Understanding your retirement options

Mary Goodman and Declan Gahan from Veterinary Ireland Financial Services highlight what vets need to know when approaching retirement

OPTIONS AVAILABLE WITH YOUR PENSION FUND

1. Take your retirement lump sum and then,
2. Use the residual fund remaining to purchase an annuity which is a guaranteed income for life, and/or, invest in an approved minimum retirement fund (AMRF)/approved retirement fund (ARF). You should take professional advice to select the most appropriate option for your own personal circumstances.

1. TAKE YOUR RETIREMENT LUMP SUM

You are entitled to take a lump sum from your retirement fund if you wish.
This lump sum is calculated based on the type of pension contract up to a maximum of 25% of the pension fund and is tax free up to a maximum lifetime limit of €200k.
The next €300k of any lump sum is taxable at 20%. Anything over that €500k in total, will be taxable at your marginal rate of income tax and universal social charge (USC).
Your lump sum is calculated, based on the type of pension contract you have:

- Is your pension contract a defined contribution (DC) pension scheme/personal retirement bond (PRB) provided by your employer?
- Or, is it a personal pension/retirement annuity contract (RAC), or a personal retirement savings account (PRSA)/ PRSA additional voluntary contribution (AVC), or as is the case with many vets, a combination of all of these?

Calculation of retirement lump sum

You may take up to 25% of your retirement account lump sum, subject to revenue limits based on your net final remuneration.
Where AVCs or PRSA AVCs have been made and you are taking an annuity with your benefits (outside of your AVCs), there may be scope to increase your retirement lump sum up to a maximum of 1.5 times your net final remuneration. You can invest your AVCs in an ARF or an AMRF.
If you transfer some benefits (other than AVCs) to an ARF or an AMRF, the maximum lump sum payable is restricted to one quarter of your retirement account.

2. OPTIONS WITH THE BALANCE OF YOUR FUND

So, now you have taken a retirement lump sum from your pension, the options with the residual balance are as follows:
(i) Purchase an annuity; and/or
(ii) Invest in an AMRF; and/or vested PRSA – if the pension contract at the date of retirement was a PRSA, then after payment of the retirement lump sum, the remaining fund can be left in the contract until age 75 (at latest) and will be known as a 'vested PRSA'.
At any time before the age of 75, the vested PRSA can be used to purchase an annuity or transferred to an AMRF/ARF.

(i) PURCHASE AN ANNUITY

An annuity is a guaranteed regular income payment made to you for the rest of your life. You have an open market annuity option which allows you to research the providers for the best rates available.

Factors which affect the annuity rate

- How old you are when you purchase an annuity. The older you are, the higher the annuity rate as your life expectancy is lower;
- Whether your annuity is based on your own life, or also includes a spouse/registered civil partner;
- The guaranteed period if you have chosen one. This is an initial period that the annuity is guaranteed to be paid even if you die. You can generally choose between five and 10 years but the maximum allowed is 10;
- If you choose to have your annuity payment increase to allow for future inflation in the prices of goods; and
- Choosing to have your annuity paid monthly or annually will also affect the annuity rate applied to your fund.

Choose an annuity if:

- You want the certainty of a guaranteed income for life;
- You do not want to take investment risks with your retirement fund; and
- You want to avoid having to invest in AMRF.

Tax treatment of payments from an annuity

Any payment from an annuity is treated as income and taxed under the PAYE system by the life company. Income tax and USC apply subject to your personal circumstances.

What happens to an annuity on death?

When you die, the annuity will stop unless you have made provision for the annuity to continue for a period after your death, or for a proportion to continue to be paid to your spouse or civil partner for the remainder of their lifetime. The actual amount of income you will receive from the balance of your pension fund is determined by the annuity rate.

(ii) INVEST IN AN ARF AND AMRF OR VESTED PRSA

If you have opted to take a maximum of 25 per cent of your pension as a retirement lump sum and you do not wish to purchase an annuity, then you have the option to reinvest the balance of your fund in an ARF.

This allows you to preserve, manage and control your retirement fund. You can invest your money into suitable assets and decide how much taxable income you want to withdraw each year, subject to a minimum withdrawal amount, from when you are aged 61, or over. Unlike the annuity option, it does not provide any guaranteed income.

Tax treatment of payments from an ARF/AMRF

Any withdrawal from an ARF/AMRF is treated as income and taxed under the PAYE system by the life company. Income tax, USC and PRSI (to age 66) apply subject to your personal circumstances.

When you are aged 61, or over, you must take a minimum withdrawal from your ARF as income but you have the option to take more if you wish. The minimum amount you must take is *4% of the fund each year which increases to *5% of the fund from age 71 (*6 per cent if the total ARF fund is more than €2m). All income taken from the ARF is taxable. The value of the ARF can be passed to your family, spouse or children after your death. The downside of an ARF is that without careful planning, it is possible to reduce your fund to zero before you die.

In order to invest in an ARF, you must satisfy the following conditions:

- You must have a guaranteed lifetime pension income of €12,700 per year. This must be paid to you personally, any income payable to a spouse/registered civil partner does not count; and
- If you do not have a guaranteed lifetime income of €12,700 per year, then you must invest the balance of your pension fund, or at least €63,500 in an AMRF.

The original balance invested in the AMRF must stay invested in the AMRF until you have a guaranteed lifetime pension income of €12,700 per year, or you have reached the age of 75, at which point your AMRF will automatically become an ARF.

You do have an option to take 4 per cent of the value of your AMRF fund, annually, but unlike the ARF, this option is voluntary.

Choose an ARF if:

- You want your retirement fund to continue to grow;
- You want more control over how your fund is invested;
- You want to pass on the balance of your fund after your death;
- You want to make withdrawals as and when you need to; and
- You can tolerate a certain level of investment risk.

Important point

You can mature your personal pension/PRSA from age 60 onwards without actually having to retire from work.

What happens an ARF and AMRF on death?

On death of an AMRF policyholder, the AMRF becomes an ARF. An ARF is taxed depending on who receives the value of the ARF as follows:

	Death of holder		Death of spouse	
Receiver	**Income tax**	**CAT**	**Income tax**	**CAT**
Spouse	No	No	---------	---------
Child (under 21)	No	Yes	No	Yes
Child (over 21)	Yes	No	Yes	No
Others	Yes	Yes	Yes	Yes

What are the main differences between an annuity and an ARF?

The key differences between an annuity and an ARF are flexibility and risk.

An annuity converts the money in your retirement fund into guaranteed income payable for your lifetime, fixed on the date you buy your annuity. However, on death, there will be little or no return for your dependents unless you purchased a spouses/dependents pension and/or had a guaranteed period.

An ARF allows you to preserve, manage and control your retirement fund. You can invest your money into suitable assets and decide how much taxable income you want to withdraw each year, subject to a minimum withdrawal once you are aged 61 or over.

Unlike an annuity, it does not provide any guaranteed income but any balance in your ARF on death is payable to your dependents.

Choosing the right options for your retirement is a big decision and it is important to get independent and professional financial advice.

In this article, we have explained what those options are for vets and if you think one or more of these options might be suitable we will be happy to assist you with further information on these options based on your own individual circumstances.

Contact:

Mary Goodman, Senior Financial Consultant
email: mary@vetireland.ie **tel:** 086 777 0266

Declan Gahan, Senior Financial Consultant
email: declan@vetireland.ie **tel:** 086 777 0283

Veterinary Financial Services Ltd is regulated by the Central Bank of Ireland.

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.

	Features of an Annuity	**Features of an ARF**
Income for life	This offers an income for life which is guaranteed.	No guaranteed income for life, subject to withdrawals (minimum *4%/5%) annually.
Flexibility	No flexibility. You cannot make changes to your annual income, once annuity purchased.	Flexibility to withdraw what you wish to annually subject to minimum of *4%/5%.
Potential for future growth	None. You are locked into a set annuity rate fixed on date of investment with no potential for growth. If you have selected a fixed rate of escalation on your annuity, then it will increase by that amount each year.	You might benefit from future growth if your fund is invested in suitable assets, though value of your fund could drop.
Potential for fund to be drained	None. You are locked into a set annuity rate on date of investment.	Without careful planning and management, the fund in an ARF could be depleted depending on your withdrawals and investment strategy.
When death occurs	Income stops when you die (assuming single life annuity) There is likely to be little or no payment to your dependents unless you have made provision for the annuity to continue for a period after your death or a proportion to be paid to your spouse or civil partner for the remainder of their lifetime.	Any funds left in an ARF may be left to your dependents subject to tax treatment shown in previous table.
*6% of ARF fund greater than €2m.		