Pension Advice

ADVICE | PENSIONS | INVESTMENTS

GUIDE TO

Defined Benefit Transfer Values

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Abbreviations which may be used in this report:

- PPP Personal Pension Plan
- EPP Executive Pension Plan
- PRSA Personal Retirement Savings Account
- DC Defined Contribution
- DB Defined Benefit
- NRA Normal Retirement Age
- AMC Annual Management Charge
- PRB Personal Retirement Bond
- QROPS Qualifying Recognised Overseas Pension Scheme
- TFC Tax Free Cash
- SOBC Statement of Benefit Comparison
- ARF Approved Retirement Fund
- PAO Pension Adjustment Order
- SDIO Self-Directed Investment Options

INTRODUCTION

This report outlines some of the key matters when considering taking a transfer value and leaving a Defined Benefit scheme.

This report is not exhaustive but covers many of the key points for evaluation and discussion.

While care has been taken in its preparation, this brochure is of a general nature and should not be relied on in relation to a specific issue without taking financial, insurance or other professional advice. The content of this document is for information purposes only and does not constitute an offer or recommendation to buy orsell any investment or to subscribe to any investment management or advisory service. If there is any conflict between this document and the policy conditions, the policy conditions will apply.

This report should be read in conjunction with:

- Fund / Investment reports.
- Reason why letter.
- Customer / Product Brochures.
- Fact Find / Risk assessment report

Spouse/Partner/Estate Benefits

01 If you are married the DB scheme will pay a spouses benefit normally 50% of the proposed annual DB pension payable to the member. So €20,000 p.a. would become €10,000 p.a. on death payable to spouse i.e. 50% payable to spouse.

02 On death to both DB member and spouse the DB pension dies with you and is unlikely to pay any benefit to dependents / estate.

03 If you are unmarried the DB pension dies with you / ends in most cases.

Timing of the transfer

- A transfer value is available on most DB schemes up to a year prior to NRA (retirement).
- Transfer values are calculated using actuarial calculations. Interest rates, the financial position of the scheme, your service dates with the scheme / employer and your final salary are some of the factors that determine the transfer value offered. When interest rates are lower transfer values tend to increase when interest rates are high transfer values may not be as favourable.
- It is a consensus that the period of 10 or less year to go until retirement will provide the highest transfer values from a DB scheme.

Fixed v Fluctuating Income

It is important that you understand what you are leaving behind / giving up when you leave a DB pension scheme. The premise of a DB scheme is that it is a promise to pay a fixed income amount per annum at your nominated retirement age. The amount of the annual income is dictated by your salary and the years [pensionable service] you were employed by the company who operates the scheme.

A DB scheme promises to pay a set annual income The financial strength of the scheme and its funding position now and into the future will dictate if you receive this promise or commitment. However, when you reach NRA and plan to retire the projected figures will be recalculated and you will then be sure of the pension income you will imminently receive from the DB scheme and if the scheme has delivered on its promise.

This becomes a commitment to pay you a pension of the recalculated fixed income amount. This income is payable until your death and will not fluctuate based on investment performance. This is classed as fixed income you can have confidence it will be payable to you for the duration of your life. It is unlikely and only in rare cases would a retiree from a DB scheme fail to receive the projected fixed income in retirement, essentially this only occurs if the scheme fails, and it cannot meet its post-retirement liabilities. It is also possible the income could increase each year with inflation i.e. 2% increase per annum if that is an option on the DB scheme.

If you choose to take the transfer value into a Personal Retirement Bond / ARF retirement option. Your income will be classified as fluctuating income. This is because investment performance (that fluctuates) will have a bearing on the income you will likely receive.

You can still take a fixed income amount from your ARF, but the longevity of this income will be dictated by investment performance in many cases. As your ARF receives investment growth post-retirement, a positive investment performance could result in a significant increase in retirement income. However poor investment performance and the risk of longevity can result in bomb out risk and poses a greater risk than the guaranteed fixed income from the DB scheme. It would be prudent when taking out an ARF and accepting a transfer value to be willing to accept some investment risk for the funds to perform positively over the long term, and in turn allow you to realise a greater income from the ARF.

The key message is that you should understand you are giving up a guaranteed income and one of a fixed nature by leaving a DB scheme, although mindful that an ARF can provide greater flexibility and fluctuating income [potentially increased retirement income]. A bomb out risk where the ARF runs out of money should be considered. This can all be managed with cash flow modelling, an efficient investment strategy and prudent withdrawals but is important to be considered.

Benefits of Transferring and using an ARF in retirement v DB Scheme for income:

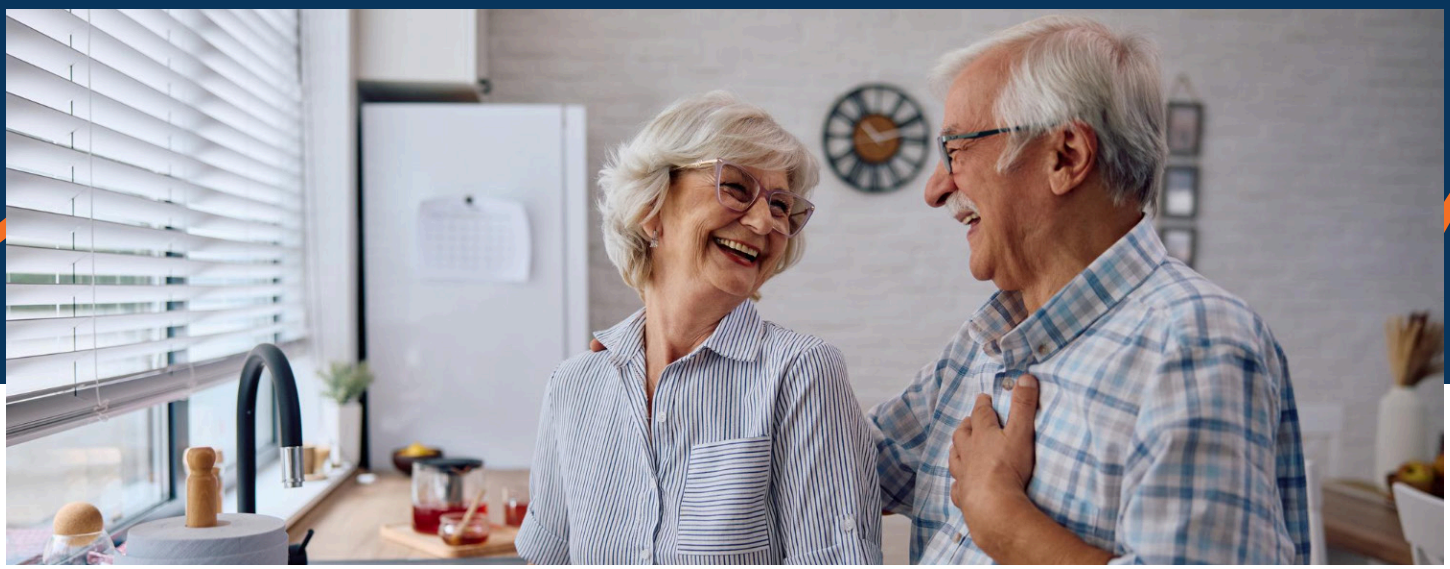
100% of pension passes to spouse / dependents estate on death.

Ability to take 25% tax free lump sum. Possible higher tax-free lump sum amount.

You can take control of your own investment strategy, risk rating and fund choices.

Post retirement investment growth.

More flexibility in taking income lump sums and varying income drawdowns when compared to fixed income DB scheme.



Attitude to Investment Risk

It would be considered a consensus that accepting a transfer value from a DB scheme and investing in a ARF [the expected outcome of accepting that transfer value] would entail a riskier / less secure approach to managing your retirement assets than a Defined Benefit Scheme.

A DB scheme and may be more suitable option if:

01

Your DB Fund will be your only and main source of income in retirement.

02

You are risk adverse post-retirement and do not wish to take investment risk post-retirement

03

Your main priority in retirement is a secure regular guaranteed income rather than passing on your fund to your dependents.

A transfer and a ARF options may be more suitable if:

01

You wish to pass your pension assets in totality to your spouse / dependents on death

02

You are willing to take some investment risk to achieve investment growth post-retirement.

03

You prefer flexible fluctuating income prefer to vary the income you take throughout retirement at different stages of your life.

Life Expectancy

Life expectancy at birth in Ireland Data taken from the central statistics office

Data taken from the central statistics office

Men **78.4 years**

Women **82.8 years.**

https://www.cso.ie/en/interactivezone/statisticsexplained/birthsdeathsandmarriages/lifeexpectancytables/

In an ARF it would be prudent to ensure income is payable until your mid 80's you will likely require income until this stage if you are healthy at retirement, it would be prudent to project income beyond this average age to mitigate against longevity. It is likely you will need less income later in life than early in retirement.

Early Encashment:

*An early encashment charge is a charge applied by the life company if a policy is fully encashed or transferred within a set period of time. I.E., if you fully encash the policy in year 1 you will incur a 5% penalty. This penalty reduces to 0% over 5 years. This does not apply to ARF standard income withdrawals.

Please see a table of early encashment by company

AVIVA

Year **1 - 5%**. Year **2 - 5%**.
Year **3 - 5%**. Year **4 - 3%**.
Year **5 - 2%**. Year **6 - 0%**.

Irish Life

Year **1 - 5%**. Year **2 - 5%**.
Year **3 - 5%**. Year **4 - 3%**.
Year **5 - 2%**. Year **6 - 0%**.

NEW IRELAND ASSURANCE

Year **1 - 5%**. Year **2 - 4%**.
Year **3 - 3%**. Year **4 - 2%**.
Year **5 - 1%**. Year **6 - 0%**.

Standard Life

Year **1 - 5%**. Year **2 - 4%**.
Year **3 - 3%**. Year **4 - 2%**.
Year **5 - 1%**. Year **6 - 0%**.

ZURICH

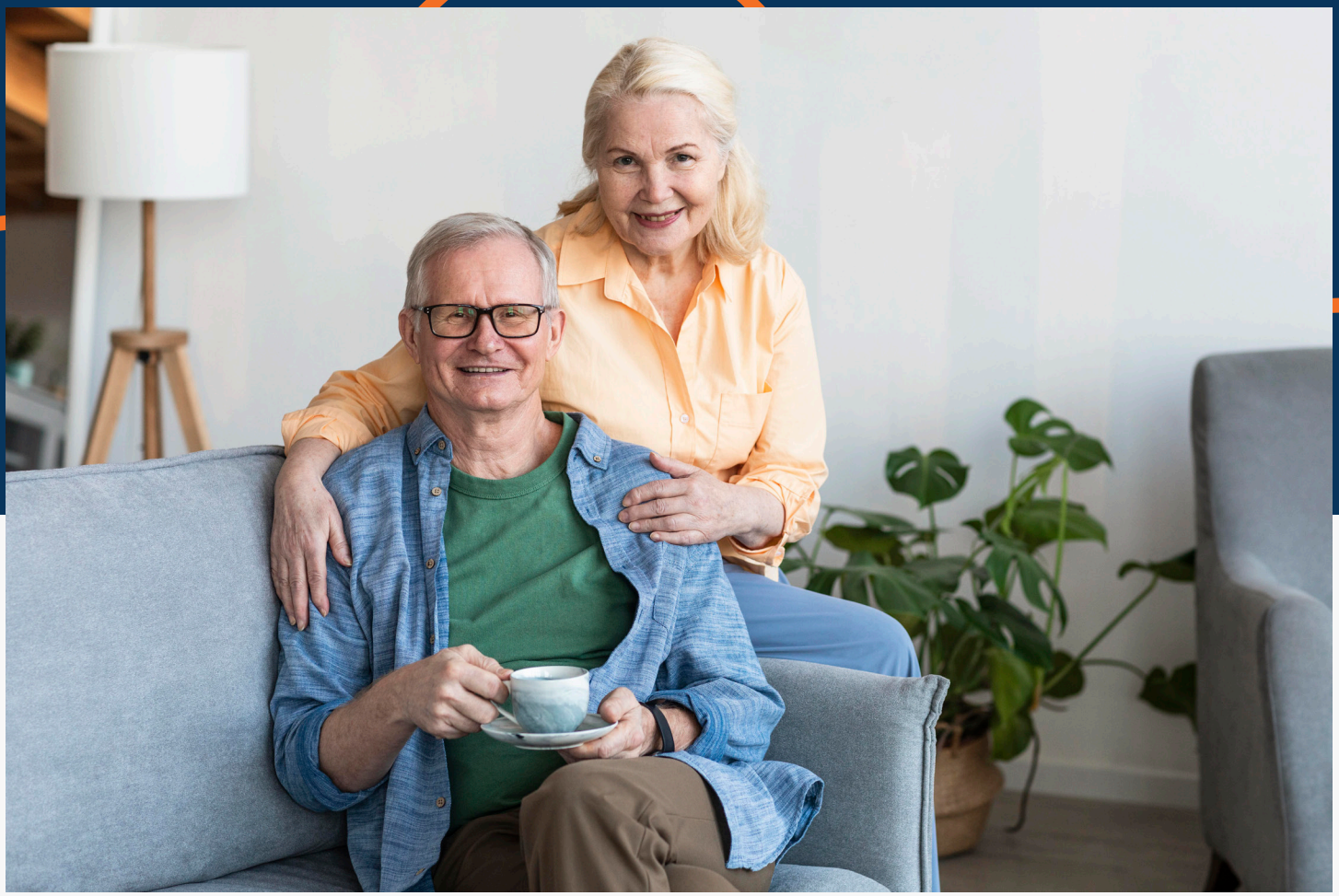
Year **1 - 5%**. Year **2 - 4%**.
Year **3 - 3%**. Year **4 - 2%**.
Year **5 - 1%**. Year **6 - 0%**.

SDIO

Dependent on product you have entered into **1,3,5** years + calculated on exit.

ROYAL LONDON

Year **1 - 5%**. Year **2 - 5%**.
Year **3 - 5%**. Year **4 - 3%**.
Year **5 - 1%**. Year **6 - 0%**.



Imputed Distribution:

Please note once you are aged **60** years or over for the full tax year it is a Revenue requirement that you make a deemed withdrawal of a certain amount each year from your ARF and pay tax as if you had made an actual withdrawal.

Where the total ARF/Vested PRSA value is €2 million or less, the deemed withdrawal is **4% p.a.** if you are aged between **60 and 70** years.

5% p.a. if you are aged **70** years or over for the full tax year.
The deemed withdrawal is **6% p.a.** if the total ARF/ Vested PRSA value exceeds **€2 million.**

Potential Investment Strategy, Fund Performance & Potential Returns:

The potential returns of your ARF post-retirement will be subject to the funds and investment strategy that you deploy.

Many ARF clients aim to maintain capital. One of the real advantages of an ARF is tax free post retirement investment growth. This can be achieved with a balanced medium risk portfolio.

Taking a withdrawal of 4% per annum and receiving a 4% growth rate [after charges] would allow income to be taken from the ARF while maintaining the original capital amount.

Based on the minimum withdrawal requirement outlined above an inflation and the need for increasing income requirement potentially it is likely that the balance of your ARF will reduce unless investment growth is sufficient to maintain these increases / withdrawals.

The table below shows an example for comparison of a DB scheme v ARF and the income you could receive.

Age	Pension bought at: Annuity rate of 4.00% and payments increasing by 2% p.a.		ARF growing at 2.65% p.a.		ARF growing at 6% p.a.	
	Annual Income Before Tax E	Remaining Cash Value Before Tax €	Annual Income Before Tax E	Remaining Cash Value Before Tax €	Annual Income Before Tax E	Remaining Cash Value Before Tax €
65	5,995	0	7,500	144,294	7,500	149,024
66	6,115	0	7,650	138,183	7,650	147,653
67	6,237	0	7,803	131,848	7,803	146,062
68	6,362	0	7,959	125,285	7,959	144,238
69	6,489	0	8,118	118,488	8,118	142,168
70	6,619	0	8,281	111,450	8,281	139,837
71	6,751	0	8,446	104,166	8,446	137,231
72	6,886	0	8,615	96,630	8,615	134,335
73	7,024	0	8,787	88,836	8,787	131,131
74	7,165	0	8,963	80,776	8,963	127,602
75	7,308	0	9,142	72,445	9,142	123,731
76	7,454	0	9,325	63,836	9,325	119,498
77	7,603	0	9,512	54,942	9,512	114,885
78	7,755	0	9,702	45,756	9,702	109,869
79	7,910	0	9,896	36,271	9,896	104,430
80	8,068	0	10,094	26,480	10,094	98,544
81	8,230	0	10,296	16,375	10,296	92,188
82	8,394	0	10,502	5,949	10,502	85,337
83	8,562	0	5,942	13	10,712	77,965
84	8,734	0	13	0	10,926	70,043
85	8,904	0	0	0	11,145	61,544
86	9,086	0	0	0	11,367	52,438
87	9,268	0	0	0	11,595	42,692
88	9,454	0	0	0	11,827	32,275
89	9,643	0	0	0	12,063	21,150
90	9,835	0	0	0	12,305	9,283
91	10,032	0	0	0	9,271	47
92	10,233	0	0	0	47	0

The DB / annuity income figures assume a retirement age of 65. The DB / annuity figures are based on payments increasing by 2% each year

The ARF illustrations above assume that an initial 5% withdrawal is taken, and subsequent withdrawals increase at a rate of 2% p.a. and that 1.5% fund management charge is deducted monthly.

The growth rates of 2.65% & 6% are for illustration purposes only and are not guaranteed. Unit prices can fall as well as rise. Actual investment growth depends on the performance of the underlying assets and may be more or less than illustrated. Withdrawals from your ARF will be subject to income tax, USC and PRSI. The illustration does not include any early encashment charges which may apply.

Warning

- Past performance is not a reliable guide to future performance.
- Benefits may be affected by changes in currency exchange rates.
- The value of your investment may go down as well as up.
- If you invest in these funds, you may lose some or all of the money you invest.

Impact on Maximum Fund Thresholds:

The Maximum Fund or SFT is a limit on the amount of pension benefits an individual can accumulate from Irish pension arrangements. The current limit is set at €2 million and has been in place since 2014.

In his statement, the Minister for Finance announced the following provisions:
The SFT is to be increased in increments of €200,000 between 2026 and 2029. This will see the level of the SFT increase to €2.8 million by 2029. The limit will then be increased by an applicable growth rate each year going forward.

These changes will be reflected in the Finance Bill 2024.

Where the relevant limit is exceeded, the excess in your pension funds at retirement will be liable to a once off Income Tax charge.

*Correct as at date of this report

Transfer Value Analysis

If you accept the transfer value from your DB scheme that you are losing access to this fixed income DB pension payable at NRA [normal retirement age]. You will no longer have a DB pension but have a lump sum sinking fund [ARF] to take flexible income from that will be invested and subject to investment growth or losses moving forward.

This guide aims to inform you of the consideration you should contemplate on the transfer process and what you are losing, fixed v fluctuating income for example.

Ultimately the decision is yours and you should assess the pro's and con's or each option ARF v DB fixed Income and decide what is the best option for you. If you decide to transfer your DB pension and accept the transfer value on offer you are accepting the investment risk and that the pension income available might not be as high or as valuable as what the DB scheme if offering in retirement NRA.

This is due to investment sequencing risk and longevity risk.

You should assess the following when making the decision.

01 Tax Free lump sum payable on both options

02 Investment growth required in ARF to pay similar income than Defined Benefit Scheme.

03 Your attitude to risk [Are you willing to take investment risk ?]

04 What pension you would like to leave your spouse /dependents / estate in the event of your premature death.

05 The flexibility of income you require. Fixed v Flexible requirements.

06 Your Health and life expectancy.

07 Do you have other sources of guaranteed income like rental income or state pension.

Warning

- The value of your investment may go down as well as up.
- This product may be affected by changes in currency exchange rates.
- If you invest in this product, you may lose some or all of the money you invest.

Revenue limits, terms and conditions apply. Tax relief is not automatically granted; you must apply to and satisfy Revenue requirements.

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