

IIPM

20 November 2008

TOPICS

- Budget 2008
- Standard Methodology for Calculation of Maximum Retirement Benefits
- Recap on PRSA issues.
- Deferral of Annuity Purchase
- Transfers between OPS

Budget 2008

Budget 2008

- Don't shoot the messenger

Budget 2008

- Earnings limit reduced to €150,000
- No increase in SFT or PFT in 2009
- Savings of €100M

Calculating Max Benefits

- How much can I put into my scheme?
- How long is a piece of string?
- What answer do you want?
- Different actuarial assumptions
- Inevitable distortions

Level Playing Field

- Compete on service, price, etc.
- New rules for **all** schemes
- Positive reaction?
- Tables of Capitalisation factors applied to a formula
- Employer & employee contributions
- Takes account of retained benefits

Chapter 5

- Long term funding assumptions
- Prepared by Society of Actuaries
- Based on current annuity rates
- Regular review

Formula

- $$\frac{B \times CF - (\text{assets plus retained benefits})}{\text{Years to NRD}}$$

» Years to NRD

- B: Max pension
- CF: Capitalisation factor
- Answer is the max. annual contribution

5 Tables

- Factors for a range of retirement ages
- Examples of max. rates
- Pension increases
- Factors for females
- Factors for males

Existing Rules Apply

- Max. contribution excludes death benefits
- Group scheme max is sum of individuals
- Individual relief limits: Chapter 3
- Employer contributions: Chapter 4
- Max benefits: Chapter 6
- Limits on tax relieved pension funds:

Chapter 25

Example 1

- Male
- Spouse
- Salary €100K
- NRD 60
- 15 years to retirement
- €1M in pension scheme

Example 1 cont.

- $2/3 \times 100,000$: 66666
- 66666×32.4 : 2,160,000
- Less 1M assets: 1,160,000
- This is fund required
- Spread over 15 years
- Max. annual cont. 77,333

Example 2

- Male gross salary €60K
- Pensionable salary €50K
- 20 years to NRD 60
- Scheme benefits: 50% spouse
- Increases 3% p.a.
- AVC fund €120K

Example 2 cont.

- Value of Revenue max. benefits:
- $2/3 \times 60,000 \times 28.4 = 1,136,000$
- Value of scheme benefits:
- $2/3 \times 50,000 \times 22.6 = 753,326$
- Fund required: 362,674
- Less avc of 120,000
- Net 262,674 or 13174 p.a

Example 3

- Civil Servant, 40 years service @ 60
- Salary €60K
- 20 years to go
- AVC fund: €100K
- Scheme gives 50% spouse
- Parity increases

Example 3 cont.

- Value of Revenue max benefit:
- $2/3 \times 60,000 \times 32.4 = 1,296,000$
- Value of scheme benefits:
- $60,000 \times 50\% \times 28.3 = 849,000$
- Add gratuity 90,000
- Total value: 939,000

Example 3 cont.

- Shortfall: 1,296,000 – 939,000:
- 357,000
- Less avc fund 100,000
- Net shortfall: 257,000
- Max contribution over 20 years:
- 12,850 or 21.4% of €60K salary

PRSA issues

- Pensions Manual: www.revenue.ie
- IT 14
- Tax relief for investment in a pension & ARF options
- IT 14A
- PRSA
- Sections 787A to 787L

Taking Retirement Benefits

- Employment status at retirement
- Different rules for employee & self-employed
- Cannot take benefits before age 60
- Unless early retirement from employment
- Ill Health

Contribution Refunds

- Sec. 111(3) Pensions Act
- 30 day cooling off period
- Sec.109 Pensions Act
- Assets < €650
- No contributions for 3 years
- No tax on refund
- Eligibility not an issue

Transfers

- OPS to PRSA: yes, but
- Scheme member for <15 years
- Aggregate of membership of all schemes in the employment
- Only count active membership
- Change employment or wind up
- AVC: any time

Transfers cont.

- PRSA to PRSA: Yes
- RAC to PRSA: Yes
- BOB to PRSA: No, but perhaps?
- PRSA to RAC: No
- PRSA to OPS: Yes

AVC PRSA

- Can use PRSA to make avcs
- All usual avc rules apply
- Formal link with main scheme
- Stand alone avc
- Obligations of PRSA Provider

Deferring Annuity Purchase

- Financial Meltdown
- May 08 280,000
- Oct. 08 201,000
- Male 65, single life, no escalation
- Annuity drop from 21K to 15K
- Industry reps

Advice Concerns

- What happens if the fund drops again?
- Member choice?
- Switch the fund?
- Swop horror stories
- Point the finger
- Revenue not advisors
- Would you allow the concession?

Possible Scheme

- Policy issues
- ARF via back door?
- Available for limited period
- Lump sum, no drawdown
- Member request/disclaimer
- Must select annuity type

Possible Scheme (2)

- Alteration to rules/policy conditions ok
- Optional
- DC members only
- Not for those who have ARF options
- If member dies extend to spouse etc.

Last Slide

- Contact by email
- lcdretirebens@revenue.ie
- Transfer from one approved OPS to another OPS
- Contribution required for scheme approval
- Transfer only not on