

**FINANCIAL  
BROKER**  
Financial Planning & Guidance

# A Guide to Approved Retirement Funds

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Creating your success through  
Financial Planning



# A Guide to Approved Retirement Funds

## Contents

I'm approaching retirement, what are my financial options?	02
What is a Financial Broker?	03
Why would I need to use a Financial Broker?	03
What is an ARF?	05
What is an AMRF?	05
What retirement arrangements are eligible for the ARF option?	06
How do I decide where to invest my ARF?	08
How your Financial Broker can help you with this choice	09
What are the withdrawal options for ARFs?	09
What are the withdrawal options for AMRFs?	10
What are the advantages and disadvantages of an ARF?	11
What are the main differences between an ARF and an annuity?	14
What happens to my ARF when I die?	15

## I'm approaching retirement, what are my financial options?

The months leading up to your retirement are a busy time as you make plans to secure your financial future. One of the most important decisions you will make during this time is what to do with your retirement fund once you retire.

You have a number of options. You will usually be able to take part of your retirement fund as a lump sum; some, or all of this lump sum, may be taken tax-free. Then, provided you meet certain criteria, you can use the remainder of your retirement fund in the following ways:

- Buy an annuity – a regular guaranteed income for the rest of your life
- Re-invest it in an Approved Retirement Fund (ARF) and/or an Approved Minimum Retirement Fund (AMRF)
- Take as a taxable cash lump sum subject to PAYE

Any decision you make at this time can have far-reaching implications on the quality of your retirement. It is advisable to seek out impartial advice from an expert, a Financial Broker, who can guide you on the best choice for you based on your personal circumstances, financial goals and your attitude to and capacity for investment risk.



### Pensions

Any decision you make at this time can have far-reaching implications on the quality of your retirement

## What is a Financial Broker?

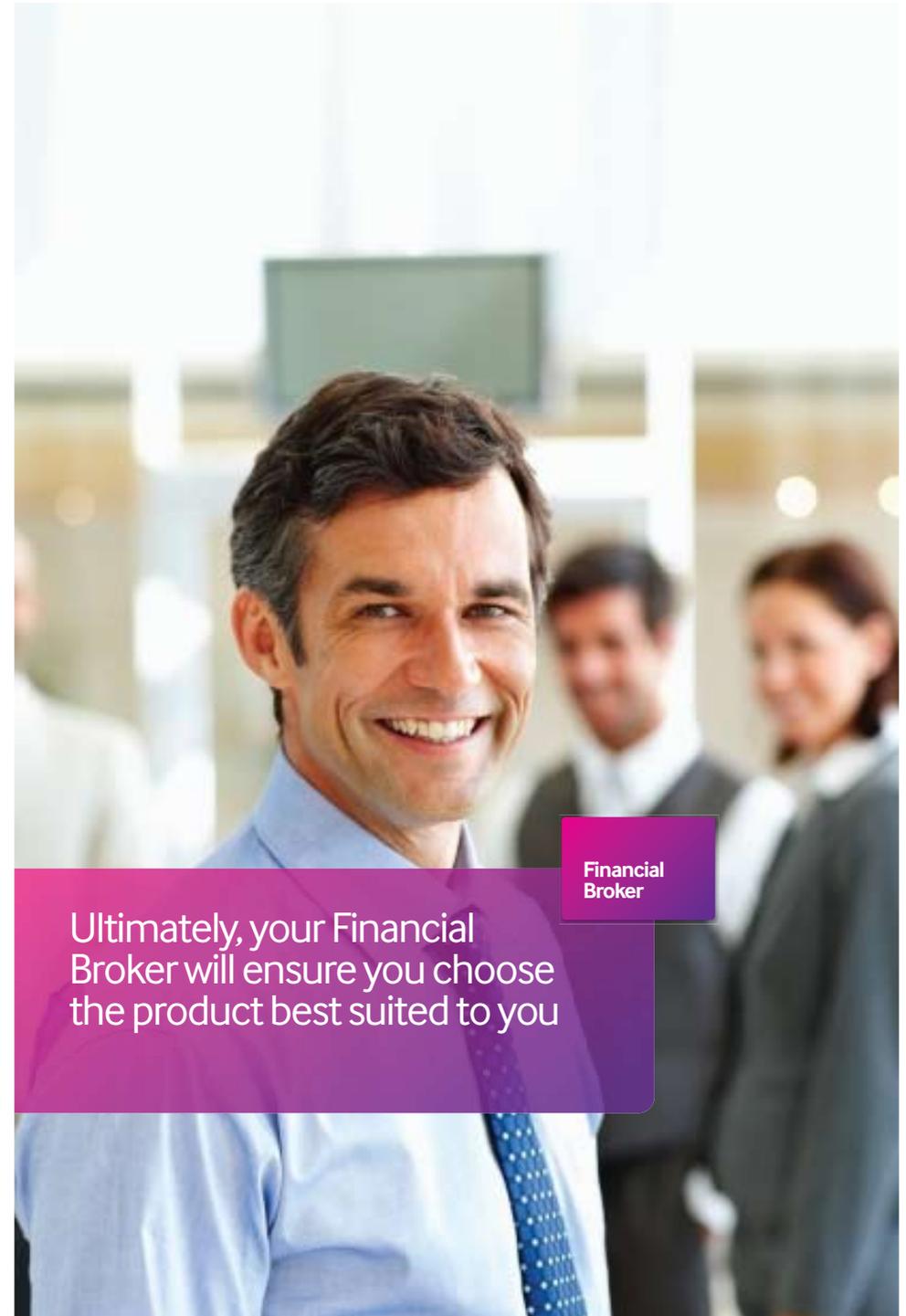
A Financial Broker is an expert in financial matters who works with you to understand your financial goals and helps you create a plan to meet those goals. In helping you to prepare for your retirement, your Financial Broker will research your options including annuities, ARFs and AMRFs that meet your needs from the range of companies they deal with, providing you with a “fair analysis” of the market.

## Why would I need to use a Financial Broker?

Choosing the right option for your retirement can be a daunting task. Your Financial Broker will be able to explain the choices available to you in simple language allowing you to make an informed decision.

Your Financial Broker will get to know you, your personal and financial circumstances, retirement plans and your attitude to and capacity for risk – products like ARFs for example, contain a certain level of risk that you need to be aware of.

Your Financial Broker will guide you through the process of setting up your ARF or annuity and help you to make sense of charges, tax obligations and rates. They will advise and assist you in developing a well researched and structured investment strategy for your ARF that is compatible with your attitude to and capacity for risk and is designed to achieve your goals as far as possible. Ultimately, your Financial Broker will ensure you choose the product best suited to you.



Financial  
Broker

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the product best suited to you

## What is an ARF?

An ARF is a flexible investment fund that you own personally and can manage and control during retirement. With an ARF you can invest the balance of your retirement fund, after you have taken your lump sum at retirement, in a wide range of different investment funds. You can also make withdrawals from your ARF as you need to (you must withdraw a minimum of 5% of your fund each year from the year you first reach 61). And because you own your fund, you can leave the balance to your dependants when you die.

Before you invest in an ARF, you must meet one of the following conditions:

- You must be in receipt of a guaranteed pension income payable for life of at least €12,700 a year.
- You must already have invested at least €63,500 of your retirement funds in an AMRF or in the purchase of an annuity.

## What is an AMRF?

An AMRF is similar to an ARF, but with three key differences:

- The maximum you can invest in an AMRF is €63,500 and you can only have one AMRF at any time.
- Up to age 75, you cannot make any withdrawal from the capital invested in the AMRF – you can only withdraw from accumulated investment income and gains.
- You are not required to withdraw at least 5% per year from your AMRF, even if you are aged 61 or over in that year.

As soon as you reach the age of 75 or earlier if you can prove you are in receipt of a guaranteed annual pension of at least €12,700 per year payable for life, your AMRF converts automatically into an ARF.

## What retirement arrangements are eligible for the ARF option?

Your Financial Broker will advise you about the types of retirement arrangement from which funds can be transferred to an ARF and/or AMRF at retirement. The eligible arrangements are:

- Personal Retirement Savings Accounts (PRSAs).
- Personal Pension Plans.
- Employer defined contribution occupational pension schemes, whose rules provide the ARF option to retirees. (The option does not apply to Defined Benefit (DB) arrangements.)
- Buy-Out Bonds, where the bond was funded by a transfer value from a defined contribution occupational pension scheme whose rules provided the ARF option to the member at the date of transfer.
- Existing ARFs – you can transfer from one ARF to another.
- AVCs (additional voluntary contributions) and PRSA AVCs.

## How do I decide where to invest my ARF?

Because you may be relying on your ARF as an important source of income in retirement, it's vital that you invest it wisely. There are many options available to you, from low and high risk funds investing in particular types of assets, to managed or mixed funds investing in a spread of assets and self-directed funds where you choose the funds or assets in which you invest. The ARF you decide to invest in should offer you a diversified range of investment options that can meet your changing circumstances over time.

Any choice you make should be based on the level of investment risk you are comfortable with and should take into account your financial circumstances and goals. It is important to understand that the value of your ARF can fall as well as rise, depending on which funds or assets you invest in.

By choosing lower risk investments, your aim may be to protect your initial investment from large capital losses. However a low risk investment approach runs a higher risk, in the longer term, of your ARF fund running out of capital, due to the requirement to withdraw at least 5% per year from the age of 61. If your ARF is not growing by at least 5% per year while you are drawing down this regular amount from it, its capital value will fall and eventually, in the longer run, it could run out of money.

Higher risk investments offer the prospect of higher returns to fund the minimum 5% per year withdrawal, preserving the long term capital value of your ARF. However with higher risk investments, your fund could be open to large capital losses from time to time when investment markets fall.

Your Financial Broker will work with you to find the appropriate balance between funding withdrawals at 5% per year, your longer term requirement to preserve your ARF capital for yourself and dependants and your attitude to and capacity for investment risk.



Valuable  
Advice

Because you may be relying on your ARF as an important source of income in retirement, it's vital that you invest it wisely

## How your Financial Broker can help you with this choice

Your Financial Broker will get to know you, your financial needs, attitudes to and capacity for investment risk and ultimate goals. They will guide you through the basic elements of investing – risk and return, diversification and your own attitude to and capacity for risk – and ensure you understand what's at stake.

With help from your Financial Broker you can create a diversified range of investments within your ARF. This means you can spread your money in a way that suits your needs and is in line with your risk and return expectations.

## What are the withdrawal options for ARFs?

You will be able to take regular and occasional withdrawals from your ARF at any time. However, if you are aged 61 or over in a year, you are required to withdraw a minimum of 5% of your fund from that year (or 6% if the total value of your ARFs and Vested PRSAs is more than €2,000,000). Most ARF product providers will pay the minimum withdrawal out to you if you are aged 61 or over in that year, unless you request otherwise.

It's important to note that regular withdrawals may not be payable for life: the value of your fund can fall as well as rise and the withdrawals you take could reduce your fund quicker than expected if investment market conditions are poor. It is possible that your ARF fund could run out of capital, and hence regular income, before you die.

A withdrawal from an ARF will be subject to income tax, PRSI (up to age 66) and the Universal Social Charge (USC).

## What are the withdrawal options for AMRFs?

Withdrawals from an AMRF will be limited to the amount by which the original sum invested has grown in value. You cannot withdraw any of the original money you invested either until you can prove that you are in receipt of a guaranteed pension income of €12,700 a year or until your 75th birthday, at which point your AMRF becomes an ARF. Your AMRF will not be subject to the minimum withdrawal rules of an ARF.

**In making withdrawals from your ARF, you should remember the following points:**

- Making regular withdrawals may reduce the value of your ARF, especially if investment returns are poor or you choose a high rate of withdrawal.
- Regular withdrawals over a long period of time could use up all of your ARF before you die, if your ARF grows at a slower rate than the rate of withdrawal.
- The higher the level of regular withdrawals you make, the higher the chances are that you will use up your ARF in your lifetime.
- If your ARF fund will provide your only, or main, source of income after you retire, you should consider investing some or all of it in an annuity in order to have a guaranteed income for life.

Your Financial Broker will be able to advise you about the impact your withdrawals could have on the value of your ARF.

# What are the advantages and disadvantages of an ARF?

With any financial product, there are pros and cons. We've listed below the main advantages and disadvantages of an ARF, all of which your Financial Broker will be able to explain to you in more detail.

## Advantages

- You are in control of your retirement fund. This could be a key factor if you are in poor health or you want to leave the balance of your fund to your dependants after you die.
- You decide when and at what rate you draw on your ARF in retirement (subject to a minimum 5% per year withdrawal from the age of 61).
- You choose how to invest your ARF based on the type of investments that suit your financial needs and attitude to and capacity for investment risk, and to meet the minimum withdrawal when it applies.
- Any investment growth achieved on your ARF is tax-free; however, withdrawals from your ARF are taxable.
- If you decide that you need a secure, regular income your ARF can be used to buy an annuity at a later date. By waiting, you may be able to get a higher annuity rate for the same lump sum, as you will be older.
- Annuity rates are at historically low levels currently, so ARFs will enable you to defer the purchase if you believe rates will improve in the future.

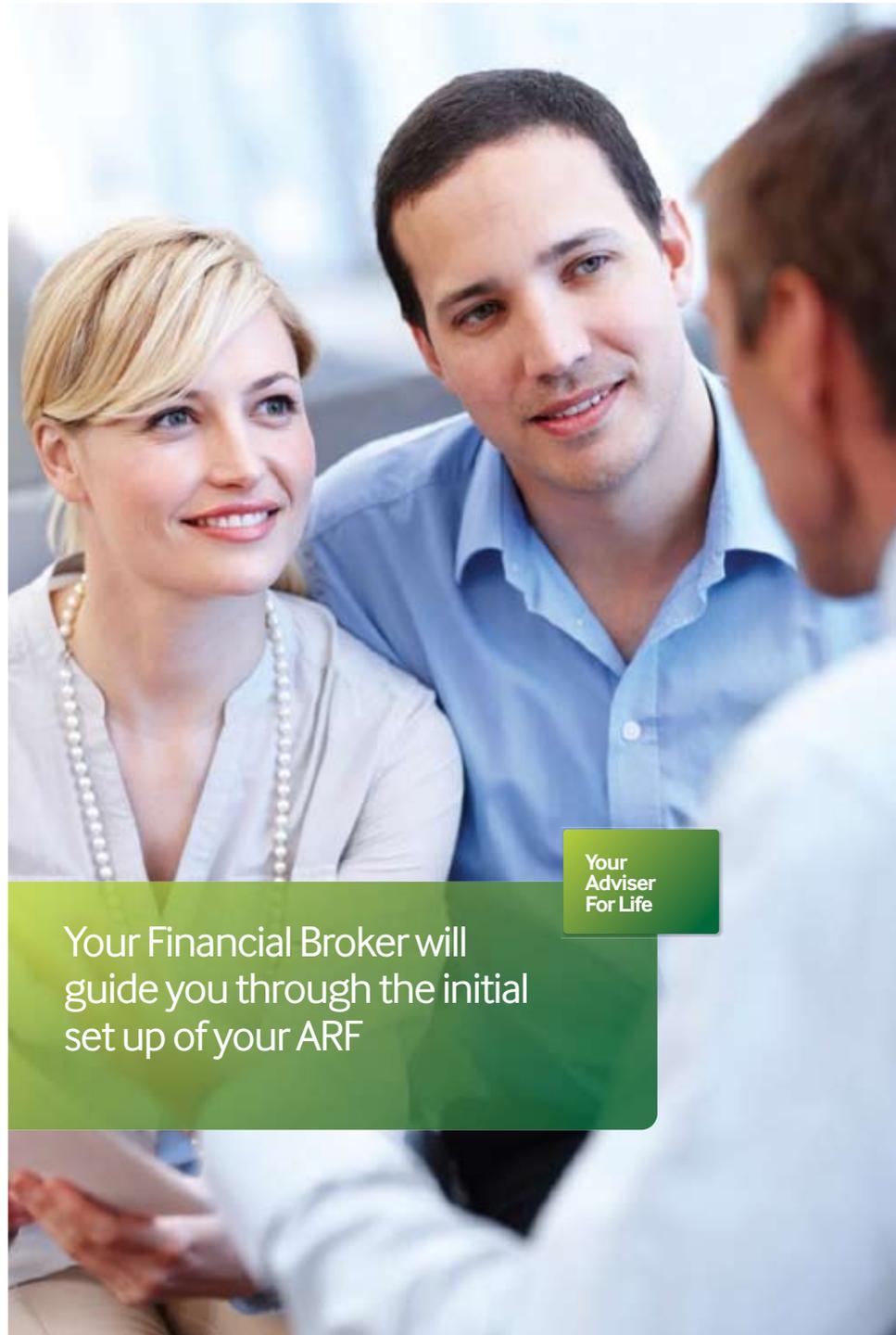


You are in control of your retirement fund

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## Disadvantages

- There is no guarantee that your ARF will keep its value; the assets in which your ARF invests may not perform as well as expected and could fall in value.
- Your ARF could run out in your lifetime. This could happen for a number of reasons: you take income from your ARF at too high a rate, your ARF's investment return is less than expected, and/or you live longer than expected.
- Some ARFs have high on-going charges which reduce the value of your fund.
- If you do decide to use your ARF to buy an annuity later on, there is no guarantee you will be able to get a higher annuity rate than available today.
- You may have to pay for any ongoing investment advice about your ARF.



Your  
Adviser  
For Life

Your Financial Broker will  
guide you through the initial  
set up of your ARF

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

The key differences between an ARF and an annuity are flexibility and risk. An annuity converts the money in your retirement fund into a guaranteed taxable income payable for your lifetime, fixed on the date you buy the annuity. However on death, there may be little or no return for your dependants.

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 the minimum withdrawal once you are aged 61 or over. It does not provide any guaranteed income but any balance in your ARF on death is payable to your dependants.

### **Annuity**

An annuity offers an income guaranteed payable for life.

There is no flexibility and no ability to make changes to your annual income, once you purchase the annuity.

You are locked into a set annuity rate fixed on the date of investment, with no potential for growth.

Income stops when you and your partner (if you have a joint life annuity) die; there is likely to be little or no payment to your dependants on death.

### **ARF**

Your fund could run out during your lifetime, leaving you with no regular income. Your ARF does not provide a guaranteed income for life unless it invests in an annuity.

You can decide how much money you withdraw each year. (You must normally withdraw a minimum of 5% of your fund annually if you are aged 61 or more during the year.)

Your fund can be invested into suitable assets, which means you can benefit from potential growth in that investment. However, it is also possible that the value of your fund could drop, depending on your investment options.

You can leave any remaining funds (subject to tax) to your dependants when you die.

# What happens to my ARF when I die?

With an ARF, because you own your retirement fund, you are able to leave the funds to your spouse, civil partner, and/or other beneficiaries when you die.

If you leave your ARF funds to your spouse or civil partner, they can transfer the funds to an ARF in their own name and will not have to pay any income tax or capital acquisitions tax (CAT) on the transfer. Subsequent withdrawals from their ARF will be liable to income tax, PRSI (up to age 66) and USC.

However, if you leave your ARF funds to anyone else, they may have to pay income tax or CAT, depending on who they are and their circumstances. The tables below outline the tax rules that currently apply to your ARF when you die.

**Table 1: Summary of the tax rules which currently apply to post-death transfers from your ARF or AMRF set up with the proceeds of your own retirement fund.**

Your ARF or AMRF inherited by	Income tax	Capital Acquisitions Tax
Transfer to an ARF in the name of your surviving spouse or civil partner	No. PAYE is due on any future withdrawals made by the surviving spouse or civil partner from their own ARF.	No
Directly by your surviving spouse or civil partner, i.e. not transferred to an ARF	Yes. Subject to PAYE and treated as your taxable income in your year of death.	No
Your children (if 21 or over)	Yes. At a fixed rate of 30%	No
Your children (if under 21)	No.	Yes. CAT at 33% applies to any part of the inheritance over the child's available tax-free threshold amount (currently a maximum of €225,000).
Any other person	Yes. Subject to PAYE and treated as your taxable income in your year of death.	Yes. CAT at 33% applies to any part of the net inheritance over the beneficiary's available tax-free threshold amount.

**Table 2: Summary of the tax rules which currently apply to post-death transfers from a 'second ARF', i.e. an ARF set up on your death by your surviving spouse or registered civil partner.**

ARF or AMRF inherited by	Income tax	Capital Acquisitions Tax
Children (if under 21) of the deceased ARF owner	No.	Yes. CAT at 33% applies to any part of the inheritance over the child's available tax-free threshold amount (currently a maximum of €225,000).
Children (if 21 or over) of the deceased ARF owner	Yes. At a fixed rate of 30%	No.
All others	Yes. At a fixed rate of 30%	Yes, if being inherited by someone other than your spouse or civil partner.  For beneficiaries other than your surviving spouse or civil partner, CAT at 33% applies to any part of the net inheritance over the beneficiary's available tax-free threshold amount.

These rules can change from year to year. Your Financial Broker will inform you of any changes to these rules, and will explain how any changes may impact you and your beneficiaries.

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Contact your Financial Broker for more information on the following products:

- A guide to Approved Retirement Funds
- A guide to Annuities
- A guide to Buy Out Bonds
- A guide to Personal Savings Plans
- A guide to Executive Pensions
- A guide to Personal Retirement Savings Accounts (PRSAs)
- A guide to Life Assurance
- A guide to Income Protection
- A guide to Serious Illness Cover
- A guide to Savings & Investments

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