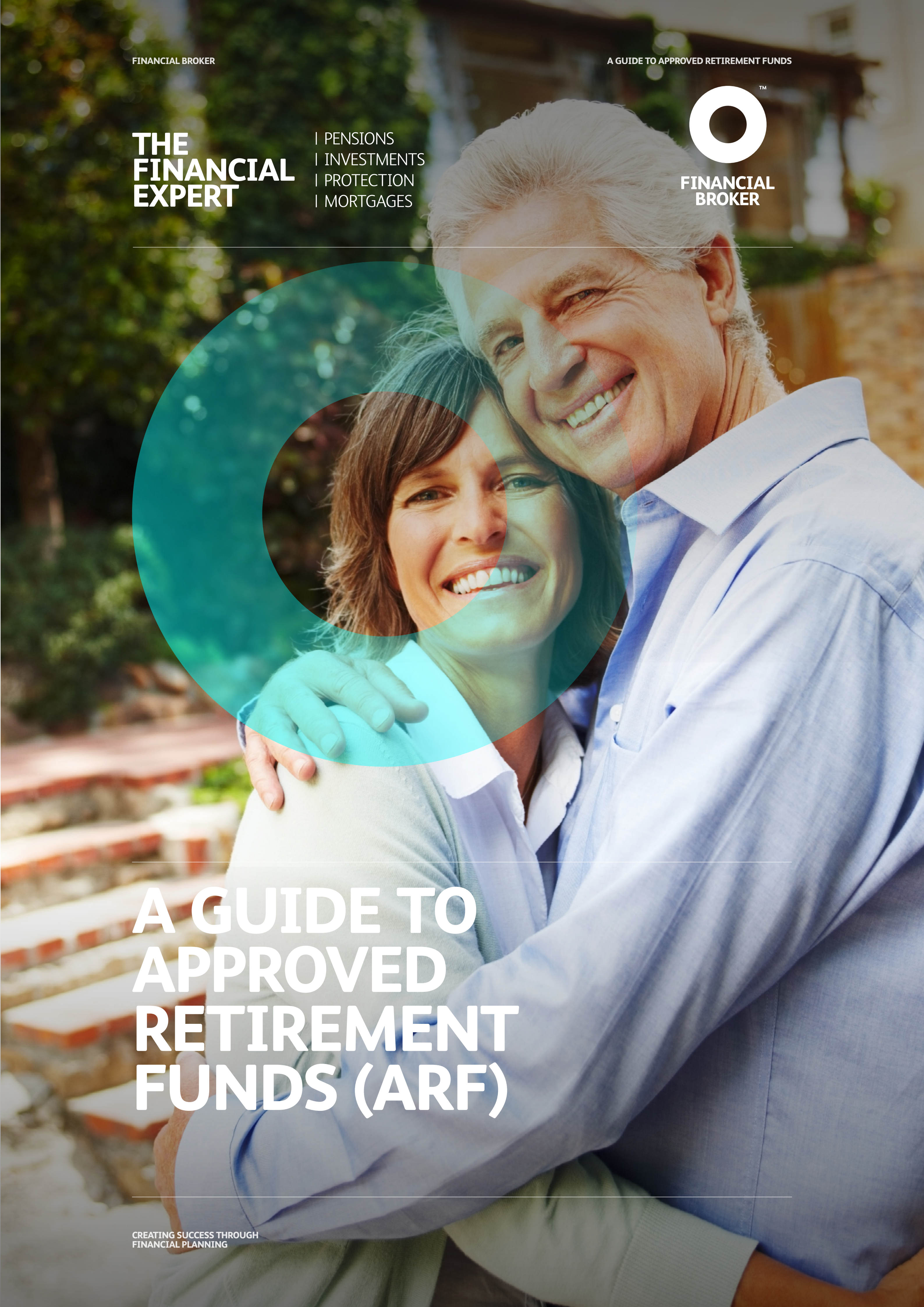

THE FINANCIAL EXPERT

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FINANCIAL BROKER™

A GUIDE TO APPROVED RETIREMENT FUNDS (ARF)

CREATING SUCCESS THROUGH FINANCIAL PLANNING

CONTENTS

ANY DECISION YOU MAKE AT THIS TIME CAN HAVE FAR-REACHING IMPLICATIONS ON THE QUALITY OF YOUR RETIREMENT

I'M APPROACHING RETIREMENT, WHAT ARE MY FINANCIAL OPTIONS?

As you approach your retirement, one of the most important decisions you will make during this time is what to do with your retirement fund once you retire.

Lump Sum

You have a number of options available to you. 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.

Balance of your Fund

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.
- Invest it in an Approved Retirement Fund (ARF)
- Take as a taxable cash lump sum.

Any decision you make at this time can have far-reaching implications on the quality of your retirement. The length of time that you will need an income in retirement is increasing all the time with statistics from the Central Statistics Office projecting that a 65-year-old man may live until age 83, with women living until age 86.

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.

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 and ARFs 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 also fully discuss your attitude to sustainable investment and can help you select an investment strategy that matches your preferences in this important area.

Your Financial Broker will guide you through the pros and cons of purchasing an annuity or investing in an ARF and will help you to make sense of the charges, tax obligations and rates of each option. Where you have decided on the ARF option, they can advise and assist you in developing a well-researched and structured investment strategy for your ARF. They will ensure that the strategy is compatible with your attitude to and capacity for risk, your sustainable investment preferences 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.

Brokers Ireland 2023 Value of Advice research report illustrates that financial advice through a Financial Broker, benefits consumers in terms of better outcomes in financial protection; higher return in savings/ investments; improved pension provision and more self-assured financial confidence and well-being.

Within the report, 80% of those who use financial advice own a pension, compared to 35% who did not seek financial advice. The average pension pot is valued at €130,525 for those who sought financial advice by comparison to €84,230 who did not seek financial advice.

The report highlights the benefits and value Financial Brokers offer in helping clients make informed decisions to achieve their long-term financial and lifestyle goals.

ULTIMATELY, YOUR FINANCIAL BROKER WILL ENSURE YOU CHOOSE THE PRODUCT BEST SUITED TO YOU

WHAT IS AN ARF?

An Approved Retirement Fund gives you the opportunity to invest and manage your retirement fund when you retire rather than purchasing an annuity.

An ARF is a flexible investment fund that you own personally and can manage and control during retirement. After taking your retirement lump sum, you can invest the balance of your retirement fund, in a wide range of different investment funds to suit you based on your personal circumstances, financial goals, sustainable investment preferences and your attitude to and capacity for investment risk.

Withdrawals

You must withdraw a minimum of

a. 4% of your ARF fund each year from the year you first reach age 61.

b. 5% of your ARF fund from the year you reach age 71.

c. 6% of your ARF fund if it's worth more than €2m

You can also make other withdrawals from your ARF as you need to, to pay for a holiday, change your car or whatever you decide.

Withdrawals are subject to income tax and USC. PRSI is also payable on any withdrawals that you take up to age 66.

Inheritance

A key advantage of an ARF is that because you own your ARF fund, you can leave the balance to your dependents when you die. The tax treatment of your ARF on death is set out on page 18.

WHO CAN INVEST IN AN ARF?

The ARF contract was first introduced in 1999 as an alternative to purchasing an annuity.

Originally made available for 20% directors and the self-employed, over the years the ARF option has been extended to most pension arrangements as follows:

- Personal Retirement Savings Accounts (PRSAs).
- Personal Pension Plans (sometimes referred to as a Retirement Annuity Contract (RAC).
- Employer Defined Contribution Occupational Pension Schemes, whose rules provide the ARF option to retirees.
- Personal Retirement Bonds (PRBs), sometimes referred to as Buy-Out Bonds, where the bond was funded by a transfer value from a defined contribution or a defined benefit occupational pension scheme.
- Existing ARFs – you can transfer from one ARF to another.
- AVCs (additional voluntary contributions) and PRSA AVCs.
- Pan-European Personal Pension.

You can also invest in an ARF:

- If you are in receipt of a Pension Adjustment Order
- If you are a spouse/civil partner of a deceased ARF owner

WHO CAN INVEST IN AN ARF?

Defined Contribution Schemes

If you are a member of a Defined Contribution Scheme, you will have two options at retirement regarding the lump sum that you can receive.

a. You can receive a lump sum calculated based on your Final Salary and the number of years you have worked with the company, up to a maximum of 1.5 times your Final Salary. If you chose this option, then you must purchase an annuity with the balance of your retirement fund and you are not able to invest in an ARF, apart from any AVCs that you have paid into the scheme, which can be invested in an ARF.

b. If you opt to take a lump sum of 25% of your accumulated retirement fund then you can either invest the balance in an ARF, purchase an annuity or take as a taxable lump sum.

Defined Benefit Schemes

If you are a member of a Defined Benefit Scheme, you cannot avail of the ARF option unless you own more than 5% of the shares in the company, or you transfer the value of your pension to a PRB, a PRSA or a Defined Contribution Scheme that you are a member of. If you have paid Additional Voluntary Contributions (AVCs), the AVCs can be invested in an ARF.

It is vital that you obtain expert advice from a Financial Broker if you are considering taking a transfer from a Defined Benefit Scheme.

PRSAs

If you have been saving for your retirement in a PRSA, you can take a lump sum of 25% of the accumulated fund when you retire. You can then either transfer the balance of your fund to an ARF or leave the balance of the fund invested in your PRSA – known as a Vested PRSA.

A Vested PRSA works just like an ARF in terms of withdrawals that you must/ can make and what happens your Vested PRSA on your death.

Advice
Your Financial Broker will be able to advise you in relation to your particular pension product, what lump sum you can take and the different options that are available to you with the balance of your fund

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 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 is 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. There are also 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 and also take account of your preferences to sustainable investment.

Investment Risk

The ARF that you select should take into account the level of investment risk you are comfortable with and 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.

Lower risk investments aim to protect your initial investment from large capital losses. However, a low-risk investment approach runs a risk, of falling in value and in the long run could run out of money if the growth achieved, after charges does not match or exceed the minimum withdrawals that you have to make each year.

Higher risk investments offer the prospect of higher returns to fund the minimum yearly withdrawal amount and preserving the long-term capital value of your ARF. However, higher risk investments involve a greater degree of volatility and, your ARF could suffer large capital losses from time to time when investment markets fall.

Your Financial Broker will work with you to find the right balance between the need to meet the required withdrawals from your ARF, the long-term objective to preserve the capital value of your ARF and your attitude to and capacity for investment risk.

Ongoing Advice

The financial support and advice from your Financial Broker will continue after your ARF has been set up and they will review how your ARF is performing on an ongoing basis.

Your ARF investment is flexible and it is possible to

a. switch your ARF between different funds,
b. to transfer your ARF to a different ARF provider or
c. to use part or all of your ARF to purchase an annuity.

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.

WITHDRAWALS FROM YOUR ARF*

As outlined on page 8, you are required - from the year you reach 61 to withdraw a minimum of 4% of your fund each year and this will increase to 5% from the year you reach 71. If the total value of your ARF is more than €2m then you are required to withdraw a minimum of 6%.

Apart from these required withdrawals, you are free to withdraw any amount from your ARF as you decide.

It's important to note that 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).

**It is possible for you not to take the required withdrawals from your ARF as outlined above. However, if you do not make the withdrawal, you will be taxed as if you had made the withdrawal and taxed again when you do make a withdrawal at a future date.*

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

- Making regular withdrawals may reduce the value of your ARF, especially if 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, after charges grows at a slower rate than the withdrawals that you are taking.

If the withdrawals from 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	Disadvantages
• 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 dependents after you die.	• Your ARF could run out in your lifetime. This could happen for a number of reasons: a. you take income from your ARF at too high a rate, b. your ARF's investment return is less than expected, and/ or c. you live longer than expected.
• You decide when and at what rate you take withdrawals from your ARF in retirement (subject to the minimum withdrawals of 4%/5%/6% per year from the age of 61).	• Some ARF funds have high on-going charges which reduce the value of your fund
• Any investment growth achieved on your ARF is tax-free; however, withdrawals from your ARF are subject to tax, USC and PRSI (up to age 66).	• 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.
• If you decide that you need a secure, regular income you can use part or all of your ARF to buy an annuity at any stage. By waiting, you may be able to get a higher annuity rate for the same lump sum, as you will be older.	• You may have to pay for any ongoing investment advice about your ARF.

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 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 dependents.

An ARF allows you to preserve, manage and control your retirement fund. You can invest your ARF into suitable assets and decide how much 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 can be inherited by your dependents.

Annuity	ARF
• An annuity offers a guaranteed income, payable for life.	• Your fund could run out during your lifetime, leaving you with no regular income.
• There is no flexibility and no ability to make changes to your annual income, once you purchase the annuity.	• Your ARF does not provide a guaranteed income for life although you can use some or all of the ARF to purchase an annuity at any stage.
• You are locked into a set income amount on the date you purchase the annuity. with no potential for growth.	• You can decide how much money you withdraw each year over and above the minimum withdrawal amounts from age 61.
• Unless you purchase an annuity that will increase during payment, inflation will erode the purchasing power of your annuity over time.	• You can benefit from potential tax-free growth if the funds that your ARF is invested in perform well.
• 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 dependents on death.	• However, it is also possible that the value of your ARF could fall in value, depending on your investment options.

WHAT HAPPENS TO MY ARF WHEN I DIE?

With an ARF, because you own your retirement fund, you are able to leave the remaining value of your ARF 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 the value of your ARF is inherited by your spouse or civil partner, as a lump sum or you leave your ARF funds to anyone else, they will have to pay income tax and/or CAT, depending on who they are and their relationship to you.

The tables below outline the tax rules that currently apply to your ARF when you die.

Your ARF inherited by	Income tax	Capital Acquisitions Tax
Directly by your surviving spouse or civil partner, i.e. not transferred to an ARF in their name	Yes. Subject to PAYE and treated as your taxable income in your year of death.	No
Your children (if 21 or over)	Yes, Taxed 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
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.

WHAT HAPPENS TO MY ARF WHEN I DIE?

If your spouse or civil partner transfers the value of your ARF into their own name on your death and subsequently dies, the table below sets out the tax that will become payable.

Your ARF inherited by	Income tax	Capital Acquisitions Tax
Spouse or Civil partner	No.	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.
All others	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.

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 on 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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