did not make any other pension contributions in 2025.

The €12,000 part of the €35,000 contribution not allowed for income tax relief in 2025 is carried forward to 2026 and added to any contributions she makes in 2026 to be deducted against her relevant earnings in 2026, subject to a limit in 2026 of:

$$25\%^6 \times €115,000 \text{ (the NRE limit)} = €28,750.$$

However, RAC/PRSA contributions carried forward for tax relief purposes may only be offset against relevant earnings in those future years, and within the limits applying in those future years; they **cannot** be offset against any other type of future income, such as investment income or pension income.

An individual must therefore continue working in order to be able to claim income tax relief in the future on RAC/PRSA contributions carried forward from a previous year.

3.3.5 Backdating Contributions for Income Tax Relief

An individual can, in certain circumstances, elect to have RAC/PRSA contributions paid by him or her in a year backdated for income tax relief purposes to the immediately preceding year:

Backdated and deducted
for income tax against
2024 relevant earnings.



RAC/PRSA contributions
paid in 2025.

RAC/PRSA contributions paid by an individual in a year before the 31st October (mid-November if paying AND filing tax online with the online ROS system) can, at the option of the individual, be **backdated** to the **immediately preceding** income tax year for income tax relief, instead of being allowed as a deduction in the year in which the contributions are paid.

⁶ She is aged 40 in 2026.



Example

Stephen is a self-employed painter. He is aged 38 in 2026.

He has not previously contributed to an RAC or PRSA. He starts a PRSA on the 1st July 2026 and contributes €14,000 to it, as a single or once off contribution.

His net relevant earnings in the previous tax year 2025 were €65,000, and in the current tax year 2026 are €75,000. He paid no pension contribution in 2025.

At any time before the 31st October 2026 (mid-November 2026 if Stephen is paying taxes AND filing online with ROS), Stephen can *elect* to backdate the €14,000 contribution for income tax relief purposes, to the previous tax year, i.e. to the 2025 tax year, and treat it as having been paid in that year for income tax relief purposes, rather than in 2026.

However, if Stephen makes no election, the €14,000 contribution paid on 1st July 2026 will count in full as a deduction against his relevant earnings for income tax in the 2026 tax year, as his limit for tax relief on RAC/PRSA contributions in 2026 is 20% x €75,000, i.e. €15,000.

His tax relief limit in 2025 was 20% x €65,000, i.e. €13,000, which Stephen did not use in 2025.

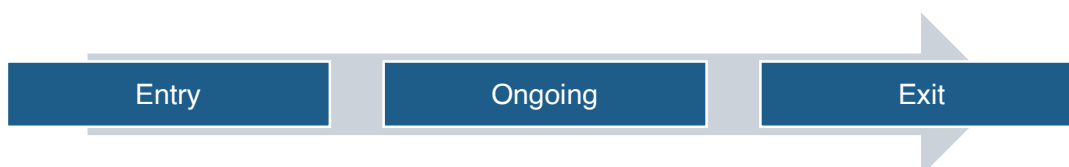
€13,000 of the backdated €14,000 contribution is therefore treated as a deduction against his taxable income in the 2025 tax year, with the balance of €1,000 an allowable deduction against his relevant earnings in the current 2026 tax year.

RAC/PRSA contributions paid by an individual after 31st October (or after mid-November if paying AND filing tax online with the ROS system) in a year, count for income tax relief purposes in the year in which they are paid; such contributions **cannot** be backdated to the previous year for income tax relief purposes, but can be carried forward to the following tax year if the contribution is in excess of the limit allowed in the year of payment.

3.4 Charges

RAC and PRSA contracts impose various charges on the contributions paid in and on the value of the retirement fund built up.

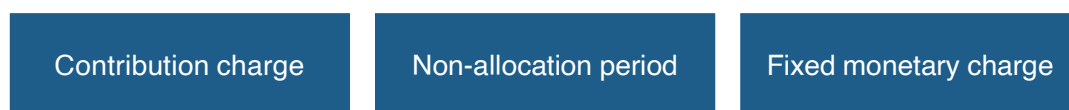
Contract charges fit into one of three categories:



3.4.1 Entry Charges

An entry charge is one levied at the point of entry on contributions paid to the contract.

There are a number of different types of entry charges:



A **contribution charge**, as the name implies, is a charge taken from a contribution paid into the RAC/PRSA, before the balance of the contribution is invested.

Typically, a contribution charge varies by the level of contribution, so that the higher the level of contribution the lower the charge may be; for example:

Yearly contribution	Contribution charge
Less than €5,000	5.00%
€5,000 to €9,999	4.25%
€10,000 and over	3.50%



Example #1

An RAC contract has a contribution charge of 3.5%.

€20,000 paid into the RAC therefore attracts a charge of 3.5% x €20,000, or €700, so that €19,300 is invested within the contract.

In some cases, the entry charge may be presented in a different way, as an **allocation rate** showing the % of the contribution which will be allocated to investment; where the allocation rate is less than 100% the difference is an entry charge.

For example, the above contribution charge scale could alternatively be presented in terms of the % of the contribution which will be allocated to investment:

Yearly contribution	Allocation rate
Less than €5,000	95.00%
€5,000 to €9,999	95.75%
€10,000 and over	96.50%



Example #2

An RAC contract has an allocation rate of 96.5%.

Of a contribution of €20,000 paid into the RAC 96.5%, or €19,300 is invested within the contract.

In some contracts the allocation rate may, at some level of contribution, be over 100% so that the RAC or PRSA provider in effect adds an up-front bonus to the contribution before it is invested. For example:

Yearly contribution	Allocation rate
Less than €3,000	98%
€3,000 to €7,999	99%
€8,000 and over	101%

In this case where the yearly contribution is above €8,000 pa, 101% of each contribution is invested.



Example #3

An RAC contract has an allocation rate of 101%.

Of a contribution of €20,000 paid into the RAC 101%, or €20,200 is invested within the contract.

A contribution charge is sometimes presented in another different way, as a **bid/offer spread**. In this case there are two unit prices set each day for the investment fund in which contributions will be invested:

- The **offer price** at which units are bought; and,
- The lower **bid price** at which units are encashed.

The bid price is the 'real' price of the units on that day, and the offer price at which units are secured by contributions is a 'marked up' price, with the mark up (referred to as the bid/offer spread) being an entry charge on contributions.

The difference between the two prices is referred to as the **bid/offer spread** and amounts to an equivalent contribution charge



Example #4

A unit fund on a particular day has an offer price of €1 and a bid price of €0.95, i.e. a bid/offer spread of 5%.

If a contribution of €2,000 buys 2,000 units today at a price of €1 per unit, the value of these units immediately after purchase is $2,000 \times €0.95 = €1,900$.

In effect the €2,000 contribution has borne an entry charge of €100 on the purchase of the units, or 5% of the contribution.

The bid/offer spread is generally a feature of older RACs and not a feature of RACs or PRSAs currently available in the marketplace.

Another form of entry charge on regular contribution contracts is the use of a **non-allocation period**, i.e. an initial period of the contract during which the regular contribution is **not** invested, but retained in full by the provider as a charge.

For example, a non-allocation period of, say, the first six months of the contract means that during this period the provider retains the contributions paid as a charge and the contract will have no value during this period. After the allocation period ends, the allocation % of the contribution will then be invested in the normal manner.

Take for example a contract with a non allocation period of 6 months and thereafter an allocation rate of 100%.

Month	1	2	3	4	5	6	7	8	9
% of contribution invested	Nil	Nil	Nil	Nil	Nil	Nil	100%	100%	100%

Another form of entry charge is the application of a **fixed monetary charge** for example, €250, which is taken from the first contribution paid into an RAC, *before* the balance of the contribution is invested.



Example #5

An RAC has a fixed set up charge of €250. John sets up this RAC with a once-off contribution of €10,000.

€9,750 is invested, i.e. €10,000 less the fixed charge of €250; the €250 is retained by the life assurance company as a charge.

3.4.2 Ongoing Charges

There are three main types of ongoing contract charges taken on a regular basis over the lifetime of the contract:

Annual fund charge

Policy fee

Fund switching charge

An **annual fund charge (AFC)** is a charge or deduction taken from the value of an investment fund, *before* the unit price of that fund is set. This means the investment fund price grows at a slower rate than if there were no such charge.

The annual fund charge usually varies by the type of fund. A typical annual fund charge might be 0.75% pa, but some funds charge more than this and some less.

The annual fund charge is also sometimes referred to as the **annual management charge (AMC)**, although only a small part of the charge actually relates to the cost of investment management of the fund. Most providers retain the right to increase the annual fund charge in the future, from its current level.

Some contracts may provide for a reduction in the annual fund charge in certain circumstances. For example:

- When the value of the contract exceeds a certain monetary value.
- After a certain period of time has elapsed from the establishment of the contract, say after 10 years.

Some contracts may rebate or refund some of the annual fund charge if the contract is maintained for a certain period of time; this is done through the addition of **bonus units** to the contract at some stage in the future, for example, after 10 years, and/or at retirement age 60 or 65, provided all contributions have been paid. Bonus units act as an incentive for the individual to pay into and maintain their contract for a prolonged period:



Example

An RAC promises to add a bonus of 3% of the then unit holding after 10 years. The RAC has an annual fund charge of 1.0% pa.

The bonus added after 10 years has the effect of reducing the impact of the annual fund charge over the first 10 years for units held throughout that period by $3\%/10 = 0.3\%$ pa, so that after 10 years the annual fund charge borne over the first 10 years is $1.0\% - 0.3\% = 0.7\%$ pa.

In the case of some RACs, the life company may apply a regular fixed monetary fee, often called a **policy fee**, to the contract. In the case of a regular contribution RAC, a life company might, for example:

- Deduct the first €3 from each monthly contribution, *before* investing the balance;

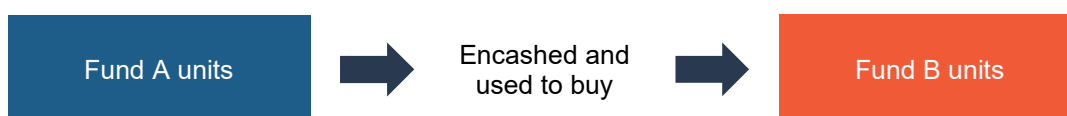
For example, if an individual is contributing €200 per month to an RAC with a regular policy fee of €3 per month, the life company may deduct the €3 from each monthly contribution before investing the remaining €197 contribution.

OR

- Invest the full contribution but withdraw €3 from the value of the contract each month to pay for the policy fee.

Most life companies retain the right to increase a policy fee on a regular basis, for example, in line with inflation, so that if inflation was, say, 3% pa, a €3 per month policy fee, in the second year might become $€3 \times 1.03 = €3.09$ per month, and $€3.09 \times 1.03$ in the third year, and so on. This is usually referred to as an *indexed* policy fee, as it is indexed in line with inflation.

Most RAC and PRSA contracts allow the holder to switch his or her investment fund choice, at any time, by encashing units in, say, Fund A and using that value to secure units in Fund B.



See Chapter 7.3.7 for more details on fund switching.

Some contracts may impose a **fund switching charge** where the individual opts to switch units from one unit fund to another. For example, a switching charge of 0.5% of the value of units switched, subject possibly to a minimum and maximum monetary charge, might be deducted from the value of units being switched from one fund to another.

However, many contracts allow a certain number of fund switches free without charge in a calendar year, and only switches over this number attract the fund switching charge.

3.4.3 Exit Charge

Some RACs may apply an **exit charge** where the contract is encashed earlier than anticipated, i.e. the payout is reduced, with the reduction being a charge. This type of charge is also referred to as an **early encashment charge**.

Some single contribution RACs impose a reduction on the encashment value on termination during the first five years of the contract. This charge frequently scales down over this period, to nil from the 6th year onwards, i.e. only applies during the first five years of the contract.



Example

A single contribution RAC imposes an early encashment charge as follows:

Encashed in year	Charge
1	5%
2	5%
3	3%
4	2%
5	1%

So, for example, if an investor has 23,300 units allocated to their RAC and he or she decide to terminate the RAC and transfer its value to a PRSA during year 4, when the unit price is €1.87, the value of the RAC transferred at that time would be:

$$23,300 \times €1.87 \times (100\% - 2\%) = €42,700.$$

The 2% deducted is the exit charge. If there had been no exit charge, the pay out would have been:

$$23,300 \times €1.87 = €43,571.$$

A PRSA provider cannot by law impose a charge on termination and encashment of a PRSA. Therefore, PRSAs cannot have early encashment charges.

3.4.4 Intermediary Remuneration

A life company or PRSA provider may pay commission to an intermediary in relation to the advice provided by an intermediary to the client taking out the contract.

Commission in such cases may be:



- **Initial commission:** a % of the contribution(s) payable in the first year of the contract.



Example #1

An RAC single contribution contract pays 3% of the single contribution as initial commission to the intermediary who advised and helped the client to take out the contract.

The life company would therefore pay €600 commission to the intermediary involved in arranging a €20,000 single contribution RAC with the life company.



Example #2

An RAC regular contribution contract pays 10% of the annual contribution payable in the first year as initial commission.

The life company would therefore pay €200 commission in the first year of the contract, to the intermediary arranging a €2,000 pa regular contribution RAC.

The commission would usually be paid at the same frequency and time as contributions are paid.

Renewal commission: a % of the ongoing regular contribution, payable annually after the first year.



Example #3

A regular contribution RAC pays 15% initial and 3% pa renewal commission.

If the regular contribution is €3,000 pa, for example, the life company will pay (assuming all contributions are paid) commission to the introducing intermediary of:

- $15\% \times €3,000 = €450$ in the first year (**initial** commission); and,
- $3\% \times €3,000 = €90$ pa, each year from the second year onwards (**renewal** commission), assuming the €3,000 regular contribution continues to be paid.

- **Trail commission:** A % of the ongoing value of RAC/PRSA payable each year.
- This type of commission is referred to as **trail** or **fund-based** commission as the amount payable each year is related to the value of the RAC or PRSA value at that time. A typical rate of trail commission is 0.5% pa, but rates can vary between 0.25% and 1.0% pa.



Example #4

An RAC single contribution contract pays 3% of the single contribution as initial commission to the intermediary who helped the client take out the contract. It also pays out a trail commission at the end of each year of 0.5% of the value of the RAC, starting at the end of the first year.

A single contribution of €20,000 would therefore pay €600 initial commission to the introducing intermediary involved.

If the RAC value was, say, €20,560 at the end of the first year, trail commission of 0.5% x €20,560 = €102.80 would be paid to the intermediary at that time.

If the RAC value was, say, €22,190 at the end of the second year, trail commission of 0.5% x €22,190 = €110.95 would be paid to the intermediary at that time.

If the RAC value was, say, €19,430 at the end of the third year, trail commission of 0.5% x €19,430 = €97.15 would be paid to the intermediary at that time.

Life companies and PRSA providers usually recover commission paid out on RACs and PRSAs by imposing a corresponding 'knock for knock' deduction from the contributions or contract value, as the case may be.



Example #5

A single contribution RAC has a normal allocation rate of 98%, assuming no initial commission is payable.

If the intermediary is to receive, say, 3% initial commission, the life company will reduce the allocation rate to pay for the 3% initial commission to:

$$98\% - 3\% = 95\%.$$



Example #6

A PRSA contract has an annual fund charge of 0.75% pa, assuming no trail commission is payable.

If the intermediary is to receive, say, 0.5% pa trail commission, the life company will increase the annual fund charge to pay for the trail commission to:

$$0.75\% \text{ pa} + 0.5\% \text{ pa} = 1.25\% \text{ pa}.$$

3.4.5 Restrictions on PRSA Charges

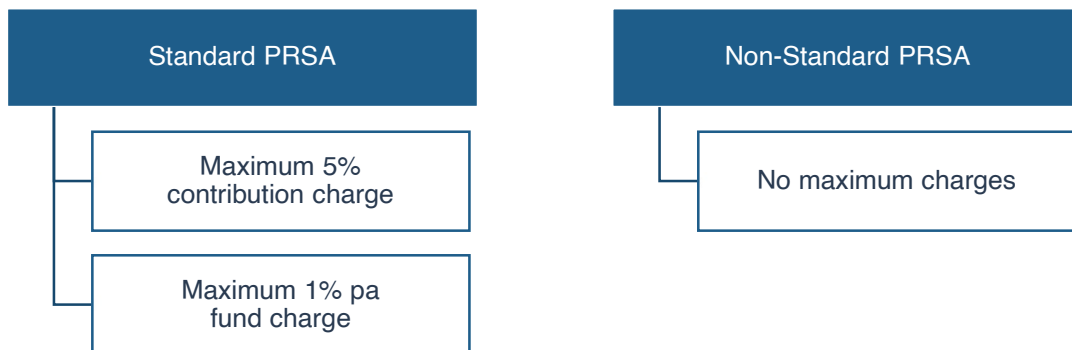
There are statutory restrictions on the charges which a PRSA provider can make to a PRSA contract. A PRSA provider:

- **Cannot** make a fixed cash charge of any type; charges must be a % of the contribution and/or a % of the PRSA contract value.
- Cannot impose any exit charge when the contract is encashed, for example, it cannot apply an early encashment charge of the type explained earlier.

- Cannot impose a charge on reduction, suspension or recommencement of contributions to the PRSA contract.
- Cannot apply an entry charge to a transfer value received by the PRSA from another pension arrangement. (Transfer values are explained in Chapter 6).

The statutory restrictions above which apply to PRSA do **not** apply to RACs.

We have already seen that there are two different types of PRSA contracts, **Standard** and **Non-Standard**. Standard PRSAs have limits on the maximum contribution and annual fund charge it can make:



The Standard PRSA is not allowed to charge more than 5% as a contribution charge and no more than 1% pa as an annual fund charge. Non-Standard PRSAs and RACs are not subject to these charge limits and hence can charge more than these limits.

3.4.6 Comparing Charges: Reduction in Yield (RIY)

Reduction in yield or **RIY** for short, is a measure of the impact of charges on a pension contract expressed as an equivalent annual reduction in investment return.

For example, an RIY of 1.4% pa means that the annual return earned by a contract will be 1.4% pa lower than if there were no charges on the contract.

In very broad terms, the RIY for a single once off contribution can be calculated as follows:

$$\left[\frac{\text{Contribution charge}}{\text{term}} \right] + \text{annual fund charge \% pa} = \text{RIY}$$



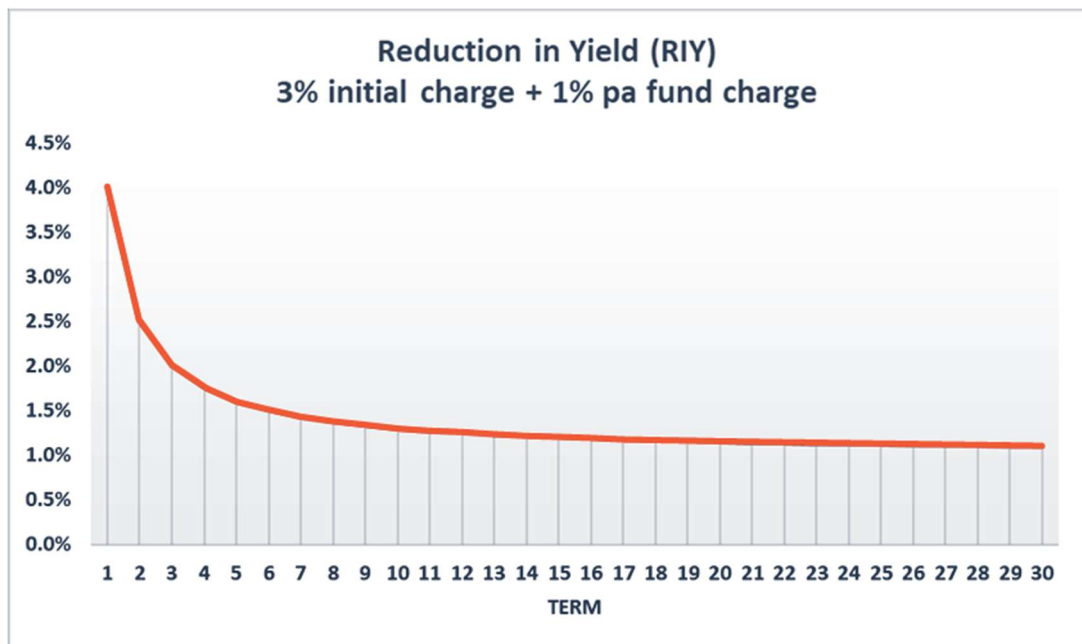
Example

Take a PRSA contract which has a 3% contribution charge and an annual fund charge of 1% pa.

The RIY over different periods of time for this charging structure for a single contribution made to the PRSA would be approximately:

Over years	RIY
5	$3\% / 5 + 1.0\% = 1.60\% \text{ pa}$
10	$3\% / 10 + 1.0\% = 1.30\% \text{ pa}$
15	$3\% / 15 + 1.0\% = 1.20\% \text{ pa}$
20	$3\% / 20 + 1.0\% = 1.15\% \text{ pa}$

The longer the contribution is invested and held for, the lower the RIY becomes as the impact of the contribution charge is spread over a longer period. For example, over a 30-year period, the RIY reduces as follows by how long the contribution is invested for:



You can see that for a single contribution with a 3% initial charge and an annual charge of 1% pa:

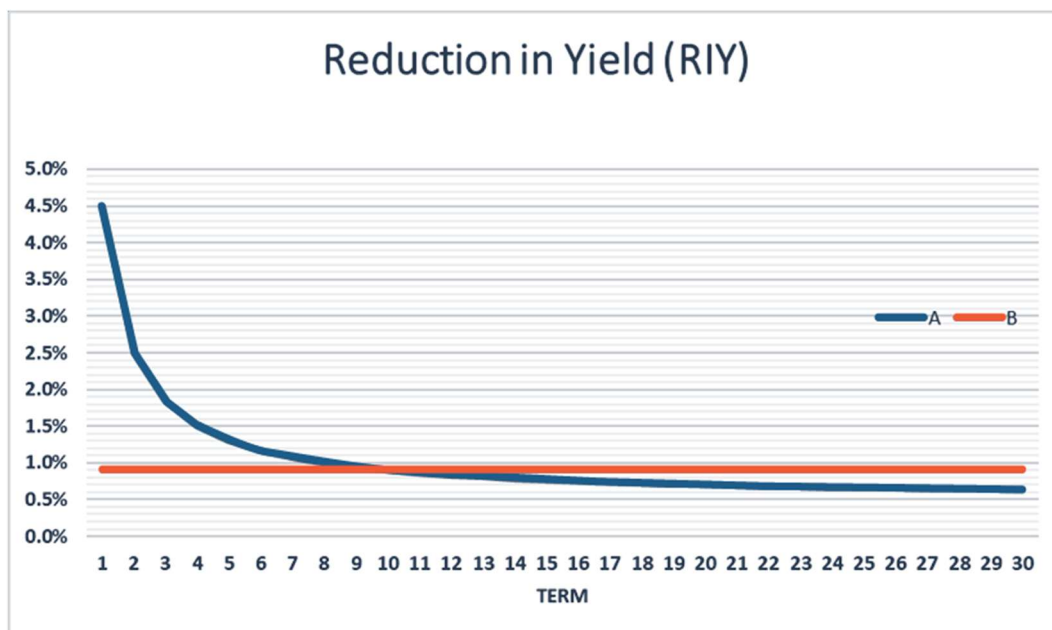
- In the longer term, the RIY approaches the level of the annual fund charge, and so it is more important in the long run to minimise the annual fund charge rather than the initial charge;
- The provision of a single RIY figure for 30 years, of 1.1% pa, is misleading in this example, as it does not show the higher RIY charge which would apply if the PRSA were to mature or be terminated earlier than this.

The RIY allows a comparison of charges under different contracts. Take for example the following (A and B) sets of charges for two different PRSAs for a single contribution:

	A	B
Contribution charge	4%	Nil
Annual fund charge	0.5% pa	0.9% pa

By just looking at the table above, it's not apparent which is the cheaper set of charges.

If we work out the RIYs for A and B at each year from 1 to 30, the projected RIYs at each duration over 30 years are as follows:



You can see that:

- **PRSA B** has a flat RIY as it does not have a contribution charge; the only charge is the annual fund charge of 0.9% pa which is therefore its RIY at each duration.
- **PRSA A** in the longer term is cheaper than B but is dearer if the investment term is less than about 10 years.

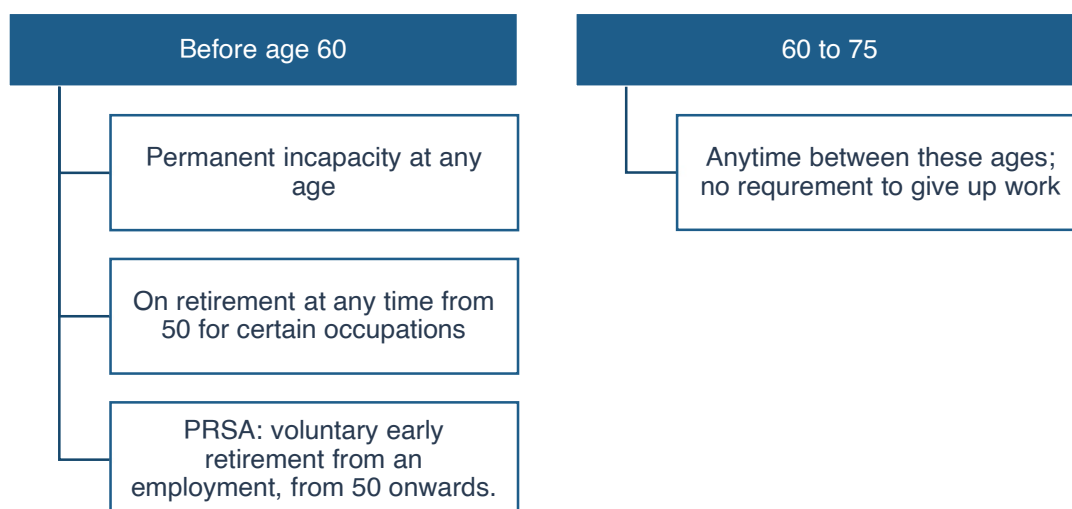
Therefore, some RAC and PRSA contracts can have cheaper charges than others in the short run but higher in the long run, and vice versa, depending on their charging structure. In general the contract with the lower annual fund charge is likely to be cheaper in the long run.

The calculation of the RIY for regular contributions is more complicated to work out, as the RIY applying to each contribution have to be separately allowed for, as each contribution paid has a different investment duration. In effect for a regular contribution, the RIY over the full term is an average of the different RIYs applicable to each contribution.

3.5 When Can Benefits Be Taken from an RAC or PRSA?

3.5.1 Retirement Benefits

An individual can draw on an RAC or PRSA to provide retirement benefits:



In order to take RAC or PRSA benefits before age 60 on **permanent incapacity**, the individual must be:

‘Permanently incapable through infirmity of mind or body of carrying on his or her own occupation or any occupation of a similar nature for which he or she is trained or fitted’.

Note that the requirement is to be *permanently* unable to work again at a similar job, so a very serious illness or disability would be required in order to qualify to take retirement benefits on permanent incapacity before age 60.

Some occupations are allowed to draw on their RAC or PRSA retirement benefits from age 50 onwards without a requirement for the individual to be permanently incapacitated, where the individual's occupation is one where people normally retire before age 60:

- Athlete
- Badminton Player
- Boxer
- Cricketer
- Cyclist
- Footballer
- Golfer
- Jockey
- Motor Racing Driver
- Rugby Player

- Squash Player
- Swimmer
- Tennis Player

Access to retirement benefits from an RAC and PRSA can be summarised as follows:

Access to retirement benefits

	RAC	PRSA
On permanent incapacity at any time	✓	✓
For some occupations from 50 onwards	✓	✓
Employee taking voluntary early retirement from 50 onwards	✗	✓
At any time between 60 and 75; no requirement to retire	✓	✓

3.5.2 On Earlier Death

If the individual dies before drawing on their RAC or PRSA, the value of the contract at that stage is payable to the individual's estate.



Example

Aisling is contributing to a PRSA. She dies at age 49 when the value of her PRSA is €34,500.

Following notification of her death, the PRSA provider pays the €34,500 to her estate as a lump sum and the PRSA contract is then terminated.

The funds will then be distributed in her estate according to the terms of her Will, if any, or according to the intestacy provisions of the Succession Act, 1965, if she died leaving no Will.

On the death before retirement of an individual with an RAC, the dependants have an alternative option of purchasing an annuity in lieu of a lump sum payment.

Those eligible to contribute to an RAC may also be eligible to take out a special type of life assurance policy paying out a capital sum on death, called **Section 785**, with the benefit of income tax relief on contributions. See Chapter 3.9 later in this Chapter.

3.6 How Can Benefits Be Taken from an RAC or PRSA?

When an individual comes to take their retirement benefits from an RAC or PRSA they can use their retirement fund as follows:

First 25%:

- Cash lump sum; tax free up to €200,000
- Capped at €500,000

**Balance:**

- Taxable lump sum, or
- Approved Retirement Fund (ARF), or
- Annuity

3.6.1 Lump Sum

When retirement benefits are taken from an RAC or PRSA, the individual can first take up to 25% of the fund as a lump sum, which is tax free subject to a limit of €200,000 on all tax-free lump sums taken by that individual from all pension arrangements since 7th December 2005.

Lump sums taken since 7th December 2005 in excess of €200,000 but less than €500,000 are subject to standard rate income tax, currently 20%.

**Example #1**

John has a PRSA maturing at €350,000. He has not previously taken any retirement benefits.

He can take a lump sum of $25\% \times €350,000 = €87,500$, which will be tax free in his hands as it's within his €200,000 pension tax-free lump sum limit.

**Example #2**

John has a PRSA maturing at €350,000. He previously took €150,000 as a tax-free lump sum from a pension arrangement in 2022.

He can take a lump sum of $25\% \times €350,000 = €87,500$ from the PRSA, which will be taxed as follows:

- €50,000 tax free, as this is his remaining part of the €200,000 limit on pension lump sum limits which he can take tax free from all pension arrangements since 7th December 2005;
- €37,500 will be liable to standard rate tax of 20%.

The lump sum he will receive into his hands will be:

$$€50,000 + (€37,500 \times (1 - 20\%)) = €80,000$$

3.6.2 The Balance of the RAC or PRSA

Where an individual has taken the maximum 25% lump sum from their RAC or PRSA, he or she can take the balance of their retirement fund in one of three ways:

Transfer to an ARF

Take as a taxable lump sum

Use to purchase an annuity

It's possible with the balance to use a mix of these three options.

An Approved Retirement Fund (ARF) is an investment fund which grows tax free. The ARF holder must, in effect, take minimum taxable withdrawals of at least 4% pa of the value of the ARF from age 61 up to age 70 and thereafter at least 5% pa or 6% if the ARF exceeds €2m at any age from 61 onwards.

On death the balance in an ARF is payable to the individual's estate. See Chapter 11 for more details on ARFs.

Alternatively, instead of transferring the balance of the RAC or PRSA to an ARF, the individual can:

- Take the balance as a **taxable lump sum**, subject to PAYE and USC.

OR

- Use the balance to buy an **annuity** with a life assurance company.



Example

Ciara has €200,000 maturing under a PRSA. She is now aged 62. She has not previously taken benefits from a pension arrangement and is not in receipt of any pension or annuity income payable for her lifetime.

She opts to take her fund as follows:

First €50,000 (25%)	Tax-free lump sum
Balance of €150,000	Transfer to an ARF

Instead of transferring the full balance of €150,000 to an ARF, it is possible to use a mix of the three options for the balance, i.e.:

- Invest part in an ARF;
- Use part to buy an annuity; and/or,
- Take the balance as a taxable cash sum.

3.6.3 Vested PRSA

A **vested PRSA** is a PRSA from which the PRSA holder has taken their 25% lump sum and retained the balance in the PRSA.

Instead of opting to transfer any balance of the PRSA to an ARF or take as a taxable lump sum or use to buy an annuity, the PRSA holder can alternatively opt to retain the balance in the PRSA.

The minimum withdrawals which apply to ARFs as outlined previously also apply to vested PRSAs.



Example

Patricia, age 65, is maturing her PRSA valued at €300,000 and has no other pension benefits.

She opts to take 25%, i.e. €75,000 as a tax-free lump sum, and with the balance she does not want to buy an annuity or take as a taxable lump sum. She can then choose to use the balance of her PRSA funds, i.e. €225,000 in one of two different ways:

The balance of €225,000	Transfer to an ARF; must withdraw at least 4% pa of the value each year up to age 70 and 5% pa thereafter.	OR	Retain in the vested PRSA; must withdraw at least 4% pa of the value each year up to age 70 and 5% pa thereafter.

3.7 Provision of Information

Providers are required to provide certain information to RAC and PRSA holders before the contract starts and while it is in force.

3.7.1 RACs

A **disclosure notice** (sometimes also known as a Key Features Document or Customer Information Notice) must be given to an individual **before** he or she signs an RAC application form. The disclosure notice is designed to help the individual decide if the contract is suitable for his or her needs, before committing to it.

In addition to providing information about the RAC, the notice shows:

- The projected charges that might be made to the contract.
- The projected sales remuneration payable to the intermediary or financial institution arranging the RAC for the individual.
- The projected retirement benefits the RAC might provide to the individual at retirement in return for a certain contribution level.

Typically, the notice given to the individual at the point of sale will be in **generic** format, i.e. based on an assumed typical age and contribution level.

Where a generic disclosure notice has been given to the individual at the point of sale, he or she will receive a personal or plan **specific** table of projected benefits, charges and sales remuneration on issue of the RAC contract to him or her, based on their actual details and contribution level.

When the RAC is up and running, the life assurance company will give the individual an **annual update** on their contract showing:

- The opening RAC value;
- All additions including additional amounts invested;
- All withdrawals;

- The total amount invested;
- The number of units held;
- All interest;
- All charges and deductions affecting the RAC including any charges associated with the management, sale, set up and ongoing administration of the contract; and
- The closing RAC value.

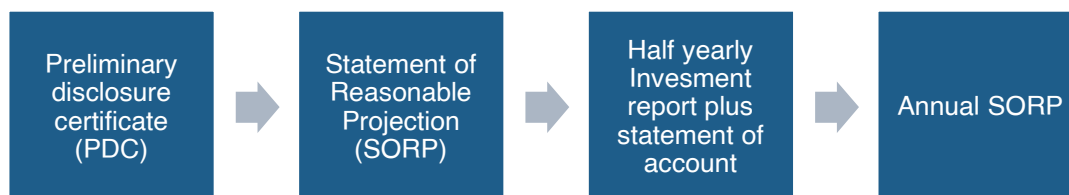
3.7.2 PRSAs

A **Preliminary Disclosure Certificate (PDC)** must be given to the individual *before* the client signs the PRSA application form. The format of the certificate varies according to whether the PRSA is a Standard PRSA or a Non-Standard PRSA.

The PDC shows a projection of the retirement benefits the PRSA might provide to the PRSA holder at retirement in return for certain contribution levels.

The PDC for Non-Standard PRSAs must also disclose the sales remuneration payable from the PRSA to the intermediary or financial institution selling the PRSA to the individual.

Typically, the PDC given to the individual at the point of sale will be in **generic** format, i.e. based on an assumed typical age and contribution level.



When the PRSA is up and running the PRSA provider must provide the following to the PRSA holder:

- A **Statement of Reasonable Projection (SORP)** which specifies the level of projected retirement fund and equivalent pension the PRSA contributor might reasonably expect to get at Normal Retirement Age. The SORP must be given by the PRSA provider to the individual:
 - Within seven days of starting the PRSA;
 - At any time on request by the individual (must give at least seven days' notice);

Within seven days of any increase in the amount or number of charges made to the PRSA; and,

Annually (annual statement must be in printed form).

- The Statement is designed to provide the individual with an indication of the '*level of benefit which could reasonably be expected*' at specified dates in the future, for example, at retirement.
- A **half yearly investment report** covering the performance of all investment funds in which the individual's PRSA funds are invested in.

- A half yearly statement of account showing:
 - Total contributions paid to the PRSA to date, split between employer (if any) and personal contributions.
 - Total contributions paid to the PRSA since the last statement of account, split between employer (if any) and personal contributions.
 - The transfer value of the PRSA at that time, if it were to be then terminated and a value transferred out to another PRSA or employer pension scheme.

Society of Actuaries in Ireland Guidance requires PRSA providers to prepare the illustration based on an assumed investment return (before charges) whose maximum value is determined by the anticipated asset split or mix of the fund or funds to which contributions will be invested in, using the following assumptions:

- The maximum gross investment return for equities and property will be 7.20% pa.
- The maximum gross investment return for fixed interest securities will be 4.25% pa.
- The maximum gross investment return for cash will be 3.20% pa.

The above maximum returns are subject to an upper limit of 6% p.a. and are normally used where the projected period to the member's Normal Retirement Age is more than five years.

3.8 Cooling-Off Period

Both RAC and PRSA holders get a 30-day cooling-off period after starting the contract, during which they can cancel the contract and get a refund of any contributions paid.

However, in the case of an RAC, but **not** a PRSA, the life company is entitled to reduce the refund, on cancellation within the cooling-off period, in line with any fall in unit price of the investment fund or funds in which the RAC is invested, between the issue of the RAC and date of posting of the individual's decision to cancel the RAC.



Example #1

Susan contributed €10,000 single contribution to an RAC on 1st July 2026. She indicated on the application form that she wants to invest in an international equity fund. There is a 2% contribution charge, so that €9,800 is invested for her.

On the 23rd July 2026, Susan changed her mind and opts to cancel the RAC. She posts a notice of cancellation to the life company on the 23rd July 2026. During the period 1st July 2026 to 23rd July 2026 the unit price of the international equity fund, to which her RAC is linked, fell by 10% because of a sudden fall in investment markets over that time period.

The life company are only legally required to refund to Susan her original €10,000 investment less the 10% fall in the unit price over the period the RAC was in force, i.e. refund her €9,000.

They cannot retain the €200 deducted in charges as Susan posted her cancellation notice within the 30-day cooling-off period.



Example #2

Olivia takes out a single contribution PRSA contract for €10,000 on 1st July 2026. She indicated on the application form that she wants to invest in an international equity fund. There is a 2% contribution charge, so that €9,800 is invested for her.

On the 23rd July 2026, she changed her mind and opts to cancel the PRSA. She posts a notice of cancellation to the PRSA provider on the 23rd July 2026. During the period 1st July 2026 to 23rd July 2026 the unit price of the fund, to which her PRSA is linked, fell by 6% because of a sudden fall in investment markets over that time period.

The PRSA provider must refund Olivia €10,000, and cannot reduce the refund to take account of the 6% fall in unit price over the period the PRSA was in force, i.e. from 1st July 2026 to 23rd July 2026.

They also cannot retain the €200 deducted in charges as Olivia posted her cancellation notice within the 30-day cooling-off period.

3.9 Pension Term Assurance

We have already seen that where the individual dies before his or her RAC or PRSA matures, the value of the contract at that stage is paid to his or her estate.

However, if death occurs within a short period of the contract starting, the accumulated fund may be small and unable to provide any meaningful level of protection for dependants.

Individuals who want to make additional provision for their dependants in the event of premature death can do so by taking out:

- A personal life assurance policy.

OR

- A Pension Term Assurance policy, also known as a **Section 785** life assurance policy.

The main advantage of Pension Term Assurance is that some individuals can obtain income tax relief on the premiums paid within the overall limits applied to RAC and PRSA contributions.

3.9.1 Restrictions

The Pension Term Assurance policy:

- Can only be taken out by individuals eligible to contribute to an RAC; see Chapter 3.2.1 above.
- Can only insure the individual; it cannot be a joint life policy.
- Can only provide life cover, payable to the individual's estate on death.
- Cannot be assigned as security for a loan.
- Can provide life cover up to a maximum term of the individual's 75th birthday.
- Most life companies offer Pension Term Assurance policies with a choice of terms, for example, to the individuals' 60th, 65th or 70th birthday.

3.9.2 Income Tax Relief

Pension Term Assurance premiums are deductible against relevant earnings, i.e. earnings from a non-pensionable employment or self-employed earnings, from a trade or profession, for income tax purposes within limits as if they were an RAC and PRSA contributions (see Chapter 3.3 above). Pension Term Assurance premiums are **not** deductible for PRSI or USC purposes.



Example #1

Jane is aged 42 and has net relevant earnings of €50,000 in 2026. She is already contributing €5,000 p.a. to an RAC.

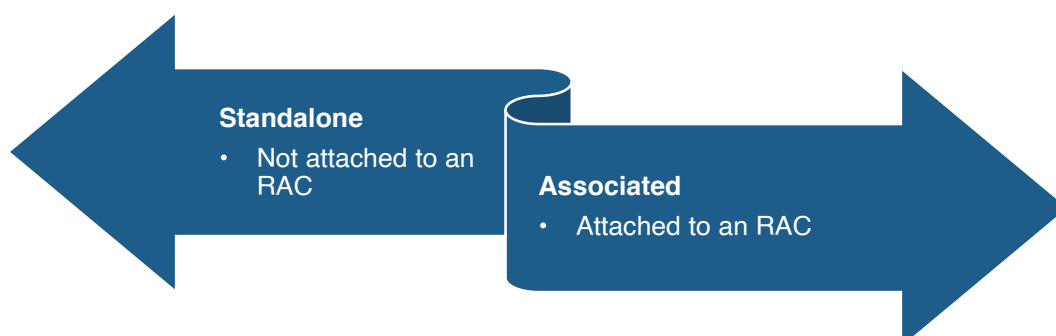
The maximum Pension Term Assurance premium Jane could pay in 2026 and offset against her relevant earnings for income tax purposes in 2026 is:

$$25\% \times €50,000 - €5,000 \text{ (existing RAC contribution)} = €7,500.$$

Similar backdating and carry forward tax relief provisions apply to Pension Term Assurance premiums as outlined earlier for RAC and PRSA contributions.

3.9.3 Different Types of Pension Term Assurance Cover

There are two different types of Pension Term Assurance policies:



- **Standalone**, where the Pension Term Assurance policy can be taken out on its own without taking out an RAC with the life company; and,
- **Associated**, where the Pension Term Assurance policy is taken in conjunction with an RAC, so that if the RAC stops, so must the 'associated' Pension Term Assurance policy.

Where the policy is of the **associated** type i.e. bundled with an RAC, it can usually be arranged either to be **inclusive** or **exclusive** of the value of the RAC at the date of death.

**Example #1**

Pension Term Assurance cover: €100,000, **inclusive** of the value of the RAC at death.

Assumed RAC value in year 10 = € 20,000.

On death in year 10 a total of €100,000 is payable, i.e. the €20,000 value of the RAC is payable together with €80,000 of Pension Term Assurance cover to make up the total cover of €100,000.

Therefore, as the value of the RAC builds up, the amount of Pension Term Assurance cover required to make up a total payment on death of €100,000 reduces.

**Example #2**

Pension Term Assurance cover: €100,000, **exclusive** of the value of the RAC at death.

Assumed RAC value in year 10 = € 20,000.

On death in year 10 a total of €100,000 + €20,000, i.e. €120,000 would be payable, i.e. the €20,000 value of the RAC is payable in addition to the €100,000 of Pension Term Assurance cover.

The amount of Pension Term Assurance cover remains constant in this case and is therefore more expensive than the inclusive cover which reduces as the value of the RAC builds up.

3.10 Pan-European Pension Product

3.10.1 Overview

Introduced with EU regulations in 2022, the pan-European Pension Product (PEPP) is a personal pension product, similar to a PRSA, which is recognised in all EU states and provides EU citizens a new pan-European means of saving for retirement.

PEPPs offer similar benefits to other personal pension products, while allowing mobile workers to continue pension savings when seeking employment in another EU Member State.

PEPPs are generally subject to the same taxation, relief and administration provisions as set out for PRSAs and are taxed in the same way as other Irish pension products.

3.10.2 Key Features of the PEPP vs the PRSA

	PEPP	PRSA
Potential Providers	- Investment firms - Insurance undertakings - Credit institutions - Investment companies - EU alternative investment fund managers - Institutions for occupational retirement provision (i.e. occupational pension scheme but not applicable in Irish context).	- Investment firms - Insurance undertakings - Credit institutions
Transfers	- Transfers from a PEPP to a PRSA, RAC or OPS⁷ are not permitted - Transfers into a PEPP from a PRSA, RAC or OPS are also not permitted	- Can receive transfers from PRSAs, OPSs and RACs. - Can transfer into a PRSA or OPS but not an RAC.
Fee Limits	Costs and fees for the basic PEPP cannot exceed 1% pa of the fund value.	Standard PRSA charge cannot be greater than 5% of each contribution and 1% pa of the fund value.
Flexibility/Mobility	- Flexible and portable - Only available to residents of the European Economic Area (EEA)	- Flexible and portable - Available to all nationalities.

Overall, PEPPs have many advantages and could be particularly attractive to citizens who move to take up employment in different EU countries, however the product has had low take up to date with just 23 PEPP products registered since 2022.

⁷ Occupational Pension Scheme (OPS) or employer pension arrangement. Refer to Chapter 4.



Review

Now consider the main teaching points, which were introduced in this Chapter. They are listed below. Tick each one as you go through them.

-
- | | |
|--|--------------------------|
| Who can take out an RAC or PRSA? | ☐ |
| Income tax relief on contributions paid to an RAC and PRSA | ☐ |
| Charges | ☐ |
| When can benefits be taken? | ☐ |
| How can benefits be taken? | ☐ |
| Provision of information | ☐ |
| Cooling off period | ☐ |
| Pension Term Assurance life assurance cover | ☐ |
| Pan-European Pension Product | ☐ |

Sample Questions

The answers to these questions can be found in your Study Hub.

1. Aoife has a Pension Term Assurance policy. If she dies today, the proceeds of her Pension Term Assurance policy MUST be paid to her:
- A. surviving husband or civil partner.
 - B. estate.
 - C. nominated beneficiaries.
 - D. dependants in equal shares.

2. Carina has invested €70,000 in a new Retirement Annuity Contract, investing in an international equity fund. Within the cooling off period allowed, she exercised her cooling off right to cancel the RAC. Between issue of the RAC and when she exercised her cooling off right, the international equity fund price had fallen by 15%.

What is the MAXIMUM amount she is legally entitled to get as a refund on cancellation of the RAC?

- A. Nil.
 - B. € 59,500
 - C. € 70,000
 - D. € 90,500
3. If a Retirement Annuity Contract (RAC) imposes a 3% contribution charge and has an annual fund charge of 1% per annum, what is the projected Reduction in Yield of the RAC over 5 years, for a single contribution paid into the RAC now?
- A. 1% per annum.
 - B. 1.3% per annum.
 - C. 1.6% per annum.
 - D. 4% per annum.
4. Keith is a self-employed dentist aged 38 and has net relevant earnings of €215,000 in 2025. The MAXIMUM total Retirement Annuity Contract and PRSA personal contributions Keith can claim tax relief on in 2025 is:
- A. € 23,000
 - B. € 28,750
 - C. € 32,750
 - D. € 43,000

04

Employer Pension Schemes

This Chapter introduces you to employer pension schemes; you will learn about trustees, the difference between defined benefit (DB) and defined contribution (DC) schemes; how schemes work and what benefits they can provide and what is a master trust. This Chapter also explains Revenue maximum funding and benefit limits. Additional voluntary contributions (AVCs) are also covered. You will see examples of funding calculations together with examples of accessing benefits, and an outline of the types of retirement benefits provided by the State for public service employees.

Learning Outcomes – after studying this chapter you should be able to:

understand the features of employer pension schemes;

describe the differing characteristics of defined benefit (DB) and defined contribution (DC) schemes;

explain how master trusts differ from other employer pension schemes

outline the main governance requirements which apply to the trustees of employer pension schemes by IORPS II

explain what benefits can be provided by employer pension schemes;

calculate maximum contribution levels and limits in several circumstances;

outline the role of AVCs;

describe when and how benefits can be taken from AVCs;

outline the impact of termination of employment for pension benefits; and

outline the pension and gratuity provided by the State for public service employees.

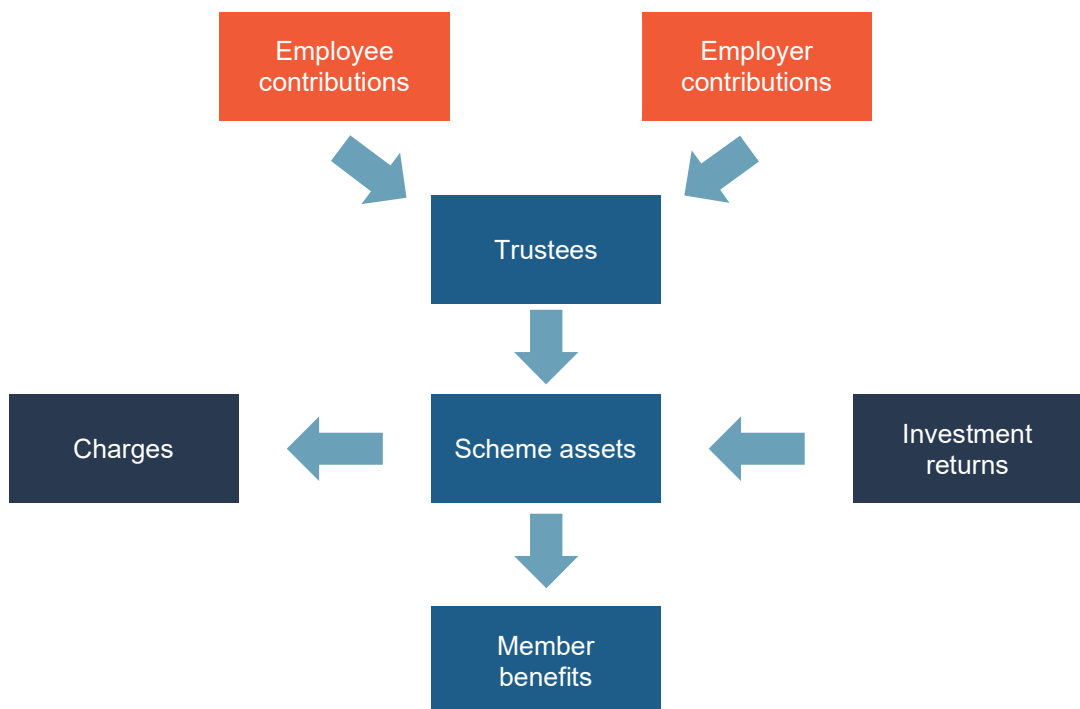
Chapter weightings	Number of questions which may appear		
In the exam, questions are taken from each Chapter based on the following approximate chart:	Chapter	Minimum	Maximum
	4	19	24

4.1 Introduction

An **employer pension scheme**, also known as an **occupational pension scheme** is a trust set up by an employer to provide retirement and/or death in service benefits for its employees, who are members of the scheme.

In most schemes both the employer and employees contribute to the scheme (called a **contributory** scheme) but in other cases only the employer contributes (called a **non-contributory** scheme).

The scheme is arranged under an **irrevocable trust**, which means that the scheme's assets are held by **trustees** of that trust separate from the employer's business, to provide benefits for members of the scheme:

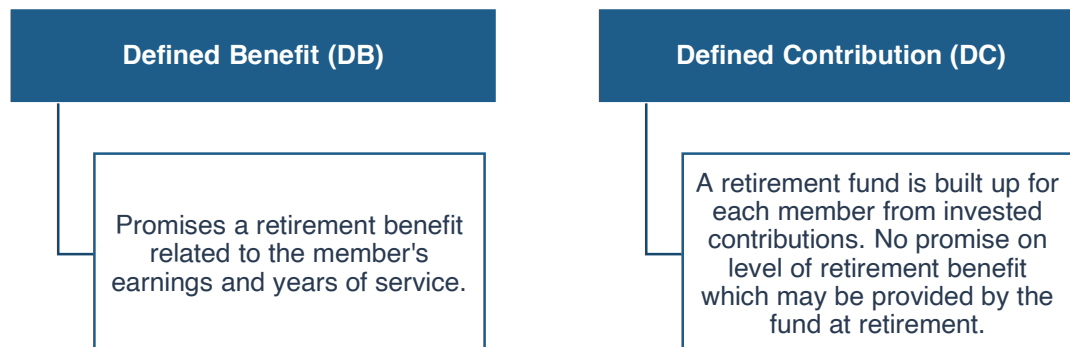


The scheme is legally set up by the employer in one of two ways:

- In the case of a standalone group pension scheme, a **Declaration of Trust** is executed by the employer under which a trust is established and trustees appointed to hold the scheme's assets. The employees to be included in the scheme are provided by the employer with an **announcement letter** informing them of the establishment of the scheme and their inclusion in it OR
- In the case of a Master Trust (more detail in the following pages) the employer agrees to join the Master Trust by signing a **Participation Agreement**. The employee(s) to be included in the scheme are provided with a schedule document informing them of their inclusion in the scheme.

Occupational pension schemes must have at least two Trustees or where there is a Corporate Trustee, they must have at least two directors.

There are two main types of employer pension schemes:



4.1.1 Defined Benefit (DB)

Under **defined benefit (DB)**, the method of calculating the member's retirement benefit is *defined* or known in advance, hence the term *defined* benefit or DB for short. The unknown element is how much it will cost to provide this benefit.

There are two main types of defined benefit schemes, depending on how remuneration on which the pension is based, is calculated:

- Final salary.
- Career average.



Example #1: Defined Benefit Final Salary

An employer pension scheme promises to provide each member with a pension at Normal Retirement Age (NRA) of 1/60th of the member's pensionable earnings in the year prior to retirement, for each year of completed service, subject to a maximum pension of 2/3rds of pensionable earnings.

This is a 'final salary' defined benefit, as the pension promised will be related to the member's 'final' earnings at or just before retirement.

For example, take an employee who reaches their Normal Retirement Age after 36 years' service with the employer. Let's assume their final salary is calculated at €86,000 pa.

Their pension payable from their NRA will be:

$$36/60\text{ths} \times €86,000 = €51,600 \text{ pa.}$$



Example #2: Defined Benefit Career Average

An employer pension scheme promises to provide each member with a pension at Normal Retirement Age of $1/60$ th of the member's earnings during each year of service.

The pension, for example, provided at retirement is therefore the sum of the individual pensions earned by each year of service.

For example, take five years of service between ages 35 and 39:

Age	Pensionable earnings in that year	Pension accrued in that year
35	€50,000	$1/60\text{th} \times €50,000 = €833 \text{ pa}$
36	€51,000	$1/60\text{th} \times €51,000 = €850 \text{ pa}$
37	€52,000	$1/60\text{th} \times €52,000 = €867 \text{ pa}$
38	€53,000	$1/60\text{th} \times €53,000 = €883 \text{ pa}$
39	€54,000	$1/60\text{th} \times €54,000 = €900 \text{ pa}$

The total pension at retirement will therefore be the summation of the individual slices of pension earned in each year of service, based on earnings in each year of service. In some cases, the slice of pension earned in each year is revalued or increased in line with inflation between the end of the year in which that slice of pension was earned and retirement age.

This is a '**career average**' defined benefit scheme, as the pension promised will be related to earnings averaged over the member's career with that employer, rather than on their earnings just before they retire.

4.1.2 Defined Contribution (DC)

Under **defined contribution (DC)**, the level of contribution payable by the employer and/or employees is defined; for example, 5% of earnings by employee and 5% by the employer.

Each member of a DC scheme has a separate **account** or **pot** into which their own and employer contributions are invested; the value of the member's account is then available at retirement to provide retirement benefits for that member:

A DC scheme does **not** provide or promise any specific level of future investment return. The member therefore does not know in advance what his or her retirement fund and benefits will be at retirement. It is the contribution which is defined, not the retirement benefit, hence the term defined contribution.

The term **money purchase** is also sometimes used instead of defined contribution, reflecting the fact that the retirement benefits provided for a member at retirement will be those *purchased* by the accumulated value of '*money*' (i.e. the contributions) paid into the scheme by or on behalf of that member.

The size of a member's fund available to provide retirement benefits for a member of a DC scheme at retirement will be determined by:

The amount of
contributions paid
in

How long the
contributions are
invested

Investment return
earned

Charges

The classification of an employer pension scheme between DB and DC is determined solely by the scheme's method of defining the level of **retirement** benefit payable to the member.

Therefore, for example, a scheme may provide a defined level of death in service benefit, for example, a lump sum of four times final remuneration, and still be a DC scheme if the retirement benefit is of the DC type.

A very small number of schemes operate on a **hybrid** basis, i.e. part of the retirement benefits is provided on a defined benefit basis and part on a defined contribution basis.

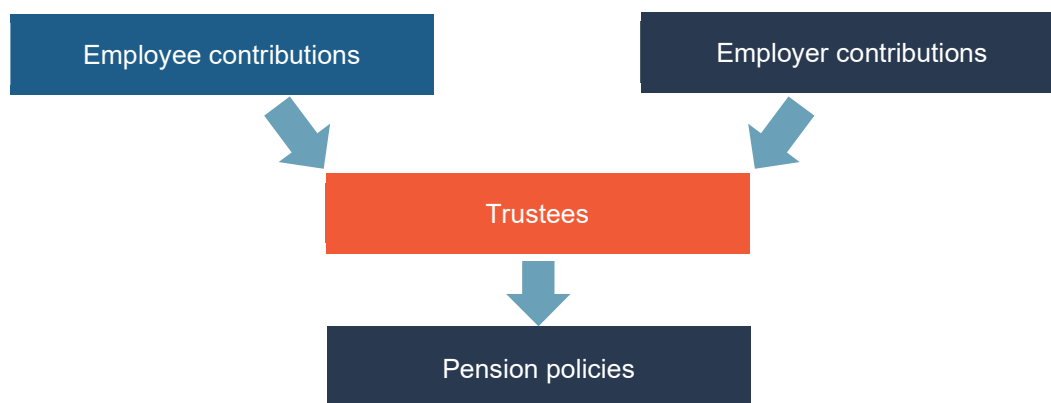
4.1.3 Insured or Self-Administered

Employer pension schemes divide into two main categories, depending on how the scheme assets are invested:

- **Insured schemes**, where the scheme holds one or more policies with a life assurance company, which manages the funds and looks after all of the administration of the scheme.

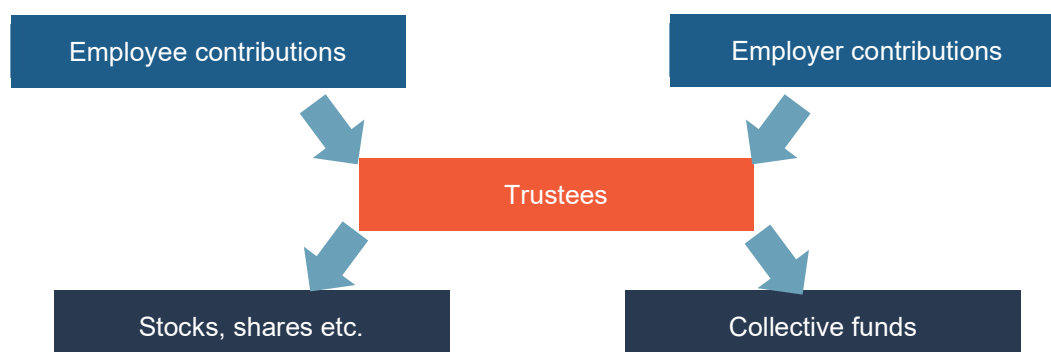
Therefore the only investment assets the scheme holds are one or more policies issued by a life assurance company.

Typically in an insured scheme, the life assurance company provides an all in package of administration and investment management for the scheme.



- **Self-administered**, where the investment management and administration of the scheme is arranged separately by the scheme trustees/employer, typically by engaging directly with various providers such as pension scheme administrators and investment managers.

In this case the trustees may directly hold investment assets including stocks, shares and bonds, properties, and one or more collective investment funds.



4.1.4 Integrated or Non-Integrated

The term **integration** refers to the way in which the member's anticipated State Pension (Contributory) entitlement is allowed for in determining the benefits to be provided by the scheme, and/or the contributions payable to the scheme.

In the case of DB schemes, this is done by basing retirement benefits on **pensionable salary** rather than on actual salary. For example, the most common definition of pensionable salary used in DB schemes is:

(Actual salary – 150% x State Pension (Contributory) (maximum personal rate))



Example: Integration

David's current salary is €55,000 pa. The current State Pension (maximum personal rate) is €299.30 pw or €15,617⁸ pa.

David's 'pensionable salary', on which his DB scheme's retirement benefits will be based might therefore be taken as:

$€55,000 - (150\% \times €15,617) = €31,575$ pa.

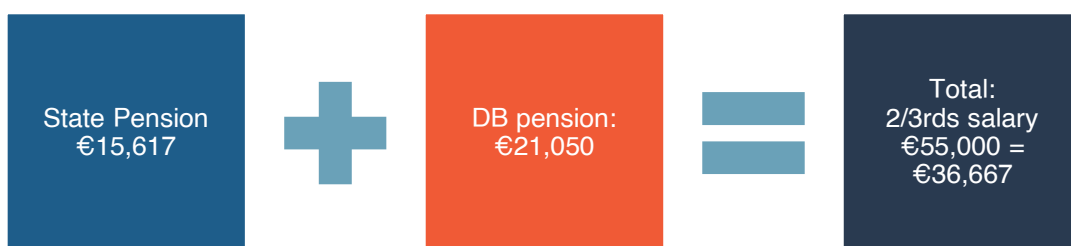
The scheme provides a pension at retirement of 1/60th of pensionable salary for each year of service, maximum 40 years.

If David serves 40 years, then at his Normal Retirement Age his DB pension (based on current pensionable salary) will be:

$40/60\text{ths} \times €31,575 = €21,050$ pa.

This DB pension combined with the State Pension (Contributory) will be:

$€21,050 + €15,617 = €36,667$ or 2/3rds of his actual salary of €55,000 pa.



Not all DB schemes are integrated. Some DB schemes provide a benefit based on actual salary, without any offset for the State Pension entitlement.

In some DC schemes, the contribution rate (employer and/or employee) may be related to the employee's pensionable salary, rather than their actual salary; in this way the DC scheme may be described as 'integrated'.

4.1.5 Scheme Rules

Every employer pension scheme must have a set of **scheme rules**, approved by the Revenue Commissioners, which govern the benefits the scheme may provide for its members. Any change to the rules must also be approved by the Revenue Commissioners.

⁸ Max personal weekly rate €299.30 pw, converted to an annual rate by multiplying by 52.18 which is the average number of weeks in a year.

In the case of a DC scheme, the rules will specify the level of contribution payable by the member and by the employer. Typically, the employee will have to contribute at some minimum level, say, 3% pa of earnings, which will be matched by the employer. The employee can opt to contribute at a higher level, which the employer will match up to some limit, for example, 6% pa of earnings.

In the case of a DB scheme, on the other hand, the rules will specify how each member's pension payable at retirement age will be calculated, for example, 1/60th of final pensionable salary for each year of completed service, to a maximum pension of 40/60ths of final pensionable salary.

4.1.6 One Member DC Schemes

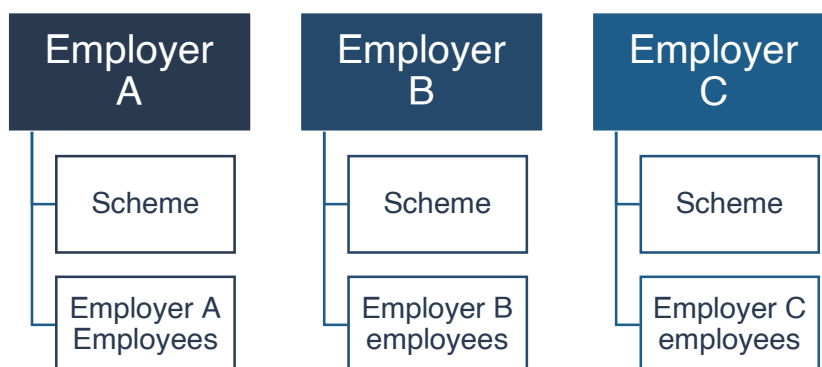
A DC employer pension scheme which was established for one member only, can only ever have that one member as no new member is allowed to join the scheme, is referred to as a **one-member arrangement** or **OMA for short**.

The introduction of the Institutions for Occupational Retirement Provision (IORPS II) Directive on 21st April 2021 (see Chapter 4.1.8 below) has fundamentally transformed OMAs.

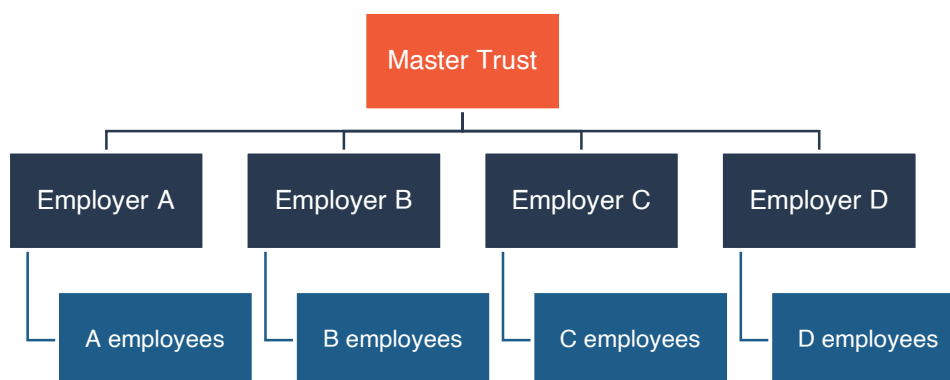
New OMAs established after April 2021 had to comply with IORPS II. OMAs set up before April 2021 were given until April 2026 to comply with IORPS II. The impact of IORPS II is that OMA products have been largely discontinued. The vast majority of OMAs have been wound up and transferred to a retail master trust or a PRSA.

4.1.7 Master Trusts

Traditionally most employer pension schemes were set up by an employer to provide benefits for one or more of its own employees, so that each employer has their own scheme:



However, a **master trust**, on the other hand, is a **single DC scheme** established by a **founder**, which covers a number of different employers (who may not be connected to each other) within the one scheme, with each employer providing separate benefits for their own employees within the single master trust structure:



So instead of each employer operating their own separate DC scheme and trust with separate trustees, the master trust covers the different employers within **ONE** trust and with **one** independent corporate trustee.

The **Founder** of a Master Trust is typically a financial services company such as a life assurance company, an investment manager or a firm of employee benefit consultants.

The independent corporate trustee of a master trust must:

- Be incorporated as a Designated Activity Company (DAC), with the sole objective of carrying on the business of being a trustee of one, and only one, named master trust; and
- Have a minimum of two directors. The chair must be independent of the Founder and have no interest in the assets of the master trust.

4.1.8 IORPS II Governance

Institutions for Occupational Retirement Provision or 'IORPS' is an EU term for an employer pension scheme. An EU Directive referred to as IORPS II, was implemented into Irish legislation by regulations on 21st April 2021 (called the European Union (Occupational Pension Schemes) Regulations 2021). These Regulations replaced various governance requirements imposed on scheme by an earlier IORPS I Directive back in 2006. Hence the term 'IORPS II'.

The new IORPS II regulations of April 2021, and associated amendments to the Pensions Act, impose a number of governance requirements on the trustees of all schemes. The main IORPS II governance requirements applying to a scheme are:

- **A scheme must normally have at least two trustees**, or in the case of a company acting as the only trustee of a scheme a minimum of two directors, who effectively run the scheme.
- **The trustees of a scheme must be fit and proper persons.**

'Fit' means having the appropriate qualifications, knowledge, and experience to be a trustee of an employer pension scheme. Fitness is a collective obligation, meaning that the trustees or the directors of a company acting as sole trustee of a scheme must as a whole, i.e. collectively, have the appropriate qualifications, knowledge, and experience to run the scheme.

'Proper' means being of good repute and integrity. Every trustee must be of good repute and integrity.

It is the trustees' responsibility to ensure that the fit and proper requirements are properly applied.

Where the trustees determine that a person or company acting as trustee (as the case may be) does not satisfy the fit and proper requirements they must take the appropriate steps to ensure that the person or company is either not appointed, resigns, or is removed as trustee of the scheme.

Being a fit and proper person is not a once off but a continuing obligation on a scheme trustee, and the Pensions Authority expects a trustee to advise the other trustees of any material changes or issues in their compliance as a fit and proper person to be a pension scheme trustee.

The Pensions Authority expects trustees to confirm annually that there have been no material developments in relation to their compliance with the fit and proper requirements.

- **The trustees must review their composition at least once every three years.**
- **The trustees must establish, approve, and then apply written policies** in relation to risk management, internal audit, and where relevant, outsourced activities.

The trustees must review their written policies at least once in every three years.

- **The trustees must have a documented risk management policy** that provides a framework for the management of risk in the scheme and its operation.
- **The trustees must carry out and document an own-risk assessment (ORA)** of the scheme to identify and assess material risks that threaten achievement of the scheme's objectives.

The ORA must be carried out by the trustees at least once every three years and without delay following any significant change in the risk profiles of the scheme.

- **The trustees must appoint different suitable persons to carry out a risk management function and an internal audit function for the scheme, called 'key functions'.**

The trustees must have detailed procedures for selecting and appointing key function holders.

The procedures for selection and appointment of key function holders must be reviewed and approved by the trustees every three years.

- **The trustees must establish and apply a sound written remuneration policy in respect of the payment of remuneration by the scheme to the scheme trustees, key function holders, staff employed by the trustees, and third party service providers to whom a key function or management of the scheme is outsourced.**

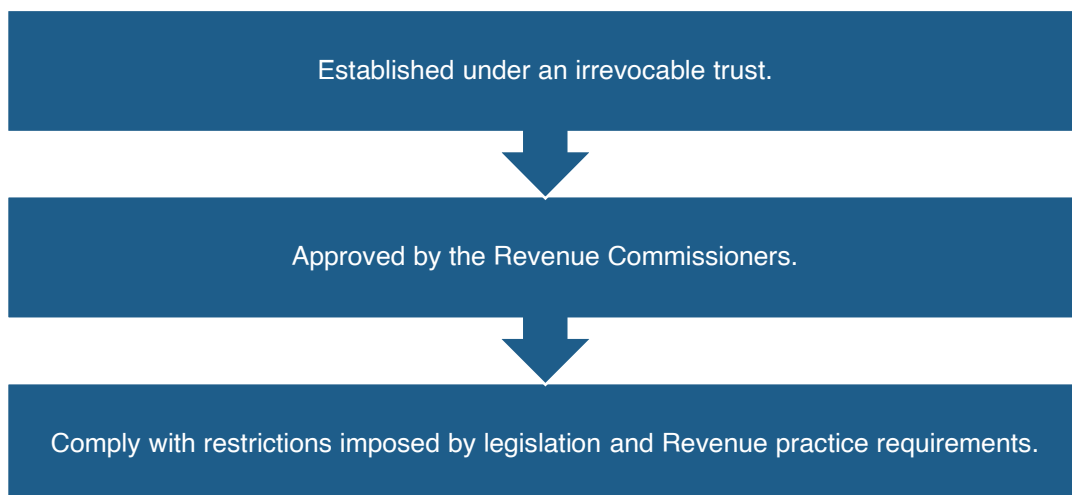
The trustees must prepare an Annual Compliance Statement (ACS) no later than 31st January in respect of the compliance by the trustees for the previous calendar year with the governance requirements of the Pensions Act, and submit that Statement to the Pensions Authority within one month of its preparation.

The trustees must certify that the information provided in the ACS has been reviewed by them for accuracy and completeness and must be certified by at least 2 trustees of the scheme, or where a company acts as the sole trustee of the scheme, by at least 2 directors of that company.

IORPS II also imposes certain investment restrictions on employer pension schemes, called prudent person investment rules. See Chapter 7 later.

4.2 Approval

In order to qualify for the various tax benefits associated with an employer pension scheme, the scheme must be:



In order to gain Revenue approval, the scheme must comply with restrictions in relation to:

- Who can be admitted to the scheme.
- The level and type of benefits the scheme can provide. Employer pension schemes cannot provide benefits in excess of Revenue maximum benefit limits.
- How the scheme's funds are invested.
- When and how benefits can be taken.

4.3 Who Can Be Included?

To be eligible to be included in an employer pension scheme, an individual must be in receipt of **remuneration** from the employer, taxable under PAYE (i.e. Schedule E remuneration). The term 'remuneration' includes:

- Salary or wages.
- Bonuses and commission payments.
- Holiday pay and overtime pay.
- BIKs in relation to benefits provided by the employer.
- Shares under an approved profit-sharing scheme.

*There must therefore, be an **employer/employee relationship** in order for an individual to be included in an employer's pension scheme.*

Note that the employer doesn't have to be a company; it could be an individual or partnership which employs individuals.

Former employees can be maintained as members of the scheme, for example, employees who have left service and retain a deferred retirement benefit in the scheme or employees who have retired and are now drawing a pension from a DB scheme.

Part time and fixed term employees may be included in a scheme. Such employees must be given similar access to membership of the scheme as full-time employees, if they work more than 20% of the normal working hours of a comparable full-time employee.

The Pensions Act requires that every employer pension scheme must comply with the **principle of equal pension treatment** in relation to membership of the scheme i.e. the scheme rules **cannot** discriminate (either directly or indirectly) in terms of membership of the scheme and benefits on any of the following grounds:

Gender	* Civil status, i.e. single, married, separated, divorced, widowed, in a civil partnership or being a former civil partner in a civil partnership that has ended by death or been dissolved
Civil status*	
Family status	
Sexual orientation	
Religious belief	
Age	
Disability	
Race	
Membership of the travelling community	

4.4 What Benefits Can a Scheme Provide?

Employer pension schemes can, provided their scheme rules allow, provide one or more of the following range of benefits for a member, within certain limits set by the Revenue:

A pension for the member, at retirement	Payable from the member's Normal Retirement Age (60 to 70) or voluntary early retirement (from 50 onwards, with the consent of the employer) or from any age in the event of ill health retirement. The pension can be level, increase at a fixed rate of up to 3% pa, or increase in line with inflation.
A lump sum for the member, at retirement	Payable at the member's Normal Retirement Age (60 to 70) or on voluntary or ill health early retirement. The lump sum can be provided either as: • A separate benefit to the pension. OR • As a commutation (i.e. the giving up) of part or all of the pension. For example, a scheme might provide that for every €1,000 of pension given up, the member gets a lump sum of €12,000.
A pension for the spouse/civil partner and/or dependants of the member on death in retirement	A pension payable to the member's spouse/civil partner and/or one or more dependants of the member.
A lump sum on the member's death in service	A total lump sum of up to four times the individual's annual remuneration at the date of death in service, plus the accumulated value of any contributions the member paid to the scheme.
A pension or ARF for the spouse/civil partner and/or dependants of the member on death in service	A pension or ARF payable to the member's spouse/civil partner and/or one or more dependants of the member.

There is flexibility in the benefit package a scheme may provide. For example, a scheme can provide:

- A death in service benefit only, without providing any retirement benefits.
- Retirement benefits without providing any death in service benefits.
- Death in service and retirement benefits.
- A lump sum retirement benefit only, without providing a pension.

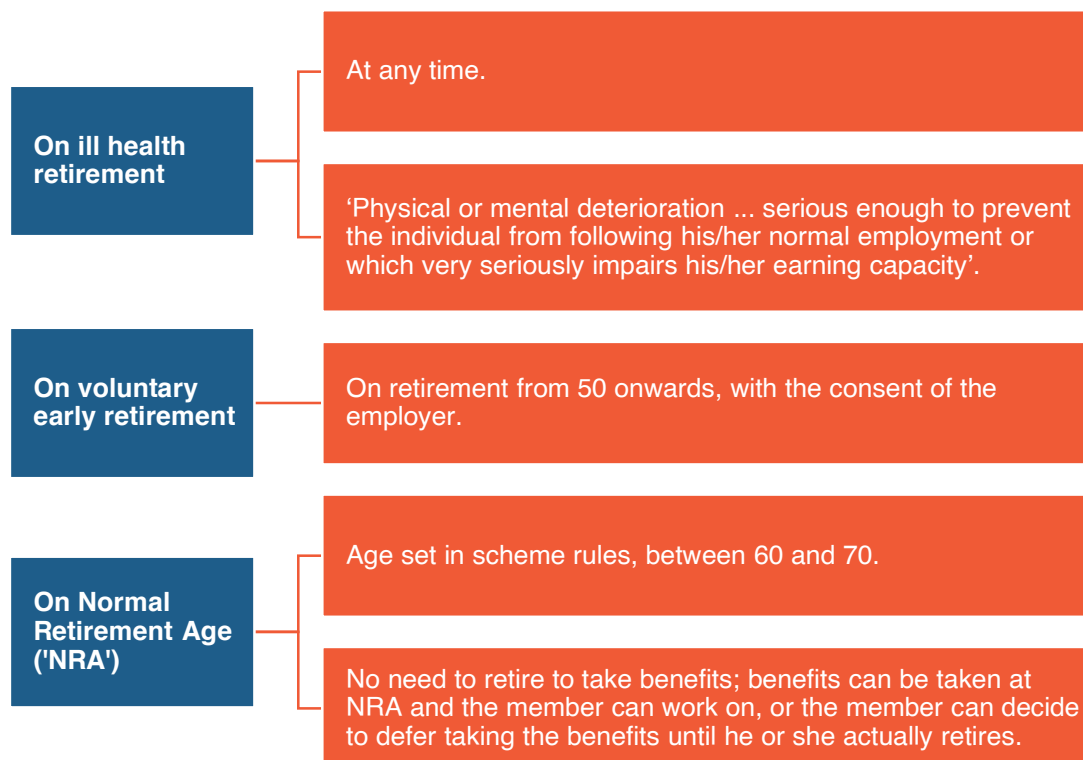
4.5 Charges

Charges in DC employer schemes are similar in nature to those outlined already in Chapter 3.4 earlier for RACs and PRSAs.



4.6 When Can Retirement Benefits Be Taken From a Scheme?

A member of an employer pension scheme can take their retirement benefits in one of the following circumstances:



4.7 How Can Retirement Benefits Be Taken?

4.7.1 DB Schemes

Under a DB scheme which provides a pension at retirement and no separate lump sum, the scheme rules usually allow the member to **commute** (i.e. exchange) some of his or her DB pension for a lump sum.

The terms at which the pension is exchanged for a lump sum will usually be specified in the scheme rules at a fixed rate, for example, €12 lump sum for each €1 pension given up, or the actuary to the DB scheme will certify the exchange terms at the time the member retires.

The scheme rules will usually set out the maximum lump sum which can be taken at retirement.

The maximum level of lump sum allowed by Revenue rules at Normal Retirement Age is related to how much **service**⁹ as an employee the retiree has completed by that age and the level of their **final remuneration**, i.e. their earnings from that employment at, or over a period running up to, the Normal Retirement Age, and any other lump sum entitlement they may have in other pension arrangements (called **retained** lump sums):

⁹ Service is the period of years for which the employee worked for the employer, receiving taxable remuneration from the employer.

Maximum lump sum at Normal Retirement Age

Years of service completed by Normal Retirement Age	Maximum lump sum as a fraction of final remuneration (inclusive of retained lump sums)
1-8	3/80ths for each year of service
9	30/80ths
10	36/80ths
11	42/80ths
12	48/80ths
13	54/80ths
14	63/80ths
15	72/80ths
16	81/80ths
17	90/80ths
18	99/80ths
19	108/80ths
20	120/80ths



Example #1

- The member has completed 28 years' service in the DB scheme by Normal Retirement Age (NRA) 65.
- The scheme provides a pension of 1/60th of final remuneration for each year of service completed by NRA.
- The member's final remuneration is €75,000.
- The member's pension *before* commutation is 28/60ths x €75,000 = €35,000 pa.
- The commutation terms are, say, €12 lump sum for each €1 pa pension given up.
- The member does not have any other retirement benefits.

The maximum lump sum which the member could get under Revenue rules is:

$$120/80\text{ths} \times €75,000 = €112,500.$$

If the member takes this maximum lump sum, tax free, his or her reduced pension will be:

$$€35,000 \text{ less } €112,500/€12 = €25,625 \text{ pa.}$$

So, the two main options for this member are:

	Option 1	Option 2
Pension	€35,000 pa	€25,625 pa
Lump sum	Nil	€112,500

Of course, the member could choose an option in between these, i.e. a lower lump sum than €112,500 and hence a higher pension than €25,625 pa.



Example #2

- The member has completed 18 years' service by Normal Retirement Age (NRA) 65.
- The scheme provides a pension of $1/60^{\text{th}}$ of final remuneration for each year of service completed by NRA.
- The member's final remuneration is €75,000.
- The member's pension before commutation is $18/60^{\text{ths}} \times €75,000 = €22,500$ pa.
- The commutation terms are, say, €12 lump sum for each €1 pa pension given up.
- The member does not have any other retirement benefits.

The maximum lump sum which the member could get under Revenue rules is:

$$99/80^{\text{ths}} \times €75,000 = €92,812.$$

If the member takes this maximum lump sum, tax free, his or her reduced pension will be:

$$€22,500 \text{ less } €92,812/€12 = €14,765 \text{ pa.}$$

So, the two main options for this member are:

	Option 1	Option 2
Pension	€22,500 pa	€14,765 pa
Lump sum	Nil	€92,812

Some DB schemes (for example, in the public service) may provide a separate pension and a separate lump sum, so that the pension is not commuted to provide a lump sum.

For example, in the public service the retirement benefits provided by Normal Retirement Age are:

- A pension of $1/80^{\text{th}}$ of pensionable remuneration for each year of completed service.
- PLUS
- A lump sum of $3/80^{\text{th}}$ of pensionable remuneration for each year of completed service.

The alternative **ARF option** way of taking retirement benefits (described in Chapter 3.6 for RACs and PRSAs) applies in DB employer pension schemes only to:

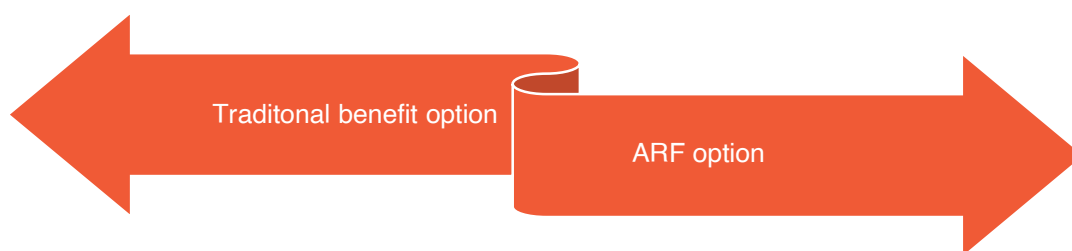
- Proprietary director members of the scheme, i.e. working directors who are able to control more than 5% of the voting rights of the company.

AND

- AVC benefits (see Chapter 4.11 later).

4.7.2 DC Schemes

Retiring members of DC employer pension schemes can choose to use their retirement fund to provide retirement benefits in one of two ways:

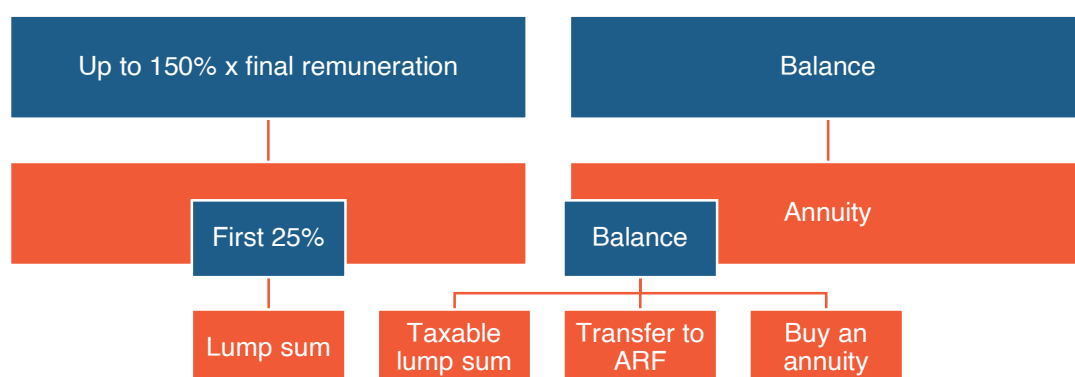


Under the **traditional benefit option**, the retiree:

- First uses their fund to provide the maximum lump sum Revenue will allow, related to completed service, final remuneration and retained lump sums from the table in Chapter 4.7.1 above.

AND

- **Must** then use the balance, if any, to buy an annuity with a life assurance company, to provide a fixed pension for life.



The **ARF option** is a term used to describe an alternative way in which retirement benefits may be taken from a DC scheme, in a similar manner to that already explained in Chapter 3.6 for RACs and PRSAs, that is:

DC scheme retirement fund

After taking the 25% as a lump sum (tax free up to €200,000 for all lump sums taken from all pension arrangements), the member has three options with the balance:

- Take as a lump sum subject to PAYE.

OR

- Transfer to an ARF.

OR

- Use to buy an annuity. For example, currently €100,000 of capital for someone aged 65 would buy an annuity with a fixed guaranteed income payable for their lifetime, no matter how long they live, of about €3,700 pa.
- It's possible with the balance to use a mix of these three options.

An annuity generally dies with the retiree, although a member can buy an annuity which continues in part or full for a surviving spouse or civil partner. Most annuities will guarantee

to pay out for at least the first five years, even if the individual dies within this five-year period.

On the other hand, while the ARF does not provide a guaranteed income for life, the attraction for some is that any funds left in an ARF on death are payable to the deceased's estate.

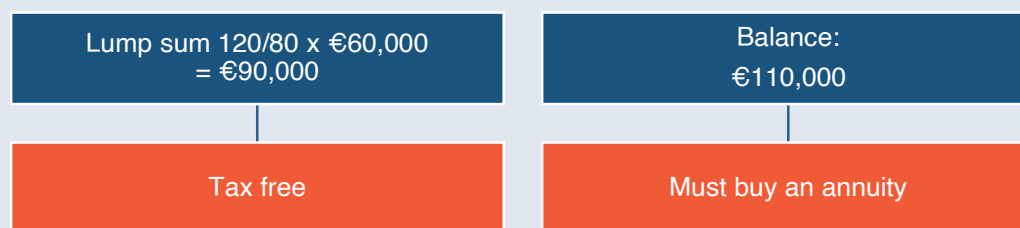
Let's look at a few examples of how benefits could be taken from a DC employer pension scheme:



Example #1: Traditional Benefit Option

DC retirement fund of €200,000. Member opts to take benefits under the traditional benefit option.

Final remuneration of €60,000 and 20 years completed service at NRA. The member has no other retirement benefits.



The maximum lump sum on the traditional benefit option may be reduced if the individual holds or has taken other lump sums from other pension arrangements (called 'retained benefits').



Example #2: ARF Option

DC retirement fund of €200,000. Member opts to take benefits under the ARF option.

Final remuneration of €60,000 and 20 years' completed service at NRA.



The retirement benefit options for the above individual can be summarised as follows:

ARF option		Traditional benefit option
Lump sum ¹⁰	$25\% \times €200,000 = €50,000.$	$120/80 \times €60,000 = €90,000.$
Balance €150,000: • Taxable lump sum. • OR • Transfer to an ARF. • OR • Annuity.		Balance of €110,000 must be used to buy an annuity.

In some cases the tax-free lump sum entitlement of a retiring DC scheme member under the traditional benefit option may be higher than the 25% allowed under the ARF option, as above, but the remaining part of the fund under the traditional benefit option **must** then be used to buy an annuity.

Retained lump sums (i.e. a right to a lump sum under another employer pension scheme, PRSA or RAC) must be taken into account when calculating the maximum lump sum which can be taken under the traditional benefit option, but not under the ARF option. The maximum lump sum calculated using the table in Chapter 4.7.1 above cannot exceed

[150% x final remuneration less retained lump sums]



Example #3: Traditional Benefit Option

DC retirement fund of €200,000. Member opts to take benefits under the traditional benefit option.

Final remuneration of €60,000 and 20 years completed service at NRA. The member also has a PRSA from a prior period of self employment with a current value of €100,000 so that the retained lump sum is 25% of this or €25,000.

Lump sum $120/80 \times €60,000$ less
 €25,000
 = €65,000

Balance:
 €135,000

Tax free

Must buy an annuity

The maximum lump sum on the traditional benefit option has reduced as the individual holds or has taken other lump sums from other pension arrangements (called 'retained benefits').

¹⁰ Tax-free if total lump sums taken by individual since 7th December 2005 are less than €200,000.

Revenue insist that an individual must exercise the **same** retirement benefit option, i.e. traditional benefit or ARF, in respect of **all** employer schemes related to the **same** employment.

Therefore, if an individual is a member of more than one employer pension scheme related to the same employment, he or she must choose the same type of retirement benefit option (i.e. traditional or ARF) when taking benefits from **all** such schemes.

By Revenue concession if the balance of DC scheme fund, *after* taking a tax-free lump sum, is less than €30,000 and the individual does not have any other retirement funds, the balance may be taken as a taxable lump sum (paid through the PAYE system) instead of being used to buy an annuity. This applies to both the ARF option and traditional benefit option.



Example #4: Full Commutation Where Balance is Less Than €30,000

John has €56,000 maturing under a DC scheme on early retirement at age 59. He has not previously taken benefits from a retirement arrangement and has no other retirement funds.

Under the traditional benefit option John can take a tax-free lump sum of €31,000, leaving €25,000 which would normally have to be used to buy an annuity.

However, by Revenue concession, because his remaining fund is less than €30,000 and he has or had no other retirement benefits, instead of being required to invest €25,000 in an annuity, he can take the €25,000 sum as a once off taxable pension payment subject to PAYE.

4.8 Maximum Approvable Benefits

In order to gain all of the taxation benefits outlined earlier,¹¹ an employer pension scheme, DB or DC, cannot provide benefits in excess of certain limits, specified by the Revenue Commissioners.

These limits are commonly referred to as **maximum approvable benefits**, i.e. the maximum benefit which could be provided by a scheme for a member and be approved by Revenue.

The maximum fund which can be provided for a DC scheme member depends on a number of factors:

The member's best final remuneration

The member's completed service

Whether benefits are being taken at NRA or on early retirement.

Any other retained benefits the member may have.

Retained benefits usually have to be offset against the Revenue maximum approvable level of benefit the current scheme can provide.

There are three steps in the calculation of the maximum DC fund which a DC scheme can provide for a retiring DC scheme member.

¹¹ Tax relief on contributions, tax-free investment returns, and a tax-free lump sum at retirement.

4.8.1 Step 1: Calculate Best Final Remuneration

The first step is to calculate the member's best **final remuneration**.

Final remuneration can be worked out in a number of different ways allowed by Revenue, to obtain the highest figure.

1. Basic remuneration plus averaged emoluments:

- a. Basic remuneration over any twelve-month period of the five years preceding the date of retirement.

PLUS

- b. The annual average of any fluctuating emoluments, for example, BIKs and bonuses, over three or more consecutive years ending on the last day used in (a) above.

OR

2. The annual average of total emoluments (i.e. basic remuneration plus fluctuating emoluments) for any three or more consecutive years ending not earlier than 10 years before the date of retirement.

OR

3. Basic rate of remuneration plus averaged emoluments

The annual rate of basic pay at the date of retirement, or at any date within the year ending on that date, plus the average of any fluctuating emoluments calculated as in 1 above.

The **highest** of the above three calculations can generally be used.

However, 20% directors¹² of the company **must** use basis 2 above in calculating their final remuneration. They **cannot** use bases 1 or 3 to calculate their final remuneration to determine Revenue maximum benefits.

¹² That is, working directors of the company who own or can control more than 20% of the voting rights in the company.



Example

Take the following example of an employee's gross (before taxes) earnings over a 10-year period prior to 31st December 2025:

Calendar year	Basic remuneration earned in that year	Fluctuating emoluments (sales bonus) paid in that year	Total emoluments earned in that year
2025	€80,000	€5,000	€85,000
2024	€79,000	€1,000	€80,000
2023	€79,000	€26,500	€105,500
2022	€76,000	€2,000	€78,000
2021	€75,000	€4,000	€79,000
2020	€75,000	€10,000	€85,000
2019	€75,000	€3,500	€78,500
2018	€75,000	€3,200	€78,200
2017	€72,000	€1,000	€73,000
2016	€70,000	€25,000	€95,000

Note the terms:

- **Basic remuneration:** i.e. the basic salary paid in that year
- **Fluctuating emoluments:** i.e. additional fluctuating taxable income paid in that year such as sales bonuses and BIK related to cheap loans and cars.
- **Total emoluments:** i.e. the total gross earnings received in that year before taxes.

Let's assume that this individual retired on 31st December 2025 and at that date their annual rate of basic salary was €81,500 pa.

Now let's calculate final remuneration on the three different bases to see which produces the best answer for the individual.

1. Basic remuneration over any 12 month period of the preceding 5 years, plus averaged emoluments over at least 3 years ending at the same time.	- Basic remuneration of any 12-month period during 2020 to 2025, i.e. last 5 years. PLUS - Average of fluctuating emoluments over three or more consecutive years ending at the end of the 12-month period used to calculate basic salary The highest basic remuneration over last 5 years is 2025, at €80,000. In this case (through additional calculations not shown here) the best calculation of fluctuating emoluments is to average them over the 3 year period ending at 31st December 2025, i.e. ending at the same time as the basic remuneration taken.	€80,000 (2025). - PLUS $\frac{1}{3} \times [€5,000 + €1,000 + €26,500] = €10,833$ = €90,833
2. Average of total emoluments calculation	Average of <i>total emoluments</i> for three or more consecutive years ending not earlier than 31st December 2015. The highest (through calculations not shown here) is the consecutive three-year period 2023 to 2025, as it includes a high year of €105,500 in 2023.	$= \frac{1}{3} \times [€85,000 + €80,000 + €105,500]$ = €90,167
3. Annual rate of basic pay at date of retirement, plus averaged emoluments over at least 3 years ending at the same time	- Rate of basic pay at 31st December 2025 PLUS - Average of <i>fluctuating emoluments</i> over three or more consecutive years ending on 31st December 2025. In this case the best calculation of fluctuating emoluments (through calculations not shown here) is to average them over the 3 year period end at 31st December 2025.	€81,500 - PLUS $\frac{1}{3} \times [€5,000 + €1,000 + €26,500] = €10,833$ = €92,333

So, in this example, the highest final remuneration calculation is **€92,333**, by using the third option i.e. the annual rate of basic pay at date of retirement of 31st December 2025, plus averaged emoluments over 3 years ending at 31st December 2025

As pointed out already, 20% directors **must** use the average of total emoluments calculation (calculation 2 above of €90,167); they have no option or choice over this.

The Revenue allow any basic remuneration and fluctuating emoluments, (used to calculate final remuneration) which relate to any year other than the 12-month period ending on the date of retirement, to be increased in line with inflation, before calculating final remuneration. This is referred to as **dynamising** remuneration. We have ignored this in the calculations above.

20% directors **cannot** dynamise their remuneration to work out their best final remuneration. In any event, most 20% directors take benefits under the ARF option.

4.8.2 Step 2: Calculate the Maximum Approvable Pension at NRA

Having determined the best final remuneration which can be used, the next step in working out the maximum DC fund which a DC scheme can accumulate for a member by retirement is to work out the maximum approvable pension at the date of retirement, based on the Revenue scale as follows:

Years of service completed with employer by Normal Retirement Age (NRA)	Maximum approvable pension at NRA as a fraction of best final remuneration (inclusive of retained pensions)
1	1/10th x 2/3rds
2	2/10th x 2/3rds
3	3/10th x 2/3rds
4	4/10th x 2/3rds
5	5/10th x 2/3rds
6	6/10th x 2/3rds
7	7/10th x 2/3rds
8	8/10th x 2/3rds
9	9/10th x 2/3rds
10 +	2/3rds

However, a retiree can always be provided with a pension at NRA of 1/60th of final remuneration for each year of service, regardless of retained pensions.



Example: Maximum Approvable Pension

Normal Retirement Age (NRA):	60
Step 1: calculate best final remuneration:	€80,000 (say)
Completed service by NRA:	26 years
Retained pensions in other arrangements:	Nil

Step 2: Maximum approvable pension which could be provided	The greater of: • 26/60ths x €80,000 = €34,667 pa; and, • (2/3rds x €80,000) = €53,333 pa.
--	--

4.8.3 Step 3: Convert Maximum Approvable Pension into Maximum DC Fund

Convert the maximum approvable pension into an equivalent maximum DC fund by dividing the maximum pension by the current open market annuity rate for the best type of pension which the Revenue could approve, i.e. a pension which increases in retirement in line with inflation, and on death in retirement continues in full for a surviving spouse or civil partner, say currently divide by an annuity rate of 2% or so.



Example #1: Max DC Fund at NRA

Normal Retirement Age (NRA): 60
Step 1: calculate best final remuneration: €80,000 (say)
 Completed service by NRA: 26 years
 Retained pensions in other arrangements: Nil

Step 2: Maximum approvable pension which could be provided	The greater of: • $26/60\text{ths} \times €80,000 = €34,667 \text{ pa}$; and, • $(2/3\text{rds} \times €80,000) = \text{€53,333 pa}$.
Step 3: Convert into maximum DC fund	$€53,333/2\% = €2,666,650$.



Example #2 – Max DC Fund at NRA

Normal Retirement Age (NRA): 60
Step 1: Best final remuneration: €80,000 (say)
 Completed service by NRA: 21 years
 Retained pensions in other arrangements: €5,000 pa

Step 2: Maximum approvable pension which could be provided	The greater of: • $21/60\text{ths} \times €80,000 = €28,000 \text{ pa}$; and, • $(2/3\text{rds} \times €80,000) \text{ less } €5,000 \text{ pa} = \text{€48,333 pa}$.
Step 3: Convert into maximum DC fund.	$€48,333/2\% = €2,416,650$



Example #3 – Max DC Fund at NRA

Normal Retirement Age (NRA): 60
Step 1: Best final remuneration: €70,000 (say)
 Completed service by NRA: 21 years
 Retained pensions in other arrangements: €25,000 pa

Step 2: Maximum approvable pension which could be provided by this scheme.	The greater of: • $21/60\text{ths} \times €70,000 = \text{€24,500 pa}$; and, • $(2/3\text{rds} \times €70,000) \text{ less } €25,000 \text{ pa} = €21,667 \text{ pa}$.
Step 3: Convert maximum pension into an equivalent maximum DC fund.	$€24,500/2\% = €1,225,000$

Apart from one-member DC schemes for 20% directors, the vast majority of members of DC schemes at NRA will have funds well within the Revenue maximum DC fund limit as calculated using the three steps above.

4.8.4 Maximum DC Fund on Early Retirement

The calculations above related to the maximum DC fund on retirement at NRA.

On **voluntary early retirement** (i.e. not ill health retirement) from age 50 onwards before NRA, the maximum pension which could have been provided at NRA if the individual had worked on to NRA (Step 2 above) is scaled down by a factor:

$$N/NS$$

Where:

N = completed service to the date of early retirement.

NS = total service he or she would have completed had they worked on with their employer until NRA.

So, there are **four steps** involved in working out the maximum approvable DC fund on voluntary early retirement:

1. Calculate best final remuneration
2. Calculate the maximum approvable pension which could be provided at NRA if the member worked on to NRA.
3. Reduce this maximum approvable pension which could be provided at NRA by N/NS to allow for early retirement.
4. Convert this reduced maximum approvable pension into an equivalent maximum DC fund by dividing by the current annuity rate for the maximum approvable type of pension at the retiree's age at the date of early retirement.



Example #1: At Voluntary Early Retirement

Normal Retirement Age (NRA):	65
Voluntary early retirement at age:	57, i.e. 8 years before NRA
Step 1: Best final remuneration:	€60,000 (say)
Completed service by date of early retirement (N):	18 years
Total service to NRA, if he or she stayed in service until then NRA (NS):	18 + 8 = 26 years
Retained pensions:	Nil

Step 2: Maximum approvable pension which could be provided at NRA by this scheme, if the member worked on to NRA.	The greater of: • 26/60ths x €60,000 = €26,000 pa; and, • 2/3rds x €60,000 = €40,000 pa.
Step 3: Reduce by N/NS .	€40,000 x 18/26 = €27,692.

Step 4:

Convert adjusted maximum pension into an equivalent maximum DC fund.

$$€27,692/1.5\%^{13} = €1,846,133.$$

In the case of **ill health early retirement**, the maximum pension is calculated as if the individual had worked on to NRA, but with no N/NS reduction applied, i.e. Step 3 in the example above is **not** applied.

**Example #2: At Ill Health Early Retirement**

Normal Retirement Age (NRA):	65
Ill health early retirement at age:	57, i.e. 8 years before NRA
Step 1: Best final remuneration:	€60,000
Completed service by date of early retirement (N):	18 years
Completed service by NRA, if he or she stayed in service until then NRA (NS):	18 + 8 = 26 years
Retained pensions:	Nil

Step 2:

Maximum approvable pension which could be provided at NRA by this scheme, if the member had worked on to NRA.

The greater of:

- 26/60ths x €60,000 = €26,000 pa; and,
- 2/3rds x €60,000 = **€40,000 pa.**

Step 3:

Reduce by N/NS – not applicable due to ill health early retirement

Step 4:

Convert maximum pension into an equivalent DC fund.

$$€40,000/1.50\%^{14} = €2,666,667.$$

In the case of early retirement of a 20% director, the Revenue require that 'all links with the business must be severed, including the disposal of all shares in the company'.

In this regard, Revenue have confirmed that a transfer by the director of all shares to another adult family member, who works full-time in the business would satisfy the requirement to dispose of all shares but the transfer cannot be to a spouse.

¹³ Assumed annuity rate for a retiree aged 57, increased in line with inflation, and 100% payable to surviving spouse on death.

¹⁴ Assumed annuity rate for a retiree aged 57, increased in line with inflation, and 100% payable to surviving spouse on death

4.8.5 Maximum Lump Sum – Traditional Benefit Option

Where retirement benefits in a DC scheme are taken under the traditional benefit option, the maximum lump sum which can be provided at Normal Retirement Age (NRA) is based on this scale, inclusive of any retained lump sums:

Years of service completed by NRA	Maximum lump sum as a fraction of final remuneration (inclusive of any retained lump sums)
1-8	3/80ths for each year of service
9	30/80ths
10	36/80ths
11	42/80ths
12	48/80ths
13	54/80ths
14	63/80ths
15	72/80ths
16	81/80ths
17	90/80ths
18	99/80ths
19	108/80ths
20	120/80ths

However, a retiring member can always be provided with a lump sum of 3/80ths of final remuneration for each year of service, regardless of any retained lump sums.



Example #1: At NRA

Best final remuneration:	€60,000 (say).
Completed service by NRA:	26 years.
Retained lump sums under other arrangement:	Nil.
Maximum lump sum which the DC scheme can provide under the traditional benefit option at NRA:	The greater of: • 26 x 3/80ths x €60,000 = €58,500; and, • 120/80ths x €60,000 = €90,000.



Example #2: At NRA

Best final remuneration:	€60,000 (say)
Completed service by NRA:	26 years.
Retained lump sum under other arrangement:	€20,000.
Maximum lump sum which the DC scheme can provide under the traditional benefit option at NRA:	The greater of: • $26 \times 3/80\text{ths} \times €60,000 = €58,500$; and, • $120/80\text{ths} \times €60,000 \text{ less } €20,000 =$ €70,000.



Example #3: At NRA

Best final remuneration:	€60,000.
Completed service by NRA:	18 years.
Retained lump sum under other arrangement:	€40,000.
Maximum lump sum which the DC scheme can provide under the traditional benefit option at NRA:	The greater of: • $18 \times 3/80\text{ths} \times €60,000 =$ €40,500; and, • $99/80\text{ths} \times €60,000 \text{ less } €40,000 =$ €34,250.

On voluntary early retirement (i.e. not ill health retirement) the maximum lump sum which could have been provided at NRA under the traditional benefit option (if the individual had worked on to NRA) is also scaled down by the **N/NS** factor where:

N = completed service to the date of early retirement; and,

NS = total service he or she would have completed had they worked on with their employer until NRA.



Example #4: Voluntary Early Retirement

Step 1: Best final remuneration:	€60,000 (say)
Completed service by date of early retirement (N):	18 years
Service by NRA, if he or she stayed in service until NRA (NS):	26 years
Retained lump sum under other arrangement:	Nil

Step 2: Maximum approvable lump sum which could be provided at NRA under the traditional benefit option by this scheme, if the member worked on to NRA.	The greater of: • $26 \times 3/80\text{ths} \times €60,000 = €58,500$; - and, • $120/80\text{ths} \times €60,000 = \mathbf{€90,000}$.
Step 3: Reduce by N/NS.	$€90,000 \times 18/26 = \mathbf{€62,308}$.

If early retirement is being caused by ill health, then the N/NS reduction, i.e. the third step, is **not** applied:



Example #5: Ill Health Early Retirement

Step 1: Best final remuneration:	€60,000 (say)
Completed service by date of ill health early retirement (N):	18 years
Service by NRA, if he or she stayed in service until NRA (NS):	26 years
Retained lump sum under other arrangement:	Nil

Step 2: Maximum approvable lump sum which could be provided on ill health early retirement under the traditional benefit option by this scheme.	The greater of: • $26 \times 3/80\text{ths} \times €60,000 = €58,500$; - and, • $120/80\text{ths} \times €60,000 = \mathbf{€90,000}$. Because it's ill health early retirement, the N/NS reduction is not applied.
---	--

Under the alternative ARF option, the member is **always** entitled to take 25% of the fund as a lump sum, regardless of his or her completed service, whether retiring at NRA or earlier, and whether or not he or she has retained lump sums in other arrangements.

It is possible for a DC scheme to only provide a lump sum retirement benefit under the traditional benefit option if the DC fund at retirement is less than this; there is no obligation to provide a pension or annuity in addition.



Example #6

Mark is included in his employer's DC pension scheme. The scheme rules provide for the ARF option.

At his Normal Retirement Age his best final remuneration is €50,000 pa, and he has more than 20 years completed service with his company. He has no other retirement benefits in any other arrangement.

Let's assume that his DC accumulated fund is €70,000.

By opting to take his benefits on the traditional benefit basis, the Revenue maximum lump sum benefit which can be provided for him is:

$$150\% \times €50,000 = €75,000.$$

As the accumulated fund amounts to €70,000, he can take the full €70,000 as a tax-free lump sum, under the traditional benefit option.

So, in this example it would **not** be to Mark's advantage to go for the ARF option, as under the ARF option his tax-free lump sum would be limited to $25\% \times €70,000 = €17,500$, and the balance would have to be used to buy an annuity, taken as taxable cash or transferred to an ARF, from which all withdrawals would be subject to PAYE.

4.9 Maximum Contributions to DC Schemes

While employers and employees have flexibility to decide the level of contributions paid to a DC scheme, there is an overriding requirement that the contributions paid for a member should not lead to a DC fund at NRA in excess of the Revenue maximum DC fund as outlined in the previous section 4.8 above.

Revenue's Pensions Practice Manual sets out the basis to be used to calculate the maximum **ordinary annual contribution (OAC)** (combined employer/employee contribution) that may be paid on an ongoing basis to a DC scheme for a member.

The maximum OAC payable for a DC scheme member in a year is the **greater** of:

1.
$$\frac{\mathbf{P} \times \mathbf{Factor} - (\text{current value of DC fund plus current value of retained benefits})}{\text{Term to NRA, minimum one year}}$$
- AND
2.
$$\frac{\mathbf{N}/60\text{ths pension} \times \mathbf{Factor} - (\text{current value of DC fund})}{\text{Term to NRA, minimum one year}}$$

Where

P = Revenue maximum approvable **pension** at NRA which the scheme could provide, based on current remuneration but assuming the member stays in service to NRA. Usually, but not always, this will be 2/3rds of remuneration. (See Chapter 4.8 above.)

Factor = Maximum Revenue **capitalisation factor** (see table below).

Revenue have published a table of capitalisation factors to be used to convert a pension into a capital sum for the purposes of calculating the maximum ordinary annual contribution which can be paid in a year for a member of a DC scheme.

Revenue Capitalisation Factors

NRA	Female <i>no spouse /civil partner</i>	Female <i>with spouse /civil partner</i>	Male <i>no spouse /civil partner</i>	Male <i>with spouse /civil partner</i>
60	27.5	30.0	24.4	32.4
65	23.8	25.9	20.4	28.4
70	20.2	21.8	16.7	24.4
75	16.9	17.8	13.7	20.5



Example

John's current remuneration is €70,000 pa. He is aged 40, married and is a member of his employers DC scheme. The current value of his DC fund is €200,000; he has no retained benefits, i.e. no benefits from a previous employment or RAC or PRSA contract. His NRA 60. His past service is 5 years.

His maximum approvable pension at NRA, if he stays in service until then, is 2/3rds x €70,000 pa, which is higher than the straight 25/60ths x €70,000 pa.

The current maximum Ordinary Annual Contribution (combined employer and employee) for this employment is therefore the greater of:

P x Factor – (value of DC fund plus current value of retained benefits)

Term to NRA, minimum one year

$$\frac{(2/3\text{rds} \times €70,000 \times 32.4) - €200,000}{20} = \text{€65,600 pa or 94\% pa of remuneration}$$

In this case:

- P, the Revenue maximum approvable pension at NRA, is 2/3rds of final remuneration.
- The current maximum ordinary contribution (employer plus personal) for John in respect of all schemes related to this employment is €65,600 pa or 94% pa of remuneration.

The capitalisation factors give the following set of maximum ordinary annual contribution rates, expressed as a % pa of annual remuneration, to Normal Retirement Age 60 assuming the member has no retained benefits and will have completed at least 10 years' service with their employer by the NRA shown.

NRA 60 – maximum ordinary annual contribution (OAC) rate % pa

	Female <i>no spouse /civil partner</i>	Female <i>with spouse /civil partner</i>	Male <i>no spouse /civil partner</i>	Male <i>with spouse /civil partner</i>
30	61%	67%	54%	72%
35	73%	80%	65%	86%
40	92%	100%	81%	108%
45	122%	133%	108%	144%
50	183%	200%	163%	216%

4.10 Tax Relief on Contributions

4.10.1 Employee Contributions

Employee contributions to an employer pension scheme (including Additional Voluntary Contributions known as AVCs) are deductible for income tax (but not for PRSI or USC) for the employee against their remuneration from that employment only, within limits as follows:

Age attained during year	Income relief limit (as a % of remuneration)
Less than 30	15%
30 to 39	20%
40 – 49	25%
50 – 54	30%
55 – 59	35%
60 and over	40%

The maximum remuneration which counts for tax relief on employee contributions is €115,000.

Note that 'remuneration' for this purpose includes all income and benefits provided by the employer for that employee which are subject to PAYE in relation to that employment.



Example

Aisling is aged 42 in 2026 and is a member of her employer's DC pension scheme. Her remuneration details from that employment for 2026 are:

Basic salary:	€40,000 (on which her contributions are based)
Bonus this year:	€ 5,000
BIK this year:	€ 1,250
Shares allocated to her in 2026 under her employer's approved profit sharing scheme (APSS):	<u>€ 2,500</u>
Total	<u>€48,750</u>

Aisling's contribution to the scheme in 2026:

$$5\% \times \text{basic salary, i.e. } 5\% \times €40,000 = €2,000.$$

This amount is offset for income tax purposes against her remuneration from that employment for 2026. Let's say that she pays tax at the higher rate; the tax relief will reduce the cost of her €2,000 pension contribution to a net €2,000 x (1 - 40%) or €1,200.

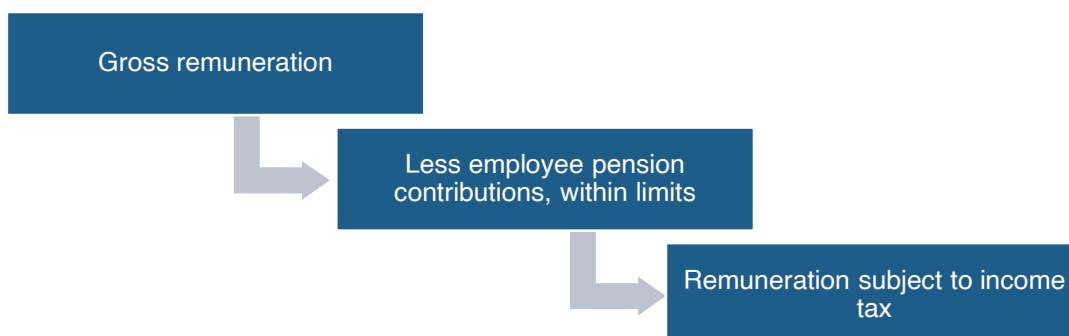
For income tax relief limit purposes, the maximum contribution to her employer's pension scheme and AVCs which Aisling could get income tax relief on in 2026 is:

$$25\% \times €48,750 = €12,187.$$

She could potentially therefore contribute up to [€12,187 less €2,000] = €10,187 in AVCs in 2026 and get income tax relief for 2026. See Chapter 4.11 later on AVCs.

In practice, most employee contributions to employer pension schemes are deducted by their employer from pay at source under the **net pay** system. This means the employer deducts the employee's pension contribution from their gross earnings within the limits outlined above, **before** income tax is levied on the balance of their earnings.

In this way the employee gets immediate tax relief on their contributions to the scheme, i.e. the employee doesn't have to make a claim for the income tax relief.



Like RAC and PRSA contributions:

- Employee contributions to an employer pension scheme can be backdated for income tax relief purposes to the previous year, if paid before 31st October (mid-November if the employee pays and files tax through ROS).
- Where all of the income tax relief on employee contributions paid to an employer pension scheme in a year cannot be obtained in that year (for example, because of the % and €115,000 earnings limits), the excess can be carried forward to the following year for income tax relief purposes.

But note that income tax relief can only be obtained as a deduction against the employee's remuneration from that employment; relief **cannot** be obtained for pension contributions against investment or rental income, for example.

4.10.2 Employer Contributions

It is a condition of Revenue approval of a DC scheme that the employer is a contributor to the scheme. While Revenue no longer applies a minimum employer contribution, NAERSA require the following minimum contribution standards for an employment to be exempt from auto enrolment.

- A minimum contribution of 3.5% of the employee's gross pay, or €2,800 per year, whichever is lesser, of which
- At least 1.5% is being paid by the employer (to a maximum contribution of €1,200), with the remaining 2% of the contribution being funded by either the employer or the employee.

Auto Enrolment is covered in further detail in Chapter 5.

Where an employer pays a contribution to a DC scheme the contribution is:

- Deductible for the employer for Income Tax/Corporation Tax purposes, as a business expense, usually in the business accounting period in which the contribution is paid.
- Not treated as a benefit in kind (BIK) for the employee for income tax purposes.

Tax relief on a **special** or **once off contributions** made by the employer to the scheme, i.e. not ordinary annual contributions, may be required by Revenue to be spread over a maximum period of up to five years.

No spreading of tax relief on employer special contributions is required where the employer's total special contributions in the same accounting period do not exceed the employer's ordinary annual contribution (OAC) to the scheme in that period.

This effectively means that an employer special contribution up to the ordinary annual contribution can normally qualify for tax relief in the accounting period in which it is paid, i.e. a double ordinary annual contribution can normally be offset for tax purposes.

Where the employer's special contribution exceeds the ordinary annual contribution, tax relief is spread forward over a period of years calculated as follows:

$$(\text{Special contribution}) / (\text{Ordinary annual contribution})$$

The spread period as calculated above is:

- Rounded **up** to 2, if greater than 1 and less than 2.
- Otherwise rounded to the **nearer** whole number of years.

The maximum spread period is 5 years.

Where the calculated spread period is rounded up, the relief allowed on the special contribution each year, except the last year of the spread period, is the ordinary annual contribution, with any balance being allowed in the last year.



Example #1: Rounding Up

A company is paying an ordinary annual contribution of €17,500 pa to its employer DC scheme for a member. It pays a once off contribution of €47,000 to the scheme in respect of the member.

As the €47,000 special contribution exceeds the ordinary annual contribution of €17,500, tax relief on the special contribution will be spread over:

$(47,000/17,500)$, i.e. 2.69 years.

As the spread period of 2.69 years is rounded **up** to 3 years, tax relief in respect of the once off contribution is allowed in the first and second accounting periods equal to the ordinary annual contribution of €17,500, with the balance of the special contribution, i.e. €12,000, allowed in the final year of the 3 year spread period:

In first accounting period in which special contribution is paid:	€17,500
In the second accounting period:	€17,500
In last accounting period of the three years:	<u>€12,000</u>
	€47,000

Where the spread period is rounded **down**, the relief is simply spread evenly over the spread period of years.



Example #2: Rounding Down

A company is paying an ordinary annual contribution of €17,500 pa to its employer pension scheme. It pays a once off contribution of €40,000 to the scheme.

As the €40,000 special contribution exceeds the ordinary annual contribution of €17,500, tax relief on the special contribution will be spread over:

$(40,000/17,500)$, i.e. 2.29 years.

As the period of 2.29 years is rounded **down** to 2 years, the relief on the special contribution is spread evenly over the two-year spread period as follows:

In accounting period in which special contribution is paid:	€20,000
In following accounting period:	<u>€20,000</u>
	€40,000

In the above examples, the tax deduction against trading income allowed on the employer's special contribution is allowed in each of the accounting periods shown, in addition to the relief allowed on the ordinary annual contributions paid in that accounting period.

It is important to note that there is no facility for employer's contributions to a pension scheme to be backdated for tax relief purposes to a previous accounting period.

4.11 Additional Voluntary Contributions (AVCs)

4.11.1 What is an AVC?

An AVC is a short name for an **A**dditional **V**oluntary **C**ontribution, which is a means by which a member of an employer pension scheme, DB or DC, can top up, within Revenue limits on benefits and tax relief, their existing employer's scheme benefits at their own expense, by paying AVCs.

4.11.2 Who Can Take Out an AVC?

An individual can pay an AVC if he or she is:

- Currently an employee.

AND

- A member of their employer's occupational pension scheme.



Example #1

John works for a company that does not have a pension scheme.

John **cannot** pay an AVC as although he is an employee, he is not a member of his employer's occupational pension scheme.

However, he could contribute to an RAC or PRSA as he is in non-pensionable employment.



Example #2

Sarah works for a company which has a DC occupational pension scheme, which also provides a facility for AVCs. She is a member of the scheme for retirement benefits. She has no other sources of earned income.

Sarah can pay AVCs into her employer's pension scheme.

As the name implies, only the individual can pay an AVC. The individual's employer **cannot** contribute to an employee's AVC.

The individual is only eligible to continue paying an AVC while they remain a current member of an employer pension scheme related to the same employment.



Example #3

James is employed by ABC Ltd and is a member of their occupational pension scheme. He is eligible to pay AVCs.

However, if James leaves ABC Ltd he must stop paying AVCs related to that employment.

You can only pay AVCs while an employee and member of your employer's pension scheme.

4.11.3 The Scope for AVCs

Most AVCs are set up to provide additional retirement benefits, where a member of an employer pension scheme is not likely to get the Revenue maximum approvable benefits at retirement from their employer's scheme for one or more of the following reasons:

- Where the scheme is DC, the level of contribution being paid may be estimated to provide retirement benefits at Normal Retirement Age less than the maximum approvable level which could be provided. The vast majority of DC schemes will provide funds at retirement less than the maximum fund allowable by Revenue. There is therefore scope to top up the member's fund.
- Where the scheme is DB:
 - The definition of final remuneration used may exclude certain items of the employee's remuneration, for example, it may exclude one or more of BIKs, bonuses, overtime, shift pay, etc.
 - The scheme may be integrated with State Pension benefits where the pension is based on a lower pensionable salary, rather than the higher actual salary.
 - The pension may be defined as 1/60th of remuneration for each year of service, rather than using the 'uplifted scale', so that someone with less than 40 years' service at retirement may get a pension lower than the maximum approvable.
 - The lump sum at retirement may be defined as 3/80ths of remuneration for each year of service, rather than using the 'uplifted scale', so that someone with less than 40 years' service at retirement may get a lump sum lower than the maximum approvable.

- The scheme may not provide post retirement increases and/or spouse's death in retirement pensions which could be provided within Revenue limits.

AVCs can also provide additional death in service benefits either on their own or in conjunction with additional retirement benefits.

The total combined benefits provided by the employer scheme and AVCs cannot exceed the relevant Revenue maximum approvable benefits outlined earlier.

4.11.4 Benefits of AVCs

The main benefits of AVCs to a member of an employer pension scheme are:

- The member can top up their employer's scheme benefits, at their own expense and with the benefit of income tax relief, subject to certain restrictions.
- AVCs are discretionary; the member can stop and start the AVCs as they wish. The member is not bound into paying the AVCs as they usually are for normal employee contributions to the employer scheme.
- The AVCs may enable the member to take a higher tax-free lump sum at retirement, than would otherwise have been provided by the employer's scheme; this higher tax-free lump sum could be funded by tax deductible contributions. This is very tax efficient.
- The AVCs may enable the member to retire earlier than might otherwise be possible if depending only on the employer's scheme benefits.
- Where the individual is a member of a DB scheme, AVCs may enable him or her to not commute, or commute a lower level, DB scheme pension at poor commercial terms, in order to fund the maximum tax-free lump sum which can be taken at retirement.
- E.g. the commutation terms in the scheme rules might be €12 cash for each €1 pension given up, but the open market value today of the €1 pension might be at least €25. AVCs could therefore help a retiree to avoid the drop in value involved in commuting or giving up DB pension to provide a tax free lump sum.

4.11.5 Different Ways to Pay AVCs

Most AVCs are DC even where the employee's pension scheme to which they're linked is DB.

AVCs may usually be structured in one of three ways:



The last two options above are usually referred to as **trust AVCs**, to distinguish them from AVCs paid to a personally owned PRSA contract.

4.11.6 Income Tax Relief

AVCs qualify for income tax relief, but not for PRSI or USC, within the same overall age and earnings limits outlined earlier in Chapter 4.10.1 for personal contributions. The limits apply to the **combined** employee contribution, if any, paid to the employer scheme and AVCs.



Example

Rebecca is aged 42 in 2026 and is a member of her employer's DC pension scheme, which bases contributions on basic salary only and ignores other fluctuating emoluments.

As a member of the scheme she pays 5% of her basic salary of €70,000 to the DC scheme, which is matched by an equivalent employer contribution.

Rebecca also receives an annual bonus in 2026 which brings her total remuneration for 2026 to €80,000.

The maximum AVC contribution she can get tax relief on in 2026 is:

$$25\% \times €80,000 \text{ less } 5\% \times €70,000 = €16,500$$

4.11.7 Taking AVC Benefits at Retirement

An AVC fund **cannot** be accessed before or after retirement benefits are taken from the employer scheme.

AVC retirement benefits must be taken at the same time as the individual takes retirement benefits from their employer's pension scheme to which the AVCs are linked.

How AVC benefits can be taken at retirement depends on whether the employer pension scheme, of which the individual is a member and to which the AVCs are linked, is a DC or DB scheme.

DB scheme

If the employer's pension scheme is a DB scheme and the AVCs are DC providing a fund at retirement, the AVC fund can be used at retirement when the DB scheme benefits are taken, as follows:

- To provide the Revenue maximum approvable lump sum, as far as possible, and so ensure that no or a reduced level of DB pension is commuted at poor terms to provide that maximum lump sum; and
- Transfer the balance, if any, to an ARF or take as a taxable lump sum or use to buy an annuity



Example #1

Emma is a member of her employer's DB pension scheme. She has also contributed AVCs to a PRSA. She has no other retirement benefits.

At NRA her employer's scheme pension is €30,000 pa. Under the scheme rules she can commute this pension for a lump sum retirement benefit at a fixed rate of €9 cash for €1 pa pension given up, up to a maximum lump sum of 150% x final salary.

To buy a similar €1 pa of pension in the open market currently would cost €30, say. Therefore, commuting DB pension to provide a tax-free lump sum is very poor value and hence she would be better off using her AVCs first to fund her tax-free lump sum.

She also has an accumulated AVC fund in her PRSA of €75,000.

The maximum Revenue allowable tax-free lump sum retirement benefit which can be provided for her is, say, €120,000 (i.e. 150% x final remuneration of €80,000)

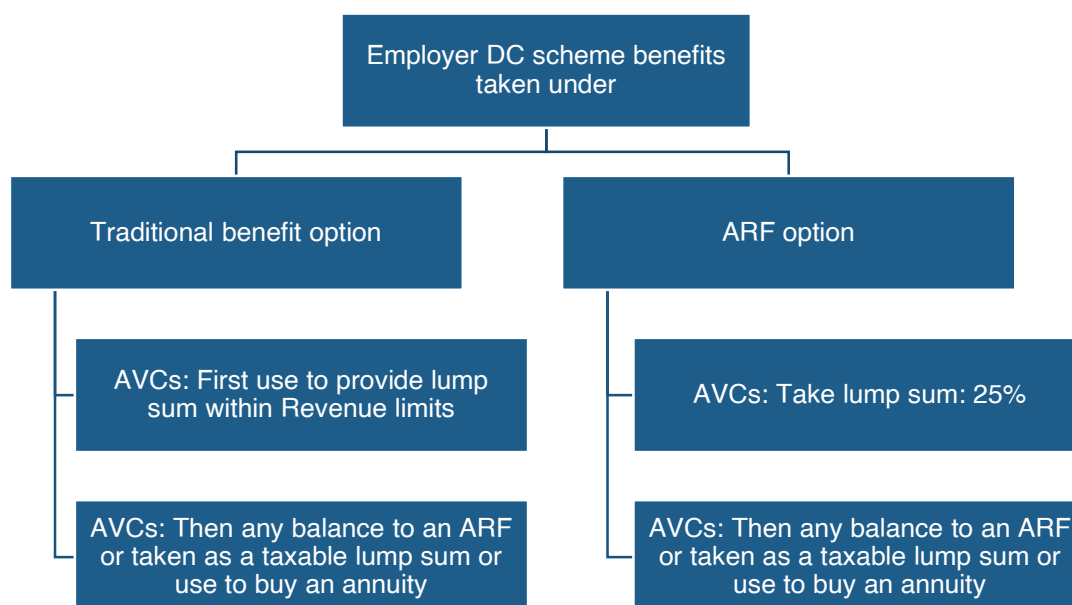
She might take her retirement benefits as follows:

- Maximum allowable tax-free lump sum of €120,000, funded as follows:
 - €75,000 from her PRSA AVC fund; plus,
 - €45,000 by commuting €5,000 pa of her DB pension entitlement at 9:1
 €120,000
- A pension of €30,000 – €5,000 pa (commuted pension) = €25,000 pa.

In the example above if Emma did not have an AVC fund she would have had to commute €120,000/9 = some €13,333 pa of her DB pension entitlement of €30,000 pa to provide her maximum tax-free lump sum of €120,000 and a reduced pension of €16,667.

DC scheme

If the employer's pension scheme is a DC scheme, how the AVCs can be taken will depend on whether the individual uses the traditional benefit or ARF option for their employer scheme benefits:



- i. DC scheme benefits taken under the traditional benefit option.



Example #2

Laura is a member of her employer's DC pension scheme. She has also contributed to a separate DC AVC scheme. She has opted to take her employer's DC scheme fund under the traditional benefit option.

She has not taken retirement benefits from any other pension arrangement previously. She has no retained benefits.

At her NRA, her DC fund under her employer's scheme is €100,000 while the accumulated value of her AVCs is €45,000. The maximum approvable lump sum which can be provided for her under the traditional benefit option at NRA is, say, €105,000 (assumed to be 150% of final remuneration of €70,000).

Laura could take her benefits from her employer's scheme under the traditional benefit option as follows:

- Lump sum of €105,000 funded by AVC fund of €45,000 + €60,000 from her employer's DC scheme fund.
- Balance of employer DC scheme fund, i.e. €40,000, **must** be used to purchase an annuity, payable for life.

However to avoid having to invest €40,000 of her employer's DC fund in an annuity, she could instead take her benefits as follows (still using the traditional option):

- Lump sum of €105,000 funded by her employer's DC scheme fund of €100,000 + €5,000 from her AVC fund.
- Balance of AVC fund of €40,000 can be transferred to an ARF.

By using the employer scheme funds to fund the maximum tax-free lump sum, it allows the balance of AVC funds to be transferred to an ARF and so reduces the amount of funds which must be used to buy an annuity.

- ii. DC scheme benefits taken under the ARF option.
- iii. In this case, the member can opt for the ARF option in relation to their combined employer fund plus AVC fund, and their lump sum entitlement is a straight 25% of the combined fund value.



Example #3

Laura is a member of her employer's DC pension scheme. She has also contributed to a separate DC AVC scheme. She has opted to take her employer's DC scheme fund under the ARF option.

She has not taken retirement benefits from any other pension arrangement previously. She has no retained benefits.

At her NRA, her DC fund under her employer's scheme is €100,000 while the accumulated value of her AVCs is €45,000, so that her combined retirement fund is €145,000.

Assuming Laura opts for the ARF option in respect of her employer scheme fund, she can take her total retirement benefits as follows:

- Tax-free lump sum of $25\% \times [\text{€}100,000 \text{ (employer fund)} + \text{€}45,000 \text{ (AVC fund)}] = \text{€}36,250$;
- The remaining $[\text{€}145,000 - \text{€}36,250]$, i.e. €108,750 can be taken as:
 - A taxable lump sum; or,
 - Transferred to an ARF; or,
 - Used to buy an annuity.

4.12 Provision of Information

Under the Pensions Act, the trustees of all employer pension schemes (DB and DC) must provide certain specified information to members, in certain circumstances:

Annually during employment, prior to reaching Normal Retirement Age.

On receipt of a transfer value into the scheme for a member.

On leaving service.

On death or retirement of member.

On receipt of a Pension Adjustment Order for a member.

On the wind up of the scheme.

4.12.1 Pension Benefit Statement

All active and deferred members of an employer scheme, who have not reached NRA must be provided by the scheme trustees with specified information about the scheme and their own benefits, at least once in each scheme year. This document is called a **Pension Benefit Statement (PBS)** and is particular to each member.



Example

The ABC DC employer pension scheme has a scheme year running from the 1st January to the following 31st December.

For the 2026 scheme year, the trustees must provide all scheme members with a Pension Benefit Statement at some stage between the 1st January 2026 and the 31st December 2026.

Let's say the trustees provide the relevant members with a Pension Benefit Statement on 15th May 2026, i.e. during the 2026 scheme year.

The current member's fund value shown in the statement cannot relate to a date earlier than 15th November 2025, i.e. not more than six months earlier than the date the statement is provided to members.

The information the statement will show includes:

- For DB schemes: the member's current pension expectation at Normal Retirement Age, assuming he or she stays in service until that date and using their current remuneration.
- For DC schemes, the current value of the member's retirement fund.

The information and projections in the statement are specified by the Pensions Authority and must not be more than six months out of date. As with SORPs provided to PRSA holders, the maximum value is determined by the anticipated asset split or mix of the fund or funds to which contributions will be invested in, using the following assumptions:

- The maximum gross investment return for equities and property will be 7.20% pa.
- The maximum gross investment return for fixed interest securities will be 4.25% pa.
- The maximum gross investment return for cash will be 3.20% pa.

The above maximum returns are subject to an upper limit of 6% p.a. and are normally used where the projected period to the member's Normal Retirement Age is more than five years.

For DC schemes, the projections must assume investment return on both best estimate and unfavourable scenarios.

- Under the **best estimate scenario**, the maximum assumed rate of investment return is 6.00% per annum before the deduction of all anticipated expenses, charges, stamp duty or pension levy.
- Under the **unfavourable scenario**, gross investment returns pre-retirement are assumed to be 1% p.a. less than assumed in the best estimate projection.



Example #1

The fund of a member of a DC employer pension scheme is assumed to remain invested to Normal Retirement Age in 20 years' time in a Managed Fund whose asset allocation is anticipated to remain as follows:

- 50% equities.
- 25% property.
- 20% fixed interest securities.
- 5% in cash.

Using the assumptions listed above, the maximum return (before charges) which can be used to illustrate the member's projected retirement fund at Normal Retirement Age is:

$$50\% \times 7.20\% \text{ (equities)} + 25\% \times 7.20\% \text{ (property)} + 20\% \times 4.25\% \text{ (fixed interest)} + 5\% \times 3.20\% \text{ (cash)} = 6.41\% \text{ pa but maximum return is capped at } 6\% \text{ pa.}$$

These same assumptions apply to the preparation of the SORP provided to PRSA holders; see Chapter 3.

Where the projected term to Normal Retirement Age is less than five years, lower investment return assumptions would usually be used, than the maximum rates outlined above.

The projected retirement benefits at retirement **must** be shown both in nominal terms, and in discounted present-day values assuming a discount rate of 3% pa.

An alternative way of showing benefits in present day values is to express the retirement benefits as a % of projected salary at retirement, assuming salary increases at 3% pa between now and retirement.



Example #2

A PBS shows a projected retirement fund for an active member of a DC scheme of €245,000 in 20 years' time. The member's current salary is €75,000 pa.

We can calculate the projected salary using the table of accumulation factors at the end of Chapter 13.

Projected salary at retirement in 20 years' time, assuming the salary increases by 3% pa compound:

$$€75,000 \times 1.806 = €135,450$$

Projected retirement fund:

$$€245,000$$

Projected retirement fund as a % of projected earnings at retirement:

$$€245,000 / €135,450 = 181\% \text{ of projected salary at retirement.}$$



Example

Pauline has been an employee and member of her employer's DC scheme for 16 years and has an accumulated fund of €80,000. She is about to terminate her employment and move to another job. She is aged 52 currently. She has no other retirement benefits. Her final remuneration at the date of leaving service is €65,000 pa. The NRA of the scheme is 65.

On termination of employment, she becomes a deferred member of the scheme. Her fund of €80,000 (which is assumed to be within Revenue limits) can be retained in the scheme and left to grow and drawn on at a later date, or she can draw on it **immediately** as follows:

Traditional Benefit Option	OR	ARF Option
Lump sum: $16/29 \times 120/80 \times €65,000 = €53,793$.		Lump sum: $25\% \times €80,000 = €20,000$.
Balance of €26,207: can be used to buy an annuity or can be taken as a lump sum subject to PAYE as the balance is less than €30,000. (See Chapter 4.7.2).		Next €60,000: Transferred to an ARF, taken as a taxable lump sum or used to buy an annuity.

4.13.2 DB Schemes

In the case of DB schemes, the preserved benefit, payable from NRA, on termination of employment is the pension accrued by service completed to the date of termination of employment.



Example

A DB scheme provides a pension at NRA 65 of 1/60th of final pensionable salary for each year of completed service.

Joanne terminates her employment at age 45 after 12 years' service. Her pensionable salary at the date of termination is €60,000.

The scheme rules may provide Joanne with a preserved DB pension, payable from NRA 65 of:

$$12/60\text{ths} \times €60,000 = €12,000 \text{ pa.}$$

A preserved DB pension must be adjusted by the scheme each year in deferment in line with statutory revaluation under the Pensions Act which is generally in line with the average change in the Consumer Price Index each year to a maximum of 4%.

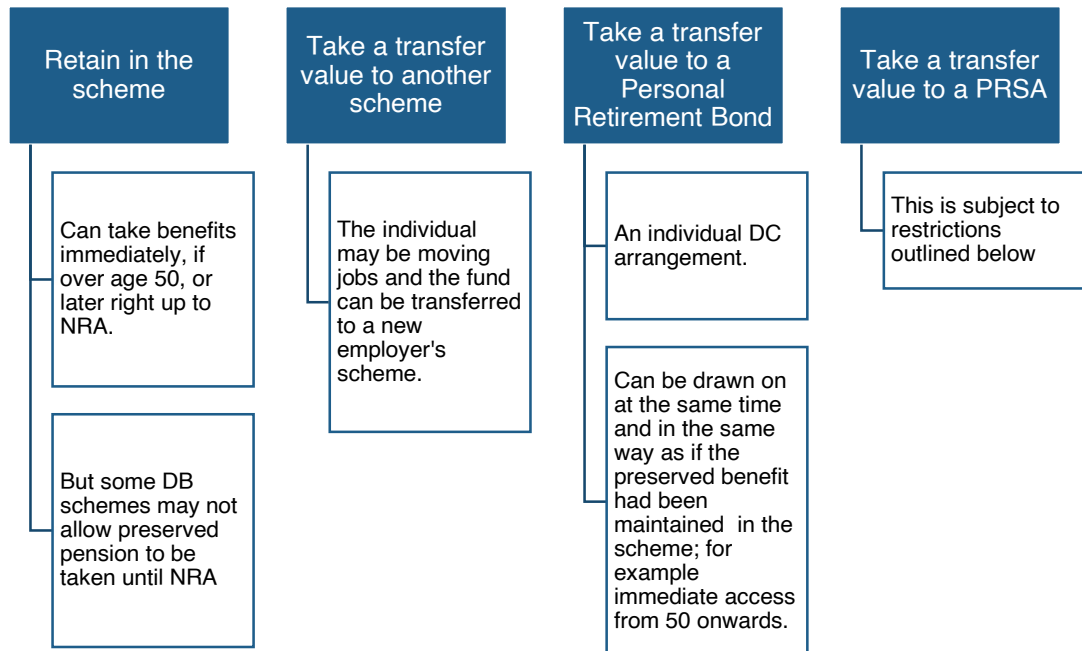
Where a preserved DB pension is drawn on earlier than NRA, the scheme will reduce it to reflect earlier payment. However, most DB schemes do not allow preserved pensions or indeed voluntary early retirement pensions to be taken before NRA.

4.13.3 Transfer Options

Where an individual who has left service is entitled to a preserved benefit in their former employer's pension scheme, they cannot be given a refund of their own contributions paid to the scheme (including AVCs).

A transfer value is a lump sum payment made to another pension arrangement in lieu of maintaining a preserved benefit in an employer pension scheme.

The individual will usually have four main options over his or her preserved benefit in the scheme after leaving service:



A PRSA provider **cannot** accept a transfer value into a PRSA from an employer pension scheme (including a transfer of AVC benefits) unless the individual has been provided by the PRSA provider or an intermediary acting on the PRSA provider's behalf, with:

- A **Certificate of Benefit Comparison**, showing a comparison of the projected benefits the scheme might provide if the preserved benefit is left in the scheme as compared with the projected benefits the PRSA might provide in return for the transfer value; AND,
- A **Reason Why Statement** also known as a Statement of Suitability, indicating the reasons why a transfer is or is not in the interests of the individual, including:
 - A summary of the advantages and disadvantages (in equal prominence) of transferring from the scheme to the PRSA.
 - A financial analysis which explains the decision to transfer from the scheme to the PRSA.

The Certificate of Benefit Comparison and Statement of Suitability referred to above are **not** required when a transfer value is being paid from an employer pension scheme to a PRSA in the following circumstances:

- Where the transfer value is less than €10,000; OR,
- The transfer value from the employer pension scheme relates to a period of less than two years scheme service with the employer, OR
- The transfer value arises from a scheme which has been notified to the Pensions Authority as winding up, OR

- The transfer value is payable to a PRSA for the benefit of a beneficiary of a Pensions Adjustment Order (PAO) made over the scheme member's retirement benefits. (see Chapter 8 for more details on Pension Adjustment Orders).

4.13.4 Death

If an employee terminates their employment with an entitlement to a preserved benefit in their employer's DC pension scheme but dies later before drawing on that benefit or taking a transfer value to another arrangement, the value of the fund at death is paid as a lump sum to the individual's estate, i.e. to his or her legal personal representatives.



Example #1: DC Preserved Benefit

John was a member of his employer's DC pension scheme. He terminated his employment with an entitlement to a preserved fund which is now valued at €130,000.

If John dies today, the current value of the fund, say €130,000, is payable as a lump sum to his estate.

In the case of a preserved pension in a DB scheme, on death before the preserved pension is taken, the actuarial value of the deferred pension is usually paid as a lump sum to the deceased's estate.

However, if the DB scheme provides a death in retirement pension, for example, 50% of the preserved pension, the scheme trustees may opt to pay out the reduced pension to the member's surviving spouse rather than the lump sum.



Example #2: DB Preserved Pension

John was a member of his employer's DB pension scheme. He terminated his employment with an entitlement to a preserved pension of €24,000 pa, which carries a spouse's death in retirement pension of 50%.

If John dies today, the scheme might pay out an immediate pension of €12,000 pa to John's spouse rather than paying a lump sum equal to the actuarial value of his pension of €24,000 pa.

The payment of the preserved benefit lump sum on death is **not** subject to the death in service lump sum restriction of 4 x final remuneration.

4.13.5 Personal Retirement Bonds (PRBs)

Instead of maintaining the preserved benefit in the scheme, the deferred member usually has an option to take a transfer value from the scheme to a **Personal Retirement Bond (PRB)** (also known as Buy Out Bonds or BOBs) in the individual's own name with a life assurance company or an investment firm.

In certain circumstances, the trustees of the scheme may be able to make the transfer value payment to a PRB or PRSA without the deferred member's consent.



New contributions **cannot** be made to a PRB, other than a transfer value from an employer pension scheme or from another PRB held by the individual.

Who provides PRBs?

- Life assurance companies.
- Investment firms.

Who can take out a PRB

- A deferred member of an employer pension scheme who has terminated employment (or on scheme wind up) with an entitlement to a preserved retirement benefit in the scheme.
- An individual who holds another PRB and wants to transfer the funds to a new PRB.

When can benefits be taken from the PRB?

- At the same time as benefits could have been taken from the scheme, e.g. from 50 onwards.

How can benefits be taken from the PRB?

- Traditional Benefit or ARF options.

PRB charges are similar in nature, i.e. a % of the transfer value and a % of the ongoing value of the assets, to those already outlined in Chapter 3.4 for RACs and PRSAs.

4.13.6 Ex-Gratia Termination Payments

An employee may terminate their employment as a result of redundancy, either compulsory or voluntary.

In such circumstances, the employee may be provided by their employer with a **'termination'** lump sum payment outside the employer's pension scheme. Such a payment may comprise two elements:

- Statutory redundancy, and
- **Ex-gratia lump sum payment**, i.e. a termination lump sum voluntarily paid by the employer over and above the employee's statutory redundancy entitlement. A termination payment also includes the value of any non-cash benefits provided by the employer on termination of employment, e.g. a company car which the individual is allowed to keep after termination of employment.



Example #1

Amy's employment is being terminated. Her employer is paying her an ex-gratia lump sum (i.e. over and above the statutory redundancy payment) of €40,000 and is also allowing her to keep her company car, valued today at €7,000.

Her total ex gratia payment, for income tax purposes, is therefore, €47,000.

An ex-gratia termination payment is generally liable to income tax at marginal rate and USC in the individual's hands.

However, part or all of the ex-gratia termination payment may be exempt from income tax in the hands of the employee to the **higher** of:



The basic exemption amount is:

- €10,160 plus €765 for each **complete** year of service with the employer, up to the date of termination of employment.

The increased exemption amount is:

- The basic exemption above increased by up to €10,000 where the individual has not previously made a claim for tax relief on a termination payment within the last 10 years.

The €10,000 increase is reduced by the **present value** of any tax-free lump sum entitlement from the employer's pension scheme. This reduction can be waived by signing an **irrevocable waiver addressed** to the scheme trustees giving up the right to a tax-free lump sum from the scheme.



Example #2

Aoife works for a company but is being made redundant. She is receiving a termination payment of €47,000, of which €18,100 is a statutory redundancy payment and the balance, €28,900, is an ex-gratia payment. She has 14 years and seven months service with the company to the date of redundancy.

She is a member of her employer's DC pension scheme and is entitled to a preserved retirement benefit on leaving service. The present value of her tax-free lump sum entitlement under this preserved benefit is €7,800. She has not previously claimed relief in respect of a termination payment.

In relation to her ex-gratia payments, her basic exemption is calculated as:

$$€10,160 + (€765 \times 14) = €20,870.$$

If Aoife signs an irrevocable waiver to the scheme trustees giving up her right to take a tax-free lump sum from the pension scheme, she would be entitled to the increased exemption figure of:

$$€20,870 + €10,000 = €30,870.$$

The **Standard Capital Superannuation Benefit (SCSB)** may be higher than the basic or increased basic exemption, particularly for employees with long service and/or high remuneration.

The SCSB is calculated as:

[Schedule E remuneration received in final 36 months prior to termination of employment] / 3 x No of complete years' service with employer/15

LESS

Present value of tax-free lump sum entitlement from the employer's scheme on leaving service.



Example #3

Hannah works for a company but is being made redundant. She is receiving a termination payment of €67,000, of which €18,100 is a statutory redundancy payment and the balance is an ex-gratia termination payment. She has 14 years and seven months service with the company to the date of redundancy.

She is a member of her employer's DC pension scheme and is entitled to a preserved benefit on leaving service. The present value of her deferred tax-free lump sum entitlement under the scheme is €24,000. She has not previously received a tax-free ex-gratia termination payment.

Her total Schedule E remuneration received from her employment over the past 36 months to the date of termination is €153,400.

The statutory redundancy payment of €18,100 is tax free, so the ex-gratia termination payment of €48,900 (€67,000 less €18,100) could potentially be liable to income tax.

Assuming Hannah **is willing to sign an irrevocable waiver** of entitlement to a tax-free lump sum from the pension scheme, the tax-exempt part of the ex-gratia termination payment of €48,900 is the **higher** of:

- Basic exemption = €10,160 + (€765 x 14) = €20,870
- Increased exemption = basic exemption + €10,000 = €30,870.
- SCSB of $\left[\frac{€153,400}{3} \right] \times \frac{14}{15} = €47,724$

i.e. **€47,724** leaving just [€48,900 - €47,724] or €1,176 of the ex gratia termination payment liable to income tax and USC.

However, if Hannah is **not willing to sign an irrevocable waiver of entitlement** to a tax-free lump sum from the pension scheme, the tax-exempt part of the ex-gratia termination €48,900 payment is the **higher** of:

- Basic exemption = €10,160 + (€765 x 14) = €20,870
- Increased exemption = basic exemption + nil (as the present value of the pension tax free lump sum of €24,000 is greater than €10,000) = €20,870
- SCSB of $\left[\frac{€153,400}{3} \right] \times \frac{14}{15}$ less €24,000 pension scheme tax free lump sum = €23,724

i.e. **€23,724**, leaving [€48,900 - €23,724] or €25,176 of the ex gratia termination payment liable to income tax and USC. But Hannah retains her right to a tax-free lump sum in the pension scheme with a current value of €24,000.

So, in the above example there is a straight trade-off between getting more tax-free termination payment now but getting no tax-free lump sum from the employer pension scheme later on, or vice versa.



Most people tend naturally to want more tax-free termination payment now, but the circumstances of each case need to be looked at carefully, to see where the balance of advantages lies.

Tax-free ex gratia termination payments made on or after 1st January 2011 are subject to a **lifetime** limit in respect of all such payments of €200,000; any ex-gratia termination payments made above this €200,000 limit are liable to income tax and USC.

So where a client has previously taken a tax free ex gratia termination payment this prior payment must be deducted from the €200,000 lifetime limit to determine how much of the limit is available for the current ex gratia payment.

4.14 Public Service Retirement Benefits

All individuals employed in the public service are automatically included in a pension scheme, the terms of which vary by when the individual joined the public service. A summary of the retirement benefits provided is as follows:

Joined before 6 th April 1995	Joined between 6 th April 1995 and before 1 st January 2013	Joined 1 st January 2013 onwards
Final salary	Final salary integrated	Career average salary integrated
Pension: 1/80th x pensionable remuneration for each year of reckonable service, max 40/80ths.	Pension: Pensionable remuneration up to 3.33 x State Pension: • 1/200th for each year of reckonable service. Pensionable remuneration in excess of 3.33 x State Pension: • 1/80th for each year of reckonable service. Max 40 years reckonable service.	Career average earnings are used to calculate benefits. A pension and lump sum amount accrue in each pay period and are up-rated each year by reference to the Consumer Price Index (CPI). At retirement, the benefits accrued are summed and this determines the final benefits payable. Pension: The standard rate at which pension accrues is a combination of: • 0.58% of (wholtime-equivalent) pensionable remuneration up to a threshold of 3.74 times the value of the Contributory State Pension PLUS • 1.25% of any portion of (wholtime-equivalent) pensionable remuneration over this threshold, reduced pro rata to the work pattern where the member works part time. The benefit must be calculated in each pay period.
+		
Gratuity: 3/80ths x pensionable remuneration for each year of reckonable service, max 120/80ths.	Gratuity: 3/80ths x pensionable remuneration for each year of reckonable service, max 120/80ths.	Gratuity: 3.75% of pensionable remuneration received in each pay period
State Pension (Contributory) entitlement: No	State Pension (Contributory) entitlement: Yes	State Pension (Contributory) entitlement: Yes

Note that some grades and occupations in the public service, such as the Gardaí, Prison Officers, members of the Defence Forces, etc. have faster accrual rates than outlined above. E.g. Gardaí get double service for each year of service over 20 years, so that they can qualify for a full pension with 30 years' service instead of the normal 40 years required.



Review

Now consider the main teaching points, which were introduced in this Chapter. They are listed below. Tick each one as you go through them.

-
- | | |
|--|--------------------------|
| Approval and registration | ☐ |
| Who can be included in an employer pension scheme? | ☐ |
| What benefits can a scheme provide? | ☐ |
| Tax relief on contributions | ☐ |
| Charges | ☐ |
| When can retirement benefits be taken? | ☐ |
| How can retirement benefits be taken? | ☐ |
| Maximum approvable benefits | ☐ |
| Maximum contribution to a DC scheme | ☐ |
| Tax relief on contributions | ☐ |
| Additional Voluntary Contributions (AVCs) | ☐ |
| Provision of information | ☐ |
| Termination of employment | ☐ |
| Public service retirement benefits | ☐ |

Sample Questions

The answers to these questions can be found in your Study Hub.

1. John is taking a voluntary redundancy package from his employer. His average annual remuneration over the three years prior to the date of termination of employment is € 105,000, and he has completed 15 years and 9 months service with his employer. He has no employer pension scheme benefits and he has not previously received a tax-free ex-gratia termination payment.

What is John's Standard Capital Superannuation Benefit in respect of an ex-gratia termination payment his employer is going to pay to him.

- A. Nil.
- B. € 98,437.50
- C. € 105,000
- D. € 112,000

2. What MINIMUM number of years' service for retirement benefits must an employee member of an employer pension scheme have in order to qualify for a preserved retirement benefit on leaving service?

- A. 2 years.
- B. 3 years.
- C. 4 years.
- D. 5 years.

3. Sorcha has reached her Normal Retirement Age (NRA) in her employer's DC pension scheme. Her accumulated fund is € 80,000. In addition, she has AVCs of € 20,000. Her best final remuneration is € 60,000 per annum, she has no retained benefits, and she has 28 completed years' service. Assuming she opts for the traditional benefit option, what is the MAXIMUM lump sum she can take from the scheme at NRA?

- A. € 50,000
- B. € 60,000
- C. € 80,000
- D. € 90,000

4. Sandra aged 60 has reached Normal Retirement Age (NRA) in her employer's pension scheme. She has completed 30 years' service, and her best final remuneration is € 60,000. She has a retained pension of € 25,000 p.a.

What is the MAXIMUM approvable annual pension, before commuting any pension for a lump sum, the scheme can provide for her now on retirement at NRA?

- A. € 15,000
- B. € 20,000
- C. € 30,000
- D. € 40,000

05

Auto Enrolment

Chapter 5 looks at the new Automatic Enrolment Retirement Savings System, explaining who it applies to, how contributions and participation work, what happens on retirement and death, and how savings are invested.

Learning Outcomes – after studying this chapter you should be able to:

explain the structure and purpose of the auto-enrolment system, including eligibility criteria and exclusions;

understand participation rules, including how opting in, opting out, and re-enrolment operate in practice;

calculate contribution levels, recognising the role of employees, employers and the State; and

describe the benefits payable on retirement and death, as well as the investment approach used for savings.

Chapter weightings	Number of questions which may appear		
In the exam, questions are taken from each Chapter based on the following approximate chart:	Chapter	Minimum	Maximum
	5	4	6

5.1 Introduction

Private pension participation in Ireland has been low when compared with OECD peers, with one third of workers aged between 20 – 69 having no private pension and who will be solely reliant on the State Pension in future¹⁵.

Auto Enrolment (“AE”), also known as MyFutureFund, is a state sponsored retirement savings scheme designed to help workers who are not a member of an employer scheme or who are in a scheme with relatively lower contribution levels, build a retirement fund over their working life. It automatically enrolls employees in a pension scheme with contributions from employers, employees and the government, thereby helping workers save towards their replacement income in retirement.

The legislation establishing the AE system is the Automatic Enrolment Retirement Savings System Act 2024.

The National Automatic Enrolment Retirement Savings Authority, or **NAERSA**, is a statutorily independent body responsible for the administration of the AE scheme.

5.2 Eligibility

5.2.1 Who Will Be Auto-Enrolled?

Individuals who satisfy the following criteria will be automatically enrolled in AE:

- In receipt of income from an employer, subject to PAYE (i.e. Schedule E remuneration);
- Are aged between 23 and 60;
- Have a gross income of more than €20,000 per year across all employments, or more than €5,000 over a 13-week period; AND
- Are not currently paying into a pension through payroll.

Employees who are on probation, or are on casual, part-time or seasonal contracts will be automatically enrolled. Employees will remain enrolled, even if their income falls below the €20,000 threshold. Contributions will continue to be based on gross pay.

Employees outside of the age and income thresholds can voluntarily opt-in to AE.

5.2.2 Exclusions

Individuals **excluded** from AE are:

- The self-employed (i.e. those with Schedule D earnings).
- Non-earning or those not in employment.
- Existing members of occupational schemes, PRSAs and PEPPs.

5.2.3 How Will Employees Be Auto-Enrolled?

All employers are required to register as an employer on the MyFutureFund employer portal. Employer payroll information is submitted to NAERSA via the portal who will then:

¹⁵ <https://www.cso.ie/en/releasesandpublications/ep/p-pens/pensioncoverage2024/keyfindings/>

- Determine which employees are eligible for AE using Revenue payroll data, and enrol them.
- Collect all employee, employer and State contributions.
- Invest the money on the employee's behalf.
- Allocate any investment returns to their fund.

For employees who have no earnings record, NAERSA will do a lookback review of payroll data to see if an employee is eligible to be auto enrolled. This lookback period will be for the previous 13 weeks and will be conducted on a rolling basis, so even if an employee doesn't qualify initially, NAERSA will continue to monitor in case they do become eligible in future.

Under AE legislation, employers are required to

- Inform employees when they have been enrolled.
- Submit payroll for enrolled employees to NAERSA.
- Pay the employee and employer contributions to NAERSA for each payroll run.
- Not force staff to opt-out or suspend their participation in AE, or to prevent them from opting-in.

5.2.4 Opting Out and Suspending Contributions

Once enrolled, employees will remain in AE for at least 6 months. After that, they will be able to opt-out from AE during the opt-out window in month 7 and 8. Employees who opt out will receive a refund to the value of the contributions which they personally made but employer and State contributions will remain in the scheme.

Opting out is also facilitated if there is a change in contribution rate. Participants can choose to opt out 6 months after a change in contribution rate. They then have a 2 month window during which they can opt out. In this scenario, they will be refunded the amount of the increase in contribution rates they paid in those months.

After 8 months, participants cannot opt-out however they will be able to suspend or pause their contributions at any time outside of the mandatory 6 month participation period. Suspending participation means that all contributions relating to all employments will cease for at least 12 months. Participants will not be entitled to a refund of their contributions during this period and existing contributions will remain invested. They can restart contributions at any time.

Opt-outs and suspensions last for a maximum of 2 years. If a participant employee has not re-enrolled after 2 years, and they are still eligible, they will be automatically re-enrolled.

5.3 Contributions

5.3.1 Contribution Rates

Contributions are paid by the employee, the employer and the State and will increase incrementally over the first 10 years of the scheme, as set out in the table below.

	Employee	Employer	State
Year 1 to 3 (2026 – 2028)	1.5%	1.5%	0.5%
Year 4 to 6 (2029 – 2031)	3%	3%	1%
Year 7 to 9 (2032 – 2034)	4.5%	4.5%	1.5%
Year 10+ (2035+)	6%	6%	2%

Contribution rates are fixed as outlined in the table. It is not possible to contribute more or less than these rates.

Phasing in of contributions will take place in the first decade of the operation of AE, not in the first 10 years of an employee's career. If a new employee joins the scheme in 2033, they will start paying the 4.5% rate for example.

To help employers manage the cost of AE, contributions are calculated up to a maximum gross pay of €80,000.

5.3.2 Tax Relief

There is no tax relief on employee contributions to AE. In simple terms, for every €3 an employee saves, the employer will add €3, and the State will add a further €1 turning a €3 employee contribution into savings of €7. The State contribution is exempt from a charge to income tax and USC.

Contributions paid by an employer to AE on behalf of an employee are allowed as a deduction for corporation tax purposes. The amount of contributions are allowed to be deducted as an expense for the company incurred in the year in which the sum is paid.

Employer contributions on behalf of an employee are exempt from a charge to Benefit In Kind (BIK) and USC for the employee.



Example #1

Orla is 30 and works full time in a restaurant earning €45,000 a year. She has no existing pension arrangement for this employment.

Orla contributes 1.5% of her gross salary. Her employer contributes 1.5% and the state tops it up by 0.5%.

The monthly contribution breakdown is

Orla's contribution (€45,000 * 1.5%/12)	€56.25
Orla's employer's contribution (€45,000 * 1.5%/12).	€56.25
State top up (€45,000 * 0.5%/12)	€18.75
Total monthly contributions	€131.25

Orla's total yearly contributions are €131.25 * 12 = €1,575

Where an employee has more than one employment, their aggregated pay is taken into consideration for the €20,000 income threshold.



Example #2

Dylan is 24 with two part-time jobs, earning €10,000 and €15,000. He has no existing pension arrangement in either employment. Even though he earns less than €20,000 in each of these jobs, his total gross salary is over €20,000, therefore he will be auto-enrolled in 2026.

Dylan contributes 1.5% of gross salary, his employer contributes 1.5% and the State tops it up by 0.5%.

The yearly contributions are

	Gross Pay	Dylan	Dylan's employer	State
Job A	€10,000	1.5% of €10,000 €150	1.5% of €10,000 €150	0.5% of €10,000 €50
Job B	€15,000	1.5% of €15,000 €225	1.5% of €15,000 €225	0.5% of €15,000 €75
Total yearly contributions	€25,000	€375	€375	€125

In 2027, Dylan decides to begin a full-time course and as a result, ceases one of the part-time jobs. He will continue to remain in AE even though his total gross salary has fallen below €20,000.

If the employee has an existing pension arrangement, in order for that employment to be exempt from AE, the pension arrangement must provide for:

- A minimum contribution of 3.5% of the employee's gross pay, or €2,800 per year, whichever is lesser, of which
- At least 1.5% is being paid by the employer (to a maximum contribution of €1,200), with the remaining 2% of the contribution being funded by either the employer or the employee.

These rates will stay in place until 2028, after which they will gradually rise in line with AE contribution rate increases.



Example #3

Orla is 30 and works full time in a restaurant earning €45,000 a year. She is a member of her employer's pension scheme with a 2% employer contribution and a 1% employee contribution, based on gross salary.

As the total contribution is below 3.5%, the employer scheme does not qualify for an exemption from AE and Orla will be auto-enrolled.

The scheme would qualify for an exemption from AE if either Orla or the employer agreed to increase their contribution by 0.5%, bringing the total contribution to 3.5%.

5.4 Investment

On joining AE, all participants are placed into the scheme's Default Investment Strategy ("DIS"). The DIS operates on a life cycle basis, e.g. decreasing investment risk the closer a participant gets to retirement.

In addition to the DIS, the scheme offers a low risk, medium risk and high risk investment strategy to participants.

Through a tender process, NAERSA selected three different investment managers to operate each investment strategy. Participants do not need to select an investment manager, as participants' funds are spread among them automatically. This means that participants in the same investment strategy will always receive the same returns, based on what was invested on their behalf.

Investments held in the AE scheme on behalf of participants grow tax free.

5.5 Charges

Employers do not pay any costs, in addition to contributions.

Participants' funds are subject to:

- A NAERSA administration fee of 55 cent per week, capped at €28.60 per year; and
- An investment manager annual charge of 0.04%.

Participants will get an annual statement, accessible online showing charges.

Administration fees will not be charged on inactive accounts (where a person may have opted out or suspended for a period or started participating in an occupational pension scheme), thereby avoiding the gradual erosion of small-value savings pots.

5.6 Transfers In/Out

AE is designed to be a pension pot which follows an employee throughout their working life to be drawn on at retirement. As the fund is ringfenced until then, it will not be possible to withdraw from the fund or transfer it out to another provider.

The AE legislation currently does not provide for pension transfers from another arrangement into the AE scheme. It is anticipated that this will be introduced via new legislation at some point over the coming years.

5.7 What Benefits are Provided?

5.7.1 Retirement Age

Normal retirement age is linked to the State Pension which is age 66. There is no ability currently to access retirement benefits early, before age 66, except on grounds of exceptional ill-health or incapacity.

5.7.2 Benefits at Retirement

At normal, or early retirement, participants can access a lump sum of 25% of the fund. The lump sum is taxed in the same way as private pension arrangements (tax free up to €200,000 for all lump sums taken from all pension arrangements).

After taking the lump sum, any further drawdowns from AE will be subject to income tax under Schedule E. PAYE will be operated by NAERSA as the administrator of AE.

Specific retirement details have not yet been published, however it is anticipated that AE retirement rules will closely mirror PRSA and DC occupational pension norms, providing access to an Approved Retirement Fund or similar structure. It is not anticipated that AE will provide a guaranteed income payable for life in retirement.

5.7.3 Benefits on Death

On death, the fund becomes part of the estate of the deceased and is distributed under the terms of their Will or intestacy rules.

5.7.3.1 Death Before Retirement

Where a participant dies before retirement age and has not yet accessed their retirement lump sum, then the value of the participant's fund is payable to the individual's estate.

5.7.3.2 Death After Retirement

If the participant dies after their retirement lump sum was paid out, the tax treatment of the payment of benefits depends on who inherits the remaining funds:

To a surviving spouse/civil partner	• Exempt from Income Tax. • Exempt from Inheritance Tax.
To a child of deceased, or child of spouse/civil partner, over age 21	• 30% Income Tax charge. • Exempt from Inheritance Tax.
To a child of deceased or child of spouse/civil partner, under age 21	• Exempt from Income Tax. • Taxable inheritance for Inheritance Tax, with benefit of any unused Inheritance Tax threshold.
To anyone else	• Subject to PAYE as deceased's income in year of death • Net (after PAYE) amount is taxable inheritance for Inheritance Tax purposes, with benefit of any unused Inheritance Tax threshold.



Review

Now consider the main teaching points, which were introduced in this Chapter. They are listed below. Tick each one as you go through them.

-
- | | |
|---|--------------------------|
| Purpose and background of Auto Enrolment | ☐ |
| Eligibility criteria | ☐ |
| Employer registration and enrolment process | ☐ |
| Opting out, suspending and re-enrolment rules | ☐ |
| Contribution structure | ☐ |
| Investment features | ☐ |
| What charges apply? | ☐ |
| How and when can benefits be taken? | ☐ |

Sample Questions

The answers to these questions can be found in your Study Hub.

1. Which of the following individuals will be automatically enrolled in MyFutureFund?
 - A. Arlo, aged 21, earning €25,000 with no pension.
 - B. Sam, aged 45, earning €18,000 with no pension.
 - C. Sharon, aged 55, earning €30,000 who is not paying into a pension through payroll.
 - D. Mason, aged 35, self employed, earning €40,000.

2. How long must an employee participate in AE before they are first allowed to opt out?
 - A. Immediately after enrolment.
 - B. After 3 months.
 - C. After 6 months.
 - D. After 12 months.

3. In the first 3 years of the AE scheme, what are the combined contribution rates (employee + employer + State)?
 - A. $1.5\% + 1.5\% + 0.5\% = 3.5\%$
 - B. $3\% + 3\% + 1\% = 7\%$
 - C. $6\% + 6\% + 2\% = 14\%$
 - D. $4.5\% + 4.5\% + 1.5\% = 10.5\%$

4. Under the AE investment structure, what happens when a participant first joins?
 - A. Their contributions are held in cash until they choose.
 - B. They are assigned to the Default Investment Strategy (DIS).
 - C. Their money is not invested until they choose a fund.
 - D. They must select a fund before contributions can begin.

06

Transfers

Chapter 6 looks at the options for moving funds from one pension arrangement to another, by the payment of a ‘transfer value’, and the circumstances in which such transfers can be made.

Learning Outcomes – after studying this chapter you should be able to:

understand the circumstances in which transfers are allowed and not allowed under current rules; and

explain the potential risks and losses which a client might be subject to on taking a transfer value from one arrangement to another.

Chapter weightings	Number of questions which may appear		
	Chapter	Minimum	Maximum
In the exam, questions are taken from each Chapter based on the following approximate chart:	6	2	4

6.1 Introduction

Individuals may join and leave a number of pension arrangements over their working lifetime, for example, leave one employer and join another employer. Or an individual may leave employment and become self-employed, or vice versa.

Therefore, an individual may over their lifetime build up retirement benefits in a number of different arrangements. Retirement benefits built up in one arrangement may be moved to another arrangement, in certain circumstances. The lump sum transferred from one pension arrangement to another is called a **transfer value**.

6.2 Allowed Transfers

This table shows what transfer values can be paid between different arrangements:

From	To
PRSA	• Another PRSA • Employer pension scheme • Overseas pension scheme
RAC	• Another RAC • PRSA
Employer pension scheme	• Another employer pension scheme* • Overseas pension scheme* • Personal Retirement Bond • PRSA*
Personal Retirement Bond (PRB) [also known as a Buy Out Bond]	• Another PRB • Employer pension scheme

Generally, the transfers above can be made at any time; however, transfers from an employer pension scheme are subject to the following restrictions:

- A transfer can only be made if the member has left service and has a preserved benefit, or if the scheme is winding up.
- A transfer can only be made from an employer pension scheme to a PRSA subject to the provision by the PRSA provider to the individual of the information specified in Chapter 4 for transfers to a PRSA.

A transfer can only be made from a PRSA or employer pension scheme to an overseas pension scheme if:

- The individual has left service and has a right to a preserved benefit in the scheme;
- The individual has requested the transfer;

* Subject to restrictions.

- The retirement benefits to be provided under the overseas scheme are similar to those provided by Irish employer pension schemes; and,
- The overseas scheme is approved by an appropriate regulatory authority for the country concerned.

6.3 Transfers Not Allowed

The following transfers are **not** allowed in any circumstance:

From	To
PRSA	• RAC • Personal Retirement Bond
RAC	• Personal Retirement Bond • Employer pension scheme
Employer pension scheme	• RAC
Personal Retirement Bond	• PRSA • RAC

While an RAC cannot be transferred directly to an employer pension scheme, it can be transferred to a PRSA and from the PRSA can then be transferred to an employer scheme.

6.4 Potential Risks of Taking a Transfer Value

Just because a client can take a transfer value from one arrangement to another doesn't mean that it is always in his or her best interests to do so.

There are a number of potential risks for an individual in opting to take a transfer value from one pension arrangement to another:

- Exit charges might be levied by the current arrangement from which the transfer value is being taken, and/or entry charges could be levied by the new arrangement to which the transfer value is being paid.

However, note that a PRSA **cannot** levy an exit or entry charge on transfer values received or paid out.

- Where an individual has a deferred pension in a DB scheme with more than 10 years to go to NRA, opting to take a transfer value can result in a significant loss of pension value as the transfer value is usually calculated using a 6% pa pre-retirement discount rate and a 4.25% pa post retirement discount rate, after charges. The investment transfer value may not reproduce the same value as the DB pension if it does not achieve these returns after charges.
- The annual fund charge in the new arrangement might be higher than the annual fund charge in the current arrangement, for a similar type of fund.
- The current arrangement might have a wider and better investment fund choice than the new arrangement; but this may not be relevant to the individual if they are happy with the limited fund choice offered by the new arrangement. Most clients tend to stick to one or two funds, e.g. the default fund.

- The new arrangement may offer less options in taking retirement benefits than the current arrangement; e.g. a DC scheme offers the traditional benefit and the ARF option but a transfer to a PRSA will only offer the ARF option. This could result in some cases in a reduction following transfer in the level of tax free lump sum which can be taken at retirement.
- The current arrangement might carry some additional benefits which will be lost on transfer to a new arrangement, such as:
 - Death and disability benefits.
 - A guaranteed minimum annuity rate at retirement, higher than equivalent open market annuity rates, so that a higher annuity might be secured by the fund at retirement in the current arrangement than could be secured if the fund were transferred to a new arrangement.

6.5 Potential Benefits of Taking a Transfer Value

There may be potential benefits for an individual in opting to take a transfer value from one pension arrangement to another:

- By amalgamating smaller retirement funds into one larger arrangement, the individual may benefit from economies of scale and the convenience of having all retirement benefits in the one place. E.g. The annual fund charge in the new arrangement might be lower than the annual fund charge in the current arrangement, for a similar type of fund, because of a larger fund size.
- The new arrangement may offer earlier access to benefits; e.g. a transfer value taken from a DB scheme to a PRB, for example, may offer immediate access to benefits (where the individual is over age 50) whereas in the DB scheme they may have to wait to their Normal Retirement Age, 60 or 65, in the scheme to get their benefits.
- The new arrangement might have a wider and better investment fund choice than the current one; but this may not be relevant to the individual if they are happy with their current limited fund choice.
- The transfer may facilitate transfer on to another arrangement, not allowed by a direct transfer from the current arrangement. E.g. an RAC cannot be transferred to an employer pension scheme but can be transferred to a PRSA which in turn can be transferred to an employer pension scheme.



Review

Now consider the main teaching points, which were introduced in this Chapter. They are listed below. Tick each one as you go through them.

-
- | | |
|---|--------------------------|
| Allowed transfers | ☐ |
| Transfers not allowed | ☐ |
| Potential risks of taking a transfer value | ☐ |
| Potential benefits in taking a transfer value | ☐ |

Sample Questions

The answers to these questions can be found in your Study Hub.

1. A penalty or charge CANNOT be levied on the payment of a transfer value from which one of the following?
 - A. Personal Retirement Bond.
 - B. Retirement Annuity Contract.
 - C. Standard PRSA.
 - D. Employer pension scheme.

2. A transfer value from which one of the following CANNOT be paid INTO a Standard PRSA?
 - A. Personal Retirement Bond.
 - B. Retirement Annuity Contract.
 - C. Employer pension scheme.
 - D. Non Standard PRSA.

3. A transfer value can, in certain circumstances, be paid to an overseas pension arrangement from a(n):
 - A. Retirement Annuity Contract.
 - B. PRSA.
 - C. Personal Retirement Bond.
 - D. ARF.

4. A Retirement Annuity Contract (RAC) can be transferred to a(n):
 - (i) PRSA.
 - (ii) Personal Retirement Bond.
 - (iii) employer pension scheme.
 - A. (i) only.
 - B. (i) and (ii) only.
 - C. (ii) and (iii) only.
 - D. (i), (ii) and (iii).

07

Investment

This Chapter examines the process of investing pension contributions. Traditional and alternative asset classes are explained. Risk ratings and how funds are categorised is included. The concept of a default investment strategy is dealt with together with information on investment restrictions which may be imposed in some arrangements.

Learning Outcomes – after studying this chapter you should be able to:

explain what the traditional and alternative asset classes are;

explain the various types of collective investment funds and their attributes;

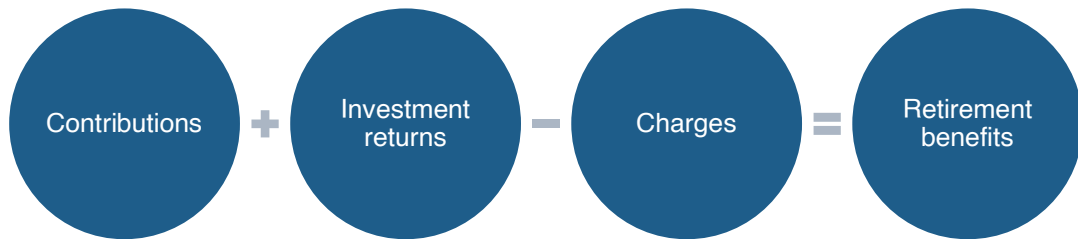
show a basic understanding of asset allocation and the benefits of diversification; and

understand the general restrictions and regulations that are applicable to the investment of pension funds.

Chapter weightings	Number of questions which may appear		
	Chapter	Minimum	Maximum
In the exam, questions are taken from each Chapter based on the following approximate chart:	7	8	10

7.1 Introduction

DC arrangements such as PRSAs, RACs and employer pension schemes work broadly as follows in accumulating retirement benefits:



Therefore, the investment return earned has a significant impact on the level of retirement benefits a DC arrangement will provide for an individual at retirement.

Investing contributions to get the best return for the individual relative to the level of risk he or she is prepared to take, is important as it has a direct impact on the level of retirement fund the individual will have. The higher the return achieved, the larger the fund will be.

For example, this chart shows the projected retirement fund after 25 years for a regular contribution of €1,000 pa, at different assumed rates of investment returns, from 1% pa to 5% pa (*after charges*):



For example, the projected fund after 25 years at 4% pa, i.e. €43,312, is about 15% higher than if a return of 3% pa were achieved, i.e. €37,553, and is some 33% higher than if a 2% pa were achieved.

7.2 Investment Asset Classes

There is a range of different types of investments, referred to as *asset classes*, in which pension arrangements can invest.

7.2.1 Traditional Asset Classes

The main or traditional investment asset classes are:

- **Cash.** This category includes not just deposits but money market type investments which are 'near' cash or cash equivalent, i.e. which carry a capital guarantee and can be turned into cash instantly or within a very short period.
- **Bonds** (also known as fixed interest securities), issued by a Government, public authorities and companies.

Bonds are a form of borrowing by the issuer of the bond.

In effect the investor in a bond buys an IOU provided by the bond issuer.

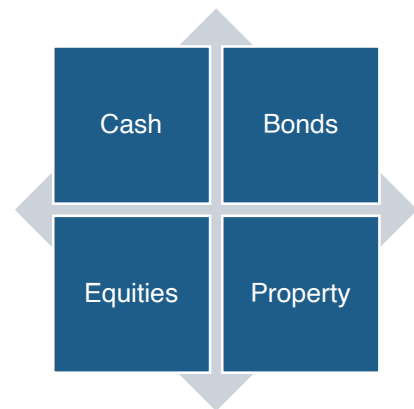
Bonds issued by the Irish Government are referred to as **Treasury Bonds**. Bonds issued by the UK

Government are referred to as **Gilts** as they are judged to offer 'gilt edged' security, i.e. the guarantee of the UK Exchequer.

Bonds issued by companies are usually referred to as **corporate bonds**, and where the bonds are secured over some of the company's fixed assets, **debentures**.

Under a traditional bond, the issuer usually undertakes to:

- Pay a regular interest payment (referred to as the **coupon**) on the nominal or face value of the bond, and
- Pay the **nominal value** of the bond at some specified date or dates in the future, i.e. the maturity date.



Bonds vary in terms from months up to 100 years or more, although typically most bonds will have a maturity date of less than 15 years from issue.

Some bonds may undertake to index or link returns to the rate of inflation, referred to as **index linked** or *inflation linked* bonds.

- **Equities**, i.e. shares in companies listed and traded on a stock exchange. Shares (particularly those of larger companies) are also very liquid as they can be sold easily on a stock exchange to raise cash, if required.
- **Property**, i.e. usually commercial property such as offices, factories and shops. Property, however, is not very liquid as it takes time to sell large commercial properties if the property is not to be sold at a substantial discount to its market value.

Equities, property and index linked bonds are sometimes referred to as 'real' assets, due to their proven ability in the past to provide investment returns in excess of the rate of inflation over the longer term, i.e. can potentially provide a real investment return.

On the other hand, bonds (non-index linked) and cash are sometimes referred to as **monetary asset** classes, as their return is fixed in monetary terms. The returns from monetary assets are therefore more open to the impact of inflation over the longer term.

Pension funds generally seek to obtain a *real* investment return over and above the rate of inflation or growth in earnings, as their main objective is to provide replacement earned income in retirement.

7.2.2 Alternative Asset Classes

There are other types of investment assets, sometimes referred to as *alternative*¹⁶ assets classes, such as:

- Private equity, i.e. investing in shares in private companies either directly or indirectly. These shares are sometimes referred to as unlisted as the shares are not listed on a stock exchange.
- Precious metals, for example, gold and silver.
- Works of art.
- Collectable coins, vintage wine etc.
- Commodities, such as copper, wheat, oil etc.
- Foreign currencies, for example, holding foreign currencies as an investment, in the hope or expectation that currency will appreciate in value relative to the investor's 'home' currency, for example, against the Euro.
- Infrastructure: for example, toll roads, toll bridges, etc.

7.2.3 Historic Returns

The returns on asset classes can be presented in two distinct forms, **Nominal** which is the return before taking account of inflation and **Real** which is the return after inflation. It is very important to understand which return is being quoted when interpreting the various historic returns from each asset class. Statistics prepared annually by *UBS*¹⁷ show the annual *real* rate of return for US Markets (that is, return after offsetting inflation over the same period) for equities and bonds over the last 125 years, as follows:

Real investment returns by asset class (% per annum)

US Equities	6.6
US Bonds	1.6

What the statistics show is that equities produced the most volatile but highest real return over the very long-term.

¹⁶ i.e. *alternative to the main asset classes*

¹⁷ Source: *UBS Global Investment Returns Yearbook 2025 (summary)*, page 7.

Property returns are not shown in the report; however typically property has produced returns closer to equity returns and slightly above bond returns over the longer term.

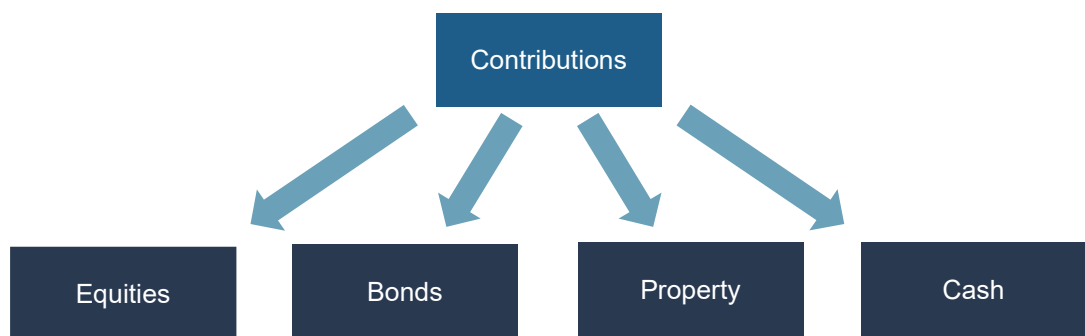
7.3 Collective Investment Funds

A collective investment fund is a fund in which a number of investors, such as pension funds, club together to invest in a wide spread of assets. Each investor owns a proportionate share of the fund.

7.3.1 Different Types of Collective Funds

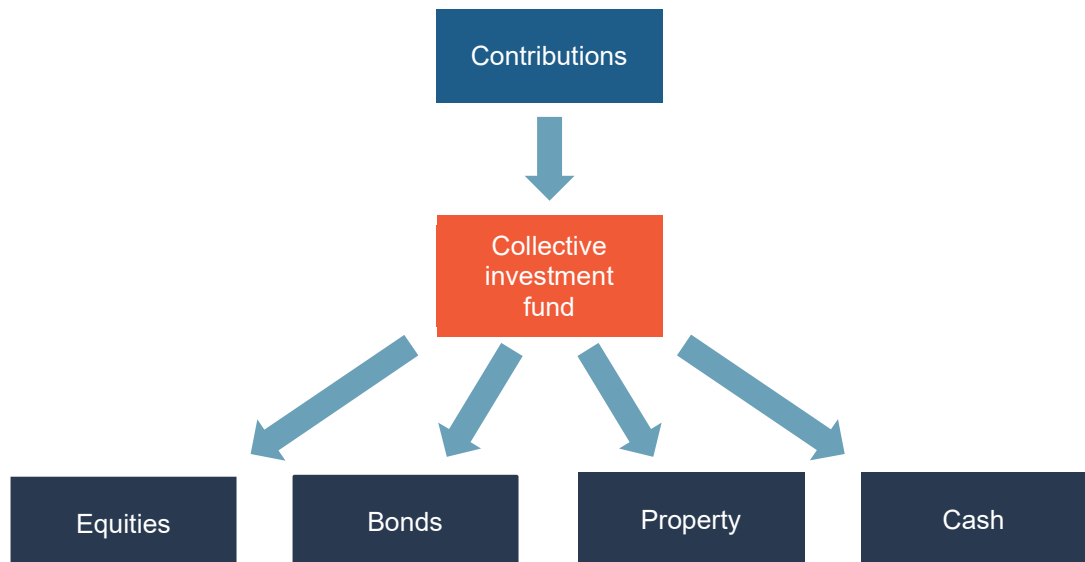
Pension arrangements may invest directly in equities, bonds, property, and cash:

Directly



Indirectly

However, some pension arrangements invest indirectly in those assets through collective investment funds, where a number of investors club together to invest:



The term **pooled** funds is also often used to describe collective investment funds.

There are a number of different types of collective investment funds:



Life companies maintain separate investment funds called **unit funds** into which contributions from pension arrangements are invested through a unit linked policy.

A **unit trust** is an investment fund where the assets of the fund are legally held by trustees on behalf of investors.

A unit trust is run on similar lines to a life company unit fund, i.e. investors secure units in the fund based on the ruling unit price.

An **investment company** is a company which invests its shareholder's funds in underlying investments. Investors therefore, purchase shares in the company rather than units in a unit fund or units in a unit trust.

An **exempt unit trust** is a term used to describe a unit trust open only to investors entitled to a tax-free investment return, such as pension funds, ARFs and charities.

One popular type of investment company is an **exchange traded fund** or **ETF** for short. An ETF is a collective investment fund in which investors can buy or sell shares or units in the fund on a stock exchange.

ETFs typically aim to replicate the investment performance of a specific index of securities, for example, a particular Stock Market index, but can be any index of securities.

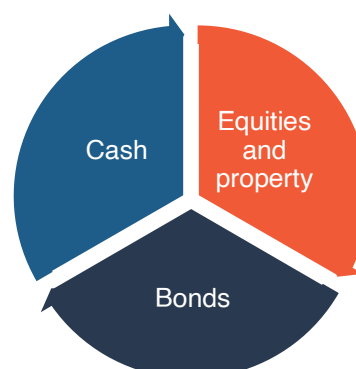
The term **UCITS** stands for **undertakings for collective investment in transferable securities**. The UCITS system is an EU wide regulatory system of collective investment funds which meet the requirements of UCITS regulations. UCITS are subject to restrictions on what they can invest in. In particular UCITS funds **cannot** invest in:

- Property, but can invest in property company shares listed on a stock exchange.
- Precious metals (for example, gold) or certificates representing such metals.

7.3.2 Asset Allocation

The term **asset allocation** refers to the split of a fund into the asset classes outlined above, and in particular between the main classes of equities and property, bonds and cash.

This is the decision which will have most impact on the return any investor will earn from such a fund, over the longer term, and on the risk taken to achieve that return.



7.3.3 Advantages of Investing in Collective Investment Funds

This collective approach to investing has a number of *advantages*, compared with direct investment in the underlying investments:

- Access to professional investment managers, who manage the fund.
- Access to a more diversified spread of assets than could be obtained if each investor were to invest directly themselves. This helps to reduce risk, as a fund investing in a wider spread of investments is likely to be less volatile than an investment in a smaller number of investments.
- Lower dealing costs; larger investment funds benefit from lower dealing and other associated costs than if an individual investor were investing smaller amounts directly.
- Access to some types of assets, for example, gold, infrastructure, etc, which the individual investor on their own simply could not access, or could only access at a high cost.

Collective investment funds provide access to a more diversified spread of assets than could be obtained if each investor were to invest directly themselves.

7.3.4 Unit Linked Policies

Life company pension policies are mostly *unit linked*. This means:

- A contribution paid to the policy is used, after any contribution charge, to secure units in a unit linked fund operated by the life company. Contributions secure units based on the unit price of the relevant unit fund at the time the contribution is received by the life company.



Example #1

A €1,000 contribution is paid to an RAC and invested in a unit fund which on that day has a unit price or value per unit of, say, €1.48. The RAC has a 2% contribution charge. The contribution of €1,000 will secure:

$$€980/€1.48 = 662.16 \text{ units in that fund.}$$

These units are then allocated to that RAC policy to work out its value from time to time.

The value of the policy/contract at any time is determined by the number of units allocated to it and the then ruling unit price of the unit fund or funds to which the policy is linked.

- Number of units x unit price = encashment/transfer value of unit linked policy.



Example #2

A PRSA has 2,465.25 units of a particular unit linked fund allocated to it. The current unit price of the fund is €1.782.

The current value of the PRSA is:

$$2,465.25 \times €1.782 = €4,393.08.$$

The unit price of a unit fund on any day is worked out by taking the value of the fund's investments on that day, divided by the number of units currently allocated to policyholders in that fund.



Example #3

A unit fund has investments valued today at €10,000,000 and total units allocated of 2,500,000.

The unit price today will therefore be:

$$€10,000,000 / 2,500,000 = €4.00.$$

If the value of this unit fund's investments increased to €11,000,000 and the number of allocated units stayed the same, the unit price would increase to:

$$€11,000,000 / 2,500,000 = €4.40.$$

But if the value of the unit fund's investments fell to €9,000,000 and the number of allocated units stayed the same, the unit price would fall to:

$$€9,000,000 / 2,500,000 = €3.60.$$

Therefore, if a unit fund invests in assets which can go up and down in value, for example, shares on the stock market, then the unit price and hence the value of the RAC/PRSA contract will also go up and down in value.

For this reason, you will always see the following statement on literature for unit linked pension and investment contracts:

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

This is a Central Bank Consumer Protection Code requirement on all 'advertisements' for investment funds which can 'fluctuate in price or value'.

7.3.5 Fund Choice

DC pension arrangements usually offer the individual a range of different types of funds to invest in:

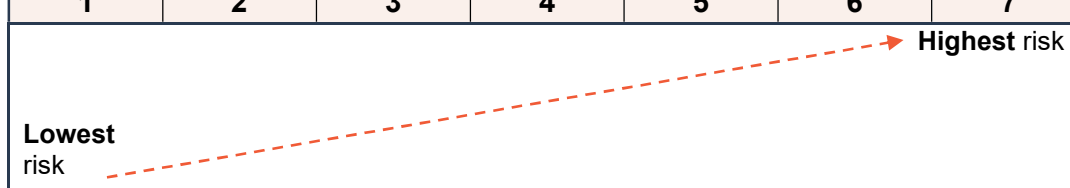
Mixed funds	These funds invest in a mix of company shares (regularly referred to as equities), bonds, property and cash deposits. These funds are also sometimes referred to as 'managed' funds. Some life companies offer a range of mixed funds with different levels of investment in equities and property, i.e., different level of risks. For example, a 'cautious' mixed fund might have a maximum of 40% invested in equities and property, a 'balanced' mixed fund might have a maximum of 60% invested in equities and property, while an 'adventurous' mixed fund might have a maximum of 80% invested in equities and property.
Multi-Asset funds	These funds are similar to managed or mixed funds but invest in a wider range of asset types including commodities, derivatives, infrastructure, currencies and private equity.

	Mixed and multi-asset funds are the most popular choice for investors who want to take a mid-course between investment risk and return.
Funds which invest in one asset class	An equity fund which invests only in equities, a property fund which invests only in property, a bond fund which invests only in bonds, and a cash/deposit fund which invests only in deposits or very short-term financial instruments. Certain restrictions may be placed when investing in or switching existing funds into property unit funds: • Some property funds may close to new investments, from time to time. • The fund may retain a right to delay encashments from or switches out of a property fund by up to six months, or even longer, where the fund is experiencing net cash outflows and therefore needs to sell properties to meet the cash demands of investors cashing in their investments. This is sometimes referred to as 'gating' the investors, i.e. locking the investors in.
Specialist funds	Funds which invest in a limited or restricted range of assets. For example, an equity fund which invests in a particular industry, for example, technology, telecoms, banks, smaller companies, etc, or in a very limited number of the top companies in the world. Such specialist funds, being narrowly focused in what they invest in, are generally higher risk funds than managed/multi-asset funds which invest in a broad range of asset types.
Commodity funds	Funds which invest in one or more types of commodities such as gold, silver, or food.
Smoothed/guaranteed funds	Some funds may smooth the investment return over time, so that unit prices do not go up and down directly in line with the underlying asset values, and/or may offer a guaranteed minimum return at retirement. See Chapter 7.6 below on With Profit system for more details.
Funds with different investment management styles	There are two main types of investment management styles: Active: where the investment manager uses their skills to attempt to outperform a particular market, which is then set as the 'benchmark'. For example, a fund investing in European equities and actively managed, will attempt to outperform an index of European equities. Passive: where the fund is structured to match the performance of a particular market. For example, a fund investing in European equities and passively managed, will seek to very closely match the return provided by an index of European equities.

	'Consensus' funds are a particular form of passive fund where the benchmark which the fund attempts to match is the average of other similar competing funds, i.e., the consensus fund aims to produce the same performance over a period of time as the average return of other similar competing funds over the same period.
Internal and external fund managers	Some unit linked bonds may offer a choice of different funds managed by a range of external (to the life company) fund managers, in addition to funds managed internally by the life company's own in-house investment team. Typically, funds managed by external fund managers carry a higher level of annual fund charge.
Self invested fund	Some individual pension arrangements offer a bespoke fund option where the individual or their investment adviser can choose which assets to invest in. The only investor in that fund is the individual; it is therefore their own 'personal' fund. For example, a self-invested fund (sometimes referred to as a self-directed fund) might allow the individual to invest their fund in one specific property or in an individually selected portfolios of equities and bonds, including deposits. Such a fund is not a collective investment fund, as there are no other investors in the fund.

Life companies may categorise each unit fund it offers to investors in terms of its likely risk and return profile.

For example, a life company might place a particular unit fund into one of seven categories, with one being the lowest risk and hence likely over the longer term to produce the lowest return, and seven the highest risk and hence likely over the longer term to produce the highest return:

Risk/return rating						
1	2	3	4	5	6	7
						
Lowest risk Highest risk						

A key part of an investment advisory service provided to clients is to recommend funds appropriate to the level of investment risk the client is willing to accept and can afford, given their personal and financial circumstances and existing savings and investments held.

This is sometimes done by using software to ask the potential investors a number of questions about investment etc, and using the answers provided to score the potential investor into one of the seven risk categories above, for example, a four.

Therefore, this potential investor with a risk rating of four would not be offered funds with a risk rating of five to seven, and their core fund holding would likely be placed in funds with a risk rating of four.

7.3.6 Rebalancing

Some DC pension arrangements offer the option of automatic **rebalancing**. This facility is designed to ensure that where an individual opts initially to invest in a mix of unit funds, the percentage split of the value of their fund between these funds is automatically maintained at the initial percentage chosen. This is done by **automatically** switching units at regular intervals to rebalance the fund split.

Without rebalancing, the percentage of the individual's fund value invested in the different funds would move away from the initial choice, over time, due to differing fund performance.



Example

John invests €50,000 in a PRSA, and opts to invest this sum as follows:

- 50% in an equity fund.
- 25% in a bond fund.
- 25% in a cash fund.

If, over the first year, the equity fund unit price increased by 20%, the bond fund by 7% and the cash fund by 2%, the value of John's PRSA at end of the first year would be:

- €25,000 x 1.20 = €30,000 in the equity fund.
- €12,500 x 1.07 = €13,375 in the bond fund.
- €12,500 x 1.02 = €12,750 in the cash fund.

The total value of the PRSA at the end of the first year is €56,125.

So, at the end of the first year, the value of John's PRSA at that stage would now be split as follows:

- €30,000/€56,125 = 53.4% in the equity fund.
- €13,375/€56,125 = 23.8% in the bond fund.
- €12,750/€56,125 = 22.7% in the cash fund.

The split of John's PRSA value between the three funds has therefore drifted away from his initial choice (50%/25%/25%), due to differing fund performance.

In the example above, the rebalancing feature would periodically **automatically** switch some units from the equity fund to the bond and cash funds, so that after each such switch the then value of John's PRSA would revert to his initial 50%/25%/25% chosen split.

Fund	Initial fund split	Fund split, at the end of the first year...	
		...without rebalancing	...with rebalancing
Equity	50%	53.4%	50%
Bond	25%	23.8%	25%
Cash	25%	22.7%	25%
	100%	100%	100%

The benefit of using rebalancing is that the risk profile of the investment, in terms of asset allocation, is maintained at the initial level chosen and doesn't drift over time to a higher or lower risk profile, due to differing fund performance.

For example, a medium risk investment could, over time, silently turn into a high-risk investment through different parts of the portfolio providing different returns. Of course, the opposite could also happen; without rebalancing a medium risk investment could, over time, silently turn into a low risk investment.

Rebalancing may be offered on a monthly or quarterly or annual basis.

7.3.7 Fund Switching

Most DC pension arrangements allow the individual to change their fund choice by opting to exchange or switch units between funds. This is referred to as **fund switching**.

It amounts to selling units of one fund and using that money to acquire units in another fund on the same day.

Let's say an RAC holder has 1,000 units in a Mixed Fund, whose unit price today is €2.43. The RAC holder wants to exchange these units for units in the life company's secure Cash Fund whose unit price today is €1.56.

By switching, the RAC holder is in effect instructing the life company to sell his or her 1,000 units in the Mixed Fund for €2,430 and use that money to buy units in the cash fund at €1.56 per unit.



7.3.8 Unit Pricing

In general, the unit price of a unit linked fund is calculated as:

$$\frac{\text{Net asset value of fund}}{\text{Number of units allocated to the fund}}$$

The **net asset value** of the unit fund will usually be calculated by reference to the market **buying** price of the fund's assets on that day plus the estimated acquisition costs (for example, stamp duty, etc); in effect, the investor buying units has to pay the buying price of the underlying assets of the fund.



Example

Buying price of fund's assets	€25,000,000
Add on estimated acquisition costs (2%)	€500,000
Total	€25,500,000
Less loans, debts etc, owed by the fund	Nil
Number of units	20,000,000
Unit price	$\frac{€25,500,000}{20,000,000} = €1.275$

A fund will usually adopt the approach above where the fund is experiencing net cash inflows, i.e., more new investments are coming into the fund than are going out in encashments.

However, if a fund is experiencing cash outflows, i.e., more money is going out of the fund than is coming in by way of new investments, the fund may switch to setting the unit price by reference to the **selling** price of the fund's assets on that day less the estimated costs of disposal:

Disposal value of fund's assets	€20,000,000
less disposal costs (2%)	€400,000
Total	€19,600,000
Less loans, debts etc, owed by the fund	Nil
Number of units	20,000,000
Unit price	$\frac{€19,600,000}{20,000,000} = €0.98$

If a life company experiences strong outflows from a fund it may switch to setting unit prices from the buying value of the assets to the selling value in order to protect the remaining investors. If it lets encashing investors out at too high a unit price, the remaining investors will bear the loss unfairly.

In the case of property funds, in particular, the unit price can fall sharply if the fund goes into net outflows and the life company switches to valuing properties on estimated selling price less disposal expenses, as compared with previous buying price + acquisitions costs basis.

7.4 Default Investment Strategy (DIS)

Where a DC pension arrangement offers investors a choice of funds to invest in, most arrangements have a **default investment strategy (DIS)**, i.e. contributions are invested in a fund or funds nominated by the life company/ provider (i.e. the 'default' fund or funds) if the individual does not make a choice of fund or funds to invest in.

A DC employer pension scheme which offers a choice of funds to invest in must have a default investment strategy. PRSAs must also offer default investment strategies.

A default investment strategy usually involves investing in higher risk/return assets at younger ages and gradually switching to more secure assets, such as bonds, in the run up to the anticipated age at which benefits will be taken.

Start age

Retirement

Equities/property

Bonds/cash



There are three main approaches used to implement a default investment strategy:

- Investment is made initially in a Mixed Fund which invests predominantly in equities and property. About 10 years or so from anticipated retirement age, the individual's fund holding is gradually **switched** to more secure funds such as a Bond fund.

- The individual stays invested in a **lifestyle fund** throughout, which progressively changes the asset allocation of the fund to more secure assets, such as bonds and cash deposits, as the investor approaches their anticipated retirement age.

One approach is to use a lifestyle fund specific to the member's anticipated year of retirement.

In this case the asset mix of the fund (as between equities, bonds and property) gradually changes to higher investment content in bonds/cash, as the fund approaches its anticipated retirement year. For example, there might be a 2035 fund for those anticipating taking their retirement benefits in and around 2035, and a 2040 fund for those anticipating taking their retirement benefits in and around 2040, etc.

- Investment is made initially in a Mixed Fund which invests predominantly in equities and property. About 10 years or so from anticipated retirement age the individual's fund holding is gradually adjusted to reflect the way it is anticipated the individual will take their retirement benefits. This is sometimes referred to as a **benefit driven** default investment strategy.

So, for example, if it was envisaged that an individual would take their benefits under the ARF option, i.e. 25% lump sum and balance transferred to an ARF, their unit holdings would be adjusted in the run up to retirement age to end up, say, 25% invested in cash to meet the 25% lump sum, and 75% invested in a medium risk Mixed Fund of a type which might typically be used by ARF holders in retirement.

7.5 Investment Restrictions

There are a number of restrictions which apply to the investment of various pension arrangements.

7.5.1 Self-Dealing Type Transactions

There are a number of investments which if undertaken by an employer pension scheme, a Master Trust, a PRB, a PRSA or ARF for an individual, create a mandatory withdrawal of the funds and assets involved as a one off pension payment, subject to PAYE, made to that individual:

- Making a loan to the individual, to anyone connected with the individual, or to a 'close company' (i.e. a company controlled by a small number of people) in which the individual or someone connected with the individual is already an investor. (Using assets as security for a loan, is also treated as making a loan.)
- Buying property from the individual, or anyone connected with the individual. (The term 'property' is taken to include all types of assets, and not just bricks and mortar.)
- Selling any asset to the individual, or anyone connected with the individual. (regardless of whether the sale is made at market value or not.)
- Buying property to be used as a holiday property or residence by the individual or anyone connected with the individual.
- Buying commercial property to be used in connection with a business of the individual, or a business of anyone connected with the individual.
- Investing in shares or other interests in a 'close company' in which the individual or someone connected with the individual is already an investor.
- Investing in 'tangible moveable property', for example, cars, wine, art, jewellery, etc.

The term **connected with** referred to above is extremely wide indeed and includes:

- The individual's spouse or civil partner.
- A relative of the individual or of the individual's spouse/civil partner. (The term 'relative' in this regard includes brother, sister, parent, grandparent, child or grandchild).
- The spouse/civil partner of a *relative* of the individual or of a relative of the individual's spouse/civil partner.
- In practice the transactions above are only potentially likely to happen where the arrangement offers a self-directed fund option, i.e. where the individual or an investment manager acting on their behalf can buy and sell the assets of the fund.

7.5.2 Standard PRSAs

A Standard PRSA can only offer collective investment funds to investors. In particular, a Standard PRSA **cannot** offer:

- A fund which provides a smoothed or guaranteed return.
- A self-invested fund, where the individual can select the investment assets to be held by the fund.

Both of the above types of fund could be offered by a non-Standard PRSA.

7.5.3 Borrowing to Invest

In general, DC employer pension schemes can only borrow money for liquidity purposes and only on a temporary basis.

7.5.4 Prudent Person Investment Rules

IORPS II imposes investment restrictions, called the 'prudent person' investment rules on the trustees of all schemes when investing scheme funds and assets.

The trustees of a scheme must:

- **Invest the scheme assets in the best long-term interests of members and beneficiaries as a whole**, and in the case of a potential conflict of interest, must ensure that investments are made in the sole interest of members and beneficiaries,
- Take into account the potential long-term impact of investment decisions on environmental, social and governance factors,
- Invest in such a manner as to ensure the security, quality, liquidity and profitability of the scheme as a whole,
- **Invest predominantly (taken to mean more than 50%) on regulated markets**, and when investing in assets which are not admitted to trading on a regulated financial market, keep any such investment to prudent levels.

This test applies at each member fund level in a group DC scheme, i.e., each member's fund in a group DC scheme must itself be invested predominantly on regulated markets, and not just the scheme as a whole.

Where a member's fund is invested in a collective investment fund or funds, the fund is looked through to its underlying investments to determine if the fund is or is not a regulated market investment.

Therefore, for example, a fund option which invests 100% in an exempt unit trust which in turn invests 100% in properties is not a regulated market investment (as the underlying assets, property, are not bought and sold on a stock exchange) and hence cannot be offered to scheme members.

Therefore, a group DC employer pension scheme **cannot** offer members a fund invested more than 50% in property. Indeed, a fund should be significantly lower than 50% invested in property to avoid market movements inadvertently pushing the fund to exceed the 50% limit.



- **Invest so that the scheme assets are properly diversified** in such a way as to avoid excessive reliance on any particular asset, issuer or group of undertakings and accumulations of risk in the portfolio as a whole.

For example, trustees must not offer a fund option to members which invests 100% in, say, bank shares, as such a fund is not 'properly diversified'.

The above prudent person investment rules do **NOT** apply to investments made by one member arrangements **before** 21st April 2021; however, all investments made by all one member arrangements after 21st April 2021 must comply with the prudent person rules above.

There is an exemption, by law, for the trustees of group DC employer pension schemes from liability for the investment performance of the funds chosen by the member, where the scheme:

- Offers a fund choice to members, and all such funds are predominantly invested on regulated markets;
- Provides a default investment strategy, where the member does not make a fund choice;
- Provides to members certain specified information about the fund choices; and,
- Take such steps as are reasonable to ensure that the members have any further information necessary to enable the members to make informed decisions with regard to their investment choices.

7.6 With Profit System

Some older RACs and PRBs may use a different investment return system called **with profit**.

The with profit system is designed to smooth out the ups and downs of investment markets over time to give the RAC holder a 'smoothed' investment return, while also providing some element of a guarantee.



There are two forms of 'with profit' RACs:

- **Traditional with profit**, where the RAC guarantees, in return for a regular contribution, a specific minimum capital sum assured at retirement, to which bonuses may be added from time to time to increase the capital sum payable at retirement.
- However, the guaranteed capital sum plus bonuses is only guaranteed to be paid on the specified retirement date, for example, the individual's 65th birthday. If encashed before that date, there is no guarantee what the encashment value will be.
- **Unitised with profit**, i.e. a unit fund where the published unit price does not go up and down directly in line with the fluctuating value of the fund's assets; rather the life company smooths out the unit price over time, so that the published unit price gradually increases over time, or at least does not fall in value. Again, the full value of the units may only be guaranteed to be paid on the specified retirement date.

Some with profit RACs may include a guaranteed minimum annuity rate, so that at maturity the capital sum can be converted into a pension or annuity at this rate, which is likely to be much higher than current open market annuity rates. See Chapter 10.5 for more details of guaranteed minimum annuity rates.

Therefore, encashing a with profit RAC or PRB before the contract's specified retirement age may be at unguaranteed terms and may not reflect the benefit of the smoothed/guaranteed returns provided if the individual maintains the RAC to the specified age and may also lose the benefit of a guaranteed minimum annuity rate.



Review

Now consider the main teaching points, which were introduced in this Chapter. They are listed below. Tick each one as you go through them.

-
- | | |
|-----------------------------|--------------------------|
| Investment asset classes | ☐ |
| Collective investment funds | ☐ |
| Default investment strategy | ☐ |
| Investment restrictions | ☐ |
| With profit system | ☐ |

Sample Questions

The answers to these questions can be found in your Study Hub.

1. The main benefit of a unitised with profit fund to an RAC holder is:
 - A. The right to choose which individual assets the fund should invest in.
 - B. A smoothed investment return over time.
 - C. The right to take retirement benefits at any time.
 - D. The right to encash the units at guaranteed terms at any time.

2. A Standard PRSA can offer the following investments:
 - (i) traded equities
 - (ii) funds with smoothed returns
 - (iii) collective investment funds
 - A. (i) and (iii)
 - B. (i) and (ii)
 - C. (iii) only
 - D. none of the above

3. A Lifestyle Fund is an investment fund:
 - A. which changes its asset allocation as the investor approaches retirement age.
 - B. open only to wealthy investors, with a minimum investment of € 100,000.
 - C. which allows the investor to choose which assets to invest in.
 - D. open only to ARF investors.

4. Joanne has a PRSA which currently holds 1,456 units in a Mixed Fund which has a current unit price of €2.784. Joanne wants to switch her entire unit holding today to a Cash Fund which has a current unit price of €1.564.

If she switches the units today, after the switch, how many units (to the nearest number) will Joanne have in the Cash Fund?

 - A. 1,456
 - B. 1,564
 - C. 2,583
 - D. 2,592

08

Pension Adjustment Orders

This Chapter explains how a retirement benefit may be split up in the event of a relationship breakup, such as divorce and legal separation of a married couple. It covers the workings of a Pension Adjustment Order (PAO). Included is what happens to benefits subject to a PAO on death of either party and how a PAO can lapse.

Learning Outcomes – after studying this chapter you should be able to:

outline what a Pension Adjustment Order is and when, and how it is applied;

explain the difference between the terms *earmarking* and *splitting* of retirement benefits;

understand the implications on both parties to a PAO of the death of either party; and

explain what the term *nil PAO* means, and why *nil PAOs* are used.

Chapter weightings	Number of questions which may appear		
In the exam, questions are taken from each Chapter based on the following approximate chart:	Chapter	Minimum	Maximum
	8	3	5

For many people, their retirement fund will be their most valuable financial asset, after the family home.

In the event of a relationship breakup, it may be decided to split the retirement fund between the individual and their spouse, civil partner, or cohabitant, as the case may be.

A retirement fund is legally split by a Pension Adjustment Order, or PAO for short, made by the Courts as part of the relationship breakup, following application to the Court by either of the couple involved in the breakup.

8.1 What is a Pension Adjustment Order?

A Pension Adjustment Order (PAO) is a Court order which orders the administrator of a pension arrangement, (an RAC, PRSA, employer pension scheme or Personal Retirement Bond), to pay part or all of a member's retirement benefits when they become payable, to the person specified in the order.

A PAO can be made by the Courts following:

- A decree of dissolution of a registered civil partnership; or,
- The ending of a period of cohabitation between a couple who are neither married to or registered civil partners to each other; or,
- A decree of divorce; or,
- A decree of judicial separation. A PAO does not apply in the case of separation agreements which do not involve a court.

Dissolution of civil partnership

Ending of cohabitation

Divorce

Judicial separation

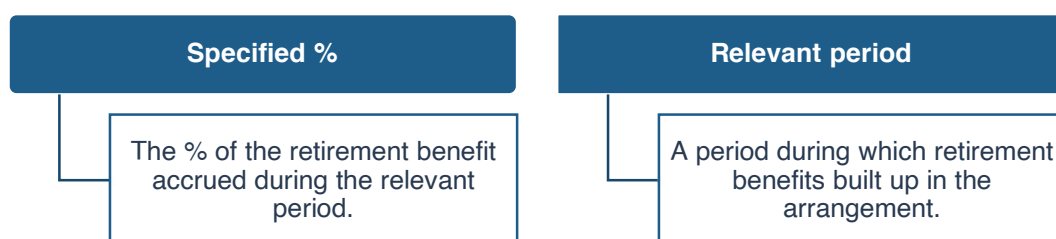
Where a member's retirement benefits are in an employer pension scheme, the PAO is served on the scheme trustees; in the case of arrangements like an RAC, PRSA or Personal Retirement Bond, the PAO is served on the financial institution which issued the contract, typically a life assurance company or an investment firm.

The beneficiary of the PAO will usually be the spouse, civil partner or cohabitant of the member.

8.2 Earmarking Retirement Benefits

A PAO in relation to **retirement** benefits will direct the trustees or financial institution to pay part or all of the member's retirement benefit to the beneficiary of the PAO, when the member takes their retirement benefits. This is called **earmarking** because the PAO marks part of the future retirement benefit for payment to the beneficiary of the PAO; the member gets the balance, if any, of the retirement benefit. Retirement benefits include any payment from a pension scheme at and following retirement (includes retirement pension, retirement lump sums and death in retirement benefits).

The amount of the retirement benefit which will be paid to the PAO beneficiary at retirement is calculated from two items specified in the PAO made by the court:



The PAO does **not** provide any share of the retirement benefits built up by contributions paid to the arrangement either before or after the relevant period specified in the PAO.

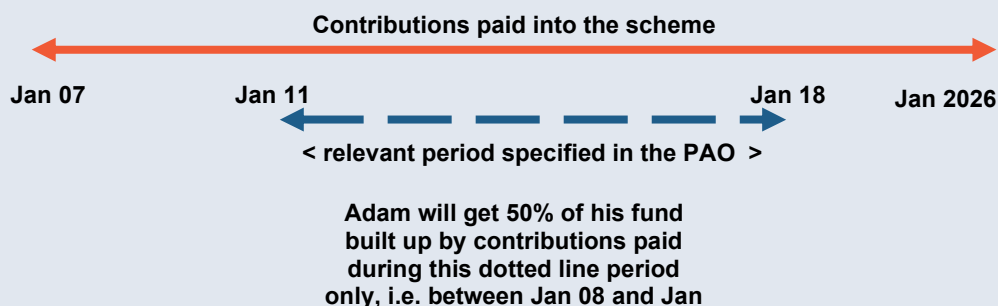


Example #1

Jennifer is a member of her employer's DC pension scheme which she joined for retirement benefits in January 2007. She got married in January 2011 and divorced in January 2018. She continued as an active member of the scheme after her divorce until January 2026 when she took her retirement benefits.

As part of the divorce settlement, Adam, her ex-husband, obtained a PAO over her DC scheme retirement fund specifying:

- A specified % of 50%.
- A relevant period of 1st January 2011 to 1st January 2018.



Let's say that in January 2026 when Jennifer draws on her retirement fund, her fund is valued at €150,000.

The scheme trustees must work out the part of this fund built up by contributions paid during the period 1st January 2011 to 1st January 2018 specified in the PAO, i.e. during the dotted line period above.

Let's say the trustees work out that €100,000 of Jennifer's €150,000 final retirement fund was built up by contributions paid between January 2011 and January 2018, the relevant period specified in the PAO, and the balance of €50,000 was built up by contributions paid before January 2011 or after January 2018.

When Jennifer draws on her fund in January 2026, the scheme trustees must in accordance with the PAO and Family Law legislation:

- Use 50% of the part of the fund built up during the relevant period specified in the PAO (January 2011 to January 2018), i.e. 50% of €100,000 = €50,000 to provide retirement benefits for Adam; and,
- Use the balance of the fund i.e. €100,000 to provide retirement benefits for Jennifer.

Where a **transfer value** was paid from an old arrangement into a current pension arrangement which becomes subject to a PAO, only that part of the transfer value, if any, which relates to contributions paid in the old arrangement during the relevant period specified in the PAO is taken into account.



Example #2

Sarah has a PRSA which she set up on 1st January 2011 by way of a transfer value from a previous RAC she held from 1st January 2002 to 31st December 2010, i.e. all of the transfer value paid into the PRSA was accumulated from contributions paid into the RAC *before* 1st January 2011.

Since 1st January 2011 she has paid in further contributions to the PRSA and a PAO was made over the PRSA on 1st January 2019 in favour of her ex-wife specifying:

- Relevant %: 50%.
- Relevant period: 1st January 2011 to 31st December 2018.

Sarah has stopped contributing to the PRSA and no contributions have been paid to it since 1st January 2019.

At first glance you would be forgiven for assuming that the PAO above will give Sarah's ex-wife 50% of the full value of her PRSA?

In fact, in this example she is only entitled to 50% of the value of the PRSA built up by contributions paid to the PRSA between 1st January 2011 to 31st December 2018, i.e. **excluding** the part of the PRSA funded by the transfer value.

The transfer value is ignored because it was derived from contributions paid to the RAC *before* the start of the relevant period specified in the PAO, i.e. paid before 1st January 2011.

If Sarah's ex-wife had wanted to get 50% of the full value of the PRSA (including the transfer value benefits), the PAO should have specified a:

- Relevant %: 50%.
- Relevant period: 1st January 2002 to 31st December 2018.

8.3 Variation

A PAO can be made subject to later variation or not, as the case may be.

If the PAO is subject to later variation, it is open to either of the parties to the PAO to go back to Court at a later date seeking to have the PAO changed or abolished entirely. However, most PAOs are made **not** subject to future variation, i.e. they are fixed. But each PAO needs to be checked to verify this.

8.4 A Nil PAO

You may occasionally come across a so called **nil PAO**. This is a PAO that has no material value to the PAO beneficiary, for example, it may specify a relevant period of a few days and the specified % might be 0.001%.

The purpose of the nil PAO (which is made to be not subject to later variation) is to legally prevent the PAO beneficiary coming back in the future looking for a larger share of the retirement benefit in question.



Example

Claire has an RAC and a PRSA. As part of her divorce she agrees to a 100% PAO over her PRSA on condition that her ex-husband Ryan gets no part of her RAC.

To ensure that he can't come back in the future seeking a PAO over her RAC, a nil PAO in favour of Ryan is made over her RAC specifying 0.001% and a relevant period of two days. The PAO made over the RAC is fixed, i.e. made not subject to later variation.

In effect the nil PAO over her RAC will provide no benefit of any material value to Ryan, but its legal effect is to prevent him ever seeking a higher share of the RAC in the future, as the PAO over the RAC is fixed and not subject to later variation.

8.5 Taking a Transfer Value

There are a number of potential disadvantages for a PAO beneficiary in waiting for the member to take his or her DC retirement benefits before getting a share of them:

- The PAO beneficiary has no control over the member's investment decisions in the meantime.

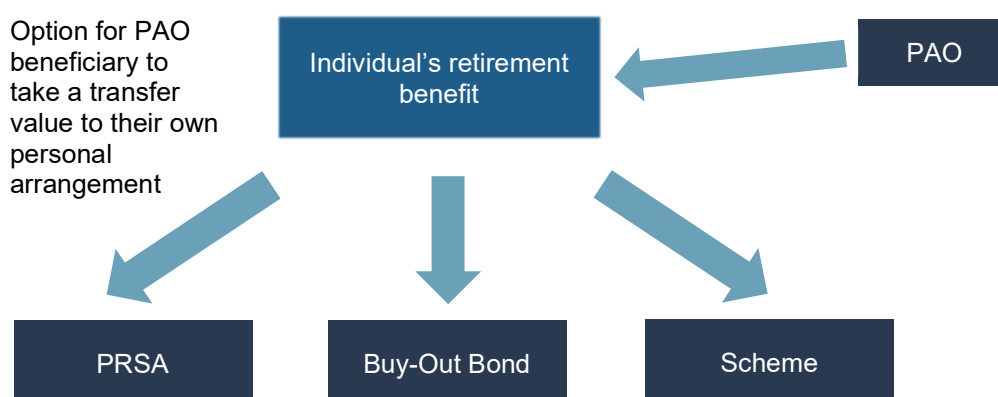
The value of the PAO beneficiary's share of the retirement fund will rise and fall in line with the member's investment choices up to retirement. The member's attitude to investment risk could be totally different to that of the PAO beneficiary and so the member's investment approach may not suit the PAO beneficiary at all.

- The timing of the taking of retirement benefits is dictated by when the member decides to take his or her benefits.

The PAO beneficiary doesn't have to wait until the individual takes his or her retirement benefits to get a share of their retirement fund.

If the retirement benefit has not yet become payable, the PAO beneficiary can opt to take a **transfer value** of his or her share of the fund to another arrangement in their own name, such as a PRSA or Personal Retirement Bond, or to another employer scheme of which the PAO beneficiary is a member.

This is referred to as **splitting** as the retirement fund is split now, and is the alternative to earmarking, which refers to the PAO beneficiary waiting for the member to take their retirement benefits and getting a share of the benefits.



Note that a transfer value on foot of a PAO **cannot** be paid from an RAC to a Personal Retirement Bond.

The PAO beneficiary can opt to take a transfer value to their own PRSA instead of waiting to get a share of a member's DC scheme benefits.

The PAO beneficiary can access their retirement benefits in their new arrangement at the **earliest** age the member could have taken his or her retirement benefits in the arrangement from which the transfer value has come:

Member's arrangement subject to PAO, from which a transfer value is taken	PAO beneficiary can take his or her benefits in their own PRSA or PRB
An employer pension scheme	From their ex's 50 th birthday
A Personal Retirement Bond	From their ex's 50 th birthday
Retirement annuity	From their ex's 60 th birthday



Example

John's ex-wife Susan opted to take a transfer value from John's employer DC scheme to a PRSA in her own name, equal to her share (50% specified in the PAO) of his fund built up during the period 1st January 2011 to 1st January 2018 specified in the PAO.

As John could potentially access his benefits in his current scheme on early retirement from age 50, Susan can access her benefits in her own PRSA from that date onwards, i.e. from **John's** 50th birthday onwards, even if she is herself still under age 50 at that time.

8.6 Death Before Leaving Service or Retirement

Let's assume that Mr A has retirement benefits subject to a PAO in favour of Mrs A.

If Mr A dies before his or her retirement benefit becomes payable where the PAO is still in force on his benefits and Mrs A has not yet taken a transfer value, Mr A's pension arrangement **must** pay a transfer value to the PAO beneficiary, Mrs A, within three months of Mr A's death. This payment is tax free in her hands.

8.7 Death of PAO Beneficiary Before Getting Benefits

Let's assume that Mr A has retirement benefits subject to a PAO in favour of Mrs A.

If Mrs A dies before Mr A's retirement benefits become payable, and while the PAO is still in force, the arrangement must pay a transfer value to her estate, within three months of the date of her death.

8.8 Death in Service Benefits

So far, we have looked at a PAO made over an individual's retirement benefits.

A PAO can be made over an employer pension scheme's death in service benefit. For example, a DC scheme may provide a lump sum payment on death in service of, say, three times the individual's salary at the date of death.

Such a benefit is called a **contingent benefit**, as the benefit only becomes payable in the event of a contingency, i.e. if the individual dies while an active member of the scheme. It is not guaranteed to be paid.

The PAO in relation to contingent benefits **must** be sought within one year of the date of the Court decree or divorce or separation; this is unlike a PAO in relation to retirement benefits, which can be sought at any time after the decree provided the ex-spouse seeking the PAO has not remarried in the meantime.



Example

Sam is a member of his employer's DC scheme and is covered by the scheme for a lump sum death in service benefit of three times salary. Sam is married to Alex.

Sam and Alex get a decree of divorce. Alex has not remarried. Within one year of the decree of divorce, Alex goes to Court and gets a PAO which directs the scheme trustees to pay him 40% of Sam's lump sum death benefit if he should die in service.

The remaining 60% would be paid according to the rules of the scheme.

Let's say that Sam dies in service when his salary is €60,000 pa. The lump sum payable on his death in service is therefore $3 \times €60,000 = €180,000$.

The trustees must, under the terms of the PAO, pay €72,000, i.e. 40%, direct to Alex, while the other €108,000 is distributed by the trustees of the scheme in accordance with the scheme rules.

8.9 Lapsing of PAO

A PAO in relation to a retirement benefit does **not** lapse on the death or remarriage of a spouse in whose favour the PAO is made.



Example #1

Alison and Jack were married to each other, but Alison obtained a decree of divorce. Following the decree, Alison obtained a PAO over Jack's retirement benefits.

Three years later, Alison remarries.

The PAO over Jack's retirement benefits in favour of Alison continues, even though she has now remarried.

However, a PAO over a contingent benefit automatically lapses if the PAO beneficiary remarries.



Example #2

Alison and Jack were married to each other, but Alison obtained a decree of divorce. Following the decree, Alison obtained a PAO over Jack's death in service benefits under his employer's DC pension scheme.

Three years later, Alison remarries.

The PAO over Jack's death in service benefits in favour of Alison lapses automatically on her remarriage.

8.10 ARFs

An ARF **cannot** be made subject to a pension adjustment order. Instead a different type of order, called a Property Adjustment Order can be used to split an ARF between a couple.



Review

Now consider the main teaching points, which were introduced in this Chapter. They are listed below. Tick each one as you go through them.

-
- | | |
|--|--------------------------|
| What is a Pension Adjustment Order? | ☐ |
| Earmarking | ☐ |
| Variation | ☐ |
| Nil PAO | ☐ |
| Taking a transfer value | ☐ |
| Death of scheme member and PAO beneficiary | ☐ |
| Death in service benefits | ☐ |
| Lapsing of PAO | ☐ |
| ARFs | ☐ |

Sample Questions

The answers to these questions can be found in your Study Hub.

1. Karen has a Pension Adjustment Order (PAO) she obtained over her ex-husband's retirement benefits three years ago. If Karen remarries today, what happens to this PAO?
 - A. It lapses without value.
 - B. Her entitlement under it is reduced by 50%.
 - C. She must apply to the Courts to extend the PAO.
 - D. It continues as before.

2. Luke and Jennifer have divorced. Jennifer obtained a Pension Adjustment Order (PAO) over Luke's PRSA. Jennifer has not yet taken a transfer value. If Jennifer dies before Luke takes his PRSA benefits, what happens to Jennifer's PAO entitlement?
 - A. The Courts can order a payment to be made from the PRSA to Jennifer's dependants.
 - B. The PAO lapses without benefit.
 - C. A transfer value is paid from the PRSA to Jennifer's estate, within 3 months of her death.
 - D. 25% of the PRSA is paid to Jennifer's next of kin.

3. A Pension Adjustment Order (PAO) was made over a DC employer pension scheme member's retirement fund. If the beneficiary of the PAO takes a transfer value in lieu of a designated benefit, this is called:
 - A. earmarking.
 - B. splitting.
 - C. assignment.
 - D. variation.

4. A Pension Adjustment Order (PAO) in relation to retirement benefits in a DC employer pension scheme will direct the trustees to pay part or all of the member's retirement benefit, when it becomes payable, to the beneficiary of the PAO. This is called:
 - A. forfeiture.
 - B. salary sacrifice.
 - C. earmarking.
 - D. contingency.

09

Taxation

This Chapter features elements of taxation related to pension arrangements. Included are the various income tax schedules, tax bands and credits which are applicable to income tax payers, and USC. You will also see a basic income tax and USC calculation. Pension Thresholds limits are outlined including how to calculate a 'chargeable excess' tax liability which may arise on the taking of retirement benefits in excess of the Threshold limit.

Learning Outcomes – after studying this chapter you should be able to:

know the main income tax schedules and cases, and the types of income which fall under each;

calculate a basic income tax and USC computation showing knowledge of the key reliefs, tax bands and credits available to Individuals; and

explain pension Threshold limits and how to calculate a chargeable excess tax liability.

Chapter weightings	Number of questions which may appear		
In the exam, questions are taken from each Chapter based on the following approximate chart:	Chapter	Minimum	Maximum
	9	7	9

9.1 Income Tax

An individual pays income tax on any taxable income earned or received in a calendar year. For income tax purposes, income is classified under a number of different headings or **Schedules**. The main ones are Schedule D, E and F. Schedule D, in turn, is divided into a number of different **Cases**.

Schedule	Type of income
Schedule E	- Salary and wages arising from an employment. - Benefits in kind provided by an employer for an employee. - Pensions and annuities. - Withdrawals from an ARF. Normally Schedule E income is subject to income tax, PRSI and universal social charge (USC) deduction at source under the pay-as-you-earn (PAYE) system.
Schedule D – Case I	Income from a self-employed trade.
Schedule D – Case II	Income from a self-employed profession.
Schedule D – Case III	Dividends, rents and interest from foreign investments.
Schedule D – Case IV	Deposit interest subject to DIRT, and other miscellaneous types of income.
Schedule D – Case V	Rental income from an Irish property.
Schedule F	Dividends from an Irish resident company.

Schedule E and Schedule D Case I and II (in bold above) relate to **earned income**, while the other Schedules relate to **unearned income**.

Income tax is levied for the 2025 tax year on taxable income as follows:

Taxable income up to standard rate band	20%
Excess at higher rate	40%

Each taxpayer has a **standard rate tax band**, i.e. a level of taxable income subject to standard rate tax, and personal tax credits to be offset against their income tax liability. Any income above this level is taxed at the top or higher rate.

The level of standard rate band varies by the civil status (i.e. single, married or a civil partner) of the taxpayer and whether one or both spouses/civil partners are working.

A tax credit is a credit or deduction against an individual's income tax liability.

Some of the tax credits available include:

- Personal allowance.
- Spouse's carer allowance.
- Other allowances, for example, age allowance, blind allowance, incapacitated child allowance and dependant relative allowance.
- Employee tax credit.
- Single Person Child Carer Credit
- Earned income tax credit for the self-employed, including proprietary directors.

Personal circumstances	Standard rate tax band 2026	Personal tax credit 2026
Single/widowed	€44,000	€2,000/€2,540
Married couple/civil partners, one income	€53,000	€4,000
Married couple/civil partners, two incomes	€88,000 (transferable between spouses; max one spouse €53,000)	€4,000
Single Person Child Carer Credit	€48,000	€1,900
Employee tax credit	-	€2,000 (max)
Earned income credit for self-employed	-	€2,000 (max)

In addition to paying employees a salary, some employers provide non-cash **benefit in kind (BIK)** or additional perks to employees (either to all employees or, more usually, to selected employees).

These perks can take many forms, but perhaps the most common are:

- The provision of a company car (most usually for senior managers and sales representatives).
- The provision of mortgages or loans at rates of interest, below those generally available (more common with employees of the major banks).
- Payment of medical expense insurance premiums on behalf of employee.

The cash value of these BIKs is liable to income tax, PRSI and USC under PAYE as if it was salary or wages paid to the employee of the same value.

Taxpayers can claim income tax relief on certain medical expenses at the standard rate of income tax.

9.2 Universal Social Charge (USC)

A tax called the *universal social charge* (USC) is also payable on an individual's income from all sources, i.e. on income **before** deduction of any tax reliefs, etc.

The standard rate of USC payable in 2026 is as follows:

Total income subject to USC	USC rate
The first €12,012	0.50%
The next €16,688	2.00%
The next €41,344	3.00%
Balance over €70,044	8.00%

An **additional** USC of 3% applies to people who have income from self-employment on earnings above €100,000.

The 2.00% USC rate applies, instead of the higher rates shown above, on all income subject to USC in excess of €12,012 for:

- Those aged 70 or over with total income less than €60,000; and,
- Those aged under 70 with total income less than €60,000 and who hold a medical card.

All individuals with total income less than €13,000 are exempt from USC in 2026.

Note that in the case of a married couple with two incomes, the USC is applied **separately** to each spouse's income as per the table above, i.e. their incomes are not combined for the purposes of the USC tax rates table above. Each income is assessed separately for USC.

The following types of income are **not** subject to USC:

- The State Pension, Contributory and Non-Contributory.
- Deposit interest subject to DIRT.
- Dividends paid by credit unions to their members.
- Returns from life assurance and collective investment fund investments.
- The tax-free part of ex gratia redundancy payments paid by employers.

Where income is taxed under the PAYE system, USC is applied to the gross income, **before** deduction of pension contributions, reliefs, tax credits, etc.

9.3 Tax Calculation Example

The general outline of how income tax and USC is charged is as follows. The example is assumed to refer to a married couple with *one* income, an employee of a bank who is **not** a proprietary director, and both are under age 70:

Total gross income from all sources, earnings, taxable investment income, etc.	<i>Salary:</i> Schedule E: €95,000 <i>Gross dividends from an Irish resident company¹⁸</i> Schedule F: €5,000 Total: €100,000
LESS	
Any <i>charges</i> on income, such as tax-deductible maintenance payments, allowable covenant payments, etc.	Gross covenant payment ¹⁹ to his/her mother, assumed): - €1,000
LESS	
<i>Reliefs</i> , such as personal pension plan contributions, PRSA contributions, personal contributions to occupational pension schemes, PHI premiums.	Gross personal pension plan contribution: - €2,000
Taxable income	€97,000
Standard rate tax band	€53,000 (married couple, one income) at 20%: €10,600
Balance taxable at 40%	€44,000 at 40%: €17,600
Total income tax	€28,200
LESS	
Tax credits:	Married tax credit: €4,000 Employee tax credit: €2,000 Dividend withholding tax on dividends: €1,250 <u>Medical expenses (€2,000 at 20%): €400</u> Total credits: €7,650
PLUS	
Add back tax deducted from covenant and due to Revenue	Tax deducted on covenant payment: €200
Total income tax liability for 2026	€28,200 – €7,650 + €200: €20,750
PLUS, USC	
First €12,012 at 0.50%:	€60
Next €16,688 at 2.00%:	€334
Next €41,344 at 3.00%:	€1,240
Balance of €29,956 at 8.00%:	€2,396
Total income tax and USC liability for 2026	€4,031
	€24,781*

* The tax liability in total was €24,781 but 25% x €5,000, i.e. €1,250 would have been paid through Dividend Withholding Tax deducted from the €5,000 dividend payment before payment, leaving a balance of €23,531 to be paid through the PAYE system.

¹⁸ Dividends paid by an Irish resident company are subject to withholding tax at 25% rate, before payment to individual investors. The €5,000 shown is before deduction of 25% tax of €1,250.

¹⁹ Standard rate income tax must be deducted from this payment, before paying the balance to the beneficiary of the covenant. The €1,000 is before deduction of standard rate tax.

9.4 Income Tax Age Exemption Limit

A very important relief from income tax for retirees is the age income exemption, which exempts individuals aged 65 and over totally from income tax (but not from the USC) where their total income from all sources, i.e. **before** reliefs and tax credits, in 2026 tax year does not exceed €18,000, or €36,000 for a married couple/civil partners where at least one of them is age 65 or over.

Individuals in receipt of the State Pension only would therefore **not** be liable to income tax on it:

Married couple/civil partners (age 65 and over)	2026 tax year
Income tax exemption limit	€36,000
State Pension (Contributory) ²⁰ (individual plus max adult dependant increase)	€29,153 pa
State Pension (Contributory) (both qualifying for maximum pension in own right)	€31,235 pa

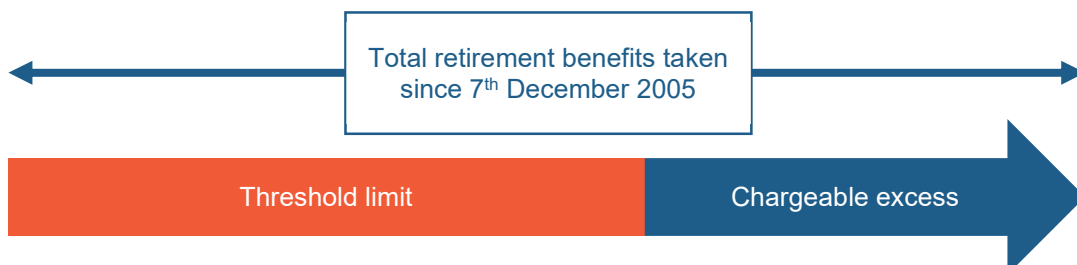
Broadly speaking, a married couple both receiving the maximum State Pension (Contributory) could have additional income of about €4,765 pa (for example, ARF withdrawals) and still be exempt entirely from income tax and USC (as USC is not applied to the State Pension and those whose total income subject to USC of less than €13,000 are currently exempt from USC).

9.5 Chargeable Excess Tax

Tax (called '**chargeable excess tax**') at the higher rate of income tax is deducted from the capital value of all retirement benefits matured by an individual since the 7th December 2005 over a **Threshold limit**.

When an individual takes retirement benefits it is called a **benefit crystallisation event** or BCE for short. The capital value of retirement benefits taken for the purposes of the Threshold limit is called the **BCE value**. In the case of a PRSA the whole PRSA is deemed to be crystallised when the 25% lump sum is taken, even if the balance is left in the PRSA as a vested PRSA. A transfer of an unvested PRSA to a vested PRSA is also regarded as a benefit crystallisation event.

The capital value of retirement benefits matured over the Threshold limit is referred to as **chargeable excess** and is subject to a deduction of chargeable excess tax at the higher rate of income tax (currently 40%).



²⁰ State Pension (Contributory) is currently payable from age 66.

9.5.1 The Threshold Limit

The Threshold limit applying to an individual from 1st January 2014 onwards is either the:

- Standard Fund Threshold (SFT) of €2.2 million.

OR

- Personal Fund Threshold (PFT), greater than €2.2 million.

Where an individual, at the relevant dates below, had:

- Previously matured retirement benefits since 7th December 2005.

PLUS

- The sum of matured retirement benefits at the relevant date in excess of the 2014 Standard Fund Threshold €2m limit,

they were entitled to apply to Revenue for a higher Personal Fund Threshold (PFT) certificate at that date:

Date	Standard Fund Threshold applying at that date	PFT which could be applied for at that date
7 th December 2005	€5 million	More than €5 million
7 th December 2010	€2.3 million	€2.3 million to €5.4 million
1 st January 2014	€2 million	€2 million to €2.3 million

An individual can have only one PFT.



Example #1

Jennifer had an RAC and PRSA valued in total at €2.6 million on 7th December 2010, both of which she had not matured at that stage.

Jennifer had not previously matured retirement benefits from any source since 7th December 2005.

As the value of her unmatured retirement benefits on 7th December 2010 was greater than €2.3 million but less than €5.4 million, Jennifer could have applied to the Revenue Commissioners at that time and obtained a Personal Fund Threshold certificate for €2.6 million.

Assuming she did, Jennifer therefore has a Personal Fund Threshold of €2.6 million.



Example #2

Ailish matured a PRSA valued at €600,000 in September 2009, taking a lump sum of €150,000 and transferred the balance of €450,000 to an ARF.

On the 1st January 2014 she had an RAC valued at €550,000 and a preserved benefit in an employer pension scheme valued at €1,250,000, neither of which she had matured at that time.

The sum of the value of her PRSA already matured and her unmatured retirement benefits at 1st January 2014 was = €600,000 + €550,000 + €1,250,000 = €2.4 million.

As this sum was greater than the 2014 SFT of €2 million, Ailish could have applied to the Revenue Commissioners and obtained a Personal Fund Threshold certificate at 1st January 2014 for €2.3 million, the maximum which could be obtained at that date.

Assuming she did apply for and received a PFT, Ailish therefore has a Personal Fund Threshold of €2.3 million.

The SFT will increase by €200,000 per year until 2029 from €2.2 million to €2.8 million as set out below. PFTs will remain fixed at their current value.

Date	Standard Fund Threshold
2025	€2,000,000
2026	€2,200,000
2027	€2,400,000
2028	€2,600,000
2029	€2,800,000

The €2.8 million limit will be adjusted in line with increases in weekly average earnings from 2030, with an initial adjustment being made in respect of the period from Q1 2025 to Q3 2029.

Previously retired benefits will be revalued in line with the increases in the SFT as set out in the example below, therefore partially or fully absorbing the benefit of the increase in the SFT. This means that individuals who have accessed their pensions already and fully utilised the SFT will not benefit from the increases.

9.5.2 Calculation of Chargeable Excess

A **chargeable excess** is calculated as follows:

[Total BCE value of all retirement benefits taken since 7th December 2005]

LESS

[the Standard Fund Threshold or Personal Fund Threshold]



Example #1

Frank does not have a Personal Fund Threshold and is therefore, entitled to the Standard Fund Threshold of €2.2 million.

Frank is retiring on 1st June 2026 and has just matured his DC scheme, valued at €2.3 million. He has not taken any other retirement benefits previously.

Frank's chargeable excess is calculated as:

BCE value of benefits taken since 7 th December 2005		Less the Threshold limit	Chargeable excess
Total taken to date	€2,300,000	- €2,200,000	€100,000

Frank has another PRSA valued at €100,000. Frank has used up 100% of the SFT so the full value of his PRSA will be subject to chargeable excess tax.



Example #2

Olivia has a Personal Fund Threshold of €3.1 million, obtained on 7th December 2010.

She is retiring on 1st June 2026 and drawing on her DC scheme fund of €3 million. She had previously matured €400,000 from an RAC in April 2020 and €600,000 from a PRSA in November 2022.

Because her PFT is not indexed, Olivia's previously retired benefits are not indexed at the same rate as the SFT increases.

Olivia's chargeable excess on taking her DC scheme fund of €3 million in June 2026 is calculated as:

BCE value of benefits taken since 7 th December 2005		Less the Threshold limit	Chargeable excess on latest benefit
April 2020	€400,000		
Nov 2022	€600,000		
June 2026	€3,000,000		
Total taken to date	€4,000,000	- €3,100,000	€900,000



Example #3

Hana is retiring in 2026 and drawing down her DC fund valued at €1.1 million. Hana plans on drawing down another DC fund of €1.7 million in 2029. Hana uses up 50% of the SFT limit in 2026 and will therefore have unused 50% of the SFT limit of €2.8 million in 2029.

The value of her previously retired benefits for BCE purposes are calculated as:

$$1,100,000 \times (2,800,000 / 2,200,000) = 1,400,000$$

Hana will have a chargeable excess tax liability on the maturity of the €1.7 million in 2029, even though €2.8 million in total will be drawn down and the SFT in 2029 is €2.8 million.

	SFT	BCE value of previously retired benefits	Maturity	Available threshold	Chargeable excess
2026	€2,200,000		€1,100,000	€2,200,000	€0
2029	€2,800,000	€1,400,000	€1,700,000	€1,400,000	€300,000

Hana's available threshold is calculated as:

$$2,800,000 - 1,400,000 = 1,400,000$$

Hana will have no chargeable excess should she drawdown her entire pension of €2.8 million in one go in 2029.

Alternatively she may wish to consider leaving the maturity of €1.7m to 2030 when indexation to the threshold will be applied from Q1 2025 to Q3 2029 and the SFT is likely to increase beyond €3.0m.

9.5.3 Capital Value of DB Pensions

DB pensions are converted into a notional capital sum for the purposes of chargeable excess tax as follows:

DB pension accrued before 1 st January 2014	DB pension accrued after 1 st January 2014	
	Varies by the age attained in the year in which the pension starts:	
20:1 for all ages	Up to and including 50	37:1
	51, 52	36:1
	53	35:1
	54	34:1
	55, 56	33:1
	57	32:1
	58	31:1
	59, 60	30:1
	61	29:1
	62	28:1
	63, 64	27:1
	65	26:1
	66	25:1
	67, 68	24:1
	69	23:1
	70 and over	22:1



Example

Megan is retiring under a private sector DB pension scheme at age 61 in 2026. Her DB pension entitlement is €52,417 pa, but she opted to commute (at 12:1) €10,417 pa pension to provide a tax-free lump sum of €125,000 and a reduced pension of €42,000 pa.

Of her €52,417 pa pension entitlement, let's say:

- €47,967 pa was accrued before 1st January 2014 and is therefore valued at 20:1; and
- €4,450 pa was accrued after 1st January 2014 and is therefore valued at the factor above for a 61 year old, i.e. 29:1.

The BCE value of her DB benefits for the purposes of Threshold limit is:

$$€47,967 \times 20 + €4,450 \times 29 = €1,088,390$$

Note in the example above that the value of her DB benefits for the purposes of Threshold limits is based on her DB pension entitlement **before** she commutes any pension for a lump sum. It is not based on the lump sum and reduced pension she actually takes.

However in the public service where a separate pension and lump sum are provided at retirement (i.e. no commutation option) the capital value of public service retirement benefits for the Threshold limit is the capital value of the pension + the separate lump sum.

9.5.4 Calculation of Chargeable Excess Tax Liability

Lump sum tax credit

Where tax at the standard rate arises on a lump sum paid to an individual under a pension arrangement (lump sum tax) and tax also arises on a chargeable excess in relation to that individual (chargeable excess tax) then the lump sum tax paid can be offset against the chargeable excess tax.

The chargeable excess tax liability therefore, to be deducted from the value of the individual's retirement benefits, is:

[chargeable excess x higher rate income tax

LESS

Any standard rate tax deducted from retirement lump sums taken since 1st January 2011, which has not previously been offset against a chargeable excess tax liability.]



Example

Olivia has a Personal Fund Threshold of €3.1 million, obtained on 7th December 2010.

She is retiring on 1st June 2026 and drawing on her DC scheme fund of €3 million. She had previously matured €400,000 from an RAC in April 2020 and €600,000 from a PRSA in November 2021; in each case she took 25% of the fund as a lump sum.

Because her PFT is not indexed, Olivia's previously retired benefits are not indexed at the same rate as the SFT increases.

Olivia's chargeable excess on taking her DC scheme fund of €3 million in June 2026 is calculated as:

BCE value of benefits taken since 7 th December 2005		Less the Threshold limit	Chargeable excess on latest benefit
April 2020	€400,000		
Nov 2021	€600,000		
June 2026	€3,000,000		
Total taken to date	€4,000,000	- €3,100,000	€900,000

Her chargeable excess on maturing her DC fund in June 2026 is therefore:

$$€4,000,000 - €3,100,000 = €900,000.$$

Her lump sums taken since 1st January 2011 were as follows:

Lump sums taken since 1 st January 2011		Available tax-free lump sum limit	Standard rate income tax deducted from lump sum
April 2020	€100,000	€200,000	Nil
Nov 2021	€150,000	€100,000 ²¹	€50,000 x 20% = €10,000
June 2026	€250,000 ²²	nil	€250,000 x 20% = €50,000

The chargeable excess tax liability in June 2026 on maturity of her DC scheme benefits is:

$$€900,000 \times 40\% \text{ LESS}$$

A credit of €60,000 (standard rate tax deducted from lump sums taken since 1st January 2011)

$$= €360,000 - €60,000 = \mathbf{€300,000} \text{ chargeable excess tax.}$$

²¹ i.e. €100,000 of €200,000 tax-free lump sum limit already used up by April 2020 lump sum, leaving €100,000 tax free available for the November 2021 PRSA lump sum.

²² It is assumed that Olivia would cap her total pension lump sums at €500,000, taking €250,000 from the DC scheme in June 2026 in order to maximise the remaining amount which she can then take subject to standard rate tax at 20%.

9.5.5 Recovery of Chargeable Excess Tax

Where an individual takes retirement benefits and a chargeable excess tax liability arises in respect of those benefits, the administrator of the relevant pension arrangement will pay the tax to Revenue and recover the tax paid by reducing the value of the individual's retirement benefits accordingly.



Example #1

Olivia has a Personal Fund Threshold of €3.1 million, obtained on 7th December 2010.

She is retiring on 1st June 2026 and drawing on her DC scheme fund of €3.0 million. She had previously matured €400,000 from an RAC in April 2019 and €600,000 from a PRSA in November 2020; in each case she took 25% of the fund as a lump sum.

The chargeable excess tax liability in June 2026 on maturity of her DC scheme benefits is (as calculated in example above):

$$€900,000 \times 40\% \text{ LESS}$$

A credit of €60,000 (standard rate tax deducted from lump sums taken since 1st January 2011)

$$= €360,000 - €60,000 = \mathbf{€300,000} \text{ chargeable excess tax.}$$

The administrator of Olivia's DC scheme will deduct €300,000 from her DC scheme fund and pay over to the Revenue Commissioners; therefore her fund available to provide benefits will be reduced to €2.7m.

Leaving funds in a vested PRSA is treated for the Threshold limits as a benefit matured of the same value.



Example #2

In 2025 Michelle reached age 60 and drew on her PRSA, which was worth €2.4 million at that time. She had not previously taken any retirement benefits from any other pension arrangement. She did not have a Personal Fund Threshold and is therefore entitled to the Standard Fund Threshold of €2 million.

She opted to take the maximum lump sum of €500,000, of which €200,000 was tax free and the remaining €300,000 was taxed at standard rate, and then opted to leave the balance of €1,900,000 in the PRSA as a vested PRSA.

The total BCE value of her retirement benefits deemed taken for the purposes of the Threshold limits is:

€500,000	(Lump sums taken)
<u>€1,900,000</u>	Retained in PRSA
<u>€2,400,000</u>	Total deemed taken

Her Standard Fund Threshold in 2025 is €2,000,000, thereby giving rise to a chargeable excess of:

$$€2,400,000 \text{ less } €2,000,000 = €400,000.$$

The chargeable excess tax liability on this chargeable excess is:

$$40\% \times €400,000 - 20\% \times €300,000^{23} = €100,000.$$

The PRSA provider will deduct €100,000 from the PRSA, **before** providing benefits to Michelle.

Therefore, the balance retained in Michelle's vested PRSA, after she takes her lump sum, will be:

$$€1,900,000 \text{ less } €100,000 \text{ chargeable excess tax deducted} = €1,800,000.$$

Where a chargeable excess tax liability arises on public service retirement benefits, the retiree has the option of paying for the tax through a reduction in his or her gross pension for a period of up to 20 years.

²³ i.e. standard rate income tax deducted from the €500,000 lump sum taken.



Example #3

Andy is retiring from the public service in 2026 at age 70 with an entitlement to a gratuity of €325,000 and a pension for life of €108,833 pa, of which €101,833 pa was accrued before 1st January 2014 and €7,000 accrued after that date. He has a Personal Fund Threshold of €2.3 million.

Because of PRSA benefits he took in 2021 of €500,000 value (he took 25% or €125,000, as a tax-free lump sum at the time and transferred the balance to an ARF), his chargeable excess tax now arising on his public service benefits is calculated as follows:

Date	Benefits taken	BCE value
2021	PRSA	€500,000
2025	Public service benefits:	
	Gratuity	€325,000
	DB pension accrued before 1 st January 2014: €101,833 pa, valued at 20:1	€2,036,660
	DB pension accrued after 1 st January 2014: €7,000 pa, valued at 22:1	€154,000
Total BCE value taken to date		€3,015,660
Less PFT		-€2,300,000
Chargeable excess		€715,660
Chargeable excess tax		€286,264
Less standard rate tax deducted on lump sums since 1st January 2011		- €50,000 ²⁴
Chargeable excess tax to be recovered		€236,264

He can opt to pay this €236,264 chargeable excess tax liability by a reduction in his gross public service pension over 20 years of:

€236,264/20, i.e. a reduction in his pension of €11,813 pa.

As such, his public service pension will be:

- €108,833 pa – €11,813 pa = €97,020 pa. for the first 20 years of retirement
- Increasing to €108,833 pa after 20 years.

Should Andy die during the first 20 years of this retirement:

- Any balance of the chargeable excess tax liability unpaid by that time, is written off. Recovery is not made from his estate.
- His wife, if she survives him, will get a spouse's death in retirement pension of 50% x €108,833 pa = €54,417 pa even if he dies within the first 20 years, as if Andy was receiving his full €108,833 pa pension when he died.

²⁴ Total lump sums received to date: €125,000 (PRSA) + €325,000 (public service gratuity) = €450,000. €200,000 is tax free so that standard rate tax is due on €250,000 of the public service gratuity or €50,000.

Other ways in which an individual with a chargeable excess tax liability can discharge that liability include making a gross (i.e. PAYE is not levied) payment from an ARF or vested PRSA he or she has.



Example #4

Andy is retiring from the public service in 2025 at age 70 with an entitlement to a gratuity of €325,000 and a pension for life of €108,333 pa, of which €101,333 pa was accrued before 1st January 2014 and €7,000 accrued after that date. He has a Personal Fund Threshold of €2.3 million.

Because of PRSA benefits he matured in 2021 of €500,000 value (he took 25% or €125,000, as a tax-free lump sum at the time), his chargeable excess tax now arising on his public service benefits is €236,264 as calculated in Example #3 above.

- When he matured his PRSA in 2021 he transferred the balance after taking his 25% lump sum to an ARF which is now worth €380,000.
- Andy could opt to transfer €236,264 from his ARF gross to pay the administrator of his public service pension scheme for the €236,264 chargeable excess tax bill arising and this would then mean no reduction in his public service pension of €108,333 pa in the first 20 years of retirement.

9.5.6 RACs and PRSAs not Matured Before 75

If benefits are not taken from an RAC or PRSA before age 75, the contract is deemed to have been matured for the purposes of the Threshold limits at its value on the 75th birthday. i.e. It is deemed to be a BCE event on the individual's 75th birthday.

Where this occurs, the imputed distribution applies to the PRSA but not to an RAC. Thereafter, an income can be paid to the PRSA holder after age 75, however the same does not apply to the RAC which in effect becomes a paid up or frozen death benefit for dependants.

9.5.7 Obtaining a BCE Declaration

As retirement benefits previously taken since 7th December 2005, impact on the calculation of a chargeable excess which may arise on a current benefit, the administrator of a pension arrangement from which an individual is about to take retirement benefits needs to determine from that individual if they have taken previous retirement benefits and if so, the value of benefits taken.

The information required is set out in a form called a **BCE Declaration**, which most administrators will ask the individual to complete before processing their retirement claim.



Review

Now consider the main teaching points, which were introduced in this Chapter. They are listed below. Tick each one as you go through them.

Income tax	☐
Universal Social Charge (USC)	☐
Tax calculation example	☐
Income tax age exemption limit	☐
Chargeable excess tax	☐

Sample Questions

The answers to these questions can be found in your Study Hub.

1. Which one of the following is a benefit crystallisation event for the purposes of the Threshold limits?
 - A. Retaining a PRSA beyond age 75, without taking any benefits from it.
 - B. Transfer of funds from one ARF to another ARF.
 - C. Growth in the value of an ARF since its establishment from € 1 million to € 1.4 million.
 - D. Payment of a transfer value from a Retirement Annuity Contract to a PRSA.

2. Ellen has just taken retirement benefits which have given rise to a chargeable excess tax liability of € 78,000. Which one of the following can she offset against this tax liability?
 - A. Any income tax deducted from pension lump sums she has taken before 1st January 2014.
 - B. Any amount transferred to a PRB from her retirement benefits.
 - C. Any standard rate income tax deducted from pension lump sums she has taken after 1st January 2011.
 - D. Any amount from her retirement benefits which was used to purchase an annuity.

3. James has a Personal Fund Threshold certificate for € 5.5 million. In 2026 he took retirement benefits valued at € 3.5 million from a DC Scheme. He had NOT previously taken any retirement benefits from any other arrangement. What chargeable excess, if any, will arise for James in 2026 when taking benefits from the scheme?
 - A. Nil.
 - B. € 687,107
 - C. € 1,000,000
 - D. € 1,500,000

4. Retirement benefits taken from a pension arrangement before which date do not count against an individual's available Threshold amount?
 - A. 7th December 2005.
 - B. 15th November 2009.
 - C. 7th December 2011.
 - D. 1st January 2014.

10

Annuities

This Chapter explains how annuities work and how to use annuity rates.

Learning Outcomes – after studying this chapter you should be able to:

understand what is meant by the term ‘annuity’ and the various types available;

demonstrate an understanding of how annuity rates are calculated;

apply annuity rates to calculate the lump sum required to provide a defined level of annuity or the annuity provided by a defined capital sum; and

explain how annuities are taxed.

Chapter weightings	Number of questions which may appear		
In the exam, questions are taken from each Chapter based on the following approximate chart:	Chapter	Minimum	Maximum
	10	3	5

10.1 What is an Annuity?

DC pension arrangements work by accumulating a capital lump sum which is used at retirement to provide:

- A lump sum, within certain limits; and,
- The balance, if any, is transferred to an ARF (or in the case of a PRSA, retained in the PRSA as a vested PRSA), taxable as a taxable lump sum, or used to purchase an **annuity** with a life assurance company.

An **annuity** is a single premium insurance policy where, in return for a lump sum payment (called the **purchase price**), the life company guarantees to pay a specified level of regular income for the lifetime of the individual who takes out the annuity policy.

Most annuities have a minimum **guarantee period**, typically the first five years, which means that if the individual dies within this period, the annuity continues to be paid for the remainder of the guarantee period to his or her estate. So, no matter what happens, an annuity with a guarantee period will be paid for that period at least.



Example #1

James is 65. He has accumulated a fund of €200,000 in his RAC. He decides to draw on his RAC now.

He takes €50,000 as a lump sum and opts to use the balance of €150,000 to purchase an annuity with a life company which, in return for the €150,000 capital sum, guarantees to pay him, say, €7,500 pa for the rest of his life, with a guarantee period of the first five years.

If James dies three years after taking out the annuity, the life company will continue to pay the €7,500 pa annuity for the following two years to his estate or, more likely, offer to pay his estate a lump sum equal to the value of the two year's outstanding annuity payments due under the guarantee period.

An annuity is an insurance policy because the life company insures the risk of how long the annuitant, i.e. James in the example above, will live.

This is referred to as **longevity insurance**, i.e. insuring against the risk of outliving your capital or living 'too long'.

The life company provides longevity insurance in an annuity by pooling all its annuity funds, so that the funds invested in annuities of those who live a shorter lifespan than average are recycled to continue paying annuities to those who live longer than average.



Example #2

James is aged 65 and has purchased an annuity of €5,000 pa, payable for life, in return for a lump sum of €100,000.

If James lives to be 100, the life company will have paid out $35 \times €5,000$, i.e. €175,000 in annuity payments in return for €100,000.

But if James had died at age 80, the life company would only have paid out $15 \times €5,000 = €75,000$.

So, the residual funds of those who die early are recycled within the life company to pay the annuities of those who live longer than expected.

While annuities provide a guaranteed income for life, they also carry the corresponding risk of the loss of part of the capital invested in the annuity if the individual dies prematurely.



Example #3

James is aged 65 and has purchased an annuity of €5,000 pa, payable for life, in return for a lump sum of €100,000. The annuity has a guarantee period of five years.

Two years later, James dies after getting $2 \times €5,000$, i.e. €10,000 in annuity payments. The life company will pay the balance of the five-year guarantee, i.e. $3 \times €5,000 = €15,000$, to James's estate, so that James and his estate will have received a total of €25,000 in return for the €100,000 invested in the annuity. €75,000 will have been lost to James's dependants.

So while annuities provide longevity insurance by guaranteeing to pay the annuity for as long as the individual lives, they are subject to a **mortality risk**, i.e. the risk of loss of capital if the individual dies too soon.



Example #4

James is aged 65 and has purchased an annuity of €5,000 pa, payable for life, in return for a lump sum of €100,000. The annuity has a guarantee period of five years.

James needs to live at least $100,000/5,000$, i.e. 20 years to age 85, to get back in annuity payments the capital sum.

He is therefore subject to the mortality risk of dying before age 85.

An annuity can provide a continuing payment of part or all of the annuity to a nominated survivor, typically the spouse of the individual, following the individual's death; this is called an annuity with a **reversion**, i.e. part or all of the annuity 'reverts' to another individual (if they are then surviving) following the death of the individual who took out the annuity.



Example #5

James is aged 65 and has purchased an annuity of €4,600 pa, payable for life, in return for a lump sum of €100,000. The annuity has a guarantee period of five years.

50% of the annuity will continue to be paid to James's wife, Aine aged 63 currently, after James's death if she survives him.

12 years later, James dies and is survived by Aine. Aine will receive an annuity of 50% x €4,600 = €2,300 pa for her remaining lifetime, i.e. 50% of James's annuity 'reverts' to her on James's death.

If Aine had predeceased James, then on James's death his annuity would cease entirely.

An annuity with a reversion, costs more than one without a reversion, as the life company expect to pay out more in annuity payments under the annuity with a reversion.

10.2 Annuity Rates

An **annuity rate** is the % of the purchase price which a life company will agree to pay annually for life as an annuity, in return for the purchase price lump sum.

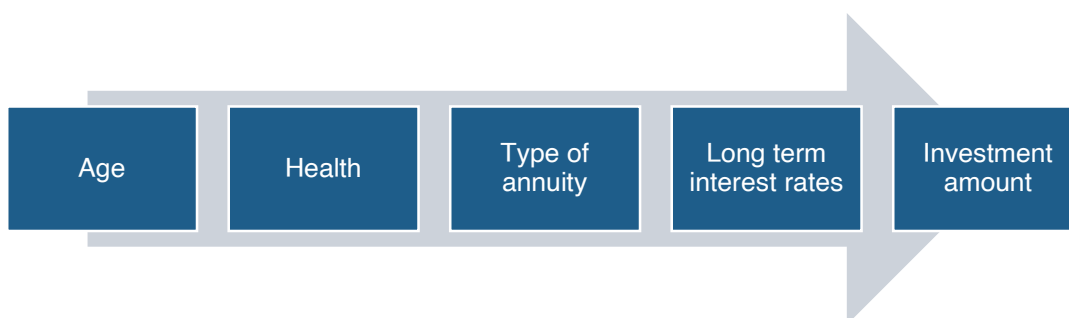


Example

An annuity rate of 4.6%, means that in return for a retirement fund (i.e. purchase price) of €100,000 the life company will pay an annual annuity guaranteed for life of:

$€100,000 \times 4.6\% = €4,600 \text{ pa.}$

The annuity rate a life company will currently offer an individual at a particular time will be influenced by five main factors:



- The individual's **age** and in the case of a joint life annuity, both ages.

The older the individual is when they purchase the annuity the lower their remaining expectation of life becomes and so the life company estimates it will pay out the annuity for a shorter period than for a younger individual.

For example, currently the annuity rate for a 65 year old for a level pension with no reversion might be around 5.0%; but the annuity rate for a similar type of annuity for a 70 year old is about 5.8%.

- The state of the individual's **health**; some life assurance companies will quote a higher annuity rate (called an **enhanced annuity rate**) to those who have a lower than average expectation of life for their age, because of serious ill health. The life company expects to pay out the annuity for a shorter period than to someone of a similar age in good health.
- The **type of annuity** the individual wants, including:
 - With or without a guarantee period, and if a guarantee period applies the length of that period.
 - Whether the annuity will be fixed in monetary terms or have a built in annual increase, for example, 3% pa or in line with inflation (subject to a possible cap of, say, 5% pa).

A lower initial annuity will be offered for an increasing annuity than for a level annuity, as the life company will have to pay out more the longer the individual lives.

- Take for example a 65 year old with €100,000 capital who wants to buy a single life annuity with a guarantee period of 5 years. The annuity rate currently might be:
 - For a level annuity with no increases: 5.0%
 - For an annuity increasing by 3% pa: 3.4%, or initially some 32% lower income than for the level annuity.
- Whether the annuity will stop on the individual's death, or have a reversionary benefit which will continue to be paid after the individual's death to a nominated individual, if they survive them.

Take for example a 65 year old with €100,000 capital who wants to buy an annuity with a guarantee period of 5 years. The annuity rate currently might be:

- For a level annuity with no increases, with no reversion: 5.0%
 - For a level annuity with no increases, with 50% reversion to his wife (also aged 65 today) assuming she survives him: 4.6%
- The level of **long term interest rates**, then ruling on EU Government bonds.

The life company will invest the lump sum it receives for the annuity mainly in top rated EU Government bonds (often called 'sovereign bonds') to match its liability to pay out the annuity over a long period of time.

Therefore, the anticipated return the life company will get today by investing in EU Government bonds has a significant impact on the level of annuity rate it can offer today. The lower bond yields are, the lower the annuity rate which can be offered, and vice versa.

Of course, once the annuity is purchased, the life company can not change the rate thereafter. It is fixed.

- The **size of the purchase price**; larger amounts tend to get slightly lower annuity rates than for lower amounts, all other things being equal.

This reflects the fact that the financially better off an individual is, i.e. with a larger retirement fund to invest in an annuity, the longer their life expectancy is likely to be, and hence the lower the annuity rate the life company will be prepared to offer.

10.3 Using Annuity Rates

Annuity rates are usually used in one of two different ways, to:

- Calculate the annuity payable for a given purchase price, e.g. for €100,000.

OR

- To calculate the lump sum required to purchase a specified level of annuity, e.g. €10,000 pa.

10.3.1 Annuity Payable for a Given Purchase Price

The annuity rate is usually expressed as a %, and you simply multiply the relevant annuity rate by the purchase price or lump sum, to arrive at the annual annuity payable:

Annual annuity = [annuity rate x purchase price]



Example

Tara has an accumulated retirement fund of €150,000. The annuity rate for the type of pension she wants is 4%.

The annuity payable is:

$$4\% \times €150,000 = €6,000 \text{ pa.}$$

10.3.2 Purchase Price Required for a Given Level of Annuity

Sometimes the question can be posed the other way around, i.e. if I want an annuity of a certain type of, say, €10,000 pa, what purchase price or capital sum do I need to secure that annuity?

The formula is simply the annual annuity required, divided by the annuity rate:

$$\text{Purchase price needed} = \left[\frac{\text{annuity required}}{\text{annuity rate}} \right]$$



Example

Tara wants a pension of a certain type of €8,600 pa. The annuity rate for the type of pension she wants is, say, 4%.

The lump sum required is:

$$€8,600 / 4\% = €215,000.$$

10.3.3 Contract Charge

The annuity rate quoted by a life company is net of its expenses.

However, some life companies impose a fixed **contract charge**, which is deducted from the annuity amount payable.



Example

A life company has an annuity contract charge of €3.50 per month. It is quoting an annuity rate of, say, 4% for a particular age.

The annual annuity payable is as follows:

€200,000 capital sum: $€200,000 \times 4\% - 12 \times €3.50 = €7,958$ pa.

€150,000 capital sum: $€150,000 \times 4\% - 12 \times €3.50 = €5,958$ pa.

As the contract charge is fixed regardless of the purchase price, it imposes a proportionally greater reduction on the annuity payable, the lower the purchase price.

10.4 Open Market Annuity Option

At any time, there may well be a difference between the annuity rates offered by different life companies for exactly the same case. Like everything else in life, it pays to shop around.

The term **open market** annuity rates refers to the best rate available in the marketplace at that time, and not just the annuity rate offered by the life company with whom the pension arrangement is currently held.

Most life company DC pension arrangements provide an **open market option** at retirement when the funds are drawn on, so that the retiree can, at retirement, secure the best annuity rate in the marketplace at that time and is not obliged to purchase the annuity with the life company which currently holds his or her retirement fund.



Example

Claire has accumulated a retirement fund of €200,000 in her RAC. The plan is with Solar Life. She is taking €50,000 as a lump sum and wants to buy a particular type of annuity with the balance of €150,000.

Solar Life, with whom she has the RAC, offers her an annuity rate of 3.8% for the type of annuity she wants. However, she checks with Lunar Life and discovers that they will offer her a rate of 4.0% for exactly the **same** type of annuity for the **same** €150,000 lump sum.

By purchasing her annuity on the open market with Lunar Life she can secure a pension of €6,000 pa, instead of €5,700 pa offered by her current life company, Solar Life.

10.5 Guaranteed Minimum Annuity Rates

Some older RACs, Personal Retirement Bonds, and life company DC employer pension schemes may provide a guaranteed **minimum** annuity rate to convert the retirement fund into an annuity at retirement.

This is referred to as providing a **guaranteed minimum annuity rate**, which currently will be much higher than the corresponding current open market annuity rate.



Example

A with profit RAC taken out 25 years ago might have a guaranteed minimum annuity rate of 9% for a retiree aged 65, for a level pension guaranteed payable for life, with a guarantee period of 5 years.

This means that at the selected retirement age in the RAC, a fund of €100,000 is guaranteed to secure a pension of at least $9\% \times €100,000 = €9,000$ pa. This guarantee may be very attractive when compared with current annuity rates when the RAC matures at the selected retirement age

For example, currently a €100,000 fund might, using open market annuity rates, secure for this retiree a similar type of pension of around €5,000 pa.

However, guaranteed minimum annuity rates may be restricted in one of a number of ways:

- The guarantee may apply to one type of pension only, for example, a single life level (i.e. not increasing) pension.

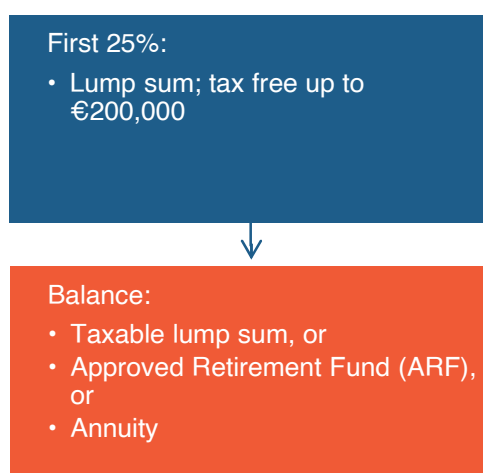
If the individual wants to take a different type of pension, for example, a pension with an increase or a joint life pension, the guarantee may not apply, and lower open market annuity rates may then apply.

- The guarantee may apply on one day only or for a very limited period around a specified date, for example, on the maturity date of the arrangement, which might be 60th or 65th birthday.

If the individual wants to go on early or late retirement the guarantee may not apply, and lower open market annuity rates may then apply.

10.6 ARF Purchasing an Annuity

Under the ARF option available on all DC pension arrangements (see Chapter 4.7.2), when the individual comes to take their retirement benefits they can use their retirement fund as follows:



However it is possible for an ARF to purchase an annuity to hold as an investment of the ARF account. For example an individual with an ARF might use part or all of their ARF fund to purchase an annuity later on if they wanted a level of secure income in retirement.

But of course the individual with the ARF won't know until they purchase the annuity with their ARF funds, what level of annuity income they will secure.

Under DC employer pension schemes which offer a guaranteed minimum annuity rate, the guaranteed rate might only apply if the individual takes retirement benefits under the traditional benefit option.

If the individual therefore takes benefits under the ARF option, the life company may refuse to give the benefit of the guaranteed minimum annuity rate to an annuity bought with the individual's ARF. An annuity bought by the individual's ARF may therefore have to be bought at current lower open market annuity rates.

10.7 Taxation

The income from an annuity purchased with the proceeds of a pension arrangement is liable to income tax and USC (but not PRSI) in the individual's hands.

The life company will operate PAYE on the annuity payment, as if it were the individual's 'employer'.

10.8 Benefits of Annuities

The potential benefits of annuities for the individual are:

- Certainty of income in retirement. The annuity will provide a predictable level of retirement income for life.
- Longevity insurance: the annuity is payable for as long as the individual lives.
- Simplicity: once the annuity is purchased and set up, no further investment advice is needed.

10.9 Risks of Annuities

However purchasing an annuity does carry potential risks for the individual:

- Timing risk: the annuity payable for life is fixed on the day it is purchased, which in turn will be heavily influenced by EU Government Bond yields ruling on that day.

There is therefore the risk that the individual buys the annuity at a time when bond yields and hence annuity rates are very low. Even if bond and annuity rates rise later, the individual can't undo the annuity and is stuck with the rate set on the day he or she purchased the annuity.

- Mortality risk: the risk of dying before all of the capital sum invested in the annuity has been received in annuity payments, and so lose part of the capital sum invested.
- Inflation risk: most individuals who purchase an annuity purchase a fixed or level annuity. Over time the purchasing power of the annuity will decline with inflation.



Review

Now consider the main teaching points, which were introduced in this Chapter. They are listed below. Tick each one as you go through them.

-
- | | |
|----------------------------------|--------------------------|
| What is an annuity? | ☐ |
| Annuity rates | ☐ |
| Using annuity rates | ☐ |
| Open market annuity rate option | ☐ |
| Guaranteed minimum annuity rates | ☐ |
| ARF purchasing an annuity | ☐ |
| Taxation | ☐ |
| Benefits of annuities | ☐ |
| Risks of annuities | ☐ |

Sample Questions

The answers to these questions can be found in your Study Hub.

1. Suzanne has invested part of her maturing Retirement Annuity Contract in an annuity. This annuity is liable in Suzanne's hands to:

 (i) income tax.
 (ii) USC.
 (iii) PRSI.

A. (i) only.
B. (i) and (ii) only.
C. (ii) and (iii) only.
D. (i), (ii) and (iii).

2. If a life company quotes an annuity rate of 4% for Sarah and the annuity will have a contract charge of €70 per annum, what annual annuity will Sarah get for a lump sum of €500,000?

A. €19,160 per annum.
B. €19,930 per annum.
C. €19,970 per annum.
D. €20,000 per annum.

3. Tom has a Retirement Annuity Contract which is about to mature, and he would like to purchase an annuity of €2,250 per annum. Assuming an annuity rate for the type of pension Tom wants is 4%, what amount will he have to use to purchase the annuity of €2,250 per annum?

A. €23,625
B. €42,850
C. €56,250
D. €63,500

4. If an annuity is said to have a 'reversion' this means:

A. the annuity rate is higher than normal because the investor is in bad health.
B. part or all of the annuity will continue to be paid to a nominated survivor, following the death of the investor.
C. the annuity rate is lower than normal because the investor is in excellent health.
D. the annuity will increase annually in line with the rise in the rate of inflation.

11

Approved Retirement Funds (ARF)

Understanding Approved Retirement Funds (ARFs) is at the heart of modern day post retirement planning; this Chapter will bring you through how ARFs work, the regular income they can produce in retirement, and the risk of **bomb out**. How ARFs are dealt with and taxed on death is also covered.

Learning Outcomes – after studying this chapter you should be able to:

understand how ARFs work;

explain imputed distributions and their taxation implication;

know what the term ‘bomb out’ risk means; and

explain how residual funds in an ARF are dealt with and taxed on death.

Chapter weightings	Number of questions which may appear		
In the exam, questions are taken from each Chapter based on the following approximate chart:	Chapter	Minimum	Maximum
	11	6	8

11.1 What is an ARF?

An Approved Retirement Fund (ARF) is a personal investment account into which an individual can, in certain circumstances, transfer part of their maturing retirement fund instead of using those funds to buy an annuity or take as a taxable lump sum. It is therefore, an alternative option to using such retirement funds to buy an annuity.

An ARF arises from the exercise of the ARF option under various types of pension arrangements, e.g. when accessing retirement benefits from a DC employer pension scheme or Personal Retirement Bond.

An ARF can also arise where an individual dies in service and the death in service benefit, after any lump sum is paid, is transferred to an ARF for the individual's spouse, civil partner or dependent(s). In this case, the person(s) taking the benefit in the form of an ARF are deemed to take an inheritance for CAT purposes.



Example

Brian is 65. He has accumulated a fund of €200,000 in his DC employer's pension scheme. He has reached retirement age and is drawing on his fund. He has not taken any retirement benefits previously.

He takes €50,000 (i.e. 25%) as a tax-free lump sum, and with the balance of €150,000 he can use it either to:

- Transfer the €150,000 into an ARF in his own name from which he can make taxable withdrawals in retirement.
- OR
- Purchase an annuity which guarantees him a pension for life of, say, €5,700 pa.
- OR
- Take as a taxable lump sum.

In spite of the term '*approved*' retirement fund, in fact ARF products are **not** required to be approved by either the Revenue Commissioners or the Pensions Authority before being marketed or sold to the public.

An ARF does not, in terms of retirement income, provide the longevity insurance of an annuity, i.e. the ARF does **not** provide a guaranteed income payable for life, unless the ARF invests in an annuity.

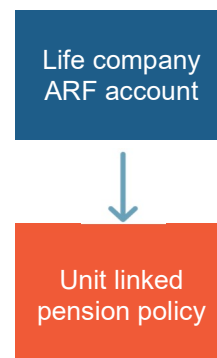
On the other hand, the balance in the ARF on death is preserved and paid to the ARF holder's estate, unlike an annuity where there will be no payment on death outside the guarantee period attaching to the annuity.

11.2 Qualifying Fund Managers (QFMs)

ARFs can only be offered by **qualifying fund managers (QFMs)** which includes:

- Life assurance companies; and
- MiFID investment firms, such as stockbrokers, who are authorised to hold client monies and assets.

In the case of a life company ARF, the ARF holds one asset, the unit linked pension policy issued by the life assurance company.



In the case of an ARF provided by a MiFID investment firm, the ARF account can hold a direct portfolio of stocks, shares, bonds, collective investment funds, etc.



11.3 Lifetime Withdrawals from an ARF

An ARF is designed to provide a retirement income.

The ARF holder can withdraw funds from their ARF as and when required. There is currently no maximum rate of draw down from an ARF. An individual can withdraw the full balance in an ARF at any time.

Any withdrawal made during the lifetime of the ARF holder is subject to tax which must be operated by the QFM. The tax payable is PAYE income tax, USC and Class S PRSI (under 66 or aged between 66 and 70 and not in receipt of the SPC), Class M PRSI (if over age 70, or aged between 66 and 70 and in receipt of the SPC). Class M PRSI means there is no PRSI payable.



Example #1

Take an ARF valued at €1 million.

The ARF holder decides to withdraw €40,000 from the ARF in 2026. Let's assume that the ARF holder is self-employed, is aged 66, is not in receipt of the SPC and a higher rate taxpayer in the year in which he takes this withdrawal.

The QFM has to operate PAYE on the €40,000 withdrawal, as well as USC and Class S PRSI. The QFM must take €40,000 from the ARF, deduct the income tax, USC and PRSI to be remitted to the Revenue, and pay the balance of the withdrawal to the ARF holder.

The ARF is reduced in value by €40,000, i.e. the total of tax deducted and the net amount paid to the ARF holder.



Example #2

Take the same ARF valued at €1 million and a €40,000 withdrawal as previously.

The ARF holder is self-employed, is aged 66, is in receipt of the SPC and a higher rate taxpayer in the year in which he takes this withdrawal.

The QFM has to operate PAYE on the €40,000 withdrawal, as well as USC and Class M PRSI (zero PRSI). The QFM must take €40,000 from the ARF, deduct the income tax and USC to be remitted to the Revenue, and pay the balance of the withdrawal to the ARF holder.

The ARF is reduced in value by €40,000, i.e. the total of tax deducted and the net amount paid to the ARF holder.

While there is no official requirement to take any particular level of withdrawal from an ARF during the year, there is a potential tax penalty for the ARF holder if no or insufficient withdrawals are made during the year.

This potential tax penalty is income tax and USC (but not PRSI) on a notional withdrawal (referred to as an '**imputed distribution**') of 4% pa of the value of the ARF from age 61 up to age 70, increasing to 5% pa from age 71 onwards; the tax is taken from the individual's ARF.



OR

If the total of the individual's ARFs and vested PRSAs exceeds €2m, the tax penalty applies to a notional withdrawal of 6% pa at all ages from 61 onwards.

To avoid the tax penalty above applying in a year, the ARF holder needs to take actual withdrawals during the year (at any time before 31st December of that year) of at least a similar amount to the notional withdrawal which will otherwise be deemed to occur, based on the value of the ARF at 30th November each year.

**Example #3**

Julie has an ARF valued at €1 million at 30th November 2026. She has no other ARFs or vested PRSA. She is in receipt of the SPC. She attains age 67 in 2026.

During 2026 she took total gross withdrawals from her ARF of €40,000, which were subject to PAYE (income tax and USC).

No tax penalty related to the imputed distribution applies to her ARF for 2026, as she took out actual withdrawals during 2026 of 4% of the value of her ARF at the 30th November 2026

If Julie above had not taken out sufficient withdrawals, tax on the notional withdrawal deemed to be made would be taken from her ARF.

**Example #4**

Julie has an ARF valued at €1 million at 30th November 2026. She has no other ARFs or vested PRSAs. She is in receipt of the SPC. She attains age 67 in 2026.

During 2026 she took total gross withdrawals from her ARF of €30,000, which were subject to PAYE (income tax and USC).

Because she did not take out in 2026 at least 4% of the value of her ARF at 30th November 2026, income tax and USC on a notional withdrawal is taken from her ARF; the notional withdrawal amount being:

$4\% \times €1\text{m less } €30,000 \text{ of actual withdrawals made} = €10,000 \text{ notional withdrawal.}$

**Example #5**

Julie has a vested PRSA valued at €400,000 at 30th November 2026. She has no other ARFs or vested PRSA. She is in receipt of the SPC. She attains age 67 in 2026.

Up to 29th November 2026 she took total gross withdrawals in 2026 from her vested PRSA of €10,000.

At 30th November 2026 Julie knows that if she does not take any further withdrawals from her vested PRSA in 2026, her vested PRSA will be subject to a tax on a notional withdrawal of:

$[4\% \times €400,000] - €10,000 = €6,000.$

Julie therefore, can avoid this tax penalty if she takes another €6,000 of gross withdrawals from her vested PRSA before 31st December 2026.

Where the ARF or vested PRSA invests in assets which can fluctuate in value from year to year, e.g. stocks and shares, the retirement income it produces for a retiree will be variable and fluctuate from year to year in line with the value of the ARF.

Take for example an ARF which starts off with €100,000 and from which 4% of the value is taken at the end of each year, to avoid the tax on the notional withdrawal.

This table shows the level of retirement income withdrawn each year, based on the assumed investment returns, after charges, shown for each year:

Year	ARF value at start of year	Investment return for year, after charges	ARF value at end of year	Withdrawal (subject to PAYE)
1	€100,000	2.00%	€102,000	€4,080
2	€97,920	-4.00%	€94,003	€3,760
3	€90,243	1.00%	€91,146	€3,646
4	€87,500	6.00%	€92,750	€3,710
5	€89,040	3.00%	€91,711	€3,668

Note how the withdrawal amount varies from year to year, in line with the fluctuating value of the ARF.

If the long term investment return achieved by the ARF is less than the rate of drawdown taken (e.g. 4% pa up to age 70 and 5% pa thereafter) the capital value of the ARF will run down and so too will the annual withdrawal amounts.

11.4 Taxation of Withdrawals

Withdrawals made from an ARF or vested PRSA during the holder's lifetime are subject to PAYE as Schedule E income. The QFM is obliged to deduct higher rate income tax from the withdrawal unless the QFM has received a Revenue payroll notification for that year for that individual.

11.5 Investment Returns

ARFs and vested PRSAs are treated as pension arrangements and so are exempt from Irish taxes on capital gains and investment income.

An ARF cannot borrow to invest, as it can only accept into the fund transfers from another ARF or funds transferred on the maturity of a DC pension arrangement under the ARF option.

11.6 Charges

The type of charges which may be applied to an ARF or vested PRSA are similar in nature to those outlined in Chapter 3 for RACs and PRSAs.

11.7 Death

While an ARF or vested PRSA do not provide a guaranteed income payable for life in retirement (unless invested in an annuity) one of the main attractions of the ARF option is the ability to leave any balance of the fund on death to next of kin. In this way the remaining capital is preserved for next of kin, and not lost on death as it can be with an annuity.

Following the death of an ARF or vested PRSA holder, the fund becomes part of the deceased's estate and distributed under the terms of their Will or intestacy rules. Such distributions from the ARF are taxed as follows, depending on who inherits the ARF fund from the deceased's estate:

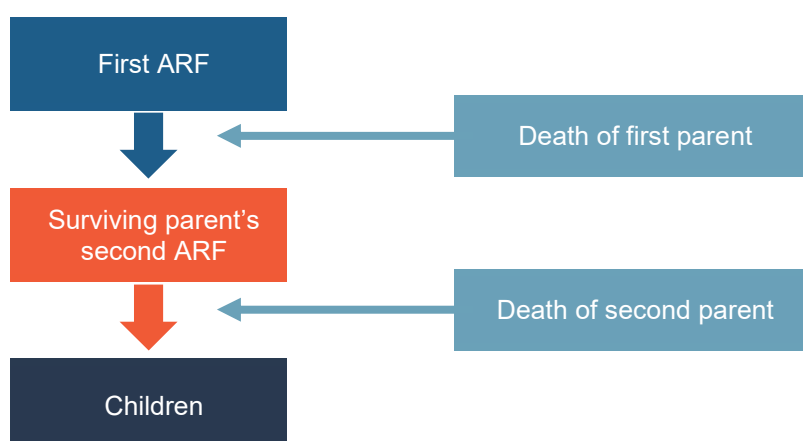
To another ARF opened by surviving spouse/civil partner	- Exempt from Income Tax. - Exempt from Inheritance Tax.
Directly to surviving Spouse/civil partner	- Subject to PAYE as deceased's income in the year of death. - Exempt from Inheritance Tax.
To a child of deceased, over age 21	30% Income Tax charge. - Exempt from Inheritance Tax.
To a child of deceased, under age 21	- Exempt from Income Tax. - Taxable inheritance for Inheritance Tax, with benefit of any unused Inheritance Tax threshold.
To anyone else	- Subject to PAYE as deceased's income in year of death - Net (after PAYE) amount is taxable inheritance for Inheritance Tax purposes, with benefit of any unused Inheritance Tax threshold.

The balance in a vested PRSA is treated on death as if it were an ARF, and hence is taxed as above.

Also, an RAC or PRSA which has not been drawn on by age 75 is taxed on death after age 75 as if it were an ARF; hence payments from such an RAC or PRSA on death after age 75 are taxed as above.

An ARF opened by a surviving spouse/civil partner of a deceased ARF or vested PRSA holder and funded by a transfer from the deceased's ARF or vested PRSA is often referred to as a **second ARF**, as it follows on from the first ARF or vested PRSA.

Therefore, unless otherwise specified in the Will, some ARF assets are likely to only pass to children, after **both** parents have died:



So, the balance of an ARF (first or second) can be left on death to a child over age 21, subject to a 30% income tax charge, with exemption from Inheritance Tax.

11.8 Benefits of ARFs

The potential benefits of ARFs for an individual are:

- Preservation of capital on death. The balance in the ARF on death is part of the deceased's estate and is therefore preserved for next of kin.
- Tax free investment returns help the ARF to grow.
- Where an ARF holder is married their ARF on death can transfer gross to an ARF held by their surviving spouse, where it can accumulate tax free again until the surviving spouse dies.
- ARF inheritances taken by adult (over age 21) children of a deceased ARF holder are exempt from Inheritance Tax and subject only to a fixed income tax charge of 30% (no USC or PRSI)
- Income withdrawal flexibility, subject to taking enough each year to avoid the notional withdrawal tax penalty. For example, an ARF holder could opt to take 7% of their ARF value this year and 4% next year.

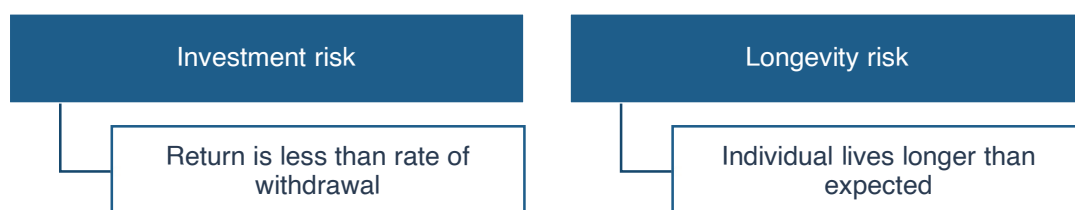
11.9 Risks of ARFs

ARFs (and vested PRSAs) pose a number of risks to holders and their dependants:

- Unless the ARF invests in an annuity, it will not provide a fixed predictable guaranteed income for life.
- ARF withdrawals will fluctuate from year to year based on the fluctuating value of the ARF.
 - The ARF holder will need ongoing investment advice in relation to the investment of their ARF fund.
 - Unless the ARF earns a return, after charges, in excess of the annual rate of withdrawal taken (4%, 5% or 6% pa depending on the ARF holder's age and value of ARF assets) the annual withdrawal amount will fall in line with the falling value of the ARF fund and may eventually run down to a level which impacts significantly on the retiree's standard of living.

This risk is sometimes referred to as the '**bomb out**' risk', i.e. the risk that at some stage in retirement the ARF or vested PRSA will cease to provide a meaningful level of retirement income for the holder, if they live that long.

The bomb out risk is therefore a combination of two main risks:



An ARF or vested PRSA can buy an annuity to hold as an asset and the annuity can in that way allow the ARF or vested PRSA provide a regular fixed income not subject to bomb out risk.

11.10 Transfers

An individual can, at any time:

- Transfer his or her ARF fund to another ARF with a different QFM.
- Split his or her ARF into a number of different ARFs, by making a partial transfer from one ARF to another ARF with a different QFM.



Review

Now consider the main teaching points, which were introduced in this Chapter. They are listed below. Tick each one as you go through them.

-
- | | |
|---------------------------------|--------------------------|
| What is an ARF? | ☐ |
| Qualifying fund managers (QFMs) | ☐ |
| Lifetime withdrawals from ARF | ☐ |
| Taxation of withdrawals | ☐ |
| Investment returns | ☐ |
| Charges | ☐ |
| Death | ☐ |
| Benefits of ARFs | ☐ |
| Risks of ARFs | ☐ |
| Transfers | ☐ |

Sample Questions

The answers to these questions can be found in your Study Hub.

1. Joan has an ARF. Which of the following can Joan do in relation to her ARF?
 - A. Split ARF into a number of different ARF's.
 - B. Transfer ARF to a Personal Retirement Bond.
 - C. Transfer ARF to an occupational pension scheme.
 - D. Transfer gross ARF to her spouse to avail of lower tax on withdrawals.

2. Paul has an ARF and is concerned about bomb out risk. What option does Paul have to secure a guaranteed income for life?
 - A. Buy an annuity with the ARF.
 - B. Cease withdrawals for 5 years.
 - C. Reduce withdrawals to 2% p.a.
 - D. Encash ARF and transfer it to a deposit account.

3. John died and the balance of his ARF was transferred to an ARF held by his surviving spouse, Anna. This transfer is:
 - A. subject to capital gains tax at 33% at source.
 - B. not subject to any tax deduction.
 - C. subject to income tax at 30% at source.
 - D. taxed under PAYE at Johns marginal rate of income tax.

4. The returns from an ARF are:
 - A. Exempt from income tax only.
 - B. Exempt from capital gains tax only.
 - C. Exempt from Irish inheritance tax.
 - D. Exempt from Irish tax on capital gains and investment income.

12

Regulatory Bodies

There are various regulatory bodies involved in regulating pension arrangements and the provision of advice to consumer on such arrangements; this Chapter covers the main bodies directly or indirectly involved. Included in particular are the Revenue Commissioners, the Pensions Authority, the Central Bank and the Financial Services and Pensions Ombudsman.

Learning Outcomes – after studying this chapter you should be able to:

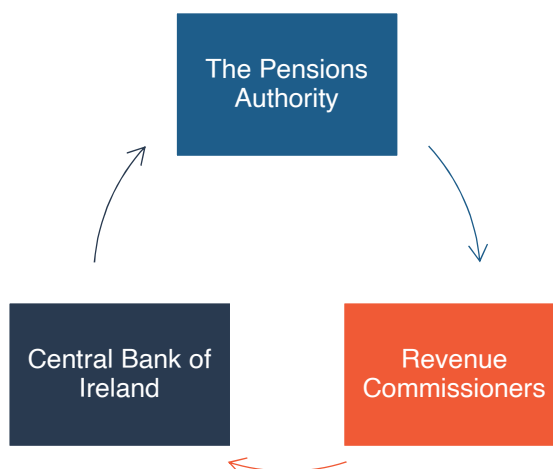
understand the functions and role of the Pensions Authority;

explain the role of the Revenue Commissioners, Central Bank of Ireland, and Society of Actuaries in the pensions industry; and

understand the role of the Financial Services and Pensions Ombudsman; the nature of complaints about pension providers which can and cannot be referred to the Ombudsman.

Chapter weightings	Number of questions which may appear		
In the exam, questions are taken from each Chapter based on the following approximate chart:	Chapter	Minimum	Maximum
	12	3	5

There are three main regulatory bodies involved directly or indirectly in the regulation of the operation of various types of pension arrangements:



In addition, the:

- *Society of Actuaries in Ireland* issues guidance notes which actuaries involved in the operation of various pension arrangements (Including the preparation of projections provided to members) must follow in certain circumstances.
- *Financial Services and Pensions Ombudsman* deals with certain complaints from members of occupational pension schemes, and PRSAs.
- *Data Protection Commissioner* regulates the protection and use of personal information held by entities, such as DC scheme members' personal details held by the trustees and/or scheme administrator.

12.1 The Pensions Authority

The Pensions Authority:

- Regulates the compliance of DB & DC employer pension schemes and Master Trusts with relevant provisions of the Pensions Act 1990, such as the solvency of DB schemes and the provision of information to scheme members in certain circumstances:

As part of this function, the Authority issues Guidance Notes and FAQs on various regulatory issues related to occupational pension schemes, and the Authority's Code of Practice for scheme trustees.

Authorises and regulates Registered Administrators appointed to employer pension schemes.

Issues guidance on the calculations and projections set out in Pension Benefit Statements for members of DC schemes.

- Approves, jointly with the Revenue Commissioners, PRSA contracts.
- Regulates the activities of PRSA providers in relation to the operation of PRSA contracts and compliance with relevant provisions of the Pensions Act and issues a Code of Conduct for PRSA providers.
- Supervises and oversees the auto enrolment system, MyFutureFund. This includes oversight of NAERSA, its board, processes, compliance, and operational integrity.

- Maintains a register of all employer pension schemes approved by the Revenue Commissioners; each scheme, when approved by Revenue, must be submitted by the trustees to the Authority for entry in their register of schemes. The Authority records information on the schemes such as the number of members, the trustees, the employer, and whether it is defined benefit or defined contribution.

12.2 The Revenue Commissioners

The Revenue Commissioners has a regulatory role in relation to the approval of:

Employer pension schemes

RACs

Personal Retirement Bonds

PRSAs (in conjunction with the Pensions Authority)

ARFs on the other hand do not require prior approval from any regulatory authority, in spite of being called 'Approved' Retirement Funds.

The Revenue Commissioners have wide discretionary powers in relation to the operation of employer pension schemes, for example, the Revenue prescribes the maximum benefits which a scheme's rules can provide for a member on retirement.

The **Revenue Pensions Practice Manual**, which is updated regularly, codifies current Revenue practice in many areas in the operation of employer pension schemes, PRSAs, RACs and ARFs.

12.3 The Central Bank of Ireland

The Central Bank of Ireland is the authorisation and regulatory body for the following financial entities established in the State:

Banks

Life assurance companies

MiFID investment firms

Retail investment intermediaries

Insurance intermediaries

The Central Bank of Ireland regulates the solvency of the above entities established in the State.

The Central Bank of Ireland also imposes conduct of business rules, for example, the Consumer Protection Code, on all entities when dealing with consumers in the State, when providing advice to consumers on pension policies and PRSAs.

Financial firms established in another EU member state and providing services in Ireland on a cross border basis, are regulated by the regulatory authorities of their home state in relation to their solvency but must comply with Irish conduct of business requirements (for example, Central Bank's Consumer Protection Code) when providing financial services in this State.

12.4 The Society of Actuaries in Ireland

Many regulatory provisions of the Pensions Act in relation to the operation of PRSAs and Disclosure of Information Regulations, require the actuary and PRSA provider to comply with guidance issued by the Society of Actuaries in Ireland in preparing certain calculations and projections, for example:

- Setting the default investment strategy for PRSAs.
- The Statement of Reasonable Projection (SORPs) to be provided to PRSA holders in certain circumstances.
- Life Assurance Disclosure of Information Projections, which apply to Personal Retirement Bonds, ARFs and RACs.

12.5 The Financial Services and Pensions Ombudsman

The Financial Services and Pensions Ombudsman (FSPO) is a statutory and independent service which mediates, investigates and adjudicates on complaints made by consumers against financial services providers and **pension providers**, where the complaint cannot be resolved between the provider and the consumer.

12.5.1 Complaints about Pension Providers

The term **pension provider** includes any of the following involved in the operation of an employer pension scheme or PRSA:

- The employer.
- Any person that provides services to the scheme or PRSA such as an administrator, consultant or adviser, investment manager, life assurance company or actuary, including NAERSA as provider of MyFutureFund.

A member or beneficiary of MyFutureFund, an employer pension scheme or a PRSA holder can refer complaints about the conduct of a pension provider to the Financial Services and Pensions Ombudsman where the complaint refers to:

- Alleged financial loss suffered by a person on account of **maladministration** done by the pension provider; and,
- A **dispute of fact or law** which arises in connection with the management of an employer pension scheme or PRSA by a pension provider. There is no requirement that there be an alleged financial loss in order to refer a dispute of fact or law to the Financial Services and Pensions Ombudsman, but usually there will be an associated alleged financial loss.

Financial loss arising from
maladministration

Dispute of fact or law

In general, the time limit on complaints to the FSPO about pension providers is the later of:

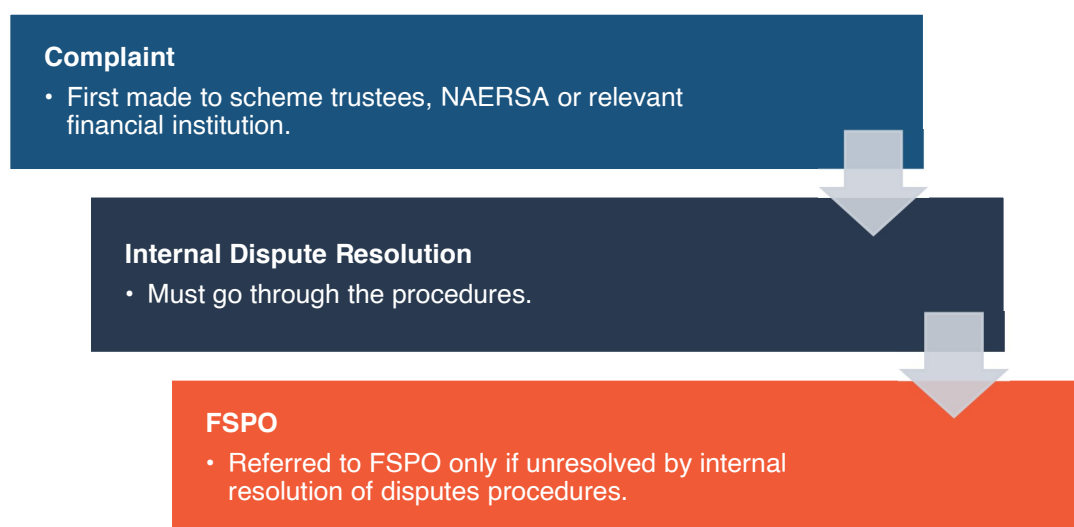
- Six years from the date of the conduct giving rise to the complaint, and

- Three years from the date the complainant became aware of the conduct or ought to have become aware of it.

However, the FSPO can investigate complaints made outside the time limit above where it feels there are reasonable grounds for allowing a longer time limit.

12.5.2 Internal Dispute Resolution (IDR)

In general, complaints cannot be referred to the FSPO until the complaint has first gone through the complaints procedures of the pension provider against whom the complaint is made, and the complaint could not be resolved to the satisfaction of the complainant.



Each employer pension scheme and PRSA provider must have an **internal dispute resolution process** for handling complaints from members and other beneficiaries.

12.5.3 Step 1: Is the Complaint Within the Scope of the FSPO?

When a complaint about a pension provider is first referred to the FSPO, the FSPO will examine the complaint and decide whether the complaint is within the scope of complaints about pension providers which the FSPO can deal with, e.g. does the complaint fall within those outlined above in Chapter 12.5.1?

12.5.4 Step 2: the FSPO Attempts Mediation

If the FSPO finds the complaint about the pension provider does fall within its scope, the first thing it will do is to attempt to resolve the complaint through mediation between the consumer and the pension provider.

However, participation in mediation is voluntary and either party can refuse to get involved in mediation or can withdraw from it at any time.

Some complaints may be settled by mediation, but some will not.

12.5.5 Step 3: Investigation and Adjudication of a Complaint

If the attempt at mediation is unsuccessful, the FSPO will proceed to formally investigate the complaint, and adjudicate on it.

Following the investigation, the FSPO may decide to:

- Reject the complaint;

OR

- Uphold the complaint in full;

OR

- Uphold the complaint in part.

Where the complaint is partially or fully upheld, the FSPO may issue a direction to the pension provider to take some action and/or make financial redress to the complainant, not exceeding the actual loss of benefit involved in the complaint.

The FSPO's decision is legally binding on both parties but either side, i.e. the complainant or the pension provider, can appeal the FSPO's decision to the High Court within 35 days of the Ombudsman decision. The High Court can either:

- Uphold the FSPO decision in full.

OR

- Uphold the FSPO decision subject to certain modifications.

OR

- Set aside the FSPO decision, and possibly remit the decision back to the FSPO for a fresh review.

12.6 Whistleblowing

The Pensions Act places certain whistleblowing obligations on entities involved in the operation of employer pension schemes and PRSAs, including employers, scheme trustees, administrators, investment managers and financial advisers.

Where a person above has reasonable cause to believe that material misappropriation or fraudulent conversion of the scheme or PRSA's assets has or is occurring or is to be attempted, they must report this immediately in writing to the Pensions Authority.

Provision is made in the Act, for the legal protection of anyone, including a trustee, making such reports in good faith to the Pensions Authority.

Where the person has reason to believe that material misappropriation or fraudulent conversion of an employer pension scheme or PRSA's assets has or is occurring or is to be attempted, they must report this immediately in writing to the Pensions Authority

The Pensions Act also gives protection to an employee who is dismissed from his employment solely or mainly because he/she has, in good faith, made a whistleblowing report to the Pensions Authority about the operation of a DC scheme.



Review

Now consider the main teaching points, which were introduced in this Chapter. They are listed below. Tick each one as you go through them.

-
- | | |
|---|--------------------------|
| The main regulatory bodies involved in the regulation of different pension arrangements | ☐ |
| The main functions of the Financial Services and Pensions Ombudsman | ☐ |
| The main whistleblowing obligations in relation to employer pension schemes and PRSAs | ☐ |

Sample Questions

The answers to these questions can be found in your Study Hub.

1. An adjudication of a complaint by the Financial Services & Pensions Ombudsman can be appealed by the pension provider involved to the:

A. Financial Services Appeals Tribunal.
B. Central Bank of Ireland.
C. Circuit Court.
D. High Court.

2. The Pensions Ombudsman can investigate and adjudicate on certain complaints about pension providers in relation to:

(i) Retirement Annuity Contracts.
(ii) employer pension schemes.
(iii) PRSAs.

A. (ii) only.
B. (iii) only.
C. (ii) and (iii) only.
D. (i), (ii) and (iii).

3. Who sets the conduct of business rules which a German insurance intermediary must follow with when providing advice to PRSA clients in the Republic of Ireland?

A. The German Financial Conduct Authority.
B. The European Insurance and Occupational Pensions Authority.
C. The Irish Revenue Commissioners.
D. The Central Bank of Ireland.

4. Which one of the following does NOT require prior approval from the Revenue Commissioners or Pensions Authority before being marketed or sold to the public?

A. ARFs.
B. Retirement Annuity Contracts.
C. Personal Retirement Bonds.
D. PRSAs.

13

Inflation and Compound Interest

This Chapter explains what inflation and deflation are, and how to accumulate and discount capital sums over a period of time.

Learning Outcomes – after studying this chapter you should be able to:

calculate the rate of inflation or deflation over a particular period of time, using supplied Consumer Price Index values;

accumulate or discount a capital sum over a particular period, using supplied tables based on specific rates of return; and

project earnings over a period of time, using supplied tables based on specific rates of earnings growth.

Chapter weightings	Number of questions which may appear		
In the exam, questions are taken from each Chapter based on the following approximate chart:	Chapter	Minimum	Maximum
	13	1	3

13.1 Calculations and Projections

When advising a client in relation to retirement planning, it may be necessary to calculate:

- Projected earnings at or near retirement, assuming earnings grow at a particular rate, in order to determine what level of earnings may need to be replaced in retirement;
- The projected value at retirement of a current capital sum, assuming a particular rate of investment return is achieved, in order to work out the client's shortfall in retirement funding; and/or calculate
- The real value today, in terms of current purchasing power, of a capital sum payable in the future.

13.2 Inflation and Deflation

Inflation is the rate of increase in the price of an average basket of consumer goods and services, over a period of time. The most frequently quoted rate of inflation is the annual inflation rate, i.e. the increase in the price of goods and services over the preceding 12 months.

However, it is possible for the price of goods and services to fall, in which case the rate of decline in the price of goods and services over a period is referred to as **deflation**.

The general increase in prices of an average basket of consumer goods and services is calculated by the Central Statistics Office (CSO) and published as the **Consumer Price Index - All Items (CPI)**.

Every month, the CSO issues a statistical release which publishes the most recent CPI value. One such index starts with a value of 100 in November 1996. This can be obtained from www.cso.ie. The index values over the period 2011 to 2025 are:

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2011	141.9	143.1	144.4	145.0	145.1	145.0	144.9	145.2	145.6	146.1	146.1	145.7
2012	144.9	146.2	147.7	147.7	147.7	147.5	147.3	148.1	147.9	147.9	147.3	147.4
2013	146.7	147.8	148.5	148.5	148.3	148.4	148.3	148.4	148.2	148	147.7	147.7
2014	146.9	147.8	148.7	148.8	148.8	149.0	148.7	149.0	148.7	148.2	147.9	147.3
2015	146.1	147.0	147.9	147.8	148.4	148.8	148.4	149.0	148.4	147.9	147.5	147.4
2016	146.2	146.8	147.4	147.7	148.5	149.5	149.1	148.8	148.2	147.6	147.5	147.4
2017	146.7	147.6	148.5	149.1	148.7	148.8	148.9	149.5	148.6	148.4	148.2	148.0
2018	147.0	148.2	148.7	148.5	149.4	149.5	150.0	150.4	150.0	149.7	149.1	149.0
2019	148.1	149.2	150.3	150.9	150.8	151.1	150.8	151.5	151.2	150.9	150.6	150.9
2020	150.0	150.8	151.4	150.8	150.0	150.6	150.2	150.0	149.5	148.6	149.0	149.4
2021	149.7	150.2	151.4	152.4	152.6	152.9	153.4	154.4	155.0	156.1	157.0	157.8
2022	157.1	158.5	161.6	163.1	164.5	166.7	167.4	167.7	167.7	170.4	171.0	170.7
2023	169.3	172.0	173.9	174.8	175.4	176.9	177.2	178.3	178.6	179.1	177.7	178.5
2024	176.3	178.0	178.8	179.2	180.2	180.9	181.2	181.4	179.8	180.3	179.4	181.0
2025	179.7	181.1	182.4	183.2	183.1	184.0	184.3	185.0	184.6	185.4	185.2	186.1

To calculate the inflation or deflation rate over a particular period of time, the following formula is used:

$$\left[\frac{\text{CPI End Period}}{\text{CPI Start Period}} - 1 \right] \times 100\%$$

If the answer is positive, it's inflation. If it's negative, it's deflation.

So, for example, over the period December 2020 to December 2022:

$$\left[\frac{170.7}{149.4} - 1 \right] \times 100\% = + 14.26\%$$

So, the rate of **inflation** over this period was 14.26%.

Over the period September 2019 to September 2020:

$$\left[\frac{149.5}{151.2} - 1 \right] \times 100\% = - 1.12\%$$

Therefore, over the period September 2019 to September 2020 there was **deflation** of 1.12%, i.e. the average price of goods and services measured by the CPI (All Items) **fell** by 1.12% over this period.

13.3 Real Returns

The pension investor will usually aim to achieve an investment return to at least match inflation over the longer term, as otherwise the real value of their retirement fund will fall.

When accumulating a retirement fund to replace earned income in retirement, the objective might even be higher again, i.e. to earn a return to match the rate of increase in earnings up to retirement.

If inflation over the year is, say, 2.65%, investors would need to obtain a return of 4.65% over that year, if they wanted to achieve a 'real' return of 2% over that year.

In the longer-term wages and salaries are likely to grow by more than inflation, say more than 1% pa over inflation, so that if a long term estimate of inflation is 2% pa, we might assume earnings will increase by 3% pa.

Therefore over the longer term the pension investor would ideally aim to achieve an investment return of more than the rate of inflation, i.e. to earn a **real** rate of return.

However this will require investing substantially in 'real' assets like equities and property which historically have produced returns in excess of inflation but produce volatile returns and hence may be too risky for some investors who have a lower capacity for investment risk.

13.4 Compound Interest

13.4.1 Accumulation

When we refer to a 5% pa interest or investment return, we mean that €1,000 invested will earn €50 return at the end of the year, and so increase the capital value to €1,050.

If this sum is then left for a further year, at a 5% return, then at the end of the second year 5% is added to the €1,050 capital to give a return for that year of €52.50, and a new capital balance of €1,102.50. The extra €2.50 return in year 2 over the first year is sometimes referred to as **interest on interest**. This is the effect of **compound interest**.

A table of Accumulation factors at 2% pa, 3% pa and 6% pa are set out at the end of this Chapter. They show the accumulated value of €1,000 invested now at the relevant return from one to 30 years.

The mathematical formula for accumulating €1,000 at a return of 6% pa, is:

Accumulated value at 6% pa of €1,000 invested for N years:

$$€1,000 \times (1.06)^N$$

Some calculators have a y^x button, which you can use to work out this calculation.



Example #1

If Brian invests €20,000 now in a PRSA which he hopes will earn a return, after charges, of 3% pa to age 60 in 24 years' time what will be the value of his PRSA at 60?

The answer is (using the Accumulation factor at the end of this Chapter for 3% pa and an investment term of 24 years):

$$€20,000 \times €2,033/€1,000 = €40,660$$

In the second example we assume Brian will adopt a higher level of investment risk and aim to achieve a return of 6% pa after charges:



Example #2

If Brian invests €20,000 now in a PRSA which he hopes will earn a return, after charges, of 6% pa to age 60 in 24 years' time what will be the value of his PRSA at 60?

The answer is (using the Accumulation factor at the end of this Chapter for 6% pa and an investment term of 24 years):

$$€20,000 \times €4,049/€1,000 = €80,980$$

13.4.2 Projecting Earnings to Retirement

A typical assumption is that earnings will increase in the future by 3% pa. We can use the Accumulation factors for 3% pa at the end of this Chapter to work out projected earnings at retirement.



Example

Chloe's current earnings are €70,000 pa. She is aged 42 and hopes to retire at 65. What will be her projected earnings at age 65, i.e. in 23 years' time, if her earnings grow at 3% pa between now and then?

The answer is (using the Accumulation factor at the end of this Chapter for 3% pa and a term of 23 years):

$$€70,000 \times €1,974/€1,000 = €138,180$$

13.4.3 Discounting

Sometimes we want to approach things from the other way i.e. what sum needs to be invested now to accumulate to a particular capital sum at retirement.

The table of factors as at the end of this Chapter shows the discounted value of €1,000 payable at a certain time in the future, assuming a specified discount rate, i.e. the amount you would need to invest now and accumulate at the rate assumed to grow to €1,000 after a period of years.



Example #1

What contribution needs to be invested now in a PRSA to accumulate to €80,000 in 29 years' time, assuming an investment return after charges of 3% pa?

We know from the factors at the end of this Chapter that €1,000 invested now at 3% pa will accumulate to €2,357 after 29 years.

Therefore the contribution invested now at 3% pa to accumulate to €80,000 after 29 years is

$$€80,000 / €2,357 \times €1,000 = \mathbf{€33,941}.$$

Another way to calculate this is to use the Discounting factor at 3% pa for 29 years (again from the same table of factors at the end of this Chapter), i.e.:

$$€80,000 \times €424/€1,000 = \mathbf{€33,920}$$

The difference between the two figures arises from rounding used in the factors and is not material. Either answer can be taken as correct.

The discounted value is often also referred to as the **present value** of a sum payable in the future, i.e. in today's money terms.



Example #2

What is the present value of €100,000 payable in 19 years' time assuming a 3% pa investment return?

The table of Discount factors at the end of this Chapter for 3% shows a discounted or present value of €1,000 payable in 19 years' time of €570.

Therefore the present value of €100,000 payable in 19 years' time assuming a 3% pa investment return is $€570 \times €100,000/€1,000 = €57,000$.

13.4.4 Expressing the Real Value of a Projected Retirement Fund

There are two ways used to express the real or present-day value of a projected retirement fund of, say, €360,000 in, say, 27 years' time.

- The first is to discount the €360,000 at the assumed rate of inflation of 2% pa, to express the capital sum in terms of today's purchasing power.
- The second is to express the projected €360,000 capital sum as a % of projected earnings in 27 years' time; this highlights how many years' earnings the projected retirement fund will replace.



Example #1: Discount to Today's Values

Amy's current earnings are €80,000 pa. She is aged 38 and hopes to retire at 65 in 27 years' time. She has been shown a projection of her employer DC scheme fund at age 65 of €360,000.

Using the discount factors at the end of this Chapter for the assumed inflation rate of 2% pa for 27 years, we get a current or present value of her projected retirement fund of:

$$€360,000 \times €586/€1,000 = €210,960$$



Example #2: Express as a % of Projected Earnings

Amy's current earnings are €80,000 pa. She is aged 38 and hopes to retire at 65 in 27 years' time. She has been shown a projection of her employer DC scheme fund at age 65 of €360,000.

First we project her earnings to age 65, in 27 years' time, using an assumed earnings increase of 3% pa and the factors at the end of this Chapter:

$$€80,000 \times €2,221/€1,000 = €177,680$$

We then express the projected retirement fund of €360,000 as a % of her projected earnings at that time:

$$€360,000/€177,680 = 2.03 \text{ years projected earnings at age 65.}$$

Tables showing accumulation and discounting factors at different rates at yearly durations from one year to 30 years

**Accumulated value at end of year x of
€1,000 invested now, at the rates shown**

After (years)	2% pa	3% pa	6% pa
1	€1,020	€1,030	€1,060
2	€1,040	€1,061	€1,124
3	€1,061	€1,093	€1,191
4	€1,082	€1,126	€1,262
5	€1,104	€1,159	€1,338
6	€1,126	€1,194	€1,419
7	€1,149	€1,230	€1,504
8	€1,172	€1,267	€1,594
9	€1,195	€1,305	€1,689
10	€1,219	€1,344	€1,791
11	€1,243	€1,384	€1,898
12	€1,268	€1,426	€2,012
13	€1,294	€1,469	€2,133
14	€1,319	€1,513	€2,261
15	€1,346	€1,558	€2,397
16	€1,373	€1,605	€2,540
17	€1,400	€1,653	€2,693
18	€1,428	€1,702	€2,854
19	€1,457	€1,754	€3,026
20	€1,486	€1,806	€3,207
21	€1,516	€1,860	€3,400
22	€1,546	€1,916	€3,604
23	€1,577	€1,974	€3,820
24	€1,608	€2,033	€4,049
25	€1,641	€2,094	€4,292
26	€1,673	€2,157	€4,549
27	€1,707	€2,221	€4,822
28	€1,741	€2,288	€5,112
29	€1,776	€2,357	€5,418
30	€1,811	€2,427	€5,743

**Discounted value today of €1,000 payable
at end of year x, at the rates shown**

Payable (years)	2% pa	3% pa	6% pa
1	€980	€971	€943
2	€961	€943	€890
3	€942	€915	€840
4	€924	€888	€792
5	€906	€863	€747
6	€888	€837	€705
7	€871	€813	€665
8	€853	€789	€627
9	€837	€766	€592
10	€820	€744	€558
11	€804	€722	€527
12	€788	€701	€497
13	€773	€681	€469
14	€758	€661	€442
15	€743	€642	€417
16	€728	€623	€394
17	€714	€605	€371
18	€700	€587	€350
19	€686	€570	€331
20	€673	€554	€312
21	€660	€538	€294
22	€647	€522	€278
23	€634	€507	€262
24	€622	€492	€247
25	€610	€478	€233
26	€598	€464	€220
27	€586	€450	€207
28	€574	€437	€196
29	€563	€424	€185
30	€552	€412	€174



Review

Now consider the main teaching points, which were introduced in this Chapter. They are listed below. Tick each one as you go through them.

-
- | | |
|------------------------------|--------------------------|
| Calculations and projections | ☐ |
| Inflation and deflation | ☐ |
| Compound Interest | ☐ |

Sample Questions

The answers to these questions can be found in your Study Hub.

1. What amount does Claire need to invest now to accumulate to € 50,000 after 6 years assuming she will earn an investment return of 3% per annum compound over that period?

A. € 33,800
B. € 40,650
C. € 41,850
D. € 43,150

2. If inflation runs at 3% per annum compound over the next seventeen years, which sum would an investment of € 75,000 made now have to grow to over the next seventeen years, to keep pace with inflation over that period?

A. € 98,925
B. € 100,950
C. € 105,000
D. € 123,975

3. If Lorraine invests € 20,000 now for seven years and earns an investment return of 6% per annum compound over that period, what amount will her investment have grown to after seven years?

A. € 22,520
B. € 30,073
C. € 29,580
D. € 31,060

4. If Kate achieved an investment return for the year of 5% and inflation over the same year was 2%, what real rate of investment return did she achieve in that year?

A. 2%
B. 3%
C. 5%
D. 8%

14

Comparing Options and Plans

This Chapter compares pension product types and options under several criteria to enable the adviser to understand how products and options interact, to enable the advisor to provide appropriate advice to a consumer on the most suitable product or option for him or her.

Learning Outcomes – after studying this chapter you should be able to:

compare and contrast comparable pension arrangements and options, under various criteria; and

understand the implications of retaining a preserved benefit in a pension scheme or transferring benefits out.

Chapter weightings	Number of questions which may appear		
In the exam, questions are taken from each Chapter based on the following approximate chart:	Chapter	Minimum	Maximum
	14	3	5

14.1 Introduction

An individual may have different **options** at different times about how to accumulate and take retirement benefits.

Examples include:

- A self-employed individual who wants to save for retirement can choose to contribute to a(n):

RAC

Non-Standard PRSA

Standard PRSA

- An individual with a preserved benefit in an employer pension scheme can choose to:

Retain the benefit in the scheme

Take a transfer value to another arrangement

- An individual who has decided to take a transfer value instead of keeping a preserved benefit in an employer pension scheme, may be able to transfer to a(n):

One or more PRSAs

Personal Retirement Bond

Another employer scheme

- When drawing on a DC employer pension scheme, the member can choose to take his or her retirement benefits using the:

ARF option

Traditional benefit option

- When taking retirement benefits under the ARF option, the individual may have an option with regard to part of their fund to:

Take as a taxable lump sum

Transfer to an ARF

Buy an annuity

14.2 RACs or PRSAs?

A brief comparison of the main differences between RACs and the two types of PRSAs is set out in this table:

	RACs	Standard PRSAs	Non-Standard PRSAs
Who can take out?	Must have or have had source of relevant earnings to take out and continue contributing, i.e. • Employees in non-pensionable employment. • Self-employed.	Available to all, regardless of employment status. However, income tax relief on contributions only available against income from a(n): • Non-pensionable employment; or, • Self-employed trade or profession; or, • AVCs, for employees in pensionable employment.	• As for Standard PRSAs.
Who can contribute?	• Only the individual.	• The individual; or, • Employer; or, • Individual and employer.	• As for Standard PRSAs.
Income tax relief on contributions	• Range from 15% to 40% of net relevant earnings depending on age and subject to €115,000 NRE limit. • Limits are inclusive of PRSA contribution and Pension Term Assurance policy premiums.	• As for RACs. Limits are inclusive of RAC contribution and Pension Term Assurance policy premiums. • However, income tax relief on PRSA contributions by an individual of up to €1,525 pa is allowed, even if the contribution exceeds the relevant % of net relevant earnings.	• As for Standard PRSAs.

	RACs	Standard PRSAs	Non-Standard PRSAs
Transfers in	From another RAC.	- From another PRSA - From an RAC - From an employer pension scheme - PAO transfer value from any pension arrangement, other than a Personal Retirement Bond.	As for Standard PRSAs.
Transfers out	- To another RAC. - To a PRSA.	- To another PRSA - To an employer pension scheme. - To an overseas pension arrangement	As for Standard PRSAs.
Investment choice	- No restrictions. - No legal requirement to have a default investment strategy, although most RACs will usually offer a default investment strategy.	- Only pooled funds, i.e. life company unit linked funds and other collective investment funds like unit trusts and which do not provide a guaranteed return or smooth out investment returns. - Must have a default investment strategy.	- Must have a default investment strategy investing in pooled funds. - Otherwise no other fund restriction.
Restriction on types of charges	- No restrictions on types or levels of charges on contributions, fund values, or transfers in or out. - In particular, monetary charges, for example, policy fee, can be applied.	- No cash charges. - No initial charge on receipt of transfer values. - No charge on stopping or recommencing contributions. - No charge on termination of contract.	As for Standard PRSAs.

	RACs	Standard PRSAs	Non-Standard PRSAs
Limit on maximum charges	• None.	• Max 5% of contribution. • Max 1% pa of fund.	• None.
Disclosure of commissions and charges	• Disclosure of commissions and charges required at point of sale (generic allowed) and specific (at contract issue, if not previously given at point of sale).	• No disclosure at the point of sale. Disclosure at the point of contract issue.	• Disclosure of commissions and charges required at point of sale (generic allowed) and specific (at contract issue, if not previously given at point of sale).
When benefits can be taken	• 60-75 normally. • Earlier on permanent incapacity. • Certain self-employed occupations from age 50 onwards.	• 60-75 normally. • Earlier on permanent incapacity. • Certain self-employed occupations from age 50 onwards. • Employees on early retirement from 50 onwards.	• As for Standard PRSAs.

	RACs	Standard PRSAs	Non-Standard PRSAs
How benefits can be taken	• 25% can be taken as a lump sum: - Tax free, up to a limit of €200,000 of all tax-free lump sums taken from all pension arrangements since 7th December 2005. - The balance, if any, up to €300,000 is subject to a standard rate income tax charge. • Balance to buy annuity/ARF or take as taxable cash subject to PAYE at marginal rate. • If benefits are not taken before age 75, the contract is deemed to have been matured for the purposes of the Threshold limits at its value on the 75th birthday. i.e. It is deemed to be a BCE event on the individual's 75th birthday and the RAC cannot be accessed by the RAC holder and in effect becomes a paid up or frozen death benefit for dependants.	• As for RACs. • However, PRSA offers an alternative of the vested PRSA. - Similar to an ARF.	• As for Standard PRSAs.

	RACs	Standard PRSAs	Non-Standard PRSAs
Death	Value paid to estate with option to purchase an annuity in lieu of a lump.	- Value paid to estate. - If 25% lump sum has already been taken, any remaining balance in the PRSA on death is taxed as an ARF.	As for Standard PRSAs.
Access at workplace	RAC does not qualify for employer to provide compulsory access to a PRSA at work for those employees not included in an employer pension scheme for retirement benefits.	Employers who have employees not included in a pension scheme for retirement benefits within six months of joining service, must provide access to those employees to at least one Standard PRSA, and allow contributions to the PRSA to be paid by deduction from salary and wages.	Non-Standard PRSA does not qualify for employer to provide compulsory access to a PRSA at work for those employees not included in an employer pension scheme for retirement benefits.
Provision of regular information	An annual statement of value	- Must be provided with a half yearly statement of account, showing contributions paid since last statement and current value of PRSA. - Must be provided with a half yearly investment report on the fund or funds the client is invested in. - Must be provided with initial and ongoing annual Statement of Reasonable Projection showing current annual value and projected retirement benefits.	As for Standard PRSAs.

	RACs	Standard PRSAs	Non-Standard PRSAs
Addition of life cover	Yes. Pension Term Assurance life cover can be bundled with an RAC.	No. Pension Term Assurance life cover cannot be bundled with a PRSA.	As for Standard PRSAs.

14.3 Retain a Preserved Benefit or Take a Transfer Value?

Where an individual has a preserved benefit in an employer pension scheme, he or she will usually have an option to retain the preserved benefit in the scheme up to Normal Retirement Age (NRA), or take a transfer value to another arrangement at any time before NRA.

Where the preserved benefit is held in a DB scheme, the transfer value will likely not be full open market value for the deferred DB pension given up, particularly where the individual has more than 10 years to go to NRA, and when invested in a new arrangement will be unlikely to replace the value of the DB pension given up. However, this fact has to be balanced against the possible uncertainty about the future solvency of the scheme and its likelihood of providing in full the deferred DB pension.

Where the preserved benefit is held in a **DC scheme**, the options in relation to the fund may be:

- Retain in the DC scheme;
- Transfer to a Personal Retirement Bond;
- Transfer to one or more PRSAs, if allowed; or,
- Transfer to another DC scheme the individual is a member of.

The four options in relation to a DC preserved benefit can be compared under a number of different headings:

	Retain in DC scheme	Transfer to PRB	Transfer to one or more PRSAs	Transfer to another scheme
Availability	Open to all	Open to all	Open to all	Open to those who have joined a new employer scheme.

	Retain in DC scheme	Transfer to PRB	Transfer to one or more PRSAs	Transfer to another scheme
Charges	What are current ongoing charges in the scheme? Will there be an <i>exit charge</i> on taking a transfer value from the scheme?	What is the entry charge on investing in the PRB? Will PRB ongoing charges be higher or lower than in DC scheme?	No initial charge can be made on receipt of the transfer value. No cash charges. No exit charges. Will PRSA ongoing charges be higher or lower than in DC scheme?	What is the entry charge on investing in the new scheme? Will new scheme ongoing charges be higher or lower than in old DC scheme?
Investment options	What investment options does the scheme offer? Does the current scheme provide any investment guarantees that would be lost on transfer out?	Compare the PRB investment options with those in the scheme.	Possible narrower fund options if transfer paid to a Standard PRSA.	Compare the new scheme investment options with those in the old scheme.
Guaranteed minimum annuity rate at retirement?	Does the current scheme provide a guaranteed minimum annuity rate at retirement, which will be lost if a transfer value is taken?	New PRB will not provide such a benefit.	PRSA will not provide such a benefit.	Unlikely new scheme will provide such a benefit but verify.

	Retain in DC scheme	Transfer to PRB	Transfer to one or more PRSAs	Transfer to another scheme
When can benefits be taken?	From 50 onwards. On earlier ill health early retirement.	As in scheme from which the transfer value came from, i.e. immediately from 50 onwards with no requirement to retire from current employment or earlier in the event of ill health retirement.	From 50 onwards on early retirement from current employment, if any On earlier permanent incapacity. Between 60 and 75.	From 50 onwards on early retirement from scheme employment. On earlier ill health early retirement. Between NRA 60 and 70 in new scheme.
On death	Full value payable to estate.	Full value payable to estate.	Full value payable to estate.	Limit of twice final remuneration which can be paid as a lump sum from new scheme funds + accumulated value of transfer value paid in. Any balance has to be used to buy annuity for spouse/ dependants or can be transferred to an ARF.
How can benefits be taken?	ARF or traditional benefit.	ARF or traditional benefit.	ARF only.	ARF or traditional benefit over total new scheme benefits.
Option to segment benefit and take in stages in retirement?	No	No	Yes, if transferred to two or more PRSAs	No

It's important to identify any benefits or options which might be lost by the transfer, before making a decision to take a transfer value in lieu of maintaining a preserved benefit in an employer pension scheme.

In relation to the option to transfer a DC scheme preserved benefit to a PRB or a PRSA note some key differences:

	Transfer to PRB	Transfer to PRSA
Can transfer value from DC scheme be split into more than one contract	No if ARF option required. Yes, into two if benefits will only be taken under the traditional benefit option; one of the PRBs provides the lump sum under the traditional benefit option while the other is endorsed to be non commutable, i.e. must be used to buy an annuity at retirement.	Yes; transfer can be made to one or more PRSAs.
Is Certificate of Benefit Comparison required before transfer value can be paid into the new contract	No.	Yes if transfer value is more than €10,000 and does not relate to AVCs or a Pension Adjustment Order.
Can additional contributions be made after transfer	No. Only transfer values can be paid into a PRB.	Yes new contributions can be paid to the PRSA, in addition to receiving transfer values.
How benefits can be taken	Traditional benefit or ARF option	ARF option only
When benefits can be taken	From 50 onwards even if then working in a new employment or self employment. Must be taken by DC scheme NRA	From 50 onwards only on retirement from new employment Can be taken at any time between 60 and 75, regardless of employment status.
	Transfer to PRB	Transfer to PRSA
Charges	No restriction on charges	Restrictions on charges, including no entry charge on transfer value payment
Transfer on to overseas pension arrangement	Revenue practice only allows transfers to the UK.	Yes. However a tax charge may apply.

14.4 Traditional Benefit or ARF Option?

In DC schemes and Personal Retirement Bonds, the individual can choose to take retirement benefits either under the traditional benefit or ARF options:

	Traditional benefit option	ARF option
Lump sum	Up to 150% x final remuneration (inclusive of retained lump sums), depending on completed service and reduced for voluntary early retirement.	25% of fund, regardless of whether normal or early retirement.
Balance	Must be used to buy an annuity. However where balance is less than €30,000 and the individual has no other retirement benefits, the balance can be paid out under PAYE as a once off pension payment.	Can be transferred to an ARF and/or be used to buy an annuity.

The traditional benefit option may in some cases offer a higher lump sum than the 25% of fund under the ARF option.

Indeed, in some cases with smaller DC scheme funds, the individual may be able to take the fund entirely as a tax-free lump sum under the traditional benefit option, whereas under the ARF option the maximum would be 25% of the fund and the balance would have to be taken as taxable benefits, i.e. taxable ARF withdrawals.



Example #1

Aoife is a member of her employer's DC scheme and has reached her Normal Retirement Age 65, after 22 years' service. Her DC fund is €84,000. Her best calculation of final remuneration is €60,000. She has no other retirement benefits. She is not in receipt of any pension or annuity income.

Her options will be:

	Traditional benefit	ARF
Tax-free lump sum	€84,000 (as it's fully within 150% x €60,000)	€21,000 (25% of fund value)
Balance	None	€63,000 can be taken as a taxable lump sum, transferred to an ARF or used to buy a taxable annuity

In the above scenario, the traditional benefit option gives a better outcome for Aoife given that all of the fund can be taken now as a tax-free lump sum.

In other cases, the traditional benefit option may offer a higher tax-free lump sum than the ARF option, but the sting in the tail is that the balance then **must** be used to buy an annuity.



Example #2

Harry is a member of his employer's DC scheme and has reached his Normal Retirement Age 65, after 22 years' service. His DC fund is €120,000. His best calculation of final remuneration is €50,000. He has no other retirement benefits. He is not in receipt of any pension or annuity income.

His options are:

	Traditional benefit option	ARF option
Tax-free lump sum	€75,000 (150% x €50,000)	€30,000
Balance	€45,000 must be used to buy a taxable annuity.	€90,000 can be taken as a taxable lump sum, transferred to an ARF or used to buy a taxable annuity

In this case, Harry has a difficult decision to make, balancing more tax-free cash now under the traditional benefit option, against the compulsion to buy an annuity with the balance of the fund. If he were in bad health, with a reduced life expectancy, he might opt for the ARF option on the basis of preserving his retirement capital on death for dependants.

Where much larger DC funds are accumulated in a scheme and/or where the individual has shorter service with high retained lump sum benefits, the 25% lump sum under the ARF option will usually be higher than the traditional benefit option lump sum, and with no compulsion to buy an annuity.

14.5 ARF or Annuity

A major decision for many retirees with DC funds will be whether to invest part of their DC fund (after taking 25% lump sum) in an ARF or annuity, assuming the alternative taxable lump sum option is not taken, or indeed whether later on to invest part or all of their ARF in an annuity.

The two options can be compared as follows:

	ARF	Annuity
Charges	Likely to be initial and ongoing charges, and possibly exit charges as well if terminated in the early years of the ARF.	The annuity offered is net of all charges.

	ARF	Annuity
Income	Must withdraw at least 4% pa of the value of the ARF up to age 70, and at least 5% pa thereafter (6% if total ARFs and vested PRSAs are over €2 million) to avoid an imputed distribution. Regular withdrawals at the minimum rates above are not guaranteed and will decline in monetary terms unless the ARF earns a return after charges of more than the drawdown rate; for example, to ensure the monetary level of withdrawal does not fall, the ARF will need to earn at least 4% pa up to age 70 and at least 5% pa thereafter, after charges.	Provide a guaranteed income payable for life. This may be fixed or increasing at a set rate. Annuity rate may be more or less than the minimum ARF drawdown rate, depending on the individual's age, annuity rate levels at that time, and the type of annuity sought.
Income flexibility	Yes. Subject to taking minimum withdrawals at the 4%/5% pa rate, flexibility to take withdrawals of up to 100%. A higher withdrawal rate (than the minimum 4%/5% pa above) can be taken, but this will reduce the residual value of the ARF and ongoing withdrawal amounts at a faster rate.	No. Terms of annuity payment are fixed on purchase of annuity and can't be changed thereafter.
Investment risk	Yes, varying by which fund or funds the ARF invests in. Need for ongoing investment advice.	The annuity is fixed at the date of purchase, and not subject to later revision. However, annuity is subject to investment timing risk, i.e. the risk that the annuity is bought at a time when rates are at their lowest, and if the purchase could have been delayed a higher annuity could have been purchased later. No need for ongoing investment advice once the annuity is purchased.
Inflation risk	By investing the ARF predominantly in 'real' assets, i.e. equities and property, a real investment return may be achieved which may protect the real value of the ARF capital and income withdrawals from the impact of inflation. But predominantly investing in equities and property increases volatility of returns and hence of ARF income withdrawals.	A fixed annuity, i.e. without increases, will be subject to inflation risk as inflation will gradually reduce the real value of the fixed income.

	ARF	Annuity
Bomb out risk, i.e. run out of or incur a significant reduction in retirement income	Yes. Through a combination of low investment returns, living longer, and withdrawals, the ARF balance could run down significantly leading to a significantly reduced level of income withdrawals in later life.	No. Income guaranteed payable for life.
Opportunity to defer annuity purchase	Yes, as ARF can be used to buy an annuity at a later time. But no guarantee annuity rates will be higher than current rates. With run-down of ARF capital, the annuity which could be purchased later with the ARF capital is likely to be lower than the annuity which could be secured at retirement.	No. An immediate annuity is purchased, at current rates.
Need for ongoing investment advice in retirement	Yes.	No.
Death	Residual value payable to estate. Can be transferred tax free to a spouse's ARF or left to adult children less 30% tax or left to younger children as a taxable inheritance.	No benefit, other than balance of annuity payments on death within the guarantee period, unless provision made in annuity for a continuing pension to surviving spouse/civil partner.

The ARF and annuity are two very different ways to provide a retirement income.

The two main differences relate to the nature of retirement income provided and preservation of capital on death:

	ARF	Annuity
Income certainty	✗ No. Monetary level of income likely to vary from year to year and to decline over time.	✓ Yes. Income fixed and certain and known in advance.
Preservation of capital on death	✓ Yes. Remaining ARF balance on death becomes asset of deceased's estate	✗ No benefit, other than balance of annuity payments on death within the guarantee period and/or a continuing pension to surviving spouse/civil partner.

The ARF is highly likely to produce a declining monetary level of income, if a conservative investment approach is taken and the ARF earns a return, after charges, of less than 4%pa up to age 70 and less than 5% pa from age 71 onwards.

The retiree's health and likely life expectancy is a key issue in the ARF versus annuity choice. In particular where a retiree is in bad health and has a reduced life expectancy at the time of retirement (for example, on ill health retirement) and has dependants, the ARF option may represent a better option for the client and their dependants than an annuity, even an enhanced annuity.

14.6 Comparing Similar Products

The same taxation provisions generally apply to pension arrangements of the same type. For example, Life Company A's RAC does not offer any extra income tax relief to an individual than Life Company B's RAC. Similar restrictions on when and how benefits can be taken apply to both plans.

Therefore, similar product types from different providers can do the exact same 'job' for an individual. Also, some providers may offer different versions of the same product.

Comparing such plans in terms of suitability to the consumer therefore may focus on these issues:



Range of investment funds offered	Plans may differ on the range of investment fund options made available and whether a default investment strategy applies and if so, the nature of the default strategy.
Other benefits	Can other benefits be packaged with the plan?
Charges	What charges apply to each plan, initial, ongoing and exit? Do charges vary by the size of the contributions, and/or by the length of time the plan is held? One way of comparing the impact of charges is to look at the respective reduction in yields (RIYs see chapter 3.4.6) based on the same assumptions, regarding contribution amount, term to retirement, and investment assumption. Obviously the lower the RIY, the better.
Default risk	The individual obviously wants and needs a very secure provider for his or her pension arrangement. Therefore, the financial standing and rating of the provider is important.

Of course, in some cases, a portfolio of similar products might be used; for example:

- The individual may already have a product with, say, provider A, and may wish to spread his or her default risk by effecting a similar product with provider B who may have a higher financial strength than provider A.
- Other reasons for taking out similar products with other providers may include:
 - Better investment fund options.
 - Lower charges.



Review

Now consider the main teaching points, which were introduced in this Chapter. They are listed below. Tick each one as you go through them.

-
- | | |
|--|--------------------------|
| RACs or PRSAs | ☐ |
| Retain a preserved benefit or take a transfer value? | ☐ |
| Traditional benefit or ARF option? | ☐ |
| ARF or annuity? | ☐ |
| Comparing similar products | ☐ |

Sample Questions

The answers to these questions can be found in your Study Hub.

1. In which of the following circumstances can a DC scheme member's entire fund be taken entirely at retirement as a lump sum, without a need to buy an annuity or transfer funds to an ARF?
 - (i) His or her maximum lump sum under the traditional benefit option is greater than the member's fund.
 - (ii) The balance of the member's fund after taking a lump sum is € 35,000.
 - (iii) The member's fund before taking a lump sum is € 50,000.
 - A. (i) only.
 - B. (i) and (ii) only.
 - C. (iii) only.
 - D. (i), (ii) and (iii).
2. A Certificate of Benefit Comparison must be provided to Paula before she can take a transfer value of €25,000 from her previous employer's pension scheme to a:
 - A. personal retirement bond.
 - B. non-standard PRSA.
 - C. new employer DC pension scheme.
 - D. new employer DB pension scheme.
3. A Retirement Annuity Contract holder **MUST**, by law, be provided by the life assurance company with:
 - (i) a half-yearly statement of value.
 - (ii) a quarterly investment report.
 - (iii) an annual statement of value.
 - A. (i) only.
 - B. (iii) only.
 - C. (i) and (ii) only.
 - D. (i), (ii) and (iii).
4. Moira, aged 48, is in non-pensionable employment. A Standard PRSA is likely to be more suitable for her than a Retirement Annuity Contract because with a Standard PRSA she can:
 - A. get more tax relief.
 - B. take early retirement benefits from age 50 onwards.
 - C. take more of her retirement fund as a tax-free lump sum.
 - D. add life cover to the contract.

15

Providing Advice

This Chapter provides an overview of the pensions advice process. It looks at the various types of authorisation required to offer advice on pension products and arrangements, and the main conduct of business rules applying to the provision of such advice.

Learning Outcomes – after studying this chapter you should be able to:
understand the various types of authorisation required to provide advice to consumers on pension arrangements and benefits;
explain the five-step financial planning advisory process;
understand what is involved in knowing the consumer;
quantify the retirement funding needs of an individual;
understand what is required to write a statement of suitability;
assess a consumer’s attitude to, and capacity for, investment risk; and
make an appropriate recommendation to the consumer.

Chapter weightings	Number of questions which may appear		
In the exam, questions are taken from each Chapter based on the following approximate chart:	Chapter	Minimum	Maximum
	15	5	7

15.1 Personal Financial Needs

We have already seen in Chapter 1 that most consumers have a **retirement planning need**, i.e. a need to accumulate funds from earned income during an individual's working life to provide a replacement income in retirement, when earned income will stop or substantially reduce.

Part of the process of advising consumers on retirement planning may involve:

- Providing advice on financial products, a process which may require authorisation from the Central Bank, depending on the nature of the products involved.
- AND/OR
- Providing investment advice on the investment of retirement funds.

15.2 Authorisation to Provide Advice

An individual and/or their employer needs authorisation from the Central Bank to provide advice (i.e. make a personal recommendation) to consumers, in a professional capacity, on most types of pension arrangements.

15.2.1 Insurance Policies

An intermediary providing advice to clients on and/or arranging policies issued by life assurance companies (called **insurance distribution**) is required to be registered as an insurance intermediary by the Central Bank under the European Communities (Insurance Distribution) Regulations 2018.

The intermediary must be on the Insurance Distribution Register maintained by the Central Bank.

There are a number of conditions attaching to registration as an insurance intermediary, including that the intermediary and its employees advising consumers on insurance policies:

- Hold an appropriate amount of Professional Indemnity Insurance cover covering its insurance intermediary activities, for at least €1,924,560;
- Hold a recognised relevant qualification such as the Qualified Financial Adviser (QFA) (or the Accredited Product Adviser (APA) (Pensions); and
- Undertake at least 15 hours relevant CPD each year.

15.2.2 Employees of Life Assurance Companies

Employees of life assurance companies are not required to be registered as insurance intermediaries, to provide advice to consumers on pension policies issued by the life company.

However, their employer, the life assurance company, is required to ensure that its employees who are advising consumers on and/or arranging pension policies for consumers hold a recognised qualification and undertake at least 15 hours relevant CPD annually.

15.2.3 Tied Insurance Intermediaries

A tied insurance intermediary is an individual or company who:

- a. Acts for and on behalf of one or more insurance companies or other insurance intermediaries, in the case of insurance policies that are not in competition with each other,
- b. Acts under the responsibility of those insurance companies or insurance intermediaries, and
- c. Is subject to regulatory oversight by the insurance company or insurance intermediary on whose behalf the person is acting.

Tied insurance intermediaries are registered on the Central Bank's Insurance Distribution Register by the insurance company or intermediary to whom they are linked, who are responsible to ensure that their tied insurance intermediaries hold a recognised qualification, undertake the 15 hours CPD annually, and hold the required level of Professional Indemnity Insurance cover where the insurance company or intermediary for whom they act does not accept full responsibility for their actions.

15.2.4 Status of Insurance Advice Provided

A registered insurance intermediary must inform a consumer before providing advice on pension policies of the status of the advice offered, i.e. either:

A	B	C
Tied to one or more life assurance companies	Provides advice on the basis of fair analysis of the market	Provides advice on the basis of limited analysis of the market

- A. The intermediary is restricted to advise on and sell the policies of one or more specific life assurance companies and hence only able to offer the policies of those life companies;

OR

- The intermediary offers **fair analysis of the market** advice, i.e. providing advice on the basis of a sufficiently large number of policies and life assurance companies available on the market to enable the intermediary to make a recommendation, in accordance with professional criteria, regarding which policy would be adequate to meet the consumer's needs;

OR

- B. The intermediary is not legally tied to one or more life assurance companies but does not provide fair analysis either, for example, advises on a limited range of life assurance company policies. This is referred to as **limited analysis of the market** advice.

15.2.5 Advice on Non-Insurance Investments

The service of providing investment advice on a professional basis to clients on certain types of non insurance investments requires separate authorisation from the Central Bank under either:

Investment
Intermediaries Act, 1995

OR

MiFID Regulations

Such intermediaries are generally referred to as investment intermediaries.

The non insurance products for which a separate authorisation is required to advise consumers on include:

Shares listed on a stock exchange

Bonds listed on a stock exchange

Collective investment funds (other than unit linked funds
which are insurance policies)

PRSAs issued by a MIFID investment firm

An intermediary who wants to advise on PRSAs therefore needs to be:

- A registered insurance intermediary if the PRSA provider is a life company;
- Authorised under the Investment Intermediaries Act to advise on PRSAs if the PRSA provider is a MIFID firm.

15.2.6 Use of the Term 'Independent'

To use the term '**independent**' (or any other word or expression that is a derivative of, or similar to independent) to describe itself and the services it provides, an intermediary:

- Cannot accept commissions or other remuneration from financial institutions, and
- Must provide advice on the basis of a fair analysis of the market.

15.2.7 Fitness and Probity

Any individual who acts on behalf of a regulated financial services provider in arranging and/or providing advice to consumers on pension contracts (or who directly manages such individuals), is required to comply with the Central Bank's **Fitness and Probity Standards Code**, which requires such individuals to be:

Competent and capable

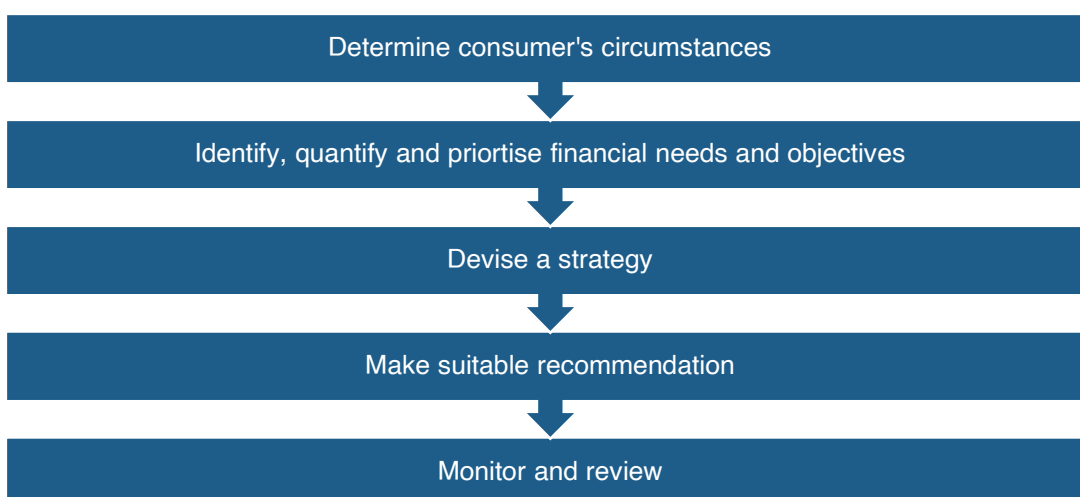
Honest, ethical and to
act with integrity

Financially sound

In relation to competence, the individual must meet the Central Bank's **Minimum Competency Code** relevant to Pensions (i.e. hold a recognised qualification and meet CPD requirements, as set out earlier in Chapter 15.2.1).

15.3 The Financial Planning Advisory Process

There are five stages to the financial planning advisory process for a consumer (who is not yet a client) or an existing client:



1. **Determine the client's current personal and financial circumstances**, principally their current income and expenses, financial assets and liabilities, details of dependants, their investment knowledge and experience, and attitude to and capacity for investment risk. This step is sometimes called fact finding or **knowing the consumer**.
2. Identify, quantify and prioritise, in conjunction and in agreement with the client, their financial needs and objectives;
3. **Devise a strategy to meet the client's identified financial needs and objectives**, as far as is practically possible, taking account of the client's available financial resources, attitude to and capacity for investment risk, investment time horizon, the nature of their financial needs and objectives, and the proper use of suitable financial products;
4. Make suitable recommendations to the client on a strategy to best meet their financial needs and objectives, setting out, in the case of each recommendation:
 - The reason for that recommendation, i.e., *how* it is likely to help achieve their financial needs and objectives; and,
 - *Why* that recommendation, in terms of a recommended financial product or service, is suitable to the client at that time.

This step is referred to as **Suitability**.
5. Regularly monitor and review the client's circumstances, to determine:
 - Any change in their financial circumstances, needs and objectives, or personal circumstances;
 - Any change in the tax or regulatory legislation which may impact on the client's current strategy or on his or her needs or objectives;

- The extent to which the client's financial strategy and financial products are meeting their current financial needs and objectives; and,
- The changes, if any, required in the client's current financial strategy in order to best meet their revised financial needs and objectives.

15.4 The Consumer Protection Code

The Central Bank's Consumer Protection Code (**'the Code'**) sets out a number of requirements for insurance and investment intermediaries and financial institutions when providing advice to consumers in relation to:

- Arranging and encashing pension policies and PRSAs, and
- When providing investment advice in relation to pension arrangements.

Note that:

- The Code does not apply to arranging and advising on unregulated products, such as loan notes issued by small private companies which are not transferable between one investor and another.
- A MIFID authorisation is required by an intermediary to advise on some investments such as options and derivatives and transferable shares and bonds which are not listed on a recognised Stock Exchange.

15.4.1 Know the Consumer

The Code requires the intermediary/financial institution to first gather and record sufficient information from the client prior to offering, recommending, arranging or providing a policy or PRSA appropriate to that client.

The level of information gathered must be appropriate to the nature and complexity of the product sought by the client, but must be to a level that allows the intermediary/financial institution to provide a professional service, and must include (if relevant to the assessment of suitability) the client's:

- Needs and objectives
- Personal circumstances
- Financial situation
- Attitude to risk and capital security
- Sustainability preferences.

For an existing client, the intermediary/financial institution is required to gather and maintain a record of details of any material changes to the client's circumstances since the last time advice was provided to that client, prior to offering, recommending, arranging or providing a subsequent policy to that client.

Where there is no material change in the client's circumstances since the last time advice was provided to that client, this must be noted on the client's records.

The Code requires the intermediary/financial institution to endeavour to have the client certify the accuracy of the information provided by the client.

15.4.2 Refusal to Provide Information

Where a client refuses to provide information sought by an intermediary/financial institution which is relevant to the proposed advice to be provided to the client, the person must inform the client that, as they do not have the relevant information necessary to assess suitability of any advice or policy which might be recommended to the client, they can **not** offer the consumer the policy or service sought.

15.4.3 Identifying Vulnerable Consumers

The Code requires financial advisers to identify, as part of the knowing the consumer process, any personal consumer who is a *vulnerable consumer* or *customer in vulnerable circumstances*.

A 'customer in vulnerable circumstances' is defined in the Code as an individual who:

- *Is a natural person and whose personal circumstances, whether permanent or temporary, make that consumer especially susceptible to harm, particularly where a regulated entity is not acting with the appropriate levels of care, and "vulnerable circumstances" shall be construed accordingly"*

Categories of vulnerable consumers		Examples of vulnerabilities
1	Capable of making decisions but their particular life stage or circumstances should be taken into account when assessing suitability.	Age, poor credit history, low income, serious illness, bereaved, etc.
2	Capable of making decisions but require reasonable accommodation in doing so.	Hearing-impaired, vision-impaired, English not first language, poor literacy.
3	Limited capacity to make decisions (temporary/permanent).	Mental illness/intellectual disability.

Consumers which fall into Category 1 should have their circumstances taken into account as part of the knowing the consumer and suitability requirements.

For Categories 2 and 3 advisers must provide those identified as vulnerable consumers with 'such reasonable arrangements or assistance that may be necessary to facilitate their dealings with that adviser.'

15.5 Quantifying the Retirement Funding Need

Following the knowing the consumer process, a consumer may have an identified retirement funding need, in particular to accumulate funds sufficient to provide a replacement income in retirement.

The term of the retirement funding need will run up to the consumer's expected retirement age.

The next step is to **quantify** the level of unfilled retirement funding need the consumer has.



15.5.1 State Pensions

The first layer of protection most working people already have for retirement, to bridge the earned income drop in retirement, is the State Pension.

Most private sector workers, public sector workers who joined the public service after April 1995, and the self-employed pay PRSI and will be likely to qualify for some level of the State Pension (Contributory) from their State Pension age.

15.5.2 Existing Private Retirement Provision

The next layer of protection, against an income drop in retirement, that some consumers may have, is:

- They may be members of an employer pension scheme that will provide some retirement benefits, either a lump sum or a retirement income or both.
- They may be paying into AVCs.
- They may be contributing to a PRSA and/or RAC and expect to get retirement benefits from these arrangements.
- They may have 'paid up'.²⁵ retirement benefits, for example, a Personal Retirement Bond, related to a previous employment, which will provide some retirement benefits in the future.

In the case of DC employer pension schemes, PRSAs, RACs, and Personal Retirement Bonds, the retirement benefits which may arise in the future from such arrangements:

- Are projections only, as they will be based on certain future investment assumptions and possibly on the assumption of the continuation of current contribution levels.
- May show only a projected fund at retirement age, of which a portion may be taken as a lump sum leaving the balance to provide a retirement income.

15.5.3 Existing Personal Savings and Investments

Consumers may also accumulate personal savings and investments during their working life, which they may be willing to draw on in retirement to supplement their retirement income. For example, a consumer may purchase an investment property during their lifetime which will hopefully produce a regular rental income during their retirement.

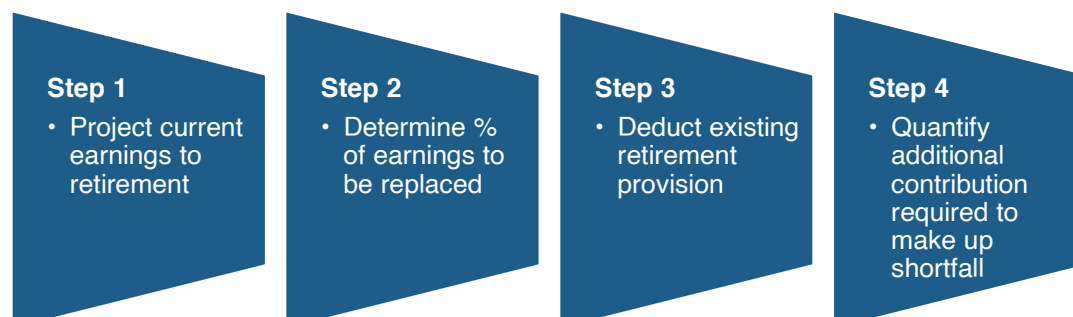
15.5.4 Working in 'Retirement'

Consumers may continue to work part time as they get older, and so continue to have some earned income as well as possibly pension income and income from savings and investments.

²⁵ The term 'paid up' is sometimes used to refer to an arrangement or policy to which no further contributions are being paid, but where an accumulated benefit is maintained payable at some future date, for example, retirement or maturity of a policy.

15.5.5 Identifying and Quantifying the Retirement Income Shortfall

There are therefore, four steps involved in calculating the consumer's unfilled retirement funding need:



Step 1: Project current earnings to the assumed retirement age

To maintain a similar standard of living as enjoyed during our working life, the income to be provided in retirement must be related to the likely level of the individual's earnings at or near the anticipated retirement age.

Step 2: Determine the level of earnings needed to be replaced in retirement

The target level might be taken as 2/3rds of earnings at retirement, but a lower target of, say, 50% of earnings at retirement might be more realistic

It is important to be clear that the replacement income should ideally be an increasing income. A flat pension will likely be a decreasing pension in real terms, when allowance is made for inflation. Therefore, the target might be 50% of pre-retirement earnings, increasing in line with inflation.

In the case of a client with an adult dependant, the typical approach might be to assume that at least 50% of this retirement income should be protected for the adult dependant, in the event of the individual's death in retirement.

Step 3: Deduct existing provision

Deduct the estimated level of any pensions payable in retirement, such as:

- The State Pension; OR,
- Projected income from current private arrangements.

In the case of DC arrangements, the projected retirement funds might be converted to projected pensions using the assumed annuity rate for the type of annuity that is assumed will be required at retirement.

Of course, the funds might not actually be invested in annuities at retirement; for example, may be transferred to an ARF, and part of the funds may be taken as a lump sum, for example, 25%.

But using annuity rates allows us to quantify the *value* of retirement benefits to be replaced, even if this value is not actually used at retirement to buy annuities.

Step 4: Quantify level of additional contribution to meet any identified shortfall

Having arrived at the identified retirement need, i.e. the shortfall in capital needed to meet the shortfall in pension provision, the final step is to quantify the level of additional retirement contribution needed to make up that capital shortfall by retirement age. This contribution should ideally increase in line with anticipated earnings growth.

It is important in going through this exercise that **consistent assumptions** are used regarding:

- Inflation.
- Earnings growth.
- Gross investment return that might be earned by the pension arrangement.
- Anticipated annuity rates ruling at retirement age.

So, for example, a possible set of assumptions might be:

- Maximum gross investment return of 5% pa, *before* expenses and charges.
- Earnings growth of 2.5% pa, which would also apply to growth in the level of future pension contributions.
- Inflation increases in retirement income of 1.5% pa.
- Annuity rates based on a maximum 2% pa investment return assumption. Specimen annuity rates based on this assumption are:

Specimen single life annuity rates ²⁶

60	65	70
3.6%	4.2%	5%

Specimen joint life annuity rates ²⁷

60	65	70
3.35%	3.9%	4.6%

These specimen annuity rates are assumed long term values and are not indicative of current rates. Current annuity rates should be used which may be higher or lower where the individual is within 5 years of retirement.

²⁶ Annuity assumed to increase at 1.5% pa in retirement, monthly in advance, guaranteed five years.

²⁷ Annuity assumed to increase at 1.5% pa in retirement, monthly in advance, guaranteed five years, with 50% payable to surviving dependant who is assumed to be of a similar age.

An example will illustrate the four steps involved.



Example

Paul is self-employed and is aged 45, married. His current earnings are €90,000 pa. He has a small RAC, with a current €1,500 pa contribution which increases at 3% pa, with a projected fund value at 65 of €103,000.

He is a Class S PRSI contributor, so he will be entitled to the State Pension (Contributory) from age 66. He is married to Clodagh who does not earn an income outside of the home and will qualify as a qualified adult under Paul's State Pension (Contributory).

Let's make these assumptions:

- His future earnings will grow at 3% pa.
- Annuity rates at Paul's retirement will be based on the specimen rates outlined above, i.e. based on an assumed 2% pa investment return.
- He wants to retire at 65.

Let us try to quantify Paul's unfilled retirement funding need, in terms of estimated additional retirement capital required at retirement age 65:

Step 1	Paul's projected earnings to age 65. Projected earnings at 65: €90,000 x 1.806 (i.e. accumulation factor for €1,000 at 3% pa over 20 years).²⁸ = €162,540 pa.
Step 2	Determine the level of income that needs to be replaced. Using 50% as the target, the income to be replaced is: 50% x €162,540 pa = €81,270 pa. The pension should be: • Payable for Paul's life, guaranteed five years. • Increase at 1.5% pa, i.e. assumed inflation rate. • On Paul's death, 50% of pension payable to Clodagh, if she then survives him.

²⁸ See Table of Accumulation and Discounting Tables at the end of Chapter 12.

Step 3	Deduct the projected pensions that Paul may have in retirement. • Firstly, there is his existing RAC which has a projected maturity value of €103,000 at age 65. Using the corresponding annuity rate, this may provide a pension, increasing at 1.5% pa in retirement, of: • $€103,000 \times 3.9\% = €4,017$ pa • There is also the projected State Pension (Contributory). The current maximum level of pension payable to an individual with an adult dependant is €548.70 pw, or €28,631 pa. • Assuming that the State Pension will be increased by 2% pa, i.e. in line with inflation over the next 20 years, the projected level in 20 years' time for Paul and an adult dependant will be: • $€28,631 \times 1.486 = €42,546$ pa. <i>(The State Pension (Contributory) is not actually payable until age 66 in Paul's case. However, for the purposes of this calculation it is notionally offset from age 65, i.e. as if it were payable from age 65. The resulting inaccuracy is not material and is ignored for the purposes of this example.)</i> €81,270 pa (Target replacement level of income) - €4,017 pa (Projected pension from current RAC) - <u>€42,546 pa</u> (Projected State Pension (Contributory)) = €34,707 pa (Projected income shortfall in retirement)
Step 4	Finally, estimate the additional retirement capital needed at 65 to meet this income shortfall. Based on annuity rate of 3.9%, this would lead to a capital shortfall at 65 of $(€34,707/3.9\%) = €889,923$ at age 65. So, based on whatever RAC and/or PRSA or DC scheme is appropriate to the consumer's needs, you then need to calculate what annual contribution to this arrangement will produce an additional projected retirement fund at age 65 of €889,923. This of course is based on the specimen annuity rates outlined earlier rather than current annuity rates.

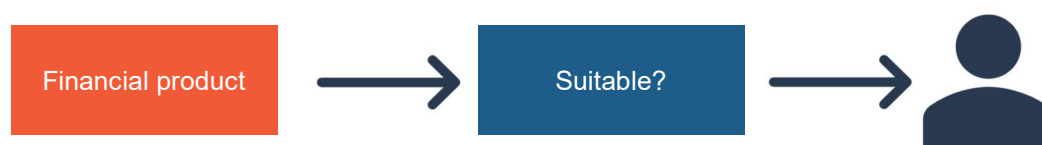
The resulting recommended additional contribution will be very high, and almost certainly unaffordable and probably in excess of the relevant tax relief limit.

However, the exercise does show the serious under provision the consumer is currently making for his retirement needs, if he wants to have a decent standard of living in retirement.

It should also be pointed out that the consumer may plan on using other non-pension means to provide for retirement, for example, investment properties, etc, so that the consumer may not be relying solely on his or her pension arrangements to provide ongoing income in retirement.

15.6 Suitability

The Consumer Protection Code requires financial advisers to assess the **suitability** of any financial recommendation provided to consumers, including a recommendation to effect and contribute to a pension arrangement.



The adviser must when assessing the suitability of a pension arrangement or advice for a consumer, consider and document whether, on the basis of the information gathered about the consumer:

- The arrangement to be recommended meets that consumer's retirement planning needs and objectives.
- The consumer is:
 - i. Likely to be able to meet the financial commitment associated with the arrangement on an ongoing basis.
 - ii. Financially able to bear any risks attaching to the arrangement.
- The fund or funds in which the arrangement will invest are consistent with the consumer's attitude to and capacity for investment risk.

Therefore, a key part of the adviser's role following the identification and quantification of the consumer's retirement funding needs, is to correctly match various pension arrangements and investment funds to the consumer to achieve the best fit.

A key part of the matching process is to determine the client's **attitude to and capacity for investment risk** so that appropriate pension arrangements and funds can be matched to the consumer's circumstances.

15.7 Assessing a Consumer's Attitude to and Capacity for Investment Risk

Most consumers look on **investment risk** as the risk of losing part or all of the capital sum invested in a pension arrangement for them. For example, a consumer might invest €100,000 in an ARF and look on investment risk as the risk of the value of the ARF falling below €100,000.

Another way to describe investment risk is the extent to which the value of the investment may vary from time to time, from its long term average return.

For example, the ARF of €100,000 above might grow to €120,000, then fall to €80,000, etc. The higher the investment risk of a particular investment, the higher the level of potential 'swing' between high and low values, i.e. investment volatility or risk.

The consumer's capacity for investment risk can be looked on as the degree to which the consumer is willing to sustain a particular level of capital loss. For example, what level of loss on the investment would materially reduce the investor's standard of living in retirement?

The consumer's attitude to investment risk can be said to be their ability to be comfortable with the down swings of investment markets and not be panicked into switching out of risk funds to cash at a bad time, hence capitalising a loss.

A consumer may have a financial capacity for a given level of investment risk but have a much lower level of tolerance for investment risk, i.e. they may by their nature be cautious investors, even if financially they can sustain an investment loss.

There are a number of factors which can impact on a consumer's attitude to and capacity for investment risk, including:

- The consumer's *age*. In general, the older a consumer becomes the more averse to the risk of capital loss they become.
- The consumer's *current investment portfolio*. A consumer's current investment portfolio will give a good indication of their attitude to investment risk.
- The consumer's past *investment experience*. A consumer's past experience of saving and investing will also help to build up a picture of the consumer's attitude to risk. Have they ever previously invested in risky assets or have they always displayed a cautious attitude to saving and investing?
- Using software to ask the consumer a series of questions, with the software using the consumer's answers then rating the consumer on a risk tolerance scale from, say, 1 to 7.
- The consumer's *financial capacity* to accept a given level of capital loss. One of the Consumer Protection Code requirements in relation to investment advice suitability is that the consumer should be *financially able to bear any risks attaching to the recommended product*.

It is therefore important to determine what level of financial loss would have a serious negative impact on the consumer's standard of living in retirement, in order to determine whether the consumer is financially able to bear the potential risks attached to the pension arrangement/fund recommended.

- *Purpose and term of the investment*. The level of investment risk a consumer is prepared and financially able to take with a particular investment is closely linked to the purpose and term of the consumer's financial objective for which purpose the investment is being considered.
- *Term to retirement*. Generally, the shorter the term to retirement, the lower the consumer's capacity for investment risk in their pension arrangement as any capital lost through higher risk investment may not be capable of being replaced by retirement age or thereafter.
- Other financial needs and objectives of the consumer.

Care should be taken in matching particular investment funds (for example, medium risk) to a particular investment risk category (for example, Level 4 risk).

The particular fund name is not important in itself; the key issues are:

- The underlying asset allocation of the fund in question, as between the main asset classes, i.e. equities, property, bonds, and cash; and,
- The fund's investment mandate or objectives. Has the fund any published investment mandate, for example, maximum % which can be invested in equities?

In some cases, the provider of the fund in question may place the fund on a risk scale, for example, from 1 to 5, or 1 to 7, etc.

15.8 Making a Recommendation

15.8.1 Developing a Recommendation

The final step is the process to develop and present a recommendation to the consumer. A recommendation may consist of one or more of:

- *Advice only.*

The end result is not always that the consumer should effect a new pension arrangement or terminate an existing one.

There may be many cases where a consumer's current retirement provision adequately meets their needs in a manner consistent with their attitude to and capacity for investment risk and what they can afford now, so that only a minor amendment or tweaking of their retirement provision is required.

- *Advice to invest funds in one or more pension arrangements*, either as a top up to an existing arrangement or as a contribution to a new arrangement, where there is a shortfall in the current level of funding to achieve the target level of retirement income in retirement.
- *Advice to terminate or encash some existing pension arrangement held by the consumer and transfer to another*, for example, terminate RAC and transfer to a PRSA, where there are clear identified benefits to the consumer in doing so, *or* where the consumer's retirement funding needs are not being met in a manner consistent with their attitude to and capacity for investment risk.

This course of action should therefore only be recommended where the existing arrangements clearly no longer meet the consumer's retirement funding needs, or meet them in a less efficient way, and cannot be amended to meet those needs in a manner consistent with the consumer's attitude to and capacity for investment risk.

15.8.2 Most Suitable

Under the Consumer Protection Code an adviser must ensure that any product offered or recommended to a consumer is *suitable* to that consumer, having regard to the facts disclosed by the consumer and other relevant facts about that consumer of which the adviser is aware.

The following additional requirements also apply:

- Where an adviser offers a selection of financial product options to the consumer, the product options contained in the selection must represent the *most suitable* from the range available to the adviser; and,
- Where an adviser recommends a specific financial product to a consumer, the recommended product must be the *most suitable* product for that consumer.

The Consumer Protection Code requirements in relation to **suitable** products can be summarised as follows:

Only products suitable for the consumer's needs can be considered by the adviser.

All products which are suitable for the consumer's needs, and which the advisor can offer advice on, must be considered by the adviser.

From the range of suitable products the adviser can advise on, the adviser must recommend the *most suitable* product for the consumer.



Example

ACME Pension Advisers Ltd are registered insurance intermediaries, are advising Mr Brown in relation to his retirement funding needs. During the fact-finding phase, ACME established that Mr Brown, who is self-employed, will have a retirement income shortfall on the level he would wish to have and hence requires an individual pension arrangement with a wide range of investment funds appropriate to a risk 3 classification (1 = no risk, 7 = high risk).

The Code requires ACME to:

- Only offer arrangements to Mr Brown with a wide range of investment funds appropriate to a risk 3 classification as only products which meet this criteria are *suitable* for Mr Brown's identified retirement funding need.
- To consider all such suitable individual pension arrangements which ACME can advise on within the range of advice they are offering Mr Brown, i.e. tied, or fair analysis or limited analysis of the market.

Let's assume that ACME are offering fair analysis advice on RACs and PRSAs, and they have identified three life company Standard PRSAs with a wide range of investment funds appropriate to a risk 3 classification.

ACME must therefore:

- Consider the most suitable Standard PRSA from these three life companies (A, B and C) and can't limit itself to one particular life company, say A in this example.
- AND
- Recommend from the three suitable Standard PRSAs, i.e. from life companies A, B and C, the *most suitable* one of the three for Mr Brown.

15.8.3 Reason Why Statement

The Consumer Protection Code requires that before providing or arranging a pension product, an adviser must prepare a **written** statement setting out:

The reasons why any pension product **offered** to a consumer is considered to be *suitable* to that consumer; or,

The reasons why the pension products contained in a selection of product options offered to a consumer are considered to be the *most suitable* to that consumer; or,

The reasons why a **specific recommended** pension product is considered to be the *most suitable* product for that consumer.

This statement is usually referred to as a **reason why** statement or **statement of suitability**, as it sets out the reasons why a particular product or arrangement is considered to be suitable and/or most suitable for the consumer.

The reasons set out in the reason why statement must reflect the information gathered under the knowing the consumer requirement, to assist the consumer in understanding *how* the pension plan recommended meets, where relevant, the consumer's:

- i. Financial needs and objectives.
- ii. Personal circumstances.
- iii. Financial situation.

The written statement must also include an outline of the following, where relevant:

- i. How the risk profile of the pension product is aligned with the consumer's attitude to investment risk; and,
- ii. How the nature, extent and limitations of any guarantee attached to the pension product is aligned with the consumer's attitude to investment risk.
- iii. Sustainability Preferences – Whilst information gathered on sustainability preferences must not be a primary input to the selection of products recommended to a consumer, the reasons why statement should still identify where any product recommended meets any sustainability preferences gathered. The reasons the Consumer Protection Code sets out the requirements in this way is so that a customer's sustainability preferences do not over-ride the consumer's needs and objectives, personal circumstances, financial situation, and attitude to risk. In other words, a financial adviser must give these considerations precedence when identifying suitable products.
- iv. The advisor must sign the Reason Why statement and provide a copy on paper or on another durable medium, dated on the day on which it is completed, to the client prior to providing or arranging a pension product, and retain a copy on the client's file.



Sample 'Reason Why' Statement for a Retirement Funding Need

Following an analysis of your financial needs and objectives, based on the information you have given us, we have identified that you:

- Will have an income shortfall in retirement, when you stop working, taking account of your existing financial provision for retirement;
- Currently have surplus regular income of €500 per month, after tax, which you can afford to save for retirement;
- Are currently a higher rate taxpayer; and,
- Are entitled to contribute to a RAC and/or PRSA, because you have taxable earnings from a self-employed trade.

We have determined your attitude to and capacity for investment risk is 3, on a scale of 1 = no risk and 7 = high risk.

We therefore, recommend that you effect an individual retirement plan. We believe this recommendation is in your best interests as it will allow you to accumulate retirement benefits to bridge part of your anticipated income shortfall in retirement, with the benefit of tax-free investment returns, income tax relief at marginal rate on your contributions, and a possible tax-free lump sum at retirement.

We recommend that you effect a Standard PRSA at a monthly contribution level, before tax relief, of €800 for the following reasons:

- The plan is specifically designed to build up retirement benefits for individuals like you, who are self-employed and do not have an employer pension arrangement.
- The plan allows you to invest your monthly contribution in one or more large investment funds, managed by professional investment managers, with a risk rating of 3 or lower. If you do not wish to choose which funds to invest in, a default investment strategy will apply for you.
- There are statutory limits on the charges the plan can make; by law no more than 5% of your contribution and no more than 1% pa of your fund can be taken in charges. Also, the plan cannot take any initial charge from a transfer value which might be paid into the plan at a later date.
- If you take up employment at a future date, you can then transfer the plan into an employer pension scheme you may join.
- You can offset the contributions you make to the plan, within statutory limits, against your taxable trading income for income tax purposes. This will reduce the cost to you of providing for retirement, as the contribution of €800 per month, will qualify for income tax relief at 40% (at your current age), so that the net cost is circa €500 per month. However, the contribution is not deductible for the purposes of PRSI or USC.
- The plan is flexible; you can increase or decrease your contribution easily, or stop contributing for a period and restart later, if you need to, without any financial penalty. Being self-employed, your income could fluctuate and so this flexibility may be important to you.
- Your savings accumulate tax free, until you need to draw on the plan. From age 60 onwards, you can take 25% of the accumulated fund as a tax-free lump sum (up to a limit of €200,000 on all tax-free lump sums taken since 7th December 2005) and use the balance to provide a pension for life and/or invest in an ARF which you can draw on in retirement at an initial minimum rate of 4% pa of its value. You cannot draw on the PRSA before age 60, unless you become seriously ill.

We offer fair analysis advice on Standard PRSAs. Each of these PRSAs has the features outlined above and are suitable for your needs.

We recommend that you effect the Standard PRSA with Life Co A, as being the most suitable of these three PRSAs for your needs, because:

- Their plan has the most competitive charges; If you contribute to the plan to age 65, the projected impact of expenses and charges would be to reduce your investment return by 0.8% pa, which is the lowest of the three PRSAs we analysed.
- Their plan offers the widest range of investment fund options, with a risk rating of 3 or lower. You can spread your contributions over a number of these funds and change your choice later subject to a small charge.
- Life Co A is a very large secure life company with an AA+ rating, the highest of the six PRSA providers we analysed.

You should be aware of the following risks attached to the PRSA recommended:

- The investment funds offered by the plan are not guaranteed. Unit values may fall as well as rise. There is no guaranteed investment return.
- There is no guarantee that the plan will provide any specific level of retirement income. The projected retirement fund is not guaranteed as it depends on the contributions you pay to the plan and future investment returns, which are not guaranteed.

The enclosed Preliminary Disclosure document explains how the plan works in more detail and sets out sample projected benefits. Please read it carefully to make sure you understand the benefits provided by the plan.

Signed: _____
 Adviser Date

15.9 Execution Only

In some cases, the consumer may approach the adviser and ask the adviser to arrange a specific pension product with a specific provider, without the adviser providing any advice to the consumer.

This is sometimes referred to as **execution only** as the adviser is being asked to simply 'execute' a particular transaction for the consumer, with no advice provided about the choice of product or of product provider.

The Consumer Protection Code provisions on knowing the consumer and suitability do **not** apply where the consumer has specified *both* the policy type and life company by name and has not received any assistance from the adviser in the choice of that policy or life company.

In this case, the adviser can arrange the product for the consumer but must first warn the consumer, on paper or on another durable medium, that he or she does not have the information necessary to determine the suitability of that product for the consumer.



Review

Now consider the main teaching points, which were introduced in this Chapter. They are listed below. Tick each one as you go through them.

-
- | | |
|--|--------------------------|
| Personal financial needs | ☐ |
| Authorisation to provide advice | ☐ |
| The financial planning advisory process | ☐ |
| The Consumer Protection Code | ☐ |
| Quantifying the retirement funding need | ☐ |
| Suitability | ☐ |
| Assessing a consumer's attitude and capacity for investment risk | ☐ |
| Making a recommendation | ☐ |
| Execution only | ☐ |

Sample Questions

The answers to these questions can be found in your Study Hub.

1. The 'Reason Why' statement provided to a consumer is also known as the Statement of:
 - A. Objectivity.
 - B. Suitability.
 - C. Financial Needs.
 - D. Financial Objectives.

2. Barry's earnings today are € 75,000 per annum. He wants to retire in 7 years' time on a pension of 2/3rds of his earnings at that time, in addition to the State Pension. What private pension will he need in 7 years' time assuming his earnings will grow at 3% per annum in the meantime?
 - A. € 50,000
 - B. € 56,150
 - C. € 61,500
 - D. € 66,000

3. Which one of the following consumers would NOT be classified as a vulnerable consumer under the Consumer Protection Code?
 - A. Jean, who has a poor credit history.
 - B. Paulo, who is an immigrant with poor English.
 - C. Dermot, who has just inherited a large sum from his father.
 - D. Mark, who recently had a brain haemorrhage which has left him unable to write.

4. When providing advice to consumers on PRSAs, the requirement to gather and record relevant information about the consumer, referred to as Knowing the Consumer, arises from:
 - A. the Pensions Act, 1990.
 - B. the Consumer Protection Code.
 - C. Section 785 of the Taxes Consolidation Act, 1997.
 - D. the Minimum Competency Code.



How well do you know your textbook?

Chapter 1

- What is the key difference between **earned** and **unearned** income?
- What are the three pillars of financial provision for retirement?
- What is the limit on tax-free lump sums which can be taken by an individual from all pension arrangements?

Chapter 2

- In terms of qualifying for a benefit, what are the main differences between Social Insurance and Social Assistance pensions?
- If a married man dies, what State benefits might his wife become entitled to?
- What are the two different ways in which an individual's State Pension (Contributory) entitlement is calculated?

Chapter 3

- How do PRSAs differ from RACs in relation to charges?
- What is the maximum level of relevant earnings which can count in a year for income tax relief on RAC, PRSA and Pension Term Assurance contributions?
- Outline three different ways in which an entry charge may be levied on an RAC.

Chapter 4

- James reaches Normal Retirement Age (NRA) in his employer's DC scheme, after 18 years' service. His final remuneration is €80,000 pa and he does not have any other pension benefits. What is the maximum lump sum James can take from the scheme under the traditional benefit option?
- Patricia is aged 54 and has just terminated her employment. She has a preserved fund of €45,000 in her former employer's DC scheme. List FOUR options Patricia may have in relation to her fund.
- What minimum amount of an ex-gratia termination payment is usually tax free?

Chapter 5

- Aisling is 27 and works two jobs earning €9,000 and €13,000 a year. She has no pension. Will she be auto-enrolled and why or why not?
- Patrick is auto-enrolled on 1 January. He wants to opt out in April because month is tight. Is he allowed to opt out at that time?
- A company pension scheme contributes 1% employer and 2% employee based on gross salary. Does this scheme qualify for an exemption from AE?

Chapter 6

- A Personal Retirement Bond **cannot** be transferred to which arrangements?
- An RAC **can** be transferred to which arrangements?
- List THREE potential risks for a client in opting to take a transfer value from a current pension arrangement to a new arrangement.

Chapter 7

- What is a UCITS?
- What is a default investment strategy?
- Which type of pension arrangements **must** offer a default investment strategy?

Chapter 8

- What are the two items mentioned in a Pension Adjustment Order over a retirement benefit, which determine how much of that retirement benefit the PAO beneficiary will get?
- In relation to a PAO, what is the difference between **earmarking** and **splitting**?
- What is a **nil PAO**, and why is it used?

Chapter 9

- Below which level of income is USC not charged in 2025?
- What is the **minimum** age at which a consumer might qualify for the income tax exemption on his or her income?
- What credit can potentially be offset against a chargeable excess tax liability?

Chapter 10

- If the annuity rate for the type of annuity an individual wants is 4%, what lump sum is required to purchase an annuity of €10,000 pa?
- If long term bond yields rise, what would you expect to happen to annuity rates?
- What is a **reversion** in an annuity?

Chapter 11

- What types of financial institutions can offer ARFs?
- What must an ARF holder do in order to avoid a tax deduction penalty applying to his or her ARF during a year?
- If an ARF holder dies and the value of the ARF is paid to his surviving son who is aged 27, how is this taxed?

Chapter 12

- What are the main functions of the Pensions Authority?
- In what circumstances might a person be required to 'whistle blow' to the Pensions Authority?

Chapter 13

- If the CPI one year ago was 148 and today it's 146.7, what was the deflation rate over the last year?
- If Andy invests €30,000 now in a PRSA and hopes to earn a return of 3% pa, after charges, what is the projected value of the PRSA in 17 years' time?
- If Marie's earnings are currently €76,000 pa, what will be her projected earnings in 23 years' time at age 60, assuming her earnings grow at 3% pa between then and now?

Chapter 14

- List **THREE** differences between PRSAs and RACs.
- List **TWO** differences between an annuity and an ARF.

Chapter 15

- If a consumer refuses to give an adviser information relevant to the advice about a pension product to be offered by the adviser to the consumer, what must the adviser do?
- In what circumstances can an adviser arrange a pension product for a consumer, without complying with the Consumer Protection Code suitability requirement?