Retirement Planning

At retirement you will have a number of options available to you.

These may include:

- Taking a tax-free lump sum, subject to limits set by the Revenue,
- Receiving a pension (sometimes provided by an annuity),
- Transferring some or all of your retirement savings to an Approved Retirement Fund (ARF) or Approved Minimum Retirement Fund (AMRF),
- Taking a taxable lump sum.

All pension plans allow you to take a tax-free lump sum. With an RAC or PRSA the maximum you can take is 25% of your fund. With a company pension plan the maximum you can take at normal retirement age with 20 or more years' service is 1.5 times your final earnings. Lower amounts are payable if you retire early or have less service.

The amount of your pension will, if you have an RAC, PRSA or are a member of a company defined contribution pension plan, depend on the amount of your retirement fund left after you have taken any tax free lump sum and the cost of buying your pension.

If you are in a company defined benefit plan then your pension will typically be based on your service and earnings but will usually be reduced by the pension equivalent of any lump sum received. If you are in a public sector plan you may receive a tax free lump sum in addition to your pension.

The last two options referred to above are available if you

- have a PRSA,
- have an RAC set up after 6 April 1999, or an earlier contract where the insurance company permits these options,
- have AVCs in a company pension plan and the rules of the plan permit these options,
- are a company director who controls more than 5% of the voting rights in your company.

Investment in an ARF, or the availability of a taxable lump sum, is subject to an income condition. In summary, if you are not entitled to a pension guaranteed for life of €12,700 a year, which can include your State Pension, then you must set aside an amount of €63,500, or the remaining fund available to you if this is less, to buy an annuity (pension) or else invest it in an AMRF.

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.