

# Additional Voluntary Contributions Members Guide

Irish Life - Company Pension Plans Made Easy





## Pensions online...

Check out the Irish Life Corporate Business website:

- latest investment information
- monthly fund fact sheets
- weekly and monthly market commentaries
- news section
- comprehensive download section

We also offer a variety of pensions tools online such as:

- Pension Planet Interactive
- Pension Prophet
- Pension Choice

for any pension and investment queries you may have.

Log on now!!

Irish Life Corporate Business

Welcome to Irish Life Corporate Business - the largest provider of pensions, life assurance and income protection to companies & affinity groups throughout Ireland.

LATEST NEWS: Pension Planet Interactive is a finalist in the Digital Media Awards for 2011...

Information Centre: Financial Consultant, Employer, Member

Investment Centre: Personal Lifestyle Strategy, Building safer pensions

Fund fact sheets, Investment guide, Market commentary, Investment profile, Pension progress, Downloads

Pension Tools: Pension Planet, Pension Prophet, Pension Choice

Irish Life Corporate Business



# Irish Life Corporate Business

Clear market leaders in  
Group Additional Voluntary  
Contributions

# contents

1	Introduction - The importance of pensions	Page 5
2	Additional Voluntary Contributions (AVCs) explained	Page 8
3	Contributions - how your AVCs are invested	Page 12
4	Tax advantages of making AVCs	Page 16
5	Your questions answered	Page 19
6	Our service to you	Page 24
7	Contact information	Page 28





# introduction

**Special note:** This booklet is intended to inform members of occupational pension schemes only on how they can increase their overall retirement benefits by making Additional Voluntary Contributions (AVCs). This booklet does not apply to members of Personal Retirement Savings Accounts (PRSAs) and follows the assumption that readers are currently members of an occupational pension scheme. It is important that you understand the level of retirement and death in service benefits which are likely to become available for you and your dependants under your main pension scheme, as you may wish to increase these benefits by making AVCs.

## What is a Pension Plan?

Employers set up pension plans in order to provide an income for their employees for when they retire.



A pension plan is one of the most valuable benefits you are likely to have in your lifetime.

## The importance of having a Pension Plan

Have you ever wondered what you might do when you stop working? Let's face it we all have! The reality is however that the majority of us will need to save a significant amount just to maintain our existing standard of living in retirement. With advances in modern medicine and improved standards of living, people are generally living longer and can look forward to 20 or 30 years in retirement. This is a long time in which to enjoy the finer aspects of life.

Work priorities can be replaced with relaxing, enjoying new hobbies and spending more time with family and friends. Whatever your goals, one thing is for certain, you will wish to maintain the standard of living that you enjoyed while you were working.

Nobody wants to feel restricted or impoverished in retirement but this may be the reality for many people if they do not take the time and make an effort to adequately plan for their retirement.

# The importance of adequate retirement benefits

You are fortunate enough to be a member of a company pension plan, as not every Irish employer provides this for their employees. When you join the plan, it's important that you take the time to understand the level of retirement and death in service benefits which are likely to become available to you and your dependants under your main pension scheme. The reality is that although some expenses may decrease in retirement others, such as electricity bills, heating bills and medical expenses, may actually increase as you get older.



Only you can decide exactly how much money you will need during retirement. Chances are that you will need more than you think if you want to maintain your current lifestyle.

It is even more important now to provide for your retirement, considering that the age from which the State Pension becomes payable is proposed to be increased over the next few years.

## State Pension payable:

From age 66 from 2014

From age 67 from 2021

From age 68 from 2028

The savings you make now will provide you with a pension income from the age you retire from the scheme and also bridge any years between your scheme retirement age and the age from when you will receive the State Pension.

2

additional  
voluntary  
contributions

## What are Additional Voluntary Contributions?

Additional Voluntary Contributions or AVCs are extra savings which you can make towards your pension. Making AVCs can be a great option for you if you wish to increase the level of your retirement benefits.

## Why should I make AVCs?

Depending on your length of service at retirement you may not have full pension benefits available to you or perhaps the necessary income in retirement to maintain your current lifestyle.



AVCs can be used to minimise any shortfalls in your benefits at retirement.

AVCs are treated like normal pension contributions for tax purposes. Therefore, like pension contributions, AVCs qualify for tax relief at your highest rate of tax. Also, any investment growth achieved by your AVC fund is tax free.

AVCs allow you to take control of your financial future and help you to build up an adequate fund for retirement.



When you retire, the value of your AVC fund is available to improve the benefits provided by your main pension plan.

## What can I use my AVC fund for?

When you retire you can use your AVC fund in a number of different ways (subject to Revenue limits):

- Immediate cash lump sum
- Purchase an annuity, to provide you with an income for life
- Transfer the fund to an Approved Retirement Fund (ARF) or Approved Minimum Retirement Fund (AMRF)



Which option or combination of options is best for you will depend on your circumstances when you retire.

*Further details on AVC retirement benefit options, including ARFs and AMRFs are explained on pages 21 - 23.*

You cannot withdraw money from your AVC fund until you retire, but you can decide to increase, decrease or cease your regular contributions at any time. You can also make one-off lump sum contributions to your AVC fund if you choose, subject to Revenue limits.



Your retirement benefits under your AVC plan are in addition to any entitlement you may have under the State Pension (or other similar contributory benefits payable under social insurance).

## How do I make AVCs?

Where AVC payments are made through your employer's payroll process, tax relief is applied automatically – there is no need to apply to the Revenue Commissioners for a refund of the tax.

When you decide how much you wish to contribute to your AVC (within Revenue limits), you should notify your payroll manager. Your payroll department will arrange for your AVCs to be paid into your pension plan directly from your salary. They will also calculate and apply the tax relief you are entitled to. Your take-home pay will be reduced by your contributions minus the tax relief.

Tax relief is not automatically applied to AVC contributions made outside the normal payroll process, for example if you decide to make an additional once-off contribution (also known as a single premium). In this situation, you must apply to the Revenue Commissioners for a refund of tax in relation to the AVC contribution.

You have the option of off-setting your once-off contribution against last year's tax bill (subject to certain conditions).

Any tax rates are subject to change.



For more information on how the single premium process works you can download a once-off contribution information leaflet on [www.irishlife.ie/corporatebusiness/](http://www.irishlife.ie/corporatebusiness/)

## What conditions apply when accessing my AVC fund?

Substantial tax relief is granted on AVCs to encourage individuals to save for their retirement. To ensure funds are used exclusively in retirement, the Revenue Commissioners require AVC providers to restrict access to AVC funds until retirement.

Therefore you may not access your AVC fund until you retire. The only exception to this rule is in the event that you leave the employer sponsoring your company plan with less than two years qualifying service – in this situation, you may be entitled to withdraw money from your AVC fund.

Entitlement to such a refund depends on the details of the main pension plan and tax is payable on any such refund.

If you die before reaching retirement age, the value of your AVC fund is made payable to your estate or to a dependant as decided by the trustees of the plan.



You may not borrow back any of your contributions or use them as collateral for a loan. You must claim your AVC benefits on the same date as you claim the benefits from your main company pension plan.

Or you may have entered your pension plan at an age whereby you will not have been working with your company long enough when you retire to receive full potential pension benefits.



You can make AVCs to increase your pension benefits at retirement, to help compensate for the years of service that you are short in your main plan.

## What scope do I have for paying AVCs?

Normally the benefits which are payable under the rules of your main pension plan are lower than the maximum benefits which are permitted by the Revenue Commissioners. Therefore, most people have scope to pay AVCs to increase their retirement benefits without the risk of breaching Revenue maximum benefits rules.

For example, some of your earnings may not be included in the calculation of the pension amount payable from your main plan - e.g. overtime, bonuses, commissions or car allowance.

*Further details on your AVC retirement benefit options are explained in "How can I use my AVCs at retirement?" on pages on pages 21 - 23.*

3

contributions

## How are my AVC contributions invested?

Contributions made through AVCs are invested in what is called a 'fund'. The purpose of this fund is to ensure that the money has an opportunity to accumulate growth – usually called an investment return. The fund when you come to retirement, subject to economic conditions, should therefore be larger than just the sum of the contributions you paid into the fund i.e. the fund is then made up of the total amount of your contributions plus the investment growth (less any applicable charges).

The advantage of investing in company AVC pension funds is that you have access to a range of stock markets and other investments in Ireland and worldwide, that as a single investor, you may not be permitted to invest in.

## What should I consider when deciding on my investment options?

There are a few essential issues that you should consider when deciding on your investment options:

- How much time do you have to save and invest before retirement?
- How much risk are you comfortable with?
- How much money will you need when you retire?
- What combination of benefits are you going to take when you reach retirement?



Over the years you will have invested a large amount of money into your AVC retirement fund; therefore it makes sense to understand what your investment options are and make informed choices which will bring you increased financial benefits when you reach retirement.

Some of the more popular investment options we offer include:

**A Medium risk**

**Personal Lifestyle Strategy**

The Personal Lifestyle Strategy is designed to meet two very important needs for AVC scheme savers: It helps protect your pension fund value against market fluctuations as you get closer to your retirement date and it directs your investment into appropriate funds that best match the benefits that you are likely to take on your retirement.

The Personal Lifestyle Strategy consists of two phases which span the years of your pension savings. It starts from the moment you join the strategy up to your retirement date.

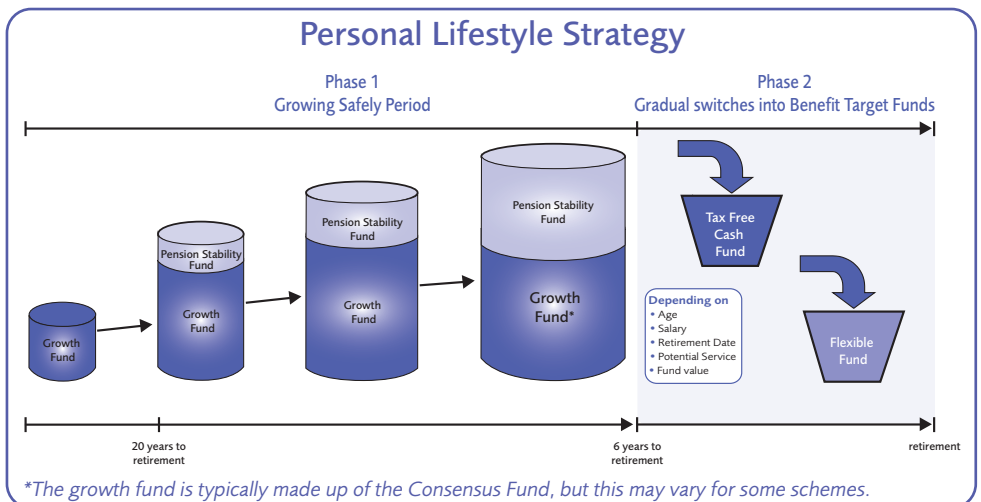
**Phase 1**, the Growing Safely Period, represents the early and middle years of pension saving. Phase 1 puts you in funds\* suitable to achieve investment growth while at the same time balancing investment risk.

With 20 years to retirement we start to gradually move your fund into the Pension Stability Fund. This helps to protect your pension fund against volatile markets.

**Phase 2** moves your pension fund into funds that will be most suitable for how you will use your pension savings upon reaching retirement. We expect you will want to take as much of your fund as cash lump sum at retirement as Revenue will allow and keep the remainder invested.

Depending on your individual circumstances we will switch your savings into investment funds that target the benefits most suitable to you. With one year to go before your retirement date the fund switches are completed and you will have reached your benefit target funds.

If your scheme is not one which submits regular salary data to us, then all of your AVC fund will move to the Tax Free Cash Fund during Phase 2 of the Personal Lifestyle Strategy.



## B Low Risk

### Cash Fund

The Cash Fund invests 100% in cash and short-term deposits and aims to give investors a stable and predictable return.

The Cash Fund can be used to protect the value of members' funds against market movements. For members who are close to retirement it is particularly useful for that element of the fund that will be taken as a lump sum.

#### Fund Risk



This is a very low risk fund. While there will be a very low level of volatility in fund returns, there is also only a very low potential for gains. It is suitable for investors who are very close to retirement or have a very low appetite for risk.

## C High risk

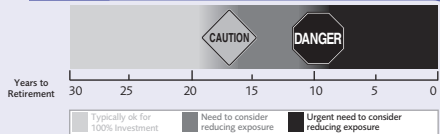
### Indexed 50/50 Equity Fund

The aim of the Indexed 50/50 Equity Fund is to achieve average equity fund returns and eliminate manager selection risk, which is the risk of being with an investment manager who underperforms.

The assets of this fund are fully invested in equities. The allocation in this fund is split into approximately 50% Eurozone assets and

approximately 50% assets from the rest of the world. The stock selection within each market is index stock selection, meaning that we replicate the weighting that each stock represents within the relevant market index.

#### Fund Risk



This is a high risk fund which can have a high level of volatility. Therefore it may not be suitable for investors who have less than 10 years to retirement. The fund is most suitable for long term investment.



You should always consult your financial advisor for expert advice before making any decisions which may affect your benefits under the plan or before acting on any of the matters covered in this booklet.

For more details on any of these funds or to get a full list of the funds available from Irish Life visit our website

[www.irishlife.ie/corporatebusiness/](http://www.irishlife.ie/corporatebusiness/)



**WARNING: The income you get from this investment may go down as well as up. The funds mentioned may be affected by changes in currency exchange rates. The value of your investment may go down as well as up. Past performance is not a reliable guide to future performance.**

4


# tax advantages

# Tax advantages of making AVCs

Making Additional Voluntary Contributions is an extremely tax-efficient method of saving. The Government provides workers with generous tax relief at their highest tax rate as a way to encourage pension saving. In other words, if your income levels categorise you into the higher income tax bracket, then you will receive tax relief at that rate. Likewise, if your income levels categorise you into the lower rate tax-bracket only, then this is the rate at which you receive the tax relief.

## How tax relief works

When you contribute to a pension scheme, the net cost or the 'real' cost to you isn't as high as you would initially think.

 *Deductions from your salary will be made through the PAYE system.*

\*A €100 AVC contribution actually costs you €80 if you pay tax at the standard rate of 20%. Therefore the net cost to you of making that AVC of €100 is €80.

\*The saving is even more dramatic if you pay tax at the top rate of 41%. The net cost to you of making an AVC contribution of €100 is only €59.

*\*The figures shown in these examples are based on tax rates as at 1st April 2011. See the table below for an example.*



*Any single premiums paid in 2011 in respect of 2010 can receive PRSI and health levy relief where applicable. The deadline for this is 31st October 2011 and is subject to a maximum earnings limit. (See next page for details.)*

## Examples of income tax relief

Contributions invested in your pension fund get full tax relief.

If you pay tax at 41%		If you pay tax at 20%	
€100	Total Investment to your pension	€100	
-€41	Less tax saved	-€20	
€59	Net cost to you	€80	

## Limits on pension saving

It would be great if you could save unlimited amounts into your pension plan and still receive tax relief, but because the tax breaks are so good, the Government have established limits. Although these limits are very generous and are based on your income and age, they are subject to a maximum earnings limit.

\*\* The table below displays the percentage of your income that you can receive tax relief for when contributing to a pension plan. These percentages include contributions to your main scheme as well as AVCs. There are also limits on the benefits that may be provided at retirement.

### Relief on your Pension Contributions

Age	Maximum % of annual earnings allowable for tax relief on your pension
Under 30	15%
30-39	20%
40-49	25%
50-54	30%
55-59	35%
60 and over	40%

*\*\*The maximum earnings limit in 2011 is €115,000. The earnings limit is subject to review and may change each year. There is no maximum payment that can be made, but you may only claim tax relief within Revenue limits. There are also limits on the benefits that may be provided. Under current legislation, the maximum pension fund allowable for tax relief purposes is €2.3 million (this maximum amount includes any pension benefits already taken together with pension benefits yet to be taken). Anyone who has a pension fund greater than €2.3 million on December 7th 2010 should apply for a Personal Fund Threshold (PFT) before June 7th 2011. This PFT is subject to Revenue approval on a case-by-case basis and cannot exceed €5,418,085. The relevant maximum will apply to the aggregate value of all pension provisions held for an individual. Any fund in excess of this amount will be liable to a once off income tax charge at the top rate of tax (currently 41%) when it is drawn down on retirement. This limit may be adjusted annually in line with an earnings index. Please note that the Revenue Commissioners have also placed limits on the total amount that can be contributed by you and your employer to your occupational pension plan. However, if you are concerned by these limits please consult your financial advisor for further details.*

5

your  
questions  
answered

# "What happens if..."

## I am making AVCs and I leave the company?

### Scenario 1: I have been in the AVC plan more than two years.

Should you leave your current employer after more than two years in your main pension plan, the value of your AVCs will be applied in accordance with the option chosen under the rules of the main scheme, for example transfer to a new employer's pension scheme, pension payable at age 65 etc.

### Scenario 2: I have been in the AVC plan less than two years.

Should you leave your current employer after less than two years in your main pension plan, you may opt to receive the value of your AVC contributions immediately, less tax. You may choose this option only if you are also taking a refund of any contributions you have made to your main company pension plan.

## I am unable to work due to ill health?

If you are forced to retire early on the grounds of ill health, your pension benefits will be made available to you (if the trustees agree). However, this will mean that your pension will be much lower than if you had continued in employment and continued making contributions up until your normal retirement age, which is usually set at 65.

## I want to retire early?

Subject to agreement from your employer and the trustees, it may be possible for you to retire from age 50 onwards. However, this will mean that your pension will be much lower than if you had continued in employment and continued making contributions up until your normal retirement age, which is usually set at 65. Your AVCs will be available to secure additional benefits to those under your main pension plan.

## I die before I retire?

Should you die before you reach retirement age, your AVCs will be paid in addition to the death in service benefits payable under the rules of your main pension plan (if applicable).

# How can I use my AVCs at retirement?

## Benefit Options

The benefit options available to you from your AVC fund at retirement depend on how you take benefits from your main pension plan.

- **Cash lump sum**

Any gap between the lump sum benefit you take from your main plan and the maximum lump sum benefit allowed to you by Revenue can be filled by AVCs.

*Please see page 22 for the tax treatment of these lumps sums.*

- **Pension income for life/annuity**

This is a fixed pension income for life, where your income remains the same. You can use your AVCs to increase your pension income, up to Revenue limits.

- **Dependant's pension**

This is a pension income for your spouse, child or another dependant if you die after retiring.

- **Yearly increases on the pensions mentioned above**

You can choose this option but it may provide a pension income that will start

off at a lower level than if you had chosen a fixed pension income.

- **Approved Retirement Fund (ARF) or Approved Minimum Retirement Fund.**

See page 23 for details.



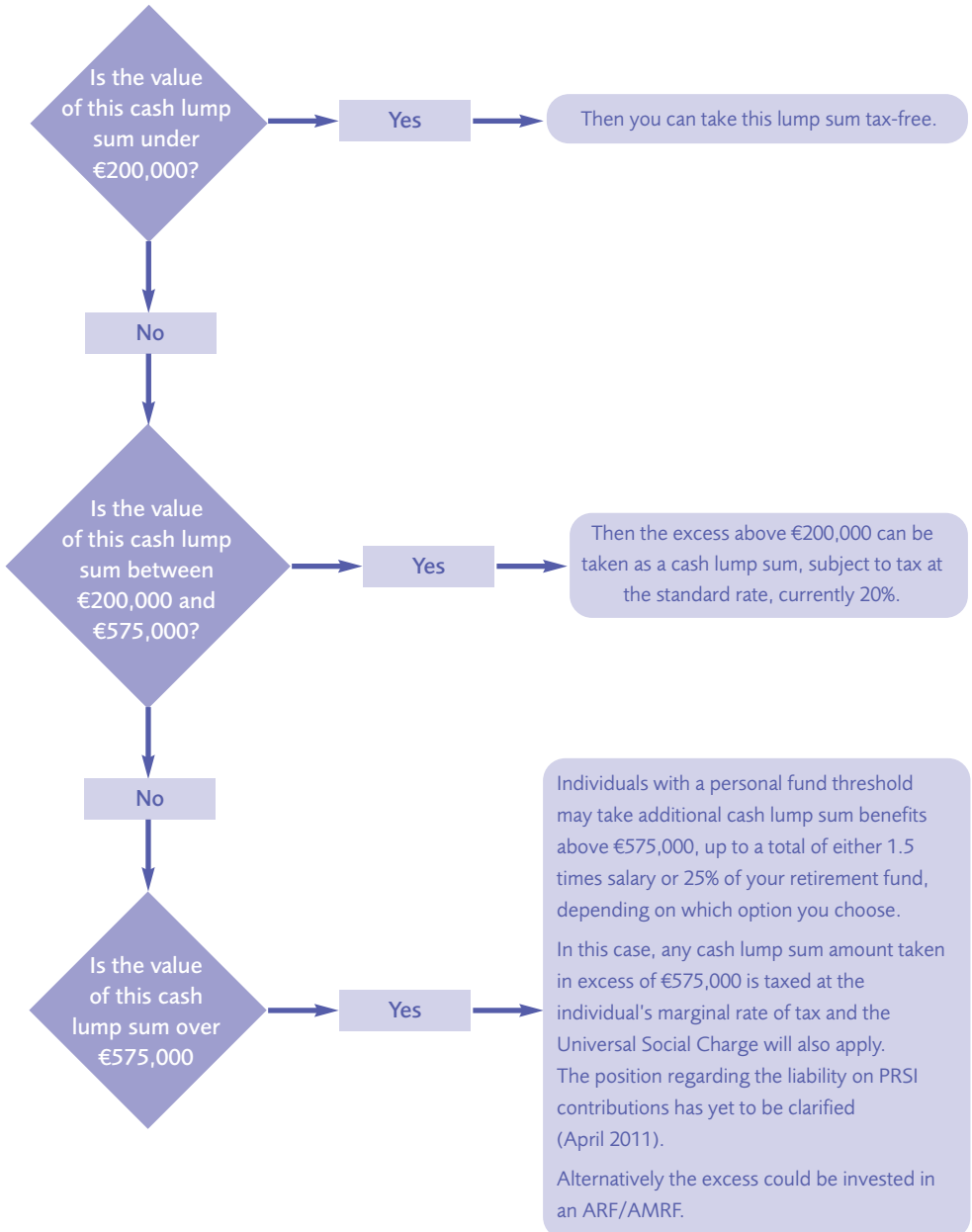
The level of AVC retirement benefits you will receive will of course depend on the size of the fund you managed to build up.

All benefits are subject to Revenue limits.

Please contact your financial adviser for the benefit options that apply to your individual circumstances.

# Cash lump sum payments - tax treatment

Your cash lump sum will have the following tax treatment.



## What is an ARF?

ARF stands for Approve Retirement Fund. An ARF is a tax-free investment fund held in your own name and managed by a Qualifying Fund Manager. Money can be transferred from one ARF to another if you have more than one.

An ARF can only be taken out if:

- You have a guaranteed lifetime income of at least €18,000\* a year (as at April 2011) or
- Your fund has a value of at least €119,800\* (April 2011).

Money withdrawn from an ARF is subject to income tax, and the Universal Social Charge, and PRSI (if you are liable for this).



Please note: Revenue regulations require that every year, 5% of the ARF's asset value as at 31st December is liable to income tax, PRSI and Universal Social Charge, if applicable. The 5% is inclusive of any income you actually take.

This applies when the ARF owner is 60 years or over for the whole of the tax year and where an ARF is set up after 6th April 2000. It does not apply to AMRFs. Please refer to the paragraph titled "An AMARF becomes an ARF:" to find out when an AMRF becomes an ARF. Rates as at April 2011.

*\*These amounts may change (up or down) as specified by the Government. The amounts quoted are correct as at April 2011.*

## What is an AMRF?

AMRF stands for an Approved Minimum Retirement Fund. An AMRF is a tax-free investment fund held in your own name and managed by a Qualifying Fund Manager. You are unable to make a withdrawal from your AMRF capital in any circumstance before the age of 75. You can, however, draw on the accumulated investment growth at any time. You can only have one AMRF at any time.

An AMRF becomes an ARF:

- When you reach age 75, or
- earlier on death, or
- when your annual income reaches €18,000\* or the value of your fund reaches €119,800\*

Money withdrawn from an AMRF is subject to income tax, and the Universal Social Charge, and PRSI, if applicable.



our service  
to you

## Information on your AVCs

While you are a member of an Irish Life Corporate Business AVC plan, we will provide you with all the information you need in order to keep up to date with your AVC investments. In addition to this booklet containing general information about the workings of your Additional Voluntary Contributions plan, Irish Life Corporate Business will provide you with the following various sources of information, allowing you to continually monitor your pension situation.

## Pension benefit statement

Issued annually, this statement provides you with information on your AVC retirement fund, including a breakdown of all contributions paid and total charges deducted, along with the current value of your AVC fund. Your benefit statement also provides future projected values, giving you an idea of the amount of AVC fund you can expect at retirement.

## Online information on your pension plan –

[www.pensionplanetinteractive.ie](http://www.pensionplanetinteractive.ie)



Pension Planet Interactive is an easy-to-use online tool that gives you access to your pension plan information. It helps you manage your retirement planning more effectively and efficiently.

- key pension plan information
- your account value
- your transactions
- your fund selection
- fund price history
- risk benefits (as applicable to your plan)
- documents such as benefit statements and correspondence in the document library
- retirement planning tools and information about investment choices.

Access to Pension Planet Interactive is available if the Trustees of the AVC plan have agreed to this.

# Predicting your pension at retirement with Pension Prophet

Pension Prophet is a pension projection tool that will help you predict what level of retirement benefits your AVCs could provide you with.

It also allows you to run hypothetical calculations based upon your personal information, contribution rate, assets and expense assumptions. This will help you to determine your projected AVC retirement fund, income and expenses and to create a plan which will help you to achieve your desired goals.

It is a graphic, easy-to-use projection tool which quickly displays the benefit of additional pension savings and the cost of delaying that saving. It also has a clever retirement income calculator which outlines typical day-to-day expenditure on different items and allows you to assess the amount of income that you may need in retirement.



Pension Prophet can be accessed via Pension Planet Interactive or via our website [www.irishlife.ie/corporatebusiness/](http://www.irishlife.ie/corporatebusiness/)



## Pension Phone

### Telephone: 1850 258 258

As an Irish Life pension scheme member, Pension Phone allows you to check your pension fund value by phone. If you have a touch-tone phone, you can call Pension Phone at any time between 8am and 10pm, 7 days a week.

When you join the AVC plan, you will be issued with a PIN number which allows you to access your account via Pension Phone. For extra security, you may also change your Pension Phone PIN number at any time.



Please note that after joining your AVC plan, it may take a number of weeks for the Pension Phone service to apply.

## AIM Pension education

### Work-site presentations

At Irish Life Corporate Business, we are aware that you need as much information on your AVC plan as you can get, in order for you to fully understand your plan details and what level of contribution you need to carry

on making in order to maintain your current standard of living in retirement. To address this need, we have developed the AIM initiative for pension education and awareness.

Our team of trained professionals (called the AIM team) can visit your workplace and give a presentation on your AVC plan. They will focus on helping you to understand how the AVC plan works, the most efficient way to make AVC savings and what kind of AVC retirement fund you should expect at retirement.

## Investment updates

Irish Life Corporate Business can provide you with investment fund information every month on how particular funds are performing. These can also be found on our website

[www.irishlife.ie/corporatebusiness/](http://www.irishlife.ie/corporatebusiness/)



# contact information

Every company pension plan appoints trustees to run the pension scheme and ensure that your interests are protected at all times. If you have any queries you should talk to your HR area or the plan contact person, who acts on behalf of the trustees.

## Contact information for complaints

If you have a complaint concerning the plan, you should contact the trustees. The trustees will follow an internal disputes resolution procedure. You are not bound by the trustees' decision. If you wish, you may refer the matter to the

**Pensions Board at:**  
**Verschoyle House**  
**28/30 Lower Mount Street**  
**Dublin 2**  
**Tel (01) 613 1900**

However, if the complaint concerns financial loss due to the mismanagement of the plan or if you are in dispute over a fact of law concerning the plan and you are not satisfied with the trustees' decision, you may refer the matter to the

**Pensions Ombudsman at:**  
**36 Upper Mount Street**  
**Dublin 2**  
**Tel (01) 647 1650**

*The contribution and benefit limits, tax relief and other details set out in this booklet are based on our understanding of the law at the time that this booklet was prepared. When reading this booklet you should consider that the law can change at any time. This booklet is a general guide to these matters only; therefore you should always get expert advice when you make any decisions which may affect your benefits under the plan.*

## Contact us

phone: 01 704 2000

fax: 01 704 1905

e-mail: [code@irishlife.ie](mailto:code@irishlife.ie)

website: [www.irishlife.ie/corporatebusiness/](http://www.irishlife.ie/corporatebusiness/)

write to: Irish Life Corporate Business, Lower Abbey Street, Dublin 1



Irish Life Assurance plc is regulated by the Central Bank of Ireland. In the interest of customer service we may record and monitor calls. Irish Life Assurance plc, Registered in Ireland number 152576, Vat number 9F55923G.