

Personal Retirement Savings Account (PRSA)

A PRSA is a type of personal pension contract introduced in 2003. It is a contract between an individual and an authorised PRSA provider. It is a defined contribution plan.

Types of PRSAs

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 on charges and/or allows investments in funds other than pooled funds.

Charges may not be expressed as flat amounts and can only be charged as a percentage of contributions or fund value. Charges cannot be applied to transfers to or from PRSAs. This is very important as it ensures that charges are not excessive compared to the level of contributions.

Who can take out a PRSA?

Employees, the self-employed, homemakers, careers and the unemployed – in fact every adult under age 75 may take out a PRSA. The relevant legislation does not state a minimum age however, in practice, this may be imposed by contract law. Importantly, unlike RACs, there is no requirement to have taxable earnings in order to pay contributions.

The law that introduced PRSAs gives all “excluded employees” the right to contribute via payroll to a Standard PRSA set up by their employer. In summary excluded employees are:

- employees who are not offered membership of a company pension plan, or
- employees who are included in a company pension plan for death in service benefits only, or
- employees who are ineligible to join a company pension plan and who will not, under the rules, become eligible to join the plan for pension benefits within six months from the date they commenced employment, or
- employees who do not have access to AVCs through their company pension plan.

Contributions

Contributions may be paid to a PRSA by both an individual and by an employer, however, an employer does not have to contribute. Where you have more than one source of income you may take out a PRSA in respect of a source of income from self-employment or non-pensionable employment, while being a member of a company pension scheme. If you have only one source of income and are a member of a company pension scheme, you may pay AVCs either within the company pension scheme or to a PRSA.

Tax relief

Personal contributions

Contributions paid to a PRSA will benefit from income tax relief at an individual’s highest rate of tax. Contributions paid by an employee via payroll will benefit from automatic tax relief and relief

will also be given from PRSI and the health levies, if you pay these charges. If you contribute directly to a PRSA you will need to reclaim tax relief directly from the tax office. If you are an employee then tax relief will be given through the PAYE system as an additional tax credit. If you are self-employed tax relief may be claimed on your tax return.

The maximum tax relief available in any one tax year is expressed as a percentage of Net Relevant Earnings (broadly, earnings from a trade profession, office or employment less certain allowable expenses and subject to an earnings cap of €150,000) and is set out below:

Age during tax year	Tax relief limit
Under 30	15% of Net Relevant Earnings
30-39	20% of Net Relevant Earnings
40-49	25% of Net Relevant Earnings
50-54	30% of Net Relevant Earnings
55-59	35% of Net Relevant Earnings
60 and over	40% of Net Relevant Earnings

You can pay in more than the tax relief limits set out above, but the tax relief available will be limited to those amounts.

You can claim tax relief on a contribution of €1,525 regardless of age or earnings, except where you are a member of a company pension plan.

Where you are paying AVCs to a PRSA the limits for tax relief are inclusive of your own contributions to the company pension plan. These limits are also inclusive of any contributions paid to an RAC.

Employer contributions

If an employer pays contributions to an individual's PRSA the employee will be taxed on these as a benefit in kind. The employee can then claim immediate tax relief on these contributions as if he or she had paid the contributions. In practice the Revenue has stated that a benefit in kind tax charge will only arise where the total contributions paid in any one year exceed the annual limits set out above.

Carry forward and carry back of contributions

Should you pay a contribution in a tax year that is more than that on which tax relief is given the contribution can be carried forward. It is then treated as a contribution made in the following tax year.

If you make contributions between the end of the tax year and the following 31 October, you can opt to have those contributions treated as having been made in the previous tax year.

Investments

All funds invested in a PRSA roll-up free from income tax and capital gains tax.

Investment of contributions

When you take out a PRSA you will have a range of investment options. All PRSAs must have a default investment strategy. This is an investment option that is based on general good investment practice that invests in funds expected to meet a typical contributor's retirement

savings expectations. Like most investment options there is a level of risk associated with the investments.

You should carefully review the information provided on these options before making any decisions. It is important that you periodically review any investment decision taken, especially in the years running up to retirement as you may wish to protect any investment gains made.

Benefit options

Retirement – when can the benefit be taken?

You can normally take a benefit from a PRSA when aged between 60 and 75. In certain circumstances you can take your benefits before then such as:

- on retirement from employment at age 50 or over, or
- at any time in the event of serious ill-health.

In the case of retirement due to serious ill-health you must be very ill and be deemed to be permanently unable to work.

Retirement – what benefits can be taken?

On retirement you can choose to take up to 25% of your fund as a tax-free lump sum from a non AVC PRSA. The balance of the fund can be used to:

- purchase an annuity (a pension). This annuity must be payable for your lifetime and can include, a guarantee period of up to 10 years, dependants' pensions (subject to a maximum of the individual's pension) and/or pension increases, or
- purchase an ARF or AMRF, see section on "Retirement Planning", or
- pay a taxable lump sum, see section on "Retirement Planning", or
- take benefits from the PRSA and continue to make further contributions.

All pensions (annuities) are subject to PAYE at source and the health levies.

If you are a member of a company pension plan and have an AVC PRSA then your benefits will be subject to the rules of the plan and the Revenue limits applying to company pension plans.

Ill-health

It is possible in some circumstances to draw a benefit from a PRSA in the event of serious illness. The benefit payable is often greatly reduced as contributions have been paid for a short time and the cost of buying a pension at a younger age is much higher than at normal retirement age.

You may wish to consider taking out some form of disability insurance to ensure that an income is available in the event of disability, as the pension plan may provide no benefit or a benefit which would be insufficient in this event.

Death before retirement

Should you die before you have taken a benefit from your PRSA then the value of your retirement fund is payable to your estate. If you die shortly within a few years of taking out your PRSA the fund payable may be relatively small due to the limited time over which contributions have been paid.

To provide a higher death benefit you may wish to take out additional life assurance. This cannot be included in your PRSA and must be under a separate contract.

Portability

The value of your PRSA can be transferred to:

- another PRSA,
- a company pension plan,
- an overseas pension plan in certain circumstances.
- your PRSA provider cannot charge you for transferring the value of your fund.