

# Annuities - A Brief Guide



An Bord Pinsean -  
**The Pensions Board**

Authority for Pensions



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**The Pensions Board**

Authority for Pensions

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The Pensions Board has prepared this booklet to help people understand what annuities are, how they work and what options are available. We have made every effort to ensure that it is correct, however, no liability whatsoever is accepted by the Pensions Board, its servants or agents for any errors or omissions in the information contained in this booklet or for any loss occasioned to any person acting or refraining from acting as a result of any statement in this booklet.

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## 1. Introduction

Annuities affect a great many people including pension scheme members, the self-employed, pension scheme trustees, holders of *Personal Retirement Savings Accounts (PRSAs)* and employers. The purchase of an annuity may be one of the most important financial transactions in the life of an individual – certainly it is one with very long term consequences. It is therefore important to understand how annuities work and the various options that may be available in the open annuity market.

### **The Issue of Choice**

When the time comes to purchase an annuity, many pension arrangements, particularly those that invest in insurance contracts, allow an “open market option”. This means that whoever is purchasing the annuity has a choice of going to any insurance company operating in the market, regardless of where the pension fund itself was invested. The purchaser may be an individual (for instance, a self-employed person) or a group of people (such as the *trustees* of a pension scheme).

Whoever is buying the annuity, it is important that they understand how the annuity market works, the meaning of the various options that may be open, the effects of pension scheme rules and the legal framework surrounding pensions. This understanding will help them to secure an annuity that most suits the needs of the person who is retiring.

### **National Pensions Policy Initiative**

In its report on the National Pensions Policy Initiative, the Pensions Board made various recommendations as to how retirement income might be secured in the future, as an alternative to the purchase of annuities. Changes were implemented in the Finance Act 1999 for the self-employed and for proprietary directors and in the Finance Act 2000 for members of Occupational Pension Plans with *Additional Voluntary Contributions (AVCs)* . However, this booklet's main purpose is to deal with the legal and other requirements as they stand at present (September 2007) and as they affect members of *occupational pension schemes*, since buying an annuity will always remain an option.

## 2. Frequently Asked Questions

### **What is an Annuity?**

The term “annuity” means a series of payments made at stated intervals until a particular event occurs. In this booklet we discuss annuities which are purchased to provide a level of pension for an individual’s lifetime. Usually, an annuity ends with the death of the holder but can be designed to be paid during the lives of more than one person. It is normally purchased by payment of a single premium to an insurance company. An annuity that is to come into payment immediately after it is bought is known as an “immediate annuity”.

### **Is an Annuity the same as a Retirement Annuity Contract?**

No. A *Retirement Annuity Contract (RAC)* is mainly designed for the self-employed and for those who are not in pensionable employment. The benefits secured are available in the form of a capital sum. This is paid partly in cash to the holder of the *RAC*. The balance may be used to buy an annuity, although other options are also available.

### **Must an Annuity be bought when I retire?**

If you are a member of a large *defined benefit scheme*, it is quite possible that an annuity will not be bought. The decision to secure your benefits by buying an annuity is an investment decision for the *trustees* of the scheme.

If you are a member of a *defined contribution scheme*, or have an *RAC*, using the proceeds to buy an annuity is expected to provide a guaranteed income for life. However, the additional option of investing in an *Approved Retirement Fund (ARF)* may be available to self-employed people, proprietary directors, and holders of *PRSAs*. In addition, members of occupational pension plans may have the option of investing their *AVCs* in an *ARF*.

**Must an Annuity be bought from an Insurance Company?**

Yes. Under European regulations, an annuity is classed as life assurance and can only be sold by licensed life assurance companies.

**Who buys an Annuity?**

An annuity bought with the proceeds of an *occupational pension scheme* is bought by the *trustees* of that scheme. A person who has a *RAC* or a *PRSA* is the purchaser of an annuity bought with the proceeds of such contracts.

**Are pension scheme death benefits used to purchase Annuities?**

Any part of a death benefit under an *occupational pension scheme* which cannot be paid as a cash sum must be used to provide a pension for one or more of the dependants or beneficiaries of the deceased scheme member.

An annuity might be purchased by the *trustees* to provide such pensions.

**Is it possible to buy an Annuity with my own money?**

Yes. An annuity bought with your own non-pension fund money is called a "Purchased Life Annuity". This is usually bought by someone who wishes to guarantee a certain level of income for as long as they live.

**When an Annuity is bought, does it cease to be paid when I die?**

That depends on the terms chosen by the purchaser. It is possible to buy an annuity that is paid simply for your own lifetime. It is possible to incorporate a minimum guaranteed period of payment, so that the annuity continues to be payable for a fixed period, whether you live or die. Should you survive longer than the fixed period, the annuity would continue to be paid. It is also possible to buy an annuity which

continues to be paid to a dependant after your death. These variations are illustrated on page 18. The conditions of an annuity policy bought by the *trustees* of an *occupational pension scheme* must reflect the rules of that scheme.

**When an Annuity is bought, is the amount fixed for my lifetime?**

Not necessarily. Again this depends on the terms chosen by the purchaser. You can buy an annuity which is payable as a level amount throughout your lifetime, or one which increases during payment at a fixed percentage (see Examples 1 & 2 on page 18) or one which includes some inflation protection.

**Do I have any say in the kind of Annuity that is bought?**

If you are a member of a *defined contribution pension scheme* or you are using a *RAC*, a *PRSA* or *AVCs*, you will generally have a choice as to what features are incorporated in your own annuity contract. Thus, you will be able to decide for how long the annuity payments will be guaranteed, whether they revert to a dependant after your death, whether they remain level or increase during payment. The important thing to remember is that each different variation has a cost attached and this means that your own personal pension will change, according to the options that you select. Examples of how these different options can affect the value of a pension are illustrated in the examples on page 18.

**Do I have a say where my Annuity is bought?**

If you are the holder of a *RAC* or a *PRSA*, you may choose the insurance company from which the annuity is bought. If your annuity is being bought from an *occupational pension scheme*, the responsibility is solely with the *trustees* in a *defined benefits scheme*. Remember, the cost to the scheme of buying the annuity will not affect your benefit

- that is promised. In a *defined contribution scheme* and for AVCs, the *trustees* may very well consult you on the choice of annuity provider. However, you have to remember that the eventual responsibility for buying the annuity remains with the *trustees*.

### **What influences the decision to use a particular Insurance Company?**

Generally, the *trustees* will be looking for the best value for money that they can get - the rate that is available on the date your annuity is bought will remain in place for life. However, the *trustees* must also take other considerations into account, such as the standard of service that you can expect from an insurance company, as you will expect your pension to be paid on time.

### **How often will my Annuity be paid?**

Annuities are generally paid monthly. At the time the annuity is purchased from the insurance company, the commencement date and frequency of payment of an annuity will be agreed by you or your pension scheme trustees with the insurance company concerned. The details of the annuity purchased should reflect any rules of your occupational pension scheme that specify the type of pension to be provided. It is possible, particularly where the amounts involved are small, to arrange for an annuity to be paid less frequently than monthly for example quarterly, half-yearly or even annually.

### **What form do Annuity payments take?**

The most common method of paying annuities is to your own bank account by direct lodgement. Some insurers will if requested, pay by cheque, posted to your home on a monthly basis. Annuities are typically not paid in cash.

### **Are Annuities subject to tax?**

If an annuity results from your membership of an *occupational pension scheme*, then the annuity payments are subject to the normal tax deductions under the PAYE system. However, you do not pay full *PRSI* on your pension, but only Class K contributions which are currently at the rate of 2%. Since the Finance Act 2001, annuities bought by the self-employed are charged on the same basis i.e. tax under Schedule E under the PAYE system and Class K contributions which are currently at a rate of 2%.

If you have bought a “purchased life annuity” (i.e. with your own money) part of each instalment will be paid tax free. The remainder will be taxed at the standard rate of tax. If your tax rate is higher than the standard rate, you will have to pay the difference. Likewise, if you have an overpayment of tax at the year end, you will be able to recover any amount overpaid.

### **What is the tax position if I go abroad to live?**

Generally, it is possible for the *trustees* or administrators of a pension scheme to get permission to pay an annuity to a person living overseas without deducting Irish tax. This depends on where you are living, and whether there is a double taxation agreement in force between that country and Ireland. You should make enquiries when the annuity is being set up, or when you decide to leave Ireland, if that is later.

### **My pension savings policy has a “Guaranteed Annuity Option”**

#### **What is that?**

In the past, it was quite common for pension savings policies, particularly “with-profits” ones, to guarantee the annuity rates at which the pension savings could be applied to buy a pension at retirement. When interest rates are very low, some of these

guarantees will be extremely attractive. Before you, or your pension scheme *trustees*, come to any conclusions as to where a pension will be bought, it is advisable to check the wording of each policy document, to see if there are any guarantees attaching in terms of annuity rates. If there are, it might be best to leave the benefits exactly where they are and purchase the pension from the holding insurance company. This is an area in which professional advice should be obtained.

### **What happens to the balance of the purchase money if I die soon after the Annuity commences?**

Once an annuity is bought, the purchase price is always retained by the insurance company. This does not have to mean that nothing at all is paid to your surviving relatives or dependants. Annuities can be arranged to include a minimum guaranteed payment period. They can also be arranged on a “joint life” basis, which means that payments would continue to be made to another person after your death. These options are explained in more detail in Section 5 – “Dealing with Death”.

### **What is a Deferred Annuity?**

A deferred annuity is the name given to an insurance policy where the payments to the policyholder (the pension) do not start until some date in the future, usually the policyholder’s retirement date. The most common use for a deferred annuity policy was to secure a *preserved or deferred benefit* for an individual who had left the service of an employer, or in a case where a pension scheme was being wound up. This type of policy is effectively no longer available in the Irish insurance market, although many policies that were set up in the past are still in existence.

### **What is an Impaired Life Annuity?**

There is a limited market in this type of annuity. If an individual is not in normal health for a person of their age and sex, some insurance companies may be prepared to offer a better annuity rate, simply because there is the possibility that they might not have to pay out the annuity for the “average” expected lifetime. If you are not in perfect health at the time your annuity is being bought, it is advisable to have this option investigated.

### **Where I have a choice, is an Annuity good value?**

There is no simple answer to this question. At its most obvious, if you live for a very long time after buying an annuity, the payments, which are guaranteed for your lifetime, will represent very good value. If you buy an annuity when interest rates are very low, you will receive payment based on these low interest rates for life. Therefore, if interest rates rise after you buy the annuity, you may see it as poor value for money compared to what might then be available. If your main priority is to make sure that some of the capital passes to your surviving spouse or children on your death, an annuity will not be the best way to achieve this. It is very important, if you have a choice whether to buy an annuity or not, that you get very detailed advice based on your own circumstances and priorities before you make a decision.

### **What are the alternatives to buying an Annuity?**

For members of *defined contribution occupational pension schemes*, the first use of their retirement benefit may be to provide a tax free lump sum. They may also choose, subject to certain financial restrictions, to invest the portion of their fund that relates to AVCs in an ARF.

An *ARF* is a tax-free investment held in your own name and managed by the provider. A wide range of investment options exists. Any monies drawn from the fund, either capital drawdown or as income are fully taxable. The funds in the *ARF* belong to the individual and form part of the person's estate.

Members of *defined benefit occupational pension schemes* may have a choice of using their *AVCs* to provide a tax free lump sum, invest in an *ARF*, subject to certain financial restrictions or buy an annuity, depending on the rules of the scheme.

The value of funds in a *RAC* or a *PRSA* may be partly taken as a tax free lump sum. The balance may be used to invest in an *ARF*, subject to certain financial restrictions or to buy an annuity.

Investment in an *ARF*, or the availability of a taxable lump sum, is subject to a specified income condition. If you are not entitled to a specified income of €12,700 a year, which can include your State Pension, then you must set aside an amount of €63,500 to buy an annuity or else invest it in an *AMRF*. The test as to whether an individual has specified income of €12,700 must be applied at the point of retirement, and before any of the scheme funds have been used.

You should consider taking advice when considering your retirement options, especially where you are considering investing in an *ARF* or *AMRF*. In practice with an *ARF/AMRF* you may be giving up a guaranteed income for your life and replacing it with an investment policy which, if you draw a regular income from it, could run out of money before your death.

### 3. How Annuities Work

Annuities are purchased to provide a level of pension for an individual's lifetime. The decision to purchase an annuity may be made by (i) An individual with a *RAC* or a *PRSA* or (ii) The *trustees* of an *occupational pension scheme*.

The individual or the *trustees* shop around to get the best conditions they can. They then pay the quoted purchase price from the relevant contact or trust to the chosen insurance company to secure the annuity payments. Where an individual buys an annuity, the insurance company will pay the annuity directly to the pensioner and deal with the tax on their behalf. Where *trustees* buy the annuity, in some cases, the actual instalments of the annuity will be paid by the insurance company to the *trustees*, who will then deal with the PAYE tax liability on it. In other cases, the *trustees* may, with the agreement of the Revenue Commissioners, ask the insurance company to pay the annuity directly to the pensioner and deal with the tax on their behalf.

#### **The Annuity Quotation**

In buying an annuity, *trustees* obtain quotations from different insurance companies. In order to obtain the quotation, the *trustees* of the pension scheme will give the insurance company details of the scheme member – date of birth, amount of pension required, and so on. If there is to be a pension payable to a dependant after the death of the pensioner, details of the dependant must also be given at that time. The rates on offer from the different companies vary from one life office to another and may change from day to day. When a quotation is given by a life office, however, it is usually guaranteed for a set period – 7 or 14 days being the most common. If you are offered an annuity rate which has a guarantee, you must accept the quotation within the set period of 7 – 14 days, otherwise it lapses and the whole procedure has to be gone through again.

## 4. Types and Features of Annuities

Below are explanations for various types and features of annuities:

**Single Life Annuity:** This means an annuity payable on the life of one individual. It comes into payment as soon as it is purchased, and payment ceases when the holder dies.

**Joint Life Annuity:** This is an annuity which depends on more than one life. The most common Joint Life annuity is one where a continuing pension is paid to a surviving spouse or other named beneficiary following the death of the pensioner. Joint Life annuities can be set up as level annuities (i.e., the same amount payable to each person); more commonly, they are set up on the basis that a reduced benefit would be paid to a surviving spouse or dependant. The person to receive the continuing payment after the death of the main pensioner must be identified when the annuity is being bought. If that person does not outlive the pensioner, nothing more is payable.

**Guaranteed Period:** Annuities arising from pension schemes usually include a minimum guaranteed period of payment. The most common guarantee period is 5 years, but periods of up to 10 years may be selected. The guarantee means that the annuity will be paid for the selected period, whether the individual lives or dies, and for his or her lifetime after that. If the period of guarantee is 5 years or less and the annuitant dies within this period the Revenue Commissioners permit the remaining instalments to be cashed in and paid to the estate of the annuitant as a discounted lump sum. If the guarantee period is more than 5 years, and the annuitant dies, the outstanding instalments must be paid as a continuing pension to the dependant survivors for the remainder of the guaranteed period. Payment of any survivor's pension would commence at the end of the guaranteed period.

**Overlap:** Sometimes a pension is set up on the basis that there is a minimum guaranteed period of payment, but that the pension payable to the surviving spouse or dependant will begin immediately on the member's death, and not after the guaranteed period. This is known as "overlap". Under Revenue rules, this can happen only if the guaranteed period of payment of the main pension is 5 years or less. If it is any longer than 5 years, the survivor's pension may not be paid until the instalments of the guarantee have finished.

**Escalation:** Annuities can be bought on the basis that the amounts payable will remain level throughout the whole period of payment. Alternatively, they can incorporate increases (i.e., escalation) at an agreed rate. This might be a fixed rate of, say, 3% compound each year, or it might be a rate which is subject to a "cap" depending on the behaviour of the Consumer Price Index.

## 5. Dealing With Death

When a person retires, an annuity purchased for him or her is intended to be paid throughout the lifetime of the pensioner. If the pensioner dies prematurely, what can be done to protect surviving dependants?

Briefly, there are two options:

1. To incorporate a minimum guaranteed period of payment in the contract for the annuity.
2. To set up an annuity on a “joint life” basis.

See Section 3 – Terminology.

### **Guarantees**

Generally, for a pension being set up on retirement, it is usual to put in a minimum guaranteed period of payment. The most common guaranteed period is 5 years, but a guarantee of up to 10 years is allowed. The length of the guaranteed period will affect the overall cost of the annuity.

### **Joint Life Annuities**

This is really the best way of ensuring that an income will continue to be available for a dependant after the death of a pensioner. There is a cost factor involved – and the actual cost will depend upon the age and sex of the dependant, compared to the age and sex of the pensioner. The younger the surviving dependant, the more expensive the joint life option will be. In general, life expectancy for women is higher than that of men of the same age.

**Widow/Widower's Pensions – Death-In-Service**

If a pension is set up following the death of a pension scheme member in the service of the employer, the Revenue Commissioners generally do not allow any guaranteed period to be attached to the pension being set up for the surviving spouse. However, this rule does not apply in some cases. For example, if there are dependent children, they may permit the pension to be continued until the youngest child ceases to be dependent. These are technical matters to be dealt with by pension scheme *trustees*.

## 6. Examples

The examples which follow have been prepared to illustrate the differences that can arise between annuities with different features. Two main sets of examples have been taken - a male pensioner aged 65, with a female dependant aged 62; and a female pensioner aged 60 with a male dependant aged 62.

For ease of comparison, the purchase price available in every case has been taken as €50,000.

Example A in each case is a simple annuity, with no minimum guarantee of payment, no increases during payment and no attaching spouse's pension. The other examples then give different variations so that it is possible to see the impact of each feature that has been incorporated, in terms of a reduction of the main annuity. Thus, if the male pensioner chose a simple annuity with no guarantee he would receive €3,458 a year (Example A). By choosing a 5 year guarantee, he reduces this to €3,431 (Example B).

Example C shows, by adding in regular increases of 3% per annum, he reduces it further to €2,484 a year.

Examples D, E and F show the effect of adding in spouse's pensions payable on death after retirement at the rate of 50% of the scheme member's own pension.

**It is important to remember that these figures are given for the purpose of illustration only. Although they are based on annuity rates actually available at the end September 2007, there is absolutely no guarantee that similar rates would be available in the event of an actual purchase in the future.**

**Example 1 – Male main life**

|   | <b>Main annuity</b> | <b>Guarantee</b> | <b>3% increase</b> | <b>Spouse's pension</b> | <b>3% Increase on Spouse's Pension</b> | <b>“Overlap” (see page x)</b> |
|---|---------------------|------------------|--------------------|-------------------------|--|-------------------------------|
| A | €3,458              | No               | No                 | No                      | -                                      | -                             |
| B | €3,431              | 5 Years          | No                 | No                      | -                                      | -                             |
| C | €2,484              | 5 Years          | Yes                | No                      | -                                      | -                             |
| D | €3,014              | No               | No                 | 50%                     | No                                     | No                            |
| E | €2,993              | 5 Years          | No                 | 50%                     | No                                     | Yes                           |
| F | €2,052              | No               | Yes                | 50%                     | Yes                                    | No                            |

**Example 2 – Female main life**

|   | <b>Main annuity</b> | <b>Guarantee</b> | <b>3% increase</b> | <b>Spouse's pension</b> | <b>3% Increase on Spouse's Pension</b> | <b>“Overlap” (see page x)</b> |
|---|---------------------|------------------|--------------------|-------------------------|--|-------------------------------|
| A | €2,768              | No               | No                 | No                      | -                                      | -                             |
| B | €2,763              | 5 Years          | No                 | No                      | -                                      | -                             |
| C | €1,799              | 5 Years          | Yes                | No                      | -                                      | -                             |
| D | €2,664              | No               | No                 | 50%                     | No                                     | No                            |
| E | €2,659              | 5 Years          | No                 | 50%                     | No                                     | Yes                           |
| F | €1,711              | No               | Yes                | 50%                     | Yes                                    | No                            |

The following chart gives a summary of the objectives an individual might have in determining the type of annuity to be chosen:

### What do you want to achieve?

| Objective   | Level Guaranteed Annuity | Guaranteed Annuity with Future Increases | Index Linked Annuity | With-Profit Annuity | Investment Linked Annuity |
|---|--------------------------|--|----------------------|---------------------|---------------------------|
| Securing a guaranteed income for life   | X                        | X  | X                    | X                   | X                         |
| Securing a guaranteed income for your spouse when you have died                       | X*                       | X*                                       | X*                   | X*                  | X*                        |
| Providing protection from future price increases                                      |                          | X  |                      | X                   | X                         |
| Providing full inflation protection   |                          |  | X                    |                     |                           |
| Providing access to potential growth with limited stock market volatility             |                          |  |                      | X                   |                           |
| Providing access to potential growth, recognising the risk of stock market volatility |                          |  |                      |                     | X                         |

\* *provided spouse's pension included*

## 7. The Pensions Board

The Pensions Board was established by the Minister for Social Welfare under the terms of the Pensions Act, 1990, as amended. Its main functions as set out in the Act are:

- to monitor and supervise the operation of the Act and pension developments generally, including the activities of PRSA (*Personal Retirement Savings Account*) providers, the provision of PRSA products and the operation of PRSAs;
- to issue guidelines or Guidance Notes on the duties and responsibilities of *trustees* of schemes and Codes of Practice on specific aspects of their responsibilities;
- to issue guidelines or Guidance Notes on the duties and responsibilities of PRSA providers in relation to PRSA products;
- to encourage the provision of appropriate training for *trustees* of schemes, and to advise the Minister on standards for *trustees*;
- to advise the Minister on all matters in relation to the Act and on pension matters generally.

*Occupational pension schemes* must register with the Board, and most schemes must pay an annual fee to meet the Board's administrative costs. The Board can act on behalf of pension scheme members who are concerned about their scheme; it can investigate the operation of pension schemes; it has the power to prosecute for breaches of the Act and to take court action against *trustees* for the protection of members and their rights.

In relation to PRSAs, the Board and the Revenue Commissioners are jointly responsible for the approval of PRSA products in order to provide for the protection of PRSA contributors and the need for effective supervision of the production, marketing and sale of such

products. The Board can collect fees on an annual basis from *PRSA* providers to defray the costs of the supervision of this function; it can act on behalf of *PRSA* contributors who have concerns about their *PRSAs*; it can investigate the state of a *PRSA* product, the *PRSA* provider in respect of its *PRSA* activities and employers in relation to statutory requirements of the Act; it has the power to initiate prosecutions for breaches of the Act.

The Pensions Board includes representatives of trade unions, employers, Government, pension scheme *trustees*, the pensions industry, consumer interests, pensioner interests and various professional groups involved with *occupational pension schemes* and *PRSAs*.

## 8. Further Information

The following booklets are also available free of charge from the Pensions Board:

- **So You're a Pension Scheme Trustee?**  
A brief guide to the duties and responsibilities of *trustees* of *occupational pension schemes*.
- **Is My Pension Secure?\***  
A guide to the protections provided by the Pensions Act.
- **Selecting Member Trustees**  
A guide to the participation by members in the selection of *occupational pension scheme trustees*.
- **What Do You Know About Your Pension Scheme?\***  
An overview of the information which *trustees* of *occupational pension schemes* must give.
- **The Pensions Board\***  
An introduction to the Board, its functions and its membership.
- **What Happens to My Pension if I Leave?**  
A guide to the preservation and transfer of benefits for early leavers under the Pensions Act.
- **What Happens When Your Pension Scheme is Wound Up or a Merger/Acquisition Takes Place?**  
A guide to *trustees* and pension scheme members on the winding up of a pension scheme and on the effects of mergers/acquisitions on pension schemes.

- **A Brief Guide to the Pension Provisions of the Family Law Acts**  
Guidance on the pension provisions of the Family Law Act, 1995 and the Family Law (Divorce) Act, 1996.
- **A Brief Guide to Integration\***  
Guidance on the integration of *occupational pension scheme* benefits with the benefits payable under the Social Welfare system.
- **Women and Pensions**  
A guide on pension provisions for women.
- **Pensions (Amendment) Act, 2002**  
Frequently Asked Questions.
- **Personal Retirement Savings Accounts (PRSAs)**  
Employers' Obligations.
- **Personal Retirement Savings Accounts (PRSAs)**  
A Consumer Guide
- **What are my Pension Options?**  
The types of pension plans people can use to save for retirement

*\*Also available in Irish*

## 9. Useful Addresses

### **The Department of Social and Family Affairs**

Pension Services Office

College Road

Sligo

Tel: 071 9169800

LoCall: 1890 500 000

Web: [www.welfare.ie](http://www.welfare.ie)

### **The Pensions Board**

Verschoyle House

28/30 Lower Mount Street

Dublin 2

Tel: 01 613 1900 Fax: 01 631 8602

Web: [www.pensionsboard.ie](http://www.pensionsboard.ie)

e-mail: [pb@pensionsboard.ie](mailto:pb@pensionsboard.ie)

### **Irish Financial Services Regulatory Authority (IFSRA)**

PO Box 9138

College Green

Dublin 2

Tel: 01 410 4876

LoCall: 1890 777 777

Web: [www.ifsra.ie](http://www.ifsra.ie)

e-mail: [consumerinfo@ifsra.ie](mailto:consumerinfo@ifsra.ie)

### **Office of The Pensions Ombudsman**

36 Upper Mount Street

Dublin 2

Tel: 01 647 1650 Fax: 01 676 9572

Web: [www.pensionsombudsman.ie](http://www.pensionsombudsman.ie)

### **The Insurance Ombudsman of Ireland**

32 Upper Merrion Street

Dublin 2

Tel: 01 662 0899 Fax: 01 662 0890

Web: [www.ombudsmaninsurance.ie](http://www.ombudsmaninsurance.ie)

e-mail: [enquiries@ombudsmaninsurance.ie](mailto:enquiries@ombudsmaninsurance.ie)

[ombudsmaninsurance.ie](http://www.ombudsmaninsurance.ie)

### **Financial Services (Pensions) Business**

Inspector of Taxes

Shelbourne House

Shelbourne Road

Dublin 2

Tel: 01 631 8920 Fax: 01 631 8927

Web: [www.revenue.ie](http://www.revenue.ie)

## 10. Glossary of Terms

### **Additional Voluntary Contributions (AVCs)**

*Additional contributions* paid by a member of an *occupational pension scheme* in order to secure benefits over and above those set out in the rules of the scheme.

### **Annuity**

The term “annuity” means a series of payments made at stated intervals until a particular event occurs. Usually, an annuity ends with the death of the holder but can be designed to be paid during the lives of more than one person. It is normally secured by payment of a single premium to an insurance company. An annuity that is to come into payment immediately after it is bought is known as an “immediate annuity”.

### **Approved Retirement Fund (ARF)**

An *ARF* is an investment contract for the proceeds of any *AVCs*, or in the case of a 5% Director or *RAC* holder other retirement benefits that are not taken in the form of a lump sum or pension on retirement. Certain qualifying conditions must be met to be eligible to take out an *ARF*. Money is invested with a “Qualifying Fund Manager” (which includes banks, building societies and insurance companies) and may be invested in any manner you wish and will accumulate tax-free. Income tax is payable on any money you withdraw from the fund.

### **Approved Minimum Retirement Fund (AMRF)**

An *AMRF* is like an *ARF* except that you cannot withdraw your original investment until you are aged 75. You can only withdraw the investment income in the meantime.

### **Buy Out Bond**

A single premium Pension Plan effected by the *trustees* of an *occupational pension scheme* in the name of a member who is leaving that scheme, in lieu of providing deferred retirement benefits under the scheme for that member.

### **Deferred Benefit**

If you leave an *occupational pension scheme* before *normal retirement age* having completed the vesting period but do not have entitlement to an immediate pension, then you are entitled to a *deferred benefit*. This is the benefit to which you are entitled from normal retirement age based on service completed to date of exit in a *defined benefit scheme*, or on the accumulation of employee and employer contributions in a *defined contribution scheme*.

### **Defined Benefit Scheme (also known as “final salary” scheme)**

*Defined benefit schemes* provide members with retirement and death benefits based on formulae set out in the rules of the scheme. Benefits are often based on a members’ salary close to retirement and on his or her pensionable service. For this reason these schemes are sometimes known as “final salary” schemes.

Many *defined benefit schemes* are “integrated” with the State pension. This means that they provide a level of benefit that makes an allowance for the State pension.

### **Defined Contribution Scheme (also known as “money purchase” scheme)**

*Defined contribution schemes* provide benefits by using the value of the member’s individual retirement account at the time a benefit is purchased. The value of a member’s retirement account and the ultimate benefit depends on three main factors:

1. The contributions paid into the account.
2. The investment returns on those contributions, and

3. The cost of purchasing the member's pension using annuity rates.

Many company *defined contribution pension schemes* also provide benefits should a member die in the service of the employer.

These benefits are usually based on the member's salary at death.

### **Occupational Pension Scheme**

A pension scheme set up by an employer to provide retirement benefits for employees. This term is used interchangeably with "Company Pension Scheme".

### **Personal Retirement Savings Accounts (PRSAs)**

A *PRSA* is a contract between an individual and an authorised *PRSA* provider in the form of an investment account. The *PRSA* benefits will be determined by the contributions paid by and on behalf of the contributor and the investment return on those contributions. There are two types of *PRSA* contract:

- A *Standard PRSA* is a contract that has a maximum charge of 5% on the contributions paid and 1% per annum on the assets under management. Investments are only allowed in pooled funds which include unit trusts and life company unit funds.
- A *Non-Standard PRSA* is a contract that does not have maximum limits and charges and/or allows investments in funds other than pooled funds.

A register of *PRSA* providers and their products is available from the Pensions Board.

### **Preserved Benefit**

Prior to the Pensions Act, 1990, *occupational pension schemes* were not obliged to preserve benefits on leaving service i.e. the only benefit paid was a refund of member's contributions. The Pensions Act, 1990, requires

schemes to provide a minimum *preserved benefit* for those leaving service between 1 January 1993 and 1 June 2002 provided 5 years' scheme membership have been completed, of which at least 2 must be completed after 1 January 1991. The Pensions Amendment Act, 2002, requires schemes to provide a minimum *preserved benefit* to those who leave after 1 June 2002 with 2 or more years' scheme service. In the case of a *defined benefit scheme*, the *preserved benefit* means a deferred pension, deferred retirement gratuity and benefits in the event of death before pension commences. In the case of a *defined contribution scheme*, *preserved benefit* refers to the accumulation of employer and employee contributions.

### **PRSI**

A shortened name for Pay Related Social Insurance, under which individuals who earn an income pay related contributions to the Social Insurance Fund, and in return are covered for certain Social Insurance Benefits e.g., Social Welfare Old Age Contributory Pension.

### **Retirement Annuity Contract (RAC)**

An individual pension policy which can only be effected by individuals who are in non pensionable employment or who have taxable earnings from a self-employed trade or profession. Also known as Personal Pension Plans.

### **Trustees**

Individuals or a company which, alone or jointly looks after the assets held in a trust fund. In a company pension scheme the trust fund is the monies and assets for the time being held by the trustees subject to the trusts of the scheme.





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