Your benefit options when you retire

Understanding your choices



Retirement is a major milestone, one where your pension savings are converted into income and benefits to support your lifestyle in the years ahead. Understanding your retirement benefit options is essential to making informed decisions that best suit your financial needs and personal circumstances.

Outlined below are the key options available at retirement, including tax-free cash entitlements (salary and service-related benefits or up to 25% of your fund), together with the main ways to generate an income in retirement. Illustrative examples are included to help bring these options to life.

Accessing your pension at retirement

At retirement, your pension benefits are typically made up of two components:

- **A Lump sum (tax-free cash)**
- **A retirement income (via annuity and/or taxable drawdown)**

The options available to you may depend on:

- Revenue rules
- Your own retirement preferences

Your tax-free lump sum options

One of the most attractive features of pension saving is the ability to take a tax-free lump sum at retirement.

There are two main methods used to calculate this. See next page for details.

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Method 1: Salary and service basis

How it works

- Lump sum is based on:
  - your final salary
  - your years of pensionable service
- Standard formula: 1.5 × Final salary (subject to revenue limits and length of service)
- Subject to a lifetime tax-free limit of €200,000

Example: salary and service lump sum

Michael, age 65

- Final salary: €70,000
- Service: 40 years

Calculation:

- 1.5 × €70,000 = €105,000 (Illustrative structure)

(Exact formula depends on scheme rules and accrual rates).

Outcome:

Michael receives a tax-free lump sum of €105,000 based on his service and earnings.

Method 2: 25% of fund value

How it works

- You can take up to 25% of your total pension fund as a lump sum
- Subject to a lifetime tax-free limit of €200,000

Example: 25% lump sum

Sarah, age 66

- Pension fund: €400,000

Calculation:

- 25% Of €400,000 = €100,000 tax-free

Outcome:

Sarah takes €100,000 as tax-free cash, leaving €300,000 for retirement income.



What happens to the remaining fund?

After taking your lump sum, the balance of your pension is used to provide retirement income.

You typically have two main options:

Option 1: Annuity (guaranteed income for life)

An annuity converts your pension into a fixed, regular income.

Key features

- Paid for life
- Can include spouse's pension
- Fixed or increasing payments available

Example: annuity

Anne, age 66

- Pension fund after lump sum: €300,000

She buys an annuity:

- Annual income: approx. €12,000–€14,000

Outcome:

Anne secures a guaranteed income for life.

Option 2: ARF - Approved Retirement Fund

The ARF keeps your pension invested, allowing you to withdraw income flexibly with the potential for fund growth.

Key features

- Flexible withdrawals
- Continued investment growth potential
- Remaining fund can pass to your estate

Example: drawdown

John, age 65

- Remaining fund: €400,000

He transfers to an ARF and:

- Withdraws €16,000 annually

Outcome:

John has flexibility but must manage investment and longevity risk.

Key considerations at retirement

When choosing your retirement options, consider:

Income needs

- Essential vs discretionary spending.

Risk tolerance

- Comfort with investment fluctuations.

Life expectancy & health

- Longer life enhances the need for sustainable income.

Family situation

- Need for spouse/dependant benefits.

Tax position

- Impact of large withdrawals or income streams.

Final thoughts

At retirement, you have important choices to make about how to use your pension:

- How much tax-free cash to take
- How to generate income
- How to balance security and flexibility

By understanding your options, particularly the salary and service lump sum versus the 25% of fund option, you can make decisions that align with your lifestyle and long-term financial goals.

If you would like help understanding your retirement options or modelling different scenarios, please contact your financial adviser.



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