# At **Retirement**

## A guide to your choices

| **Retirement** | Investments | Insurance |

AVIVA

# Why choose Aviva?

Around the world, Aviva provides around 34 million customers with life assurance, savings and investment products*.

Aviva is Ireland's leading composite insurer for life, pensions and general insurance products*. Our aim is to provide an efficient and professional service through a range of channels such as financial brokers, financial institutions and our website www.aviva.ie.

We combine strong life assurance, general insurance and asset management businesses under one powerful brand. We are committed to serving our customers well in order to build a stronger, sustainable business which makes a positive contribution to society.

** Source: Aviva annual accounts, March 2016.*

# What will I get from reading this guide?

## Who should read this guide?

Anyone who has a pension fund and wants to know what options they will have at retirement. Anyone who is retired and wants to understand more about their options.

## What will this guide tell me?

It will explain all about the retirement options available to you in clear and simple terms. Most of the rules and options at retirement are set in law, or by the Revenue Commissioners. This guide outlines those rules and options.

## What will this guide not tell me?

This guide only gives general information on retirement options. It will not explain product specific charges or options. For specific information on your retirement options, please talk to your financial broker.

This brochure is based on Aviva’s understanding of current law, tax and revenue practice, January 2016.

# What does this guide cover?

# When can I retire?

**The answer to this question depends on the type of pension you have.**

- If you took out a pension when you were self employed or were working for a company which did not contribute to your pension, you have a Personal Pension.
- If you were working for a company and joined a pension to which your employer was contributing, you have a Company Pension. This is either a Defined Contribution (DC) pension or a Defined Benefit (DB) pension.
- If you decided to top up your company pension with extra voluntary premiums, you have an additional voluntary contribution (AVC) pension.
- Alternatively you may have a Personal Retirement Savings Account (PRSA). This is a pension plan available to employees, self-employed, homemakers, unemployed or any other category of person.
- If you left an employer and transferred your pension fund to a standalone pension, you have a Buy Out Bond.

## Personal Pensions

You can retire from a personal pension at any time between age 60 and 75. You may be able to retire early for reasons of serious ill health. The Revenue Commissioners may allow retirement before age 60 if you are permanently unable to work. People in some occupations are allowed to retire early without having to be in ill health. These are mostly sporting occupations such as jockeys, cyclists and footballers.

## Company Pensions

Your normal retirement age is generally set by your company and can be between 60 and 70. From age 50 you can take early retirement if your employer and the Trustees of your pension agree. You can also retire early if you are seriously ill. The Revenue Commissioners and Trustees can allow retirement at any age if you are permanently unable to work.

## Additional Voluntary Contribution Pension

Since your additional voluntary contributions are linked to your company pension you must use the proceeds from both at the same time.

## Personal Retirement Savings Accounts (PRSAs)

You can draw on your PRSA at anytime between age 60 and 75. In some circumstances it may be possible to take benefits from age 50 onwards.

## Buy Out Bonds

Your normal retirement age is set in your company pension and does not change when you transfer to a Buy Out Bond. It can be between 60 and 70. You can choose to retire early from age 50. You could also retire early if you are seriously ill and the Revenue Commissioners give their permission.

# What are my options?

You will have a number of options at retirement and, within certain Revenue rules, you can combine options in whatever way suits you. The number of options available to you at retirement depends on the type of pension you have.

**The four main options at retirement vary, but are broadly:**

- Take a tax-free cash lump sum (subject to a lifetime limit of €200,000).
- Buy an annuity (i.e. an income in retirement).
- Invest in an Approved Retirement Fund and/or Approved Minimum Retirement Fund.
- Take a taxed cash lump sum.

***Note:***

*If the value of all your pension funds at retirement, is greater than an amount specified by Revenue (€2,000,000 as at 1 January 2014 and subject to change each year, or if higher the value of your fund on 1 January 2014, subject to Revenue approval of a Personal Fund Threshold not exceeding €2,300,000), the excess will be subject to a once-off deduction of income tax (currently 40%) when you take your retirement benefits.*

# Tax-free cash

## Am I eligible to take tax-free cash?

Yes. Everyone has the option of taking tax-free cash at retirement. Although you do not have to take tax-free cash, most people take the maximum amount allowed as this is more tax effective than the other options.

## How much can I have tax-free?

This depends on who you are and what kind of pension you have. There are two different maximum levels which apply. Some people can choose between them but others are limited to one or the other. Both options below are subject to a lifetime limit of €200,000.

## 25% of the fund

If you have a Personal Pension, a PRSA, a DC Company Pension or you have a Buy Out Bond (which was set up with the proceeds of a DC company pension), then you can elect to take 25% of your retirement fund tax-free, subject to Revenue regulations.

The scheme rules of a DC company pension may need to be amended to allow for the payment of this tax-free lump sum option. This rule also applies where the proceeds of the DC Company Pension have been used to set up a Buy Out Bond.

## 1.5 times salary

If you are in a Company Pension (DC or DB), AVC or a Buy Out Bond, you can take tax-free cash equal to a maximum of one and a half times your final salary. The actual amount of tax-free cash you can take at retirement varies depending on how long you have worked for the company and your salary at retirement.

The maximum tax-free cash of one and a half times your final salary is available if you have worked in the company for at least 20 years at normal retirement age.

***Note:***

*All tax-free cash is subject to a maximum lifetime limit of €200,000. Should you withdraw a lump sum which exceeds this maximum, the excess will be subject to a once-off deduction of income tax (currently 20% on a lump sum in excess of €200,000 but less than €500,000) and 40% on a lump sum in excess of €500,000 plus the Universal Social Charge (USC) of up to 8% (depending on your income and age) and 4% PRSI (if applicable). Note that all tax-free lump sums taken from pension arrangements since 7 December 2005 count towards the €200,000 and €500,000 limits. In the event of death, the proceeds of the pension fund may be liable to tax.*

## Tax-free cash options

| | 25% of fund | or | 1.5 x salary |
|---|---|---|---|
| Personal Pension | ✓ | | ✗ |
| PRSA | ✓ | | ✗ |
| Company Pension – DB Pension | ✗ | | ✓ |
| Company Pension – DC Pension | ✓* | | ✓ |
| Company Pension – 5% Director | ✓* | | ✓ |
| AVC – Employee DC Pension | ✓* | | ✓ |
| AVC – Employee DB Pension | ✗ | | ✓ |
| AVC – 5% Director | ✓* | | ✓ |
| Buy Out Bond – DC Pension | ✓* | | ✓ |
| Buy Out Bond – DB Pension | ✗ | | ✓ |
| Buy Out Bond – AVC | ✓* | | ✓ |
| Buy Out Bond – 5% Director | ✓* | | ✓ |

** To avail of this option, you must invest the balance in an ARF or take the balance as Taxed Cash, subject to you meeting the requirements stated on page 12 (ARFs) or page 18 (Taxed Cash).*

**If you choose to take one and a half times final salary as tax-free cash, your options on how you use the balance of the fund are limited to buying an annuity.**

## Advantages of taking maximum tax-free cash

- Any other option would require the money to be taxed at some stage.
- Gives you the opportunity to buy something you've always wanted, or to clear a debt like your mortgage.

## Disadvantages of tax-free cash

- The fund that's left will provide less of a retirement income for you.
- A lifetime limit of €200,000 applies to your tax-free cash (see page 8 for more details).

# Annuities

## Is an Annuity right for you?

| An annuity might suit you if: | An annuity might not suit you if: |
|---|---|
| ✓ You are aged 60 or over (but not older than 75). | ✗ You are aged under 60 or over 75. |
| ✓ You require a guaranteed pension income for the rest of your life after you retire. | ✗ You do not require a guaranteed pension income for the rest of your life after you retire. |
| ✓ You wish to provide a guaranteed level of pension income for your spouse or civil partner in the event of your death. | ✗ You have no spouse or civil partner who you wish to provide a pension income for. |
| ✓ You do not wish to, or are unable (due to Revenue reasons) to invest the balance of your pension fund in an Approved Retirement Fund after you have taken your tax-free cash lump sum. | ✗ You wish to, and are able to invest the balance of your pension fund in an Approved Retirement Fund after you have taken your tax-free cash lump sum. |
| ✓ You want certainty about how much income you will receive each year after you have retired. | ✗ You are happy for your income to move up and down each year after you have retired. |

After you take your tax-free cash you can, subject to the rules mentioned on page 8, use the balance of your fund to buy an annuity. An annuity provides you with a guaranteed pension income for the rest of your life.

**When you buy an annuity you will have several options including:**

- A guarantee of payment for up to 10 years. This means that if you die before the 10 years has passed, your pension will continue to be paid to your dependant for the outstanding period.
- Increasing your pension each year to take account of inflation.
- Adding a spouse's / civil partner's pension so that if you die before them, then they will receive a pension income.

The options you choose to include will affect the amount of pension income your fund can provide. You may use your fund to buy an annuity from any insurance company you choose.

Whether you have a Personal Pension, a PRSA, an Additional Voluntary Contribution Pension, a DC Company Pension or a Buy Out Bond, you may have additional options. You can choose to buy an annuity with all or some of your fund, but you also may have the option of investing in an Approved Retirement Fund or of taking taxed cash (see pages 12-17 for more details).

## What happens to my annuity when I die?

When you die your pension income stops unless you have bought an annuity with a guaranteed payment period or a spouse's / civil partner's pension.

## If I choose an annuity now, can I switch to an ARF later?

No, once you buy an annuity you no longer have access to your fund. It has been paid to an insurance company in return for a guaranteed pension income for the rest of your life.

## How is an annuity taxed?

Any income that you receive from an annuity is subject to income tax at your highest rate (currently 20% or 40%) and may also be subject to the Universal Social Charge (USC) up to 8% depending on your income and your age.

If your retirement fund will provide your only or main source of income after you retire, you may want to consider investing some or all of it in an annuity to secure a pension income for the rest of your life.

# Approved Retirement Funds

## Is an ARF/AMRF right for you?

| An ARF/AMRF might suit you if: | An ARF/AMRF might not suit you if: |
|---|---|
| ✓ You have taken a tax-free lump sum of up to 25% of the pension fund value and now wish to invest the remaining balance. | ✗ You have taken a tax-free lump sum of up to 1.5 times your final salary. |
| ✓ You can accept that the value of your fund could fall as well as rise. | ✗ You are not comfortable with the fact that your fund could fall as well as rise. |
| ✓ You would like to take a regular withdrawal up to certain limits each year. | ✗ You are not happy with the choice of funds on the ARF/AMRF. |
| ✓ You are happy with the choice of funds on the ARF/AMRF. | ✗ You want a regular guaranteed pension income to last you for life. |
| ✓ You want to pass on the money in your ARF/AMRF to your family when you die. | ✗ You want to take out an annuity when you retire. |

## Investing in Approved Retirement Funds

Approved Retirement Funds (ARFs) and Approved Minimum Retirement Funds (AMRFs) are funds managed by qualifying fund managers in which you can invest the proceeds of your pension fund when it matures.

After you have taken any lump sum, and before you can commence an ARF, €63,500, or the remainder of the pension fund if less, must be transferred to an AMRF or used to buy an annuity.

An AMRF differs from an ARF only to the extent that, until you are 75 years old, or you confirm that you are in receipt of a guaranteed pension income of €12,700 per annum, you may only withdraw 4% of the value of the AMRF each year. Any cash withdrawn at this stage will be taxed as income.

When you reach age 75, or you confirm that you have become in receipt of the guaranteed pension income amount (as set out above), your AMRF will automatically become an ARF.

Any balance over €63,500, can be invested in an ARF or withdrawn as cash.

Your AMRF will convert to an ARF on your death. The tax treatment of how the AMRF and/or ARF is treated on your death is dealt with on pages 16-17.

**You do not have to invest in an AMRF if:**

- You have a guaranteed pension income of at least €12,700 a year for life (all of your pensions and annuities including the Social Welfare Pension can be taken into account for this purpose), or
- You are over age 75.

## How is my ARF/AMRF invested?

Your ARF/AMRF is invested in funds of your choice. These funds grow tax-free.

# Approved Retirement Funds (cont.)

## Can I take a regular income from my ARF?

Yes, you can take a regular income and this is taxed at your highest rate of income tax (currently 20% or 40%). PRSI of 4% and the Universal Social (USC) of up to 8% may also be applied depending on your income and age.* This income is not guaranteed and depends heavily on how your investment performs.

Taking a regular income will reduce the total value of your ARF, especially if investment returns are poor and/or you choose a high rate of income.

The higher the level of regular income you choose, the higher the chances that your ARF will be fully used up in your lifetime. If your ARF is used up, no further income will be paid.

## Can I take lump sums out of my ARF?

Yes, you can take money out whenever you want to. All withdrawals will be taxed as income at your highest rate of income tax (currently 20% or 40%). PRSI of 4% and the Universal Social (USC) of up to 8% may also be applied depending on your income and age.*

** You are exempt from paying PRSI on your ARF and/or AMRF if you are over 66. For individuals aged 70 or over, and individuals who hold full medical cards, the 3% rate for USC applies to all income over €12,013. (up to a maximum of €60,000).*

**Warning: The value of your investment may go down as well as up.**

**Warning: If you invest in this product you may lose some or all of the money you invest.**

**Warning: The income you get from this Approved Retirement Fund (ARF) may go down as well as up.**

**Warning: These products may be affected by changes in currency exchange rates.**

## Imputed Distributions on an ARF

You do not have to make withdrawals from your ARF; however, we must deduct a minimum amount of tax from your ARF each year as if you had taken a minimum withdrawal. This is commonly referred to as an "imputed distribution".

The minimum income tax we must deduct is the amount you would have paid had you withdrawn a percentage of the total fund value from your ARFs and vested PRSAs on 30 November. Vested PRSAs are PRSAs from which retirement benefits have commenced to be taken, usually in the form of a tax-free retirement lump sum of up to 25% of the value of the PRSA (with the remaining balance staying invested in the PRSA).

**The imputed distribution rates applying from 1 January 2015 are as follows:**

- 4%, if you're 60 years of age or over for the full tax year
- 5%, if you're 70 years of age or over for the full tax year, or
- 6%, if you have combined ARF and vested PRSA assets of €2 million or more, and aged 60 or over for the full tax year.

Your AMRF is not subject to the minimum withdrawal rules, so no tax is paid on your AMRF until you actually take a withdrawal. However, once you have reached your 75th birthday, your AMRF will automatically become an ARF, or at such time as you notify us that you have a guaranteed pension income of €12,700 per annum. Your ARF will then be subject to the minimum withdrawal rules as referred to above.

## What happens to my ARF when I die?

The value of your ARF and AMRF is passed to your estate when you die. Depending on who inherits the money, different levels of tax will apply. Please refer to pages 16-17 for further details.

# Approved Retirement Funds (cont.)

## How your ARF/ARMF is taxed on death

If your ARF and/or AMRF are transferred to an ARF in your husband's or wife's name, there currently is no income or capital acquisitions tax (CAT) due. If you leave your ARF and/or AMRF to anyone else, they may have to pay income tax or CAT depending on who they are and their circumstances. If any income tax is payable, we must take this before paying the proceeds of your fund to your estate.

**Table 1: Summary of the tax rules after your death**

| ARF/ARMF inherited by | Income tax due | Capital acquisitions tax due |
|---|---|---|
| Surviving husband or wife | None, if transferred into an ARF in the husband's or wife's name* If not transferred to an ARF in the husband's or wife's name, the full amount is treated as income of the deceased spouse and taxed accordingly under PAYE | No |
| Your children, if under 21 | None | Yes. They can inherit up to €280,000 each without paying CAT. They will pay CAT at 33% on any amounts over this. |
| Your children, if over 21 | Yes, at a rate of 30% | No |
| Anyone else | Yes, at marginal rate of the deceased | Yes. They can inherit up to a tax-free threshold amount depending on their relationship to the ARF holder. Then they must pay CAT at 33% on any amount over this threshold. |

** Any subsequent withdrawals will be subject to income tax at the surviving spouse's highest rate of income tax (currently 20% or 40%). PRSI of 4% and the Universal Social (USC) of up to 8% may also be applied depending on their income and age.*

If on your death, your ARF/AMRF is transferred into an ARF in your husband's or wife's name, the funds would be taxed on their death as follows:

**Table 2: Summary of the tax rules after the death of your surviving husband or wife**

| **ARF/ARMF inherited by** | **Income tax due** | **Capital acquisitions tax due** |
|---|---|---|
| Your children, if under 21 | None | Yes. They can inherit up to €280,000 each without paying CAT. They will pay CAT at 33% on any amounts over this. |
| Your children, if over 21 | Yes, at a rate of 30% | No |
| Anyone else | Yes, at marginal rate of the deceased | Yes. They can inherit up to a tax-free threshold amount depending on their relationship to the ARF holder. Then they must pay CAT at 33% on any amount over this threshold. |

***Note:***
*Tables 1 and 2 are based on our understanding of current Revenue rules as at October 2016.*

# Taxed cash

After you take your tax-free cash, you can take all or part of the balance of your fund as cash and pay tax on it.

To take this additional amount as taxed cash, you will be required to invest €63,500, (or the remainder of the fund, if less) into an AMRF, or use the €63,500, to buy an annuity. However, you do not need to satisfy this requirement if you have a guaranteed pension income of €12,700 p.a. or you are 75 years or older.

Any money that you withdraw in this way will be taxed at your highest rate of income tax (currently 20% or 40%). PRSI of 4% and the Universal Social (USC) of up to 8% may also be applied depending on your income and age.

# Getting advice

## Who should I talk to about my retirement plans?

Your financial broker will be able to assess your personal situation and guide you through the complexities of retirement and tax planning.

Planning your retirement is a very important part of providing for your future and should be looked at in the context of your overall financial plans and goals.

This guide only gives general information on retirement options. It will not explain product specific charges or options. For specific information on your product choices and your options at retirement, please talk to your financial broker.

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**Warning: If you invest in this product you may lose some or all of the money you invest.**

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**Warning: These products may be affected by changes in currency exchange rates.**

# Useful addresses

Any enquiries or complaints regarding your policy should be in the first instance directed to our Pensions Department. We will endeavour to ensure that all matters in relation to your policy are dealt with in a satisfactory manner. In the event that you are dissatisfied on any matter, you may refer your complaint to one or more of these offices.

## Financial Services Ombudsman's Bureau

3rd Floor, Lincoln House, Lincoln Place, Dublin 2
Tel: 1890 88 20 90  Fax: (01) 662 0890
Email: enquiries@financialombudsman.ie
Website: www.financialombudsman.ie

## Office of the Pensions Ombudsman

4th Floor, Lincoln House, Lincoln Place, Dublin 2
Tel: (01) 676 6002  Fax: (01) 661 8776
Email: info@pensionsombudsman.ie
Website: www.pensionsombudsman.ie

## The Pensions Authority

Verschoyle House, 28/30 Lower Mount Street Dublin 2
Tel: (01) 613 1900  Fax: (01) 631 8602
Email: info@pensionsauthority.ie
Website: www.pensionsauthority.ie

Full details of the remit of the Financial Services Ombudsman's Bureau, the office of the Pensions Ombudsman and the Pensions Authority can be obtained directly from their respective offices.

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Aviva Life & Pensions UK Limited, October 2016.



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