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Pension Post

Buy Out Bonds and the ARF option

For this issue of Pension Post, Tony Gilhawley of Technical Guidance Ltd looks at the implication of the Government decision to provide the ARF option to all Buy Out Bond holders with effect from 22nd June 2016.

The story so far

The ARF option was extended to all members of DC occupational pension schemes with effect from 6th February 2011:

- All new DC schemes established after that date must offer the ARF option; and
- All DC schemes established before that date can change their rules to offer the ARF option, without requiring Revenue approval to do so

Initially in 2011 it was felt that BOBs (also known as Personal Retirement Bonds (PRBs)) would be treated the same for the ARF option as DC schemes outlined above, as BOBs are also DC retirement benefit schemes.

However, in November 2011 Revenue issue an E Brief 72/11 denying the ARF option to BOBs where the ARF option did not apply under the transferring scheme at the time of transfer. In effect this denied the ARF option to BOB holders who took transfer values from DB schemes.

In May 2014 Revenue practice was amended to allow the ARF option to all BOBs funded by transfers from DC schemes, regardless of when the scheme was established or the transfer value paid.

On 22nd June 2016, the Minister for Finance has extended the ARF option to all BOBs, regardless of when they were established or from where the transfer value came, DB or DC scheme.

This change will have a significant impact on BOBs funded by transfer values from a DB scheme, as well as clients considering taking a transfer value from a DB scheme instead of maintaining a deferred pension in the scheme.

Standard Life

Transfers from DB schemes

The main impact of the change is that:

- Those who have already taken a transfer value from a DB scheme to a BOB now have both the traditional benefit option and the ARF option, when they come to take their benefits from the BOB
- Deferred members who decide or are forced (through scheme wind up) to take a transfer value from a DB scheme can access the ARF option by a transfer to a BOB, as well as retaining the traditional benefit option

All deferred members of DB schemes taking a transfer value will have the option to transfer to a BOB, but some may also have the option to transfer to a PRSA or to a new DC scheme of which they are a member.

The options can be compared:

	Transfer to BOB	Transfer to PRSA	Transfer to DC OPS
Qualifying conditions to make the transfer	• Termination of pensionable employment in transferring scheme	• Termination of pensionable employment in transferring scheme • Less than 15 years' active scheme service • Certificate of Benefit Comparison required if scheme is not winding up and TV is more than €10,000	• Termination of pensionable employment in transferring scheme • Member of OPS scheme to which transfer will be made
Death benefit, post transfer	• Full fund payable on death	• Full fund payable on death, to estate	• Limit of 4 x final remuneration in new DC scheme, payable as a lump sum • Balance must be used to buy annuities for dependants
Can be transferred later on to	• Another BOB • An occupational pension scheme	• Another PRSA • An occupational pension scheme	On leaving service in new scheme: • A PRSA (if < 15 years active service in new scheme) • An occupational pension scheme • A BOB
When retirement benefits can be accessed	• From 50 onwards, if no longer in the former scheme employment	• From 50 onwards, on early retirement from a new employment • From 60 onwards	• On early retirement from new employment • At NRA in new scheme
Retirement benefit options	• Traditional benefit • ARF	• ARF only	• Traditional benefit • ARF

BOB now transfer target of choice?

Transfer to a BOB now looks like the most flexible option for most clients with deferred pensions in DB schemes who have decided to take a transfer value, because:

- No Certificate of Benefit Comparison will be required for the transfer as applies to transfers to PRSAs; however, the normal Statement of Suitability will still be required
- The BOB will provide both the ARF and traditional benefit options
- The BOB will provide earlier (from 50 onwards) access to benefits even if working in a new employment or self-employed

For some, retaining the traditional benefit option may be very important as under it the client may be able to take a much higher level of tax free lump sum (100% in some cases, where the fund is less than the maximum allowable lump sum on the salary/service scale) than available if the transfer is made to a PRSA (25%). Transferring to a BOB gives the client the **choice** later on of the ARF or traditional benefit options; transfer to a PRSA loses permanently the traditional benefit option.

Other issues to consider in taking a TV from a DB scheme

While the extension of the ARF option to BOBs funded by a transfer value from a DB scheme is welcome, the **decision to voluntarily take a transfer value from a DB scheme in lieu of retaining a deferred pension in the scheme, should not be made solely on the basis of an ability to get to the ARF option**. There are many other 'value for money' and risk issues to be considered, in making such a decision. **The traditional benefit option may still be the best option for some clients**; but at least all BOB clients will now have a choice of ARF and traditional benefit options. See the separate Pensions Post on DB Transfer Values 'DB Schemes - Do I stay or do I go?'