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Finance Act 2011 – Pension Opportunities

Due to the wide range of pension changes introduced in the Finance Act, clients need independent advice now more than ever to help them maximise the many opportunities that pension planning continues to provide.

Make sure that your clients hear about these opportunities from you first!



Opportunity

1. ARF option is now available to all members in Defined Contribution Company Pension plans
2. New €2.3 million target for clients to aim for
3. 69% potential top up on personal contributions



Irish Life

OPPORTUNITY 1

ARF option is now available to all Defined Contribution (DC) members

All of your DC clients are now able to access their retirement fund in one of two ways:

Option 1

Retirement lump sum of up to 150% of final salary with the balance being used to purchase an annuity (with only AVCs providing ARF options). This is based on service of at least 20 years.

Or

Option 2

Retirement lump sum of 25% of the person's fund, with the balance available to purchase an annuity, invest in an AMRF / ARF or take as taxable cash.

Why is this important for your DC clients?

- The new options can provide a bigger retirement lump sum.
- For customers who don't need a pension annuity, ARF options provide clients with more control of their fund after retirement.
- ARF plans still provide a very efficient form of inheritance planning.

The more clients top up, the bigger the benefit

Pension Fund €200,000			→	Pension Fund €600,000		
Benefits	Option 1	Option 2		Benefits	Option 1	Option 2
Lump Sum	€90,000	€50,000		Lump Sum	€90,000	€150,000
Annuity	€4,953 pa	N/A		Annuity	€22,965 pa	N/A
A(M)RF	N/A	€150,000		A(M)RF	N/A	€450,000

In this example, the client who grows their pension fund to €600,000 at retirement now has the benefit of:

1. **A bigger lump sum than before i.e. €150,000 versus €90,000**
2. **Investment control with the balance of funds in the A(M)RF i.e. €450,000**

Assumptions:

Final salary of €60,000 and 20+ years service at NRA 65

Assumed annuity rate 4.5%

How can clients take advantage of this opportunity?

- Employees can help build up their retirement pot by utilising their income tax relief allowance in respect of personal contributions
- Employers may make additional contributions for their senior / key employees

Clients with larger funds can make greater use of ARF options

OPPORTUNITY 2

New €2.3 million Standard Fund Threshold (SFT) – A limit or a target?

The Standard Fund Threshold (SFT) has been reduced from €5.4 million to €2.3 million. However, most of your clients funding potential will still be determined by their Revenue Maximum funding limit as opposed to the new €2.3 million threshold.

Looking at a typical 40 year old male currently earning €50,000 p.a. with a normal retirement age of 65

The contribution required to accumulate a fund of €2.3 million is €44,000 a year. However, the Revenue maximum contribution allowable for this client is €38,000 a year. This €38,000 annual contribution would build up a fund of €2 million which is €300,000 below the new threshold.

Therefore the new threshold has no impact on this client whatsoever.

Male Aged	SFT – Required Contribution	Revenue Maximum – Required Contribution	Revenue Maximum Fund
40	€44,000 p.a	€38,000 p.a	€2,000,000

✓ It is vital that you perform a funding review for all HNW clients.

New Retirement Lump Sum target

Clients can avail of 25% of the €2.3 million SFT as a maximum retirement lump sum

- The first €200,000 of the lump sum is tax free.
- The balance of any lump sum up to €575,000 is taxed at standard rate only, i.e. 20%.

Looking at the example above, this client would be entitled to the following lump sum:

25% of €2 million as a retirement lump sum:	€500,000
Tax free lump sum portion:	€200,000
Balance of lump sum, i.e. €300,000 less 20% tax:	€240,000
Total Retirement Lump Sum:	€440,000

✓ €60,000 tax on a lump sum of €500,000 is an effective tax rate of just 12%!

It is still far more tax effective for your clients to withdraw the maximum lump sum as opposed to withdrawing only the tax free lump sum element as any withdrawals from an ARF fund could be liable for a 52% tax charge (Income tax at 41%, Universal Social Charge at 7% and PRSI at 4%)

Ensure your HNW / Director clients are maximising their pension funding potential

OPPORTUNITY 3

69% top-up on every personal contribution

Who can benefit?

Any client who is paying income tax at the higher 41% rate.

The vast majority of your clients are probably paying income tax at the higher 41% rate (for example, the Standard Rate Cut Off Point after Budget 2011 for a single person with no dependents is now only €32,800)

The key opportunity for clients is to maximise their current income tax relief to help them build up their retirement pot.

Let's take a look at why income tax relief is so valuable for a 41% tax payer:

Client net contribution	€5,900	Total Amount Invested €10,000
Government contribution: (Assuming 41% tax relief)	€4,100	
Effective Government top-up:	69%	

Remind your clients about pension tax relief - 69% potential growth

✓ 41% relief equates to a 69% Government top-up in tax relief

A €5,900 net personal contribution from your client results in €10,000 being invested in their pension

Please contact your Irish Life Account Manager or any member of our Pension Team if you wish to discuss any of these opportunities.



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

Pensions are long term investment plans that can only be taken at retirement. Pension income in retirement is subject to income tax at your highest rate on withdrawals and will include PRSI the Universal Social Charge and any other charges or levies (tax) due at the time. The information in this leaflet is correct as of March 2011.

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