Mercer

welcome to brighter

protect your legacy

succession planning for your Approved Retirement Fund (ARF)

You are now at that stage in life where you are retiring and thinking about investing into an approved retirement fund (ARF).

Tax benefits - pre-retirement

- Your pension has been invested and grown tax free (gross roll up)
- Income tax relief was applied against the contributions that you had made to your pension
- A Tax free lump sum option is available at retirement

Tax benefits - post retirement

- Your Approved Retirement Fund will pass to your spouse in the event of your death tax free.

But… if your children inherit the ARF

- The full ARF value at the date of transfer will now be taxed @ 30%.

You can purchase insurance to offset this 30% tax liability to allow the full value of your ARF to transfer to your estate.

How to help cover the taxation on your legacy

If your children are aged over the age of 21 the proceeds of the ARF will be subject to 30% income tax. You can help your children by making sure that funds are available to help pay towards this tax bill by arranging a life assurance policy to cover this tax liability. This policy is commonly known as a Section 72 policy.

Section 72 policy

A Guaranteed Whole of life policy written under Section 72 of the Capital Acquisitions Tax Consolidation Act 2003 can be arranged to cover any potential inheritance payment which also includes the income tax treatment of Approved Retirement Funds. This policy is specifically approved by the revenue and is used specifically to pay any inheritance tax, it is not subject to any other additional tax or included for inheritance tax purposes.

Unless indexation is chosen, the sum assured and premiums are fixed for the whole of your life and they will not be reviewed or increased.

Here is some further information of how a Section 72 policy could protect your legacy.

Examples of using a Section 72 policy to protect your legacy

Estimated income tax liability when your ARF passes to your estate

Value of ARF invested @ age 65	Total income drawdown to age 85	Projected value of ARF @ age 85	Projected tax liability
€250,000	€222,301	€191,137	€57,341
€500,000	€444,602	€382,273	€114,681

The imputed distribution from your ARF will be 4% per annum increasing to 5% per annum from age 70.

Section 72 policy can provide a good return from your contributions

Value of ARF invested at age 65	Sum Assured based on the Potential Income tax @ 30% based on the fund value at age 85	Premium of Section 72 policy	Amount of premiums paid to age 85 (premium x 12 x 20 years)
€250,000	€57,341	€139.68 per month	€33,523
€500,000	€114,681	€273.29 per month	€65,589

The above example illustrates the sum assured is higher than the cost of the premiums that would have been paid.

The quotes are based on two lives aged 65, both are non-smokers written on a Joint Life Second Death basis. Indexation or life changes options has not been included. The 30% income tax liability has been based on the assumed value of the ARF at age 85 taking into account 3.5% fund growth and 5% income withdrawal per annum from age 70. Premiums and not guaranteed and will be subject to underwriting. The fund growth used in the above examples is for illustration purposes only and fund values can rise as well as fall.

Important information

Please note this material is provided for information purposes only. Nothing in this document should be construed as investment advice and no decision should be made on this information without first seeking individual financial advice. The information contained herein is based on current pension and tax legislation which may be subject to change in the future.

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For more information

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