

Retirement Annuity Contract

A Retirement Annuity Contract “RAC” is the formal name for what is normally called a personal pension. An RAC is a particular type of insurance contract approved by the Revenue. An RAC is a defined contribution pension plan. The value of the ultimate benefits payable from the contract depends on the level of contributions paid, the investment return achieved and the cost of buying the benefits.

The Pensions Board has no remit over Retirement Annuity Contracts, for information on RACs (RACs – also known as ‘personal pensions’) you may wish to contact your RAC provider, the Irish Insurance Federation who deal with queries on personal pension plans or the Financial Regulator who regulate pension providers. Contact details for the IIF and Financial Regulator are provided below:

Irish Insurance Federation (IIF)
Insurance House
39 Molesworth Street
Dublin 2
Tel: (01) 676-1820
Fax: (01) 676-1943
Website: www.iif.ie
E-mail: iis@iif.ie

The IIF is a self-regulatory body of the insurance industry. The IIF operate an Information Unit for enquiries on insurance companies and their products they sell including buy out bonds and personal pensions.

Financial Regulator
PO Box 9138
College Green
Dublin 2
Ireland
Consumer Information and Queries:
Tel: 1890 777 777
E-mail: consumerinfo@financialregulator.ie
Further information is available at www.itsyourmoney.ie

Who can take out an RAC?

You can take out an RAC if you have, or have had at some stage, Relevant Earnings. Broadly, Relevant Earnings are earnings from:

- Non-pensionable employment, i.e. earnings from a job that are not being pensioned in a company pension plan,
- A self-employed trade or profession, i.e. assessable under Case I or Case II of Schedule D, for example, the income of doctors, solicitors, farmers.

It is important to note:

- If you are included in a company pension plan only for a lump sum death in service benefit you are deemed to be in non-pensionable employment and to have Relevant Earnings for the purposes of an RAC,
- If you have more than one source of earnings you can contribute to an RAC in respect of any source of income that is not pensioned in a company pension plan. For example, if you have a full-time job that is being pensioned by your employer and a part-time job you can take out an RAC in respect of your earnings from the part-time job,
- You can contribute to more than one RAC in any one tax-year,
- You can contribute to an RAC and a PRSA in any one tax-year
- Individuals who do not have taxable earnings, such as the unwaged cannot take out an RAC, but may take out a PRSA.

Self-employed individuals who are members of an association or group representing the majority of members of a particular occupation may be able to join a group “RAC” plan set up under trust for that association or group, for example the Law Society or the Dental Association. The same limits and restrictions apply as for insured contracts.

Contributions and Tax Relief

Normally it is the individual who takes out the RAC who contributes to the policy. Often this is by direct debit to the insurance company concerned. Each insurance company sets a minimum contribution and you need to contribute at least that amount in order to take out an RAC.

Personal contributions

You are entitled to income tax relief on contributions paid to an RAC. This relief is normally claimed back from the Revenue in your annual tax return. The maximum amount on which you can receive tax relief is set out in the table following. You can pay more contributions but the tax relief available will be limited.

Highest 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

Should you contribute to both an RAC and a PRSA in one tax year then the above limits apply to your total contributions to both arrangements.

Net Relevant Earnings are your Relevant Earnings reduced by:

- charges on income such as covenants, allowable interest and maintenance, which are deductible for Income Tax purposes, and

- losses or capital allowances related to your Relevant Earnings.

For tax relief purposes tax relief is limited to Net Relevant Earnings up to a maximum of €150,000 in any tax year.

Employer contributions

If an employer pays contributions to an RAC the employee will be taxed on these as a benefit in kind. The employee can then claim income tax relief on these contributions as if he or she had paid the contributions.

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 an RAC roll-up free from income tax and capital gains tax.

Investment of contributions

When you take out an RAC you will have a range of investment options. You should review the information provided on these options carefully 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 take a benefit from an RAC as follows:

- at any time after age 60 but before age 75,
- at any time in the event of serious ill-health.

You do not need to retire in order to draw a benefit. In the case of retirement due to serious ill-health you will be deemed to be permanently unable to work.

There are a relatively small number of professions where the Revenue will permit retirement before age 60, such as certain sports people.

Retirement – what benefits can be taken?

The amount of your benefit will depend on the level of contributions paid, the investment return earned on those contributions and the cost of buying your pension. You should ask the insurance company for an illustration setting out the possible level of your pension at retirement. This will enable you to see if you are saving enough.

On retirement you can choose to take up to 25% of your retirement fund as a tax-free lump sum. The balance of the fund traditionally had to be used to purchase an annuity (a pension). This annuity must be payable for the individual's life and could also include:

- a guarantee period of up to 10 years,
- dependants' pensions, subject in total to a maximum of the individual's pension,
- Pension increases.

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

For RACs taken out after 6 April 1999, or for earlier contracts where the insurance company agrees, there are now two options at retirement in addition to purchasing an annuity. These are:

- Transferring the balance of the retirement fund after any tax-free lump sum has been taken to an ARF or AMRF, or?
- Taking the balance of the retirement fund after any tax-free lump sum as a taxable lump sum. Tax at your marginal rate will be deducted at source.

Ill-health

It is possible in some circumstances to draw a benefit from an RAC 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 the cost at normal retirement age.

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

Death before retirement

Should you die before you have taken a benefit from your RAC then the value of your retirement fund is payable to your estate. If you die within a few years of your RAC commencing 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 can form part of your RAC.

Portability

All RACs taken out after 6 April 1999, or earlier contracts where the insurance company agrees, can be transferred to another RAC. This transfer value can also be paid to a PRSA, by mutual agreement between you and the insurance company concerned.