THE ITC ARF

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If you are one of those wise people who have invested in a pension, you may be under the impression that your planning for retirement is complete. However, the accumulation of your pension fund is just the first stage of the process. You now face critical decisions on how best to avail of your retirement funds.

For many pension plans the options on retirement are rather limited. The trustees simply hand over your pension fund to a life assurance company who in turn guarantee a certain income for the rest of your life. If you live for many years after retirement, you may get good value; if you die in the short-term the life company gets the better deal and, unless specific arrangements are made, your spouse or children have no access to the residual retirement fund. Where a spousal pension is not provided for, the entitlement dies with the pensioner.

However, owners of an ITC SSAS or ITC PRSA have, thanks to the introduction of the Approved Retirement Fund (ARF), infinitely better choices. Subject to Revenue's minimum distribution rules, the ITC ARF leaves it up to you whether, or how much, you wish to draw from your retirement fund. It gives you complete freedom as to where you wish your retirement funds to be invested. It usually allows for the investments in your pension scheme to be brought into retirement with you. If, for example, you hold a property in your pension scheme which generates a good rental income, you do not have to sell the property on retirement. Instead you can bring it with you and continue to benefit from the rent in retirement. The ITC ARF even allows funds to be passed directly to your spouse, partner or children in the event of death. Read on to see how the ITC ARF can extend your retirement options.

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What is an Approved Retirement Fund?

The ITC ARF is a post-retirement investment vehicle. Imagine you have just retired and it is time to cash in your pension.

The ITC ARF lets you place some, or all, of your pension fund value, depending on your preference, in a wide range of investments.

These could be a deposit account, a share portfolio with a stockbroking house, a tenanted property, an investment in a managed fund with a life company, a tracker bond or a combination of any or all of these. You are then free to draw a regular income from the fund if you so choose.

So is an ARF the same as an annuity?

No. The ITC ARF is an alternative to buying an annuity. Before the introduction of ARFs, the only option at retirement was to purchase an annual income, or annuity, from a life assurance company. At retirement the retirement fund was, less any tax-free lump sum entitlement, effectively handed over to the life company and in return the life company provided an annual income for life.

Although annuities provide a guaranteed level of income for an individual, they have become increasingly expensive in recent years.

Since the Finance Act 2011, the ARF option is potentially open to all members of defined contribution pension schemes.

What advantages does the ITC ARF have over insured ARFs?

In a word - **flexibility**. With the ITC ARF you get to keep your retirement money. You can choose when you draw from the fund and how much you wish to take out to meet your needs. You can also choose where you wish to place your funds.

When you die, your dependents can be left whatever funds remain in the ARF, and a spouse may even continue with an ARF in their own name. The ITC ARF allows the remainder of your fund to be passed on to your dependents on your death.

Who can invest in an ARF?

The following pension investors may avail of the ARF option at retirement:

- Personal Pension Plan investors (investors who have a pension policy with a life company) such as the ITC SIPP;
- Personal Retirement Savings Account (PRSA) investors such as the ITC PRSA;
- Members of Small Self-Administered Schemes such as the ITC SSAS;
- Members of employer-sponsored pension schemes who have made Additional Voluntary Contributions (AVC);
- Members of employer sponsored Defined Contribution pension schemes, subject to the terms of the scheme; and
- Holders of Buy-Out-Bonds such as the ITC Buy Out Bond.

Does an ARF have any tax advantages?

Similar to a pension scheme, an ARF is a tax-free investment vehicle. The investments are allowed to grow free of income tax and capital gains tax while invested in the ARF.

Only when funds are drawn from an ARF will a tax liability arise. Funds drawn from an ARF will be liable to income tax in the same way as income tax is payable on salary. The ARF provider is under an obligation to deduct income tax under the PAYE rules. Effectively, the ARF holder becomes an employee of the ARF provider in respect of the income taken from the ARF.

A percentage of the ITC ARF is automatically deducted every year and paid to you. Between the ages of 61 and 70 4% is deducted. The income tax is paid and the balance remitted to you. From age 71 this increases to 5%. If you have more than €2 million in your ARF 6% is deducted and paid in this way.

**These figures are correct as at July 2016.*

As an ARF owner you will need to consider the amount you withdraw or your ARF will not meet your income needs in retirement.

Are there any conditions imposed when investing in an ARF?

To invest in an ARF an individual must have a 'Specified Income'* in retirement of €12,700 per annum. Where an individual does not have this specified income they must first invest €63,500 in an Approved Minimum Retirement Fund (AMRF) - please see details below - or use €63,500 of their retirement fund to purchase an annuity from an insurance company. They can then invest in an ARF.

What is an Approved Minimum Retirement Fund?

An Approved Minimum Retirement Fund (AMRF) is a separate fund carved out from the ARF for persons below the age of 75 who neither:

a. have an annual pension income of at least €12,700; or

b. hold funds in an AMRF already; or

c. have invested the AMRF amount of €63,500 in an annuity.

For all intents and purposes, the operation of the AMRF is similar to that of the ARF in that the funds can be invested in any number of ways, subject to Revenue rules. The main restriction in relation to an AMRF is the drawing down of benefits.

Up to 4% of the value of the AMRF can be accessed annually.

If, before reaching the age of 75 years, you have specified income of €12,700 for example, your AMRF becomes an ARF.

What happens when I draw an income from my ARF?

As mentioned above, when funds are drawn from the ARF an income tax liability will arise for the ARF holder.

The income tax is paid by ITC under ordinary PAYE rules. In essence, you will receive the net amount and a payslip - and ITC will pay the income tax over to Revenue.

What happens in the event of my death?

The tax treatment of an ARF on death will depend on whom the ARF assets are passing to. The table below outlines the current tax treatment of ARF assets distributed on the death of the ARF holder.

ARF Passing to	Income Tax	Capital Acquisition Tax
Spouse	No	No
Child Under 21	No	Yes
Child 21 or over	Yes at 30%	No
Others	Yes up to 40%	Yes

These figures are correct as at July 2016.

A spouse can 'step into the shoes' of a deceased ARF holder and take over the ARF in their own name without any income tax or capital acquisitions tax liability arising. Any draw-downs of income from the ARF by the surviving spouse will be liable to income tax in the normal manner.

It should be noted that an ARF can only remain an ARF where it passes to a surviving spouse. In all other cases the ARF will be wound up and the assets of the ARF must be distributed to the particular beneficiary(s).

* Section 784C Taxes Consolidation Act 1997 defines 'specified income' as a pension or annuity which is payable for the life of the individual, including a pension payable under the Social Welfare (Consolidation) Act 1993, and any pension to which the provisions of section 200 apply".

Why choose the ITC ARF?

Many ARF investments currently on offer are either asset or fund specific, meaning that you must invest your ARF funds in specific asset classes. Alternatively, the ARF offerings from most life companies restrict you to investing in one or more of a number of funds.

More often than not, you will find that you become tied to a life company ARF provider for a number of years and that generous initial allocation rates are matched by severe penalties should you decide to change provider.

The ITC ARF/AMRF offers the ARF holder the flexibility to invest their post-retirement funds in the assets of their choice with no restriction on asset classes, products or investment funds subject, of course, to the relevant legislation and Revenue rules.

You, as the ARF investor, determine the assets in which your ARF is invested. With ITC there are no allocation rates and no penalties should you decide to change provider. The ITC ARF is managed in an entirely transparent manner.

The cost of your ITC ARF is dependent on your choice of investment.

Security

ITC holds the ARF assets in trust on behalf of the ARF holder. This means that, unlike life company ARFs, we hold the assets off our balance sheet. Your ARF assets are entirely separate from ITC's own funds. We can only invest the funds as directed by you.

The cash in your ARF is not pooled with other ARF investor funds, as is done by most other providers. On the contrary, and in order to enhance the transparency of the ARF, we keep your investments in separate vehicles. Your shares, if any, and your cash will be held in separate accounts which you, subject only to the limitations of your selected bank or stockbroker, will have direct viewing access to.

Alternatively, you may receive statements directly from the bank or stockbroker. We believe that the transparency of the arrangement protects you - and us.

What do I do next?

Please contact your investment advisor, call us on **01 6611 022** or visit our website: **www.independent-trustee.com**

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