

STAND-ALONE PRSA AVCs



Standalone PRSA AVCs offer occupational pension scheme members a convenient method of funding for retirement with more choice of providers and funds.

KEY BENEFITS

- ❖ Tax relief and PRSI relief are available.
- ❖ Long-term saving by PRSA AVC is normally better than saving through a typical savings plan.
- ❖ The majority of employees will have scope to pay contributions.
- ❖ All employees, including public service employees can avail of this opportunity.

It is now possible for an employee to make an arrangement for an AVC without needing to set up the plan under trust. This represents a significant increase in the options for employees who, for whatever reason, want to keep their arrangement outside their employer-sponsored pension arrangements.

PROCESS

The Revenue will require that a funding check be carried out to ensure that maximum benefits will not be exceeded. We will need information to carry out this check, but in the vast majority of cases, you can be assured that the real limits are the contribution limits below. Simply provide a benefit statement or booklet, and **Zurich Life will run a Revenue check on the benefits**. If this is not available, we pose questions that will give us the required information, although you may need the help of your employer for the details.

As mentioned, the most important Revenue control is over the level of contributions being paid. It will be very important that the PRSA AVCs, together with all other Pension Scheme contributions and Additional Voluntary Contributions, do not exceed the limits below:

Age	Limit (as % of Net Relevant Earnings)
Up to 29 years of age	15%
30 to 39 years of age	20%
40 to 49 years of age	25%
50 to 54 years of age	30%
55 to 59 years of age	35%
60 and over	40%

Net Relevant Earnings i.e. gross salary plus overtime and benefit-in-kind are subject to a ceiling of €150,000 for the purpose of calculating tax relief.

You are entitled to tax relief, at your marginal tax-rate, up to the limits shown above.

WHY AVCs?

AVCs represent a very tax efficient form of saving. Contributions can be relieved, within the limits shown above, against tax at the marginal rate. They also enjoy relief from PRSI. If the investor has scope to increase their tax-free cash at retirement by way of AVCs, then this should prove an excellent investment choice. Even where tax has to be paid on the proceeds, there is the normal expectation of lower average tax rates in retirement; and even if tax is payable at higher rates, there is no tax on investment returns accruing in the funds. Altogether, this makes AVCs a very tax efficient means of saving money.

Because of these tax reliefs, AVCs represent **excellent value** compared with a typical savings plan, such as the Eagle Star Savings Plus Plan. The following example shows just how efficient saving through a PRSA AVC is compared with the normal savings vehicle of Savings Plus with typical charging structures.

Example

We have looked at a person who has €100 to invest each month out of take-home pay. The person pays tax on earnings at a marginal rate of 41% and PRSI at 8%. A PRSA investment of €196.08 is made each month, which has a net monthly cost of €100.

	PRSA*	Savings Plus	Excess return achieved by investing in a PRSA
If all proceeds can be taken as tax-free cash	€59,543.03	€27,067.24	120%
If all proceeds are subject to tax at 20% and PRSI at 8%	€42,870.98	€27,067.24	58%
If all proceeds are subject to tax at 41% and PRSI at 8%	€30,366.95	€27,067.24	12%

* The figures in this table are based on the following: a gross investment return of 6% p.a.; contribution increases of 3% p.a.; a 15-year term; 15% contribution charge and a 1% annual management charge for the PRSA; 95% allocation, 1.25% annual management charge and €3 monthly policy fee for Savings Plus; and the continuation of current expense charges, apart from the Savings Plus policy fee, which is assumed to increase at 2% p.a.

Warning: These figures are estimates only. They are not a reliable guide to the future performance of this investment. The value of your investment may go down as well as up. Benefits may be affected by changes in currency exchange rates.

The message is clear - if you have money to invest between now and retirement age, it makes sense to consider AVCs.

AVCs are **even more attractive because of the investment freedoms available at retirement**. At one time, the options for the use of funds from an AVC (after tax-free cash) were limited to the purchase of an annuity, but the introduction of Approved Retirement Funds (ARFs) has greatly increased the attractiveness of AVCs.

AVCs allow access to ARFs, which for many individuals are likely to be more attractive than annuities, as you keep control of your fund and have much greater freedom to draw down money as and when it is required.

The maximum amount of tax-free lump sums which may be paid out of pension funds has been limited to €1.35m, where existing lower limits do not apply. While lump sums in excess of this amount may still be paid, they will be subject to tax.

A tax on a deemed withdrawal from ARFs now applies. This amounts to income tax on a deemed withdrawal of 3% of the fund every 31st December.

WHY A STAND-ALONE PRSA AVC

❖ Choice

Standalone PRSA AVCs give you more choice in terms of providers and fund options.

❖ Advice

You can have your own Advisor help with the decisions required for your particular circumstances. An employer-based AVC arrangement may not provide advice or will require you to use the company's nominated Advisors.

❖ Privacy

Although the trustees of the main scheme will have to be informed of the existence of the PRSA AVC, your fund and the contribution paid will be confidential. You may be wary of your employer knowing too much about your financial situation. The introduction of Standalone PRSA AVCs gives a significant improvement in terms of confidentiality compared with an employer-based AVC arrangement.

SCOPE TO MAKE AVCs

You can make AVCs if the benefits that you will receive at retirement from your main pension scheme and any retained benefits are projected to be lower than the maximum allowed by Revenue. Generally speaking, the normal level of contributions being made into defined contribution plans mean that you can pay up to the limits shown earlier. For defined benefit arrangements the following are examples of where there will be scope for providing additional benefits.

❖ Missing Years

If you do not expect to have full service and do not expect to be in receipt of a full pension, you could use AVCs to make up part or all of the difference between a full-service benefit and the benefits based on shorter service.

❖ Overtime and Bonuses

If you have overtime earnings or bonuses that are not pensionable under the pension scheme, you could use AVCs to fund for a pension based on your total earnings including overtime and bonuses.

❖ Spouse's Pension

The amount of spouse's pension that can be provided has been increased from $\frac{2}{3}$ rds to 100% of the maximum member's pension. Typically, schemes provide a spouse's pension of 50% of the actual member's pension. This gives you more room to make AVCs.

❖ Pension Increases

Few schemes give pension increases up to the level that could potentially be provided. This can also give significant scope for making AVCs.

❖ Extra Scope for Public Service Employees

Public service employees with 40 years' service typically receive a tax-free lump sum of 150% of salary and a pension of 50% of salary at retirement. The maximum benefits allowed by Revenue are a tax-free lump sum of 150% of salary and a pension of $\frac{2}{3}$ rds of salary reduced by the tax-free lump sum divided by a commutation factor; for example, if the commutation factor were 9, the maximum pension would be $\frac{2}{3}$ rds minus $150\% / 9 = 50\%$. Revenue typically allows higher commutation factors than 9, so the maximum allowable pension is greater than 50% of salary. As well as allowing a higher pension for public service employees, Revenue also allows a higher spouse's pension than the 50% of member's pension that currently applies to these employees.

This means that if you are a public service employee you have scope to make AVCs, even if you will have 40 years' service at retirement.

For a Retirement Age of 65[†]

Age Starting AVC	Total Percentage of Salary for Maximum Benefits
25	15.3%
30	17.5%
35	20.4%
40	24.5%
45	30.7%
50	40.9%
55	61.3%
60	122.7%

[†] These figures are based on Revenue factors. They assume 0% salary and investment growth.

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BEST ADVICE

It is important to seek independent financial advice before investing in a Stand-alone PRSA AVC.