

New PRSA development is breakthrough for PAYE investor

By Pat Ryan

PRSA's were launched last year with a fair degree of hype from the Pensions Board and the industry providers.

Employers who did not previously offer pension facilities to their employees were obliged to make PRSA facilities available to their workforce. Employers responded well but employee take up has been slow to date.

Why so? PRSA's are very similar to existing pension products and in general if employees could do without formal pension arrangements up to now, the majority feel they can continue to do without PRSA's.

To date one very important market segment has been ignored in the PRSA adventure - the PAYE employee who is already included in an employer sponsored scheme. This segment represents nearly half the workforce and more than half of permanent full time employees i.e. the people who value pension scheme membership, who pay the highest rates of income tax and where main job replacement income is a priority. This segment was told "oh you're all right. You have a scheme, talk to your trustees / consultant about AVC's. PRSA's are for those with no pensions yet". PRSA's were possible for these PAYE employees but qualifying for tax relief involved getting permission from the trustees of the employer's main scheme and rule amendments to the main scheme. In practice - a non runner.

SENSE PREVAILS

Following discussions with PRSA providers, the Revenue Authorities have now introduced new approval procedures for stand alone additional voluntary PRSA contributions.

This means that as a PAYE employee already in a staff pension scheme you can now make your own PRSA provision in order to improve your benefits and get tax

relief against employment income.

While overall contribution and benefit limits remain unchanged - the real breakthrough here is empowerment for you as a PAYE employee in taking charge of your own supplementary pension arrangements.

In practice the new procedures empower PAYE employees to:

- Select your own PRSA advisor.
- Select your own PRSA product (standard or non standard).
- Select your own investment strategy.
- Select your own contribution level, all without the need to obtain approval from the trustees of your pension scheme.

To obtain tax relief you need to advise the PRSA provider of certain details relating to your employer's scheme so that the provider can carry out the necessary assessment of your pension position. The provider will then determine the allowable contribution rate and issue you with an AVC PRSA certificate which may be used to facilitate tax relief on your contributions through salary deduction (with your employer's agreement) or through your local PAYE inspector by amendment of your Certificate of Tax Credits and standard rate cut off point.

The new procedures mean that all employees and self employed may take control of the investment decisions which will affect income and wealth in later years. For example the 31st October tax deadline, from this year forward, will now be relevant for all employees as well as the self employed. Because whether you are in a staff scheme or not you will have the opportunity of reducing last years tax bill by paying into an AVC or PRSA by 31st October.

In addition, the proceeds of PRSA's need not be spent on purchasing annuities or fixed levels of retirement income. All PRSA investors have ARF (Approved Retirement Fund) options similar to self employed individuals. This means that after tax PRSA

investment proceeds may be used for a wide variety of purposes including mortgage redemption and for other investment purposes of a capital nature. On death, remaining PRSA assets may be passed on to family members as part of your estate.

Up to now the vast majority of employees who are members of employer based pension schemes have been fenced in with regard to making voluntary tax deductible retirement savings. This is no longer the case - Whether you are a private sector or public sector employee, you are now in control of your investment and tax planning options. In addition, details of your contributions may be totally confidential as contributions need not be made through payroll deduction.

So employees of multinationals, indigenous firms of all sizes, construction workers, civil servants, gardai, nurses, teachers, local authority workers etc., may now make their own additional voluntary pension arrangements - similar to the freedom enjoyed by the self employed.

Canada Life and at least one other provider has already signaled compliance with Revenue requirements to provide stand alone AVC PRSA services to this very important and previously restricted market.

One year after their introduction PRSA's are making a real difference - empowering all employees and self employed alike to take responsibility for their future and providing real choice.



Pat Ryan is Pensions Manager at Canada Life