ITC
Your future. Our focus.

Pensions Update

Aidan McLoughlin
BCL, FITI, CTA, TEP, FIIPM

Agenda

- Overview of pension structures
- Recent Developments
- Future Changes
- Planning

What are the main types of arrangements?

- State funded or private
- Occupational Schemes
- Personal Pensions
- Personal Retirement Savings Account (PRSA)
- Approved Retirement Funds (ARF)
- Revenue approval required

Your future. Our focus.

Self administered Schemes

- Scheme has less than 12 members and 65% of fund is attributable to directors, their spouses or dependents
- Often one member schemes
- Choice of underlying assets
- Must have a pensioneer trustee
- Accounts must be submitted annually/ triennial funding reviews

Pension: Precluded Activity

- Loans to beneficiaries
- Purchase of asset by a beneficiary
- Sale of asset to a beneficiary
- Beneficiary using residential property or holiday home
- Acquisition of shares in company in which the member is a participator
- Also apply to connected parties

Approved Retirement Funds – ARFs

- Created Finance Act 1999
- An alternative to annuities have a capital value capable of being inherited
- Not strictly a pension
- A portion needs to be transferred to an AMRF

Approved Retirement Funds –ARFs (cont'd)

Tax Treatment

- Child over 21 - exemption from CAT in accordance with Section 85 CATCA – income tax
- Child under 21 - exemption from income tax; subject to CAT
- Possibility of a Section 72 policy
- Imputed drawdown subject to income tax in the normal way

ARFs – Current Issues

- Security
- Transfers
- Drawdowns
  - Death
- PAOs
  - Property Adjustment Orders?
  - New ARFs?

Tax Changes - Background

- Four Year Plan 2010-2014
- Fine Gael Manifesto
- Programme for Government 2011-2016
- Jobs Initiative

Tax Changes to Date

- Standard Fund Threshold
  - €5m introduced Dec 2005
  - Indexed to €5.4m by 2008
  - Reduced to €2.3m Dec 2010
- Lump Sums
  - Previously up to 25% tax free
  - Reduced in Dec 2010:
    - First €200k - tax free
    - Next €375k - 20% tax
    - Above €575k - marginal rate

Tax Changes to Date

Your future. Our focus.

- Levy
  - Introduced May 2011 – Jobs Initiative
  - 0.6% per annum for 4 years
  - On all pre retirement funded benefits
- Earnings Limits
  - 2008 - €275,239
  - 2009 - €150,000
  - 2010 - €115,000
- USC

Tax Changes to Date

- ARF Drawdown
  - Pre FA 06 – none
  - 2007 – 1%
  - 2008 – 2%
  - 2009 – 3%
  - 2011 – 5%
- AMRF Requirement
  - Pre FA 2011 – Income requirement €12.7k and AMRF of €63.5k
  - FA 2011 – Income requirement €18k and AMRF of €120k

Tax Changes to Date

- Contributions to PRSAs (employee)
  - In 2010, contributions to a PRSA received (within relevant limits):
    - Tax relief at their marginal rate
    - PRSI relief
    - Health Levy relief
  - From 1 January 2011, contributions to a PRSA receive:
    - Tax relief at their marginal rate
    - No PRSI relief
    - No USC relief
- Contributions to PRSAs (employer)
  - PRSI exemption reduced by 50% in 2011

Summary Budget 2012
Pension Changes

Your future. Our focus.

- Employer PRSI exemption on Employee Contributions
    - Further 50% removed
- 6% ARF Drawdown
    - On values over €2m
- Vested PRSA
    - 5% drawdown
    - 6% over €2m
- ARF exits on death – tax increased from 20% to 30%

Summary Budget 2012
Pension Changes

Your future. Our focus.

- Payment of Excess Fund Tax
  - Max 50% of LS
- Balance from
  - Gross pension adjustment 10- years
  - Gross distribution from ARF
  - Own resources
- Judges Concession
  - Encash private pension (tax at 45%)
  - Not included in PFT/SFT

Further Changes?

- 4 Year Plan Changes on hold
  - Reduction in tax relief for contributions
    - 34% in 2012
    - 27% in 2013
    - 20% in 2014
- Further Reduction in SFT to €1.5m?
- Pension Limit of €60,000?
- Investment by Pension Funds in Ireland?

Pensions Legislation

Your future. Our focus.

- Funding Standard for DB Schemes
- Sovereign Annuities
- EU rules on solvency and prudence
  - One member arrangements

Marketplace

- Economic Crisis lead to destruction of €300bn in wealth
- Pension funds lost 25%
- Savings ratio is increasing
- Population is ageing

Marketplace

- Overall pensions market isnt growing
- Providers are under pressure
  - Temporary bidding war
- Consolidation is increasing
  - ILAC, Bloxhams
- Greater Regulatory Pressure
  - CHC
  - EU developments
  - Number of Intermediaries

Impact on Advisors

Your future. Our focus.

- Greater need for Consultancy
  - Auto-enrolment
  - RDR type changes
- Retirement planning
  - More Complex
  - Interaction with Security, Capital Taxes
- Greater competition among advisors
- Greater regulatory burden with Fitness and Probity

Impact on Clients

- Need to accumulate More Assets
- Focus on:
  - Security of Structures
  - Cost Effectiveness
  - Flexibility
- Retirement Planning
  - More complex
  - Capital Taxes

Impact on Pensions

- Tax Changes means that available tax benefits must be maximised
- Restructuring of Schemes towards employer contributions
- Individualisation of benefits
- Integration with SW Benefits and timelines
- Emphasis on Security and Flexibility
- Greater Focus on assisting the Irish Economy

Impact on Pension Providers

- Fewer players
- Need to address security
  - EU Scheme for Insurers?
  - Separation of powers – custodians and investment managers
- Greater Capital Requirements and Regulatory Burden

ITCs Approach

- Flexible Structures
- Structures constantly reviewed to Maximise Security
- Separation of Powers already Implemented
- Build Capital Base in anticipation of Further Restrictions
- Transparent Remuneration in place
- Focus on Advisors that will survive
- Technical Team to assist in maximising opportunities for clients

Your future. Our focus.

Questions?