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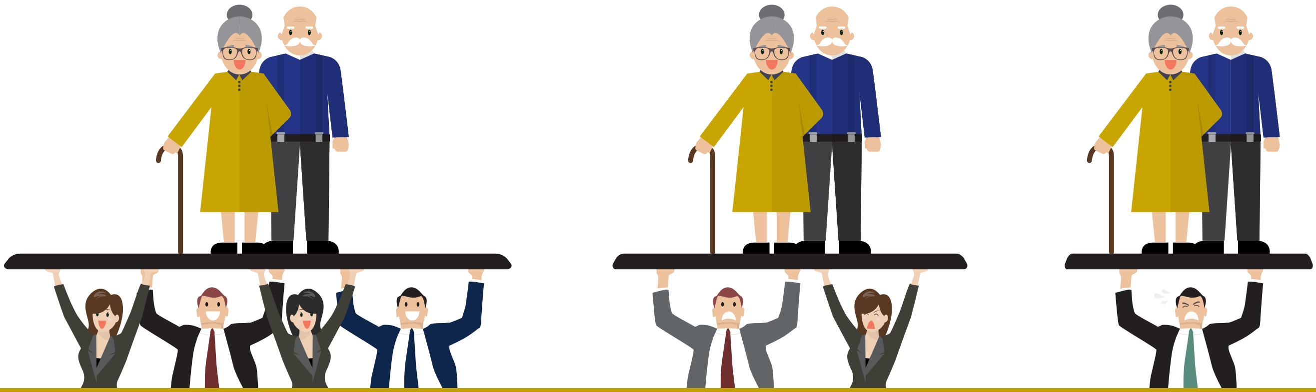

Financial Services: At a median age of 38.2 years, Ireland has the youngest population in the EU.

An interview with Dick Denieffe, Director, KFS

The change in the pension age is just one piece of the jigsaw, but how is Ireland planning for the future of our younger generations?

The change in the pension age in Ireland has been a hot topic of discussion recently and the decision to defer whether the pension age should be increased could prove controversial – considering the impact this will have on the public purse.

Across Europe there have been mutterings of pension timebombs but, admittedly, in Ireland, we have a bit more time to prepare, unlike nations such as Germany, the UK and France. That said, as Ireland is paying almost twice as much as countries like the UK in terms of unemployment benefit and pensions, is Ireland getting our social investment balance right?

What is the impact of recent increases in pension payments if the retirement age remains at 66 years?

The state pension in Ireland is now €12,916pa, and with the recent increase in state pension of €5 per week, this has had an impact on AMRFs (Approved Minimum Retirement Funds).

Before the increase, the full rate state pension was €12,651pa, so marginally below the AMRF threshold of €12,700pa, and unless you had a guaranteed income of >€12,700pa, you were obliged to invest €63,500 of your accumulated private pension fund in an AMRF (Approved Minimum Retirement Fund), with the balance investing in an Approved Retirement Fund (ARF).

75+ ARMFs are no longer required for those in receipt of full state pension

The rules governing an ARF are that you are obliged to withdraw a minimum of 4% pa (5% pa from age 70 and 6% pa if your fund exceeds €2M), with the option to encash it completely, but with tax and levies deducted, not something that is ordinarily recommended.

The rules governing the AMRF are that it's optional to withdraw 4% pa, but the original capital cannot be accessed until age 75, so now that the full rate state pension exceeds the threshold, AMRFs are no longer required for those in receipt of the full state pension.

In this piece we answer some frequently asked questions around the differences between AMRFs and ARFs, particularly in the light of the new changes.

ARF & AMRF FAQ: What are the differences? (Overleaf)

ARF & AMRF FAQ: What are the differences?

What is the difference between an ARF and an AMRF?

An Approved Retirement Fund (ARF) allows you to retain control of your pension fund after you retire, including where and how it invests, what income or withdrawals you wish to take and ensures it passes to your next of kin, after your death.

After taking your tax free lump sum, typically the balance of your pension fund is invested in an ARF, from which you are obliged to withdraw a minimum of 4%pa.

An Approved Minimum Retirement Fund (AMRF) is like an ARF but you are not obliged to make any withdrawals (4% pa is optional). However, unlike the ARF, access to the original investment amount isn't allowed until age 75.

75+ An AMRF automatically converts to an ARF

Once you turn 75 the AMRF automatically converts to an ARF and you can withdraw money whenever you like, but a minimum of 4% pa must be taken.

What are the rules for an ARF?

Before you can invest in an ARF, you must have a guaranteed income of €12,700 pa for life (typically in the form of an Annuity or state pension benefit). If this is not the case, you must use the first €63,500 of your pension fund to buy an Annuity (guaranteed income for life) or an AMRF.

How much can I take from an AMRF or ARF?

The rules governing an ARF are that you are obliged to withdraw a minimum of 4% pa (5% from age 70), with the option to encash it completely, but with tax and levies deducted, not something that is ordinarily recommended. The rules governing the AMRF are that it's optional to withdraw 4% pa, but the original capital can't be accessed until age 75, so now that the full rate state pension exceeds the threshold, AMRFs are no longer required for those in receipt of the full state pension.

€2m If your ARF exceeds €2M, you must take out 6% of the value of your fund each year.

If your ARFs are under €2M, you must withdraw

- 4% of the value of your fund if you are over 60
- 5% of the value of your fund, if you are over 70

If your total ARFs exceed €2M, you must take out 6% of the value of your fund each year.

How much can I take as a lump sum?

It depends on the type of pension you have and if your pension is arranged through your employer you may be able to take up to one and a half times your final salary as a tax free lump sum, depending on how long you worked there. Occupational Pension Schemes, PRSAs and Personal Pensions will give you the option of taking 25% of the value of your fund as a tax free lump sum.

ARF & AMRF FAQ: What are the differences?

€200k For the first €200k, you will not have to pay tax.

Do I have to pay tax on withdrawals?

You are allowed to receive 25% of your accumulated pension fund tax free, up to a maximum of €200,000. If you are a member of your company's pension scheme, you may be entitled to receive more than 25% tax free, based on the length of time employed and your salary on retirement/leaving, but still with a maximum of €200,000 tax free. Over and above this, you pay income tax, PRSI (if you are liable for it) and Universal Social Charge (USC) on any money you withdraw from your ARF, AMRF or Annuity.

In summary

Whether you invest in an Annuity or an ARF/AMRF is a very important decision, so it's appropriate you seek professional advice and speak with your Financial Adviser who will help you make the right decision and to ensure that you have an adequate retirement pot when you retire.

Please contact us should you require advice on this matter or other matters that affect you and your business at this time

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