

Death Benefits under Pension Products

Rules on benefit payment and tax treatment



Introduction



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This guide to benefits payable on death under different pension products is intended to show:

a. The type of payments that can be made

b. Who these payments can go to

c. The tax treatment of payments under different types of pension plans or products.

You can navigate directly to the product you want to check on, or scroll down to view the entire guide.

If you have any queries about this guide you can contact me directly, or contact your broker consultant.

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Personal Pension and Personal Pension Term Assurance Policies

Payment	Value of personal pension fund + sum assured under Personal Pension term assurance (if any) is payable as a lump sum. <ul style="list-style-type: none">• No limit on amount.
Paid to	The estate of the policyholder.
Tax treatment	Potential liability to Inheritance Tax, depending on who inherits the money through the estate. <ul style="list-style-type: none">• Under current tax law, inheritances between spouses or civil partners are exempt from Inheritance Tax.• If passing to children, all inheritances are taken into account and Inheritance Tax thresholds will apply.

The legislation also allows for the payment of an annuity on death to the surviving spouse or civil partner, or other dependant.



Personal Retirement Savings Account (PRSA)

Treatment of PRSAs depends on whether it is:

1. An unvested PRSA – an unvested PRSA is one where no benefits have been paid out.
2. A Vested PRSA – a vested PRSA is one from which some benefit , normally a lump sum, has been paid out.
3. An Additional Voluntary Contribution PRSA (AVC PRSA).

1. Unvested PRSA

The same as Personal Pension.

Payment	Value of PRSA fund is payable as a lump sum. <ul style="list-style-type: none">• No limit on amount.
Paid to	The estate of the PRSA owner.
Tax treatment	Potential liability to Inheritance Tax, depending on who inherits the money through the estate. <ul style="list-style-type: none">• Under current tax law, inheritances between spouses or civil partners are exempt from Inheritance Tax.• If passing to children, all inheritances are taken into account and Inheritance Tax thresholds will apply.

The legislation also allows for the payment of an annuity on death to the surviving spouse or civil partner.

2. Vested PRSA

Essentially, these are treated the same way as Approved Retirement Funds (ARFs) on death.

Payment	Value of PRSA fund. <ul style="list-style-type: none">• No limit on amount
Paid to	The estate of the PRSA owner as a lump sum. <ul style="list-style-type: none">• There may be an option to transfer to an ARF in the name of the spouse or civil partner.
Tax treatment	<p>a) On transfer to spouse/civil partner's ARF</p> <ul style="list-style-type: none">• No tax on transfer to ARF.• Future drawdowns including imputed distribution subject to Income Tax (PAYE) + USC + PRSI (up to age 66) on the spouse/civil partner. <p>b) To spouse/civil partner as direct lump sum</p> <ul style="list-style-type: none">• Taxed as income of original owner in year of death - subject to Income Tax (PAYE) + USC + PRSI (up to age 66). If a Certificate of Tax Credits is not provided, higher rate Income Tax will be applied. <p>c) To child of owner (under age 21)</p> <ul style="list-style-type: none">• Exempt from Income Tax.• Capital Acquisitions Tax (CAT) – possible liability, normal rules and thresholds apply. <p>d) To child of owner (age 21 or over)</p> <ul style="list-style-type: none">• Income Tax at the rate of 30% under Schedule D Case IV – no reliefs, deductions or credits can be set off against this tax.• Exempt from CAT. <p>e) To anyone other than spouse, civil partner or child of the owner</p> <ul style="list-style-type: none">• Taxed as income of original owner in year of death - subject to Income Tax (PAYE) + USC + PRSI (up to age 66). If a Certificate of Tax Credits is not provided, higher rate Income Tax will be applied.• Net inheritance potentially liable to CAT.

3. AVC PRSA

Payment	Linked to payments from main pension scheme. Main scheme death benefits are restricted to 4 times Final Remuneration, but AVC PRSA proceeds can be paid as a lump sum because they relate to the fund value of personal contributions.
Paid to	To the estate of the AVC PRSA owner.
Tax treatment	<p>Potential liability to Inheritance Tax, depending on who inherits the money through the estate.</p> <ul style="list-style-type: none">• Under current tax law, inheritances between spouses or civil partners are exempt from Inheritance Tax.• If passing to children, all inheritances are taken into account and Inheritance Tax thresholds will apply.



Approved Retirement Funds (ARFs)

1. Death of original ARF owner

Payment	Value of ARF fund. <ul style="list-style-type: none">No limit on amount.
Paid to	The estate of the ARF owner as a lump sum. <ul style="list-style-type: none">There may be an option to transfer to an ARF in the name of the spouse or civil partner.
Tax treatment	<p>a) On transfer to spouse/civil partner's ARF</p> <ul style="list-style-type: none">No tax on transfer to ARF.Future drawdowns including imputed distribution are subject to Income Tax (PAYE) + USC + PRSI (up to age 66) on the spouse/civil partner. <p>b) To spouse/civil partner as direct lump sum</p> <ul style="list-style-type: none">Taxed as income of the original owner in year of death - subject to Income Tax (PAYE) + USC + PRSI (up to age 66). If a Certificate of Tax Credits is not provided, higher rate Income Tax will be applied. <p>c) To child of owner (under age 21)</p> <ul style="list-style-type: none">Exempt from Income Tax.Capital Acquisitions Tax (CAT) – possible liability, normal rules and thresholds apply. <p>d) To child of owner (age 21 or over)</p> <ul style="list-style-type: none">Income Tax at the rate of 30% under Schedule D Case IV – no reliefs, deductions or credits can be set off against this tax.Exempt from CAT. <p>e) To anyone other than spouse, civil partner or child of the owner</p> <ul style="list-style-type: none">Taxed as income of the original owner in year of death - subject to Income Tax (PAYE) + USC + PRSI (up to age 66). If a Certificate of Tax Credits is not provided, higher rate Income Tax will be applied.Net inheritance potentially liable to CAT.

Please note: An Approved Minimum Retirement Fund (AMRF) becomes an ARF on death of the AMRF owner and the above treatment applies.

2. Death of second ARF owner

Payment	Value of ARF fund payable as a lump sum. <ul style="list-style-type: none">• No limit on amount.
Paid to	The estate of the ARF owner
Tax treatment	<p>To child of owner (under age 21)</p> <ul style="list-style-type: none">• Exempt from Income Tax.• CAT – possible liability (normal rules and thresholds apply). <p>To child of owner (age 21 or over)</p> <ul style="list-style-type: none">• Income Tax at 30% under Schedule D Case IV – no reliefs, deductions or credits can be set off against this tax.• Exempt from CAT. <p>To anyone other than child of owner</p> <ul style="list-style-type: none">• Income Tax at 30% under Schedule D Case IV – no reliefs, deductions or credits can be set off against this tax.• Potentially liable to CAT (normal rules and thresholds apply).

'Company Pension' Schemes

Payment	<p>Active Member</p> <ul style="list-style-type: none"> Value of fund (DC scheme) + life cover (if any). Maximum lump sum is 4 times Final Remuneration + the value of the pension fund that relates to personal contributions Benefits from previous employment may have to be taken into account. Click here for more details. If more than that is available, excess must be used to buy an annuity for a spouse, civil partner or dependant. 	<p><u>Member with Preserved Benefit</u></p> <ul style="list-style-type: none"> Value of fund. There will be no additional life cover if employment has ceased. Full amount is paid as lump sum with no 4 times Final Remuneration limit.
Paid to	<p>Active Member</p> <p>Paid to – if scheme is set up under trust, the trustee(s) will normally have the discretion to decide the recipient of the lump sum benefit.</p> <ul style="list-style-type: none"> This means that the death benefits are often paid direct to the chosen recipient, and do not have to go through the estate. However, scheme rules will normally give the trustee the option to pay to the estate, if they cannot decide a suitable recipient. <p>It is important to specifically check the rules of the scheme to establish who the death benefit may be paid to, and any conditions that apply.</p>	<p>Member with Preserved Benefit</p> <p>Lump sum must be paid to the estate of the deceased.</p>
Tax Treatment	<p>Lump Sum</p> <p>Potential liability to Inheritance Tax, depending on who receives the payment.</p> <ul style="list-style-type: none"> Under current tax law, inheritances between spouses or civil partners are exempt from Inheritance Tax If passing to children, all inheritances are taken into account and Inheritance Tax thresholds will apply <p>Annuity for spouse/civil partner or other dependant</p> <p>Taxed as income of recipient.</p>	

Preserved Benefits – Treatment On Death Before Drawdown Of Benefits

The Pensions Act 1990 (as amended) provides that on the death of a member with a Preserved Benefit, the value of the Preserved Benefit must be paid as a lump sum to the estate of the deceased member, with no limitation to 4 times Final Remuneration.

The Revenue Commissioners accepted at the time that the provisions of the Pensions Act would override existing Revenue practice.

A person acquires a Preserved Benefit under the Pensions Act if they cease to be in “Relevant Employment” having completed 2 or more years’ qualifying service (service as a member of the pension scheme).

The first and most common situation is if the person leaves an employment having been a member of a pension scheme for more than 2 years – in that case their benefits become preserved.

The other situation is where the person ceases to be in Relevant Employment but continues to work for the employer. Relevant Employment is employment to which a scheme relates. Therefore, if the employer advises the employee that his service with the company going forward will not be pensionable, Relevant Employment ceases at that point (even though the employment continues) and the person’s pension fund becomes a Preserved Benefit. In the event of death before drawdown, the full value must be paid to the estate, with no 4 times Final Remuneration limit.

Retirement Bonds

There have been some suggestions in the market that a transfer from a scheme to a retirement bond removes the 4 times Final Remuneration maximum lump sum payment and that the full value of the retirement bond can be paid out without limit.

This is only correct if the transfer to the retirement bond is the transfer of a [Preserved Benefit](#)

Payment	<p>There are 3 potential scenarios:</p> <ol style="list-style-type: none">1. Transfer to a retirement bond for a person who left employment with more than 2 years' scheme membership.<ul style="list-style-type: none">• This is a Preserved Benefit2. Transfer to a retirement bond for a person who has not left employment but whose future employment will not qualify for pension accrual with more than 2 years' scheme membership.<ul style="list-style-type: none">• This is a Preserved Benefit <p>In the case of 1 and 2, payment of the full value of the retirement bond with no limit should be made to the estate.</p> <ol style="list-style-type: none">3. Transfer to a retirement bond for a person who has not left employment but their future service is pensionable in that employment (e.g. scheme wound up and transferred to a retirement bond but new pension scheme is set up for the same employment).<ul style="list-style-type: none">• This is not a Preserved Benefit• The maximum lump sum payable from the retirement bond and other scheme(s) for the same employment is 4 times Final Remuneration. Any excess must be used to buy an annuity for a spouse/civil partner or other dependant.
Paid to	Lump sum payments go to the estate of the retirement bond owner
Tax Treatment	<p>Same as Company Pension Schemes</p> <p>Lump Sum</p> <p>Potential liability to Inheritance Tax, depending on who inherits the money through the estate.</p> <ul style="list-style-type: none">• Under current tax law, inheritances between spouses or civil partners are exempt from Inheritance Tax.• If passing to children, all inheritances are taken into account and Inheritance Tax thresholds will apply. <p>Annuity for spouse/civil partner or other dependant</p> <p>Taxed as income of recipient.</p>

The information contained in this brochure is based on our understanding of current legislation and Revenue practice as at May 2016.

Terms and conditions apply. It is important to note that tax relief is not automatically granted, you must apply to and satisfy Revenue requirements. Revenue limits, terms and conditions apply. Your benefits at retirement may be subject to tax.

While great care has been taken in its preparation, this brochure is of a general nature and should not be relied on in relation to a specific issue without taking appropriate financial, insurance or other professional advice. If any conflict arises between this brochure and the policy conditions, the policy conditions will apply.

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