Mercer

welcome to brighter

annuities, approved retirement funds & approved minimum retirement funds

a brief guide to your choices at retirement

This document is prepared by Mercer and is intended as a guide to those who wish to take benefits from a Defined Contribution pension plan who may have the choice of an Annuity, an Approved Retirement Fund and/or an Approved Minimum Retirement Fund.

The detail contained in this document is for information purposes only and should not be interpreted as financial advice. You should seek financial advice before making choices on your retirement options.

What are my choices?

Most people at retirement are allowed to take a portion of their pension as a Retirement Lump Sum. After a Retirement Lump Sum is taken, options for the balance of the fund include:

1 Buying an annuity, or income for life.

2 Buying an Approved Retirement Fund and/or Approved Minimum Retirement Fund.

3 Taking the balance of your fund as taxable cash.

Not every option is available for every retiree. Which options will suit you will depend on your individual circumstances.

Option 1
Annuity

If you use your pension, or part of your pension, to buy an annuity, you are effectively buying a guaranteed income for the rest of your life. Several different variants of annuity are available. For example, many people buy annuities that provide an ongoing income at some level for their spouse in the event that the spouse lives longer. It is also possible to specify that an annuity should increase annually.

An annuity may be suitable for you if:

- you want certainty of income for the rest of your and your spouse's life, and/or
- you do not want to run the risk of your pension benefits falling in value

> If you select an annuity your Retirement Lump Sum may be based on your length of service and final salary or 25% of the fund value.

An annuity may not be suitable for you if:

- you do not particularly need a guaranteed income from your pension at this stage, and/or
- you want to generate investment growth for your pension,and/or
- you want your children to be able to inherit at least part of your pension, and/or
- you can tolerate the risk of your pension benefits falling in value and/or
- you have health problems such that you do not expect to live for many years

Option 2

Approved minimum retirement fund (AMRF) and/or approved retirement fund (ARF)

If you do not wish to buy an annuity you may wish to consider investing in an AMRF or an ARF. You must have either a guaranteed income for life of at least €12,700 per annum or an AMRF of €63,500 in order to be eligible to invest in an ARF.

An ARF or AMRF is placed in a fund, investment or deposit facility, where any growth achieved will be free of tax. Please note that it is also possible for an ARF or AMRF to fall in value. Low risk deposit ARFs and AMRFs are available, but these will not generate growth.

The main difference between an ARF and an AMRF lies in the scope to withdraw money from them.

Withdrawals from an ARF

- You may withdraw as much as you want from an ARF at any time.
- Withdrawals are subject to income tax, the Universal Social Charge and (until age 66) PRSI.
- From the year in which you turn 61, you must withdraw at least 4% per annum of its current value from an ARF provided your fund is worth less than €2 million.
- From the year in which you turn 71, you must withdraw at least 5% per annum of its current value from an ARF.

> If you select an ARF and/or an AMRF for any part of your pension (excluding AVCs), your Retirement Lump Sum will be limited to 25% of your accumulated pension fund value.

Withdrawals from an AMRF

- You may only withdraw 4% per annum of its current value from an AMRF.
- Withdrawals are subject to income tax, the Universal Social Charge and (until age 66) PRSI.
- You are under no obligation to withdraw from an AMRF until either you reach age 75 or you come to have €12,700 per annum of guaranteed pension income from other sources - at which time the AMRF should be converted to an ARF.

> You may withdraw as much as you want from an ARF at any time.

An ARF and/or an AMRF may be suitable for you if some of the following considerations apply to you:

- you do not need to draw income at this time from this portion of your pension benefits, beyond the minimum income required by the Revenue to be drawn from an ARF
- you are willing to tolerate the risk that your ARF or AMRF may fall in value
- you want to defer purchase of an annuity (an ARF or AMRF can always be used to buy an annuity later)
- you want your pension benefits to be invested and to grow over time
- you want your children to be able to inherit part of your pension
- you have health problems such that you do not expect to live for many years
- you accept the possibility that taking income from an ARF in particular may result in its gradual depletion over time and possibly before you die

An ARF or AMRF may not be suitable for you if:

- your priority for your pension is that it should provide a guaranteed income for life for yourself and possibly your spouse
- you cannot tolerate investment risk
- inheritance of your assets is not something that concerns you much

If you select an ARF and/or an AMRF for any part of your pension (unless solely in respect of your AVCs), your Retirement Lump Sum will be restricted to 25% of your accumulated pension fund value.

Option 3

Taking the balance of your fund as taxable cash

You may be permitted to take the balance of your fund as taxable cash after your Retirement Lump Sum has been taken. This will only be possible in restricted circumstances, and for many people it is not an option. Your personal Retirement Options Statement will detail whether you have the option of taking taxable cash from your pension.

You should note that in many cases, unless the pension is either very small (only capable of producing an annuity of under €330 per annum) or very large (capable of producing a lump sum entitlement of over €500,000), taking any of your pension as taxable cash may be very inefficient from a tax perspective.

Taxation of ARF, AMRF or annuity income

Any withdrawals or income received from an ARF, AMRF or annuity will be subject to Income Tax and the Universal Social Charge at your appropriate rate. In addition, up to age 66 ARF and AMRF income may be subject to PRSI.

Essentially any income received from your ARF, AMRF or annuity will be added to any other taxable income you have in the relevant year and the relevant tax rate will be applied accordingly.

Do you need independent advice?

If you wish to get independent financial advice on your retirement options, Mercer can assist you. Our financial planning service can be reached at **1890 375 375** or on **financial.planning@mercer.com**.