NEWCOURT

SELF INVESTED PENSION PROVIDER

NEWSLETTER

Firstly, we would like to wish you a Happy New Year and we look forward to working with you again in 2023 in what promises to be another interesting year in the pensions arena.

This note, today, is to highlight some of the pension changes in the Finance Act 2022 and to specifically discuss the PRSA changes.

Finance Act 2022

They were three main changes relating to pensions:

- PRSA – no Benefit in Kind (BIK) charge on employer contributions to a PRSA
- Lump Sums drawdown from foreign pension schemes now included in your lifetime allowance
- PEPP – Provisions made for tax relief on contributions and taxation of benefits

PRSA

The changes that have been presented by the Finance Act have now brought the PRSA to the fore front of pension planning. The removal of the BIK charge on employer contributions will now allow employers to contribute freely to their employee's pension contract.

Previously, if an employer contribution was made to a PRSA in excess of the specified limits it was deemed a BIK liability for the employee, meaning you could not get as much money into a PRSA as you could to an occupational pension scheme (OPS) in a tax efficient manner.

The PRSA is the pension product of the future. While historically it was viewed as restrictive, it is a very flexible tool in tax and retirement planning.

PRSAs offer significant advantages including:

- **Transfers:** A PRSA can receive a transfer from an OPS and a personal pension, it can also transfer to an OPS. This is a huge plus compared to personal pensions which are quite restricted from a transfer perspective.
- **Transfer Costs:** Under legislation there can be no transfer costs associated with a transfer of pension assets to or from a PRSA.
- **Phased drawdown:** You can have any number of PRSAs allowing you to draw your retirement benefits from each at a time that suits your retirement planning needs and helps you best manage the pensions cap (the Standard Fund Threshold of €2m). In the case of an OPS all benefits for an employment must be drawn at the same time and only one tax efficient lump sum can be paid for that employment if coming from an OPS.
- **Post Retirement:** A PRSA can be used to both accumulate a pension fund and later to distribute the benefits. There is no post retirement model for other pension structures.
- **On Death:** Both PRSAs (prior to vesting) and Personal Pensions offer a payment on death that can go without deduction of tax to the estate of the pension holder. OPS scheme members are still restricted to a tax free lump sum of up to 4 times salary plus a return of any personal and AVC contributions with the remainder used to purchase a spouse's/dependent's pension or ARF as appropriate.

- **Flexibility:** PRSAs are a lot more flexible than an OPS, following the imposition of the IORP II Directive with no restriction on property holdings.
- **Borrowing:** Can also be facilitated in a PRSA, while restricted it is still available through certain lending institutions.

Finance Act 2021 brought an end to the "15 year rule" for transfers from occupational pension schemes to PRSAs. This was the first step in clearing the path for the PRSA to replace Personal and Executive pensions along with the Personal Retirement Bond. This year we have seen the removal of the BIK barrier for employer contributions to PRSAs.

We would like to see further changes to include the removal of the need for a Statement of Benefit Comparison for transfers to PRSAs from OPSs not winding up and we still await confirmation of the requirements for transfers to PRSAs from One Member Master Trusts. This is an area advisors need to consider in assessing client pension provision.

There are a number of additional areas we feel advisors need to consider in advance of their clients making contributions to a PRSA or transferring into a PRSA from an OPS:

- A funding calculation must be completed under the OPS in advance of transfer out, any PRSA contribution made will be included in this calculation prior to the OPS wind up.
- You will need a separate PRSA for each employment.
- The retirement options are not the same under a PRSA, with no option to take a retirement lump sum based on service and salary (albeit under an OPS you have to purchase an annuity with the remaining funds which is not for everyone).

In closing, the lifting of the BIK liability on employer contributions to a PRSA is a fundamental change in how employers can contribute to a pension for employees. The legislation does not place any upper limit on an employer contribution to a PRSA as is the case for OPSs which is set out in the Revenue Pensions Manual.

This along with the restrictions placed on OPSs by the IORP II Directive creates an opportunity for advisors and their clients to discuss PRSAs as a solution.

Contacts

If you have any questions in relation to our update then please contact your financial advisor or one of the team at Newcourt.

We are here to help you and will continue to support you in any way we can. You can contact the Newcourt team either by phone on (01) 828 0070\0091 or by email at info@nrfm, info@newcourttrustees.ie and we will be delighted to help you.

Thank you for your continued support and we look forward to talking to you soon.