## Approved Retirement Funds

There are a number of reasons why you might choose to use part of your pension to purchase an ARF or AMRF rather than an annuity. These include:

* An ARF or AMRF can be inherited
* An ARF or AMRF can continue to provide tax free investment growth
* Income can be drawn from an ARF as and when needed, though a minimum income of 5% of the value per annum must be drawn from the year in which you turn 61
* Income of up to 4% of the value per annum can be drawn from an AMRF if needed, though there is no obligation to draw income from an AMRF

There are several important issues to be considered when purchasing an ARF or AMRF. Fortunately, the process does not have to be complicated. Henneberry Financial Services is available to help.

## Should you purchase an ARF?

ARFs can be a smart investment but they are not suitable for everyone. While there are tax advantages to purchasing an ARF, as well as flexibility and the potential for future gains, it is important to realise that an ARF does not provide a guaranteed income for life. As with all major investments, you should be well informed before making a decision. The table below sets out the advantages and disadvantages of purchasing an ARF.

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| --- | --- |
| *ADVANTAGES*   * You have flexibility and control over your pension fund * You can invest in a wide range of assets, with the potential for you pension fund to continue growing * You can choose the level of income you want to take each year from an ARF (but not from an AMRF) * When you die, your fund passes to your Estate * The decision to buy an ARF is reversible i.e. at a later date an ARF can be used to purchase an annuity | *DISADVANTAGES*   * You are taking on risk. The funds invested may not beguaranteed * If you withdraw more than your fund is earning, your initial investment will be reduced * Your pension fund could run out if returns from investment markets are poor and/or if you live a long time |

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## Are you eligible for an ARF?

The following categories of pension holder are permitted to transfer all or part of their pension to an ARF at retirement:

* PRSA holders
* Personal Pension holders
* 5% proprietary directors of companies
* Members of Defined Contribution Occupational Pension Schemes
* People who have made Additional Voluntary Contributions (AVCs) to a pension scheme

If you fall into any of the above categories of pension holder, to purchase an ARF you must also have approximately €12,700 per annum of guaranteed income for life, typically from a pension source. Individuals who do not have that level of income must place up to €63,500 in an Approved Minimum Retirement Fund (AMRF) before an ARF can be purchased. An AMRF works in a similar manner to an ARF, with the exception that no income can be drawn from the initial AMRF investment until age 75.

## Important considerations when buying an ARF or AMRF

If you decide to buy an ARF or AMRF, you should consider the following questions:

1. Whether your priority is growth or simply preserving your wealth. A preference for fund growth would indicate that a medium or higher risk approach may be suitable for you.
2. Passing on your ARF as Inheritance

The table below sets out the tax treatment of an ARF after your death.

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| --- | --- |
| *ARF FUNDS LEFT TO*   * No tax on transfer to a surviving spouse's ARF. All subsequest withdrawals by spouse will be liable to income tax under PAYE. Exempt from Inheritance Tax. * The full amount is treated as income of the deceased spouse in the year of death and taxed accordingly under PAYE. Exempt from Inheritance Tax. * Tax of 30% on amount inherited, deducted at source. Exempt from Inheritance Tax. * No income tax liability. Amount is subject to Inheritance Tax. * The full amount is treated as income of the deceased in year of death and taxed accordingly. Balance subject to Inheritance Tax. | *TAX DUE*   * Surviving spouse - Cash transferred into ARF in spouse's name * ARF Capital transferred directly to a surviving spouse * Children over 21 at date of parent's death * Children under 21 at date of parent's death * Other |

If you are considering purchasing an ARF or AMRF or if you want advice on an existing ARF or AMRF, Henneberry Financial Services can help. A dedicated consultant will help you to define your priorities, assess your desired risk level and select your ARF/AMRF provider and ARF/AMRF funds.