

Additional Voluntary Contributions

Guide for independent financial advisers (for brokerage use only)



Irish Life

The background is a solid blue color with a faint, stylized silhouette of a person standing with their arms raised. The silhouette is composed of several overlapping, semi-transparent blue shapes, creating a layered effect. The person's arms are raised high, and their hands are positioned near the top of the frame. The overall aesthetic is clean and modern.

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This document gives detailed information on AVC options under PRSAs and certain guidelines relating to their sale.

If your customer is a member of an occupational pension scheme at work, whether it is a defined contribution or a defined benefit scheme, they can pay AVCs into an Irish Life PRSA

Where a self-employed person or someone in a non-pensionable job has an Irish Life PRSA but moves into an occupational pension scheme, they can use that PRSA to pay AVCs. They don't have to take out a new PRSA.

What is an approved occupational pension scheme?

It is a pension scheme set up under trust for the benefit of employees, which is approved by the Revenue Commissioners. There is a trustee appointed (usually the employer) and the employer must contribute some or all of the contribution. The scheme can be defined benefit or defined contribution. It does not include a PRSA where the employer is contributing.

What is a defined contribution scheme?

Pension benefits at retirement depend on how much has been paid into the scheme. The performance of the fund(s) into which these contributions are invested is not guaranteed and fund values can go up and down. Most pension schemes are on this basis.

What is a defined benefit scheme?

Pension benefits at retirement are guaranteed and usually expressed as a percentage of final salary at retirement. For example, the nurses and teacher schemes. Most Government state pension schemes are defined benefits – they guarantee a tax-free lump sum of 120/80ths of final earnings and 40/80ths as a pension based on full service. Large financial institutions also offer defined benefits, for example 2/3rds of final salary based on 40 years service.

What if the main scheme pension already has an AVC option linked to it?

This will usually be the case. You should point out to the employee that this option may exist and if it does, then you should advise that the employee investigate it fully, checking charges, fund options etc under it.

Which type of AVC arrangement is most suitable?

It is important that the customer's attention is brought to the importance of investigating their current AVC options through their employer's scheme, in particular any options to purchase 'added years' (which may be available under a defined benefit scheme and which provide guaranteed benefits).

There are three possible options available to your customer:

1. 'Purchase of notional service' option (also referred to as 'added years' or 'buy-back')

Some defined benefit pension schemes, particularly in the public and semi-state sectors, offer the facility to allow employees buy pension benefits for years of non-membership. This option is often referred to as the 'purchase of notional service' option or 'purchase of added years' or 'buy-back' option.

- If the customer's primary objective in making additional provision for their retirement is securing retirement income, there is no better way of doing so than to avail of the facility to purchase 'notional service' or 'added years'. Any additional pension benefits will be guaranteed. It is important to note that guarantees of the type provided by the purchase of notional service cannot be secured through a separate AVC arrangement.
- If the customer's primary objective is to firstly maximise their tax-free lump-sum at retirement, or to avail of the flexibility of an Approved Retirement Fund (ARF) arrangement, than a separate AVC arrangement, either through their

employer or separately through a PRSA, may be appropriate.

2. Employer's own AVC arrangement

The customer's employer is required to establish an AVC scheme, linked to the main pension scheme at work. If this is not available, the employer must allow access to a Standard PRSA AVC. Such schemes are usually on a defined contribution basis where the pension AVC benefit at retirement is determined by what contributions are paid, the charges deducted and the performance of the fund chosen. Pension benefits are not guaranteed and could a fall and rise in value. The customer should check with their employer if they offer any such options.

The customer should ensure that they obtain information regarding the AVC options available to them through the main scheme before deciding to invest.

3. A personal AVC arrangement through a PRSA

If the customer does not wish to pay AVCs into their employer's AVC scheme arrangement, they have the option of paying AVCs into a PRSA with a PRSA Provider. This is separate to their employer's main scheme at work. Contributions are paid on a defined contribution basis, where their AVC benefit at retirement is determined by what contributions are paid, the charges deducted and the performance of the fund chosen to invest in. Pension benefits are not guaranteed and could fall and rise in value. You should be satisfied that your client needs to make additional voluntary contributions into this PRSA which is on a defined contribution basis and is not guaranteed.

Private Sector Employees AVC options on a defined contribution basis

	Paying AVCs into the main scheme at work	Paying AVCs into a Complete Solutions PRSA
Type of AVC Scheme:	<p>Most private sector defined contribution or defined benefit schemes will have an AVC scheme on a defined contribution basis.</p> <p>The extra pension benefits available through a defined contribution AVC arrangement are dependant on the contributions paid, charges of the scheme, and the fund performance.</p> <p>The value of the AVC fund can fall as well as rise.</p>	<p>This is similar to paying into a defined contribution AVC scheme, the extra pension benefits available at retirement will be dependant on the contributions made, charges and the fund performance.</p> <p>The value of the Complete Solutions PRSA fund can fall as well as rise.</p> <p>Before deciding to go the PRSA route the employee should investigate any alternative options they may have with their employer.</p>
Investment Options:	<p>The employee will usually have a choice of funds. Often the employee can choose from a limited range of funds options. In some schemes the fund choice is made by the scheme trustees.</p>	<p>The fund choice under a PRSA contract varies from provider to provider. Irish Life's Complete Solutions PRSA range offers a wide range of fund options.</p>
Associated benefits:	<p>Does the employee's main scheme AVC provide any associated benefits such as life cover?</p>	<p>Associated benefits such as life cover are not available under an Irish Life PRSA.</p>
Charges:	<p>The employee should check the charges that may apply to their main scheme AVC and compare them to the charges under the Complete Solutions PRSA.</p> <p>These charges may be lower or higher when compared against charges under a PRSA.</p>	<p>The Complete Solutions PRSA charges are outlined in the product booklet and are made up of a charge on each contribution paid and a charge on the value of the fund each year.</p>
Portability	<p>If the employee leaves their job they must stop contributions into their main scheme AVC.</p> <p>If they join a new employer who offers a company pension scheme, they will have to start a new AVC plan with that scheme.</p> <p>If they join a new employer who does not offer a company pension scheme, or if they become self employed, they will need to take out a PRSA or a personal pension plan in order to continue making pension contributions.</p>	<p>If an employee leaves their job and are contributing AVCs to a PRSA, they do not have to stop contributing. Payments can continue whether they are AVCs or 'ordinary' PRSA contributions will depend on the employee's new occupational status.</p> <p>If they join a new employer who offers a company pension scheme, the contributions to the PRSA will be deemed to be AVCs linked to the main scheme.</p> <p>If they join an employer who does not offer a company pension scheme or if they become self employed then the contributions will be classed as 'ordinary' PRSA contributions.</p>
Privacy	<p>Paying AVCs into the main scheme in work requires the employers consent and knowledge.</p>	<p>Paying AVCs into a PRSA does not require the consent or knowledge of the employer.</p> <p>However if deductions are to be made from the employee's salary then the employer's agreement would be needed.</p>

Public Sector Employees AVC options

	Purchase of Notional Service Option	Paying AVCs into the main scheme at work	Paying AVCs into a Complete Solutions PRSA
Type of AVC Scheme:	<p>Many public sector employees have the option to buy back years of service. This option to purchase guaranteed retirement benefits is very valuable.</p> <p>In general if the employee's primary goal is to secure retirement income, then there is no better way than availing of the buy back option.</p> <p>The employee should contact their employer if they require more information on this option.</p>	<p>If the employee wishes to maximise their tax free lump sum benefit, or to avail of the ARF options then a separate defined contribution AVC arrangement may be appropriate.</p> <p>The employer may have an AVC scheme in place for their employees.</p> <p>The extra pension benefits available through a defined contribution AVC arrangement are dependant on the contributions paid, charges of the scheme, and the fund performance.</p> <p>The value of the AVC fund can fall as well as rise.</p>	<p>This is similar to paying into a defined contribution AVC scheme, the extra pension benefits available at retirement will be dependant on the contributions made, charges and the fund performance.</p> <p>If the employee wishes to maximise their tax free lump sum benefit, or to avail of the ARF options then paying AVCs into a PRSA may be appropriate.</p> <p>The value of the Complete Solutions PRSA fund can fall as well as rise.</p> <p>Before deciding to go the PRSA route the employee should investigate any alternative options they may have with their employer.</p>
Investment Options:	There are no investment options, the benefit is guaranteed.	The employee will usually have a choice of funds. Often the employee can choose from a limited range of funds options. In some schemes the fund choice is made by the scheme trustees.	The fund choice under a PRSA contract varies from provider to provider. Irish Life's Complete Solutions PRSA range offers a wide range of fund options.
Are benefits guaranteed?	Yes	No	No
Associated benefits:	Does the buy back option include any associated benefits such as an increased death benefit?	Does the employee's main scheme AVC provide any associated benefits such as life cover?	Associated benefits such as life cover are not available under an Irish Life PRSA.
Charges / Costs:	The cost of buying back years of service will depend on the number of years the employee wishes to purchase as well as a number of other factors. The employee should check with their employer what the cost will be in their particular case. Public sector / semi-state sector options to buy added pension years are very good value for money.	The employee should check the charges that may apply to their main scheme AVC and compare them to the charges under the Complete Solutions PRSA. These charges may be lower or higher.	The Complete Solutions PRSA charges are outlined in the product booklet and are made up of a charge on each contribution you pay and a charge on the value of the fund each year.

Public Sector Employees AVC options (continued)

	Purchase of Notional Service Option	Paying AVCs into the main scheme at work	Paying AVCs into a Complete Solutions PRSA
Portability	If the employee leaves their job they will have to stop purchasing years service. They should check with their employer what benefits they have purchased before leaving service.	<p>If the employee leaves their job they must stop contributions into their main scheme AVC.</p> <p>If they join a new employer who offers a company pension scheme, they will have to start a new AVC plan with that scheme.</p> <p>If they join a new employer who does not offer a company pension scheme, or if they become self employed, they will need to take out a PRSA or a personal pension plan in order to continue making pension contributions.</p>	<p>If an employee leaves their job and are contributing AVCs to a PRSA, they do not have to stop contributing. Payments can continue whether they are AVCs or 'ordinary' PRSA contributions will depend on the employee's new occupational status.</p> <p>If they join a new employer who offers a company pension scheme, the contributions to the PRSA will be deemed to be AVCs linked to the main scheme.</p> <p>If they join an employer who does not offer a company pension scheme or if they become self employed then the contributions will be classed as 'ordinary' PRSA contributions.</p>
Privacy	Paying AVCs into the main scheme in work requires the employers consent and knowledge.	Paying AVCs into the main scheme in work requires the employers consent and knowledge.	<p>Paying AVCs into a PRSA does not require the consent or knowledge of the employer.</p> <p>However if deductions are to be made from the employee's salary then the employer's agreement would be needed.</p>



During the review with the employee, a copy of Irish Life's AVC guide should be given to him/her. This guide is called 'Additional Voluntary Contributions and your Complete Solutions PRSA – A guide for members of defined benefit and defined contribution Occupational Pension Schemes'. The employee will have to sign a declaration on their application form that confirms that they have received this guide and are aware of the other AVC options available to them.

Do employees have to get the permission of their employers to pay AVCs into our PRSA?

No. It is not necessary to ask the employer to sign if the employee wants to pay AVCs to Irish Life's PRSA.

When does an employer have to get involved?

- where the contributor wishes to have his AVCs deducted direct from salary and the employer agrees to facilitate this
- where you find that the employer hasn't designated and is obliged to. See questions on salary deduction below.

Do the rules of the main scheme have to change to allow for AVCs to Irish Life's PRSA?

No. It is not necessary for the rules of the main scheme to be changed in order for the employee to pay into Irish Life's PRSA. This is because Irish Life chose to sell this type of PRSA as a separate arrangement and it follows the legislation under s787A(1)(ii) of the Taxes Consolidation Act 1997 as amended. Other companies may choose to set their contracts up under a different section and the need to change the rules may apply to them.

Will the PRSA with AVCs be linked to the employee's main scheme in any way?

Yes. Irish Life must ensure that any pension benefits paid out under their PRSA are

- paid at the same time as the benefits under the main scheme and
- that maximum pension benefits are not exceeded overall and
- that the maximum AVC limits are not exceeded either.

What are maximum pension benefits allowed by Revenue?

Maximum pension benefits apply to anyone who is a member of an occupational pension scheme at work. Employers and employees cannot pay more into their scheme that could cause their fund to provide more than the maximum pension benefits outlined overleaf.

**Maximum pension benefit that can be funded for at normal retirement age
(based on at least 10 years service)**

Maximum pension at retirement	66.67% of final salary (index linked in retirement)	Employee must have 10 years service at retirement in order to retire with these benefits. If service is less, these benefits are reduced
Maximum pension for spouse on death of employee during retirement	100% of pension above (index linked)	

OR

**Maximum tax-free lump sum and reduced pension that can be funded for at normal retirement age
(based on at least 20 years service)**

Maximum tax free lump sum	150% of final salary	Employee must have at least 20 years service in order to obtain the maximum tax-free lump sum
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AND

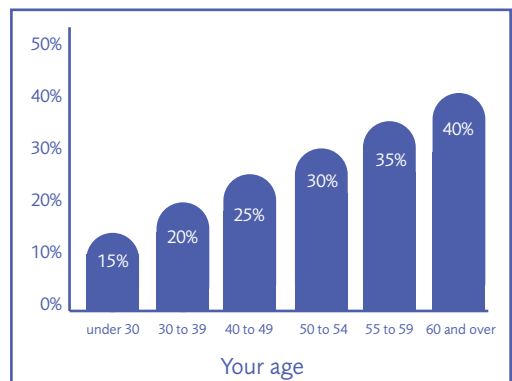
Maximum pension at retirement	Reduced pension of approximately 50% of final salary (index linked in retirement)	The reduced pension will vary depending on a conversion factor based on current annuity rates. It could be higher than 50%.
Maximum pension for spouse on death of employee during retirement	100% of reduced pension above (index linked)	

If the employee's service is less than 10 years for maximum pension or less than 20 years for maximum tax-free lump sum, the above benefits will be scaled back. Also, all other pension benefits will be taken into account. So if the employee also has other pension plans you need to take these into account

What are the maximum AVC limits?

As well as restricting pension benefits, the Revenue applies limits to the amount of AVCs a person can pay and claim tax relief. This depends on their age, salary and how the AVCs are paid. Income tax and PRSI relief is available up to the following limits:

* Earnings include defined as gross earnings, including BIK, bonuses, over-time payments in the current tax year.



These levels are correct as at June 2009

These percentages also include any contributions that the employee pays into his main scheme.

An earnings cap of €150,000 applies for tax relief purposes to the total contributions to PRSAs, Personal Pensions and employee contributions to company pension schemes (including AVCs). A cap of €275,239 applies for 2008 tax year.

For public servants the pension levy does not count towards their tax relief limit. So for example a person aged 42 can make pension contributions of up to 25% of their gross earnings and receive tax relief. That 25% limit will not be reduced by the pension levy they pay.

Can the employee pay more than the maximum AVC limits?

This depends on how the AVCs are paid.

If regular contributions are deducted directly from salary.

- The employee cannot pay more than the limits above.
- Tax relief cannot be carried forward or backdated

If regular contributions are taken from the employee's bank account or if the employee pays a one-off single contribution

- The employee can pay in excess of the limits above but won't get tax relief on the excess paid that year. They may be able to backdate contributions to the previous tax year if they

are still in the same employment.

- Tax relief may be carried forward on the over-payment to the following year or years.
- The employee can pay more where the earnings are higher than €150,000 (June 2009) but will not get relief on the excess that year. Excess paid may be carried forward to following years.

If the employee is claiming tax relief in future years, they generally must still be in the same job.

You should also refer the employee to their tax adviser, as this is Irish Life's general understanding of current tax treatment.

When will we check that maximum pension benefits and AVC limits are not exceeded?

Irish Life has an obligation to do this:

- before the contract starts,
- if the contribution increases over the term of the plan (not due to indexation),
- if the contributor moves from one main scheme to another,
- if there is a significant decrease in salary;
- when we pay out retirement benefits.

How are these checks done?

Maximum benefit checks

Irish Life will carry out these checks before the PRSA plan is issued. We will require detailed information on the employee's existing pension benefits, not only in their main scheme but any

other pension plan they may have paid into over the years. Where the employee's main scheme is a defined benefit scheme we will need a copy of their most recent pension benefit statement, before we can run this check. We would suggest that you familiarise yourself with maximum benefits so that you have an idea whether there is any danger of this being exceeded.

Maximum AVC limit check

It is advisable to do a quick check when the contribution has been decided on. Irish Life will do an exact check before the case is issued.

How does the employee claim tax-relief?

- If AVCs are deducted from salary directly, before tax, then income tax and PRSI relief is immediate.
- If AVCs are paid by lump sum or regularly by direct debit from the employee's own bank account, Irish Life will issue a tax certificate to the employee to submit to their Inspector of Taxes. Their tax credits will be adjusted for income tax relief. They will have to apply separately for PRSI relief to the Collector General's Office, Sarsfield House, Francis Street, Limerick.

Is there any obligation on the contributor to tell us if they move jobs?

Yes.

1. If a contributor is a member of a main scheme and is paying AVCs, they must notify us if they
 - (a) they leave the scheme
 - (b) their salary decreases
 - (c) join another scheme
2. If the contributor is not a member of main scheme when they take out a PRSA but subsequently joins a main pension scheme at work, they must notify us of this. We will need the details of their main scheme in order to run a funding check. Their contributions automatically become AVCs on this move. A new tax relief certificate will be required so the sooner they tell us the better.

You should advise the employee to tell us as soon as they leave their scheme or join a new one.

Why should contributors notify us that they have left their scheme?

- They may want to stop their contributions altogether.
- They may need to change to direct debit.
- They may need a different type of tax certificate to claim relief.
- They may move to another employer who has an occupational pension scheme and the employer details will be different if they pay salary deduction again.

If they leave their scheme and they continue to contribute, their AVCs become ordinary contributions if they become self-employed or join an employer who doesn't have a scheme.

We cannot refund contributions paid so the customer is obliged to give us clear instructions about future contributions. You should re-iterate this point to your customers.

Can refunds be made to the contributor if they do not tell us to stop contributions on leaving a scheme?

No. We cannot refund contributions paid at any stage under a PRSA and this includes payments made into the PRSA while a member of a main scheme or not. Contributions deducted in error by us after we are told to stop can be refunded. This is an important message to get across to contributors.

Can an employer pay into a PRSA while the contributor is paying AVCs?

No. While a contributor is paying AVCs into our PRSAs, we won't accept employer contributions into it.

Can AVCs be deducted directly from the employee's salary under a PRSA?

Yes, if employer agrees. See next question. It will work the same way for normal PRSAs where the employer agrees to contribute. A payroll deduction form is required.

Are employers obliged to allow AVC payroll deductions under an Irish Life PRSA?

This depends on whether the employer already offers an AVC option.

You need to check the following:

Does the employer allow the employee to pay AVCs into a main scheme?

- If yes, then the employer doesn't have to agree to deduct AVCs direct from salary through PRSAs
- If no, then you should find out if they have a designated PRSA Provider (see next question)

Has the employer designated a PRSA Provider that offers AVCs through a PRSA?

- If yes and if this Provider is Irish Life, then the employer must agree to deduct AVCs directly from salary to an Irish Life standard PRSA.
- If yes and if this Provider is not Irish Life, the employer only has to deduct AVCs directly from salary to a standard PRSA with the other PRSA Provider.

Comparison between salary deduction and paying by direct debit

	AVCs paid via salary deduction	AVCs paid by direct debit from personal bank account	AVCs as once-off lump sum payments
Employee income tax relief	Immediate	Employee must send tax certificate to their Inspector of Taxes to re-adjust credits for income tax relief	Employee must send tax certificate to their Inspector of Taxes to re-adjust credits for income tax relief
Employee PRSI relief	Immediate	The employee must apply separately for this after the end of the relevant tax year. They apply to the Customer Services Section, Office of the Collector General, Sarsfield House, Francis Street, Limerick	The employee must apply separately for this after the end of the relevant tax year. They apply to the Customer Services Section, Office of the Collector General, Sarsfield House, Francis Street, Limerick
Employer PRSI relief on employee's contribution	Yes	No	No
Can AVCs exceed tax relief limits?	No	Yes, relief on excess can be rolled forward.	Yes, relief on excess can be rolled forward
Does employer have to be involved?	Yes. Employer is required to complete a Payroll Deduction Authority form and direct debit.	No	No
What happens if employee leaves?	AVCs via payroll will have to be stopped. Client should tell us. New method of payment should be arranged either by direct debit from the employee's bank account or payroll deduction with new employer	Contributions can continue but they are no longer AVCs if they haven't joined another main scheme with their new employer. They should notify Irish Life regarding (i) date when employee actually leaves main scheme (ii) details of new job	Not relevant for lump sums
Is backdating of relief allowed?	No	Depends on whether the employee has already claimed (any) relief in that year. If no relief claimed and there has been no change of employer, then relief can be backdated.	Depends on whether the employee has already claimed (any) relief in that year. If no relief claimed and there has been no change of employer, then relief can be backdated.

Can life-cover benefits be added?

No. Life-cover cannot be added to an Irish Life PRSA at any stage (regardless of whether the payments are 'ordinary' contributions or AVCs). A company pension term assurance is the only option here where the employer must pay some or all of the contribution.

What about existing Irish Life PRSAs?

AVC options are open to all Irish Life PRSAs. If you have a customer who is paying 'ordinary contributions' into an Irish Life PRSA and they subsequently become a member of an occupational pension scheme, they can use their PRSA to pay AVCs under the main scheme (if eligible). The method of payment should be reviewed.

When will Irish Life pay out the benefits under the PRSA?

Irish Life will pay benefits at the same time as the main scheme, if the employee is still working and a member of that scheme at retirement.

If the employee is not working at the date of his retirement, the type of contribution he last paid into the PRSA determines how the 'pot' will be treated. If it was an AVC, the whole PRSA fund will be linked to the main scheme (see below). If it was an 'ordinary' contribution, the whole PRSA fund will be treated as normal.

How will we pay the benefits?

On a claim, we will check whether the employee is still a member of a pension scheme when he decides to take benefits under his PRSA.

If he is still a member at retirement:

- We will check that he is taking his main scheme benefits at the same time as his PRSA benefits.
- We will then do a maximum benefit check to ensure that maximum benefits allowed by Revenue are not exceeded.
- We will check what percentage of his salary is being paid as a tax-free lump sum from the main scheme and pay any shortfall. For example, his main scheme pension will give him 100% of his final salary. The maximum allowed at normal retirement is 150% (assuming 20 years service completed). Irish Life will pay 50% of his final salary as a tax-free lump sum, if there is enough in his fund.
- We will then pay out the remaining fund (if any) based on his options:
 - (i) Pension or
 - (ii) Leave his PRSA as is and draw down within it or
 - (iii) Move funds to an ARF or
 - (iv) Take funds as taxable cash.

Please note points (ii), (iii) and (iv) above are subject to the AMRF requirement.

If he is not a member of his scheme at retirement:

- We have to identify the type of contribution last paid into the PRSA before retirement.
- If it was paid whilst a member of the main scheme, we treat his benefits as if he was still a member (see above)
- If he paid an ordinary contribution since leaving the main scheme, but before retirement, we will treat the benefits as a normal PRSA. We will not do a maximum funding check and will not link PRSA benefits to main scheme. Normal PRSA benefits are:
 - 25% of the fund as a tax-free lump sum and with the remaining fund offer the following:
 - (i) Pension or
 - (ii) Leave his PRSA as is and draw down within it or
 - (iii) Move funds to an ARF or
 - (iv) Take funds as taxable cash.

Please note points (ii), (iii) and (iv) above are subject to the AMRF requirement.

We will always pay benefits in line with legislation and Revenue Guidance and this could change over time. You should highlight this to your customer.

Who should I talk to for more information?

If you have any additional queries, contact your Irish Life Broker Account Manager.

notes:

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**We offer investment,
protection, pension and
savings products.**

Contact us

Phone: 01 704 1010

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10am - 6pm Friday

9am - 1pm Saturday

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