ROYAL LONDON IRELAND

Press Release

How do I make sure my ARF has enough money to fund my retirement years?

I'll be retiring in a year's time when I'm 66 and will choose an Approved Retirement Fund (ARF) rather than an annuity as I think I'll need a varied income. My father lived well into his nineties and I'm hoping to be lucky enough to really enjoy my retirement in my late 60's and 70's, and also live as long as my dad. How do I make sure my ARF has enough money to fund my retirement years and would you have any advice around how I can get the most out of having one??

Answer: Mark Reilly, Pensions Proposition Lead, Royal London Ireland

If you enjoy the same longevity as your father did, you could have another 25 or more years to live when you retire. With an ARF, there is a risk that you could run out of money in retirement if you exhaust the money in the fund. Careful management of your ARF, as well as shrewd investment decisions around it, can help with providing you with an income throughout your entire retirement.

You can withdraw money from your ARF regularly to give yourself an income when you retire but you need to do so in a way which doesn't risk exhausting your fund. Under the tax rules for ARFs, from the year you turn 61, you must withdraw at least 4pc of your ARF a year, rising to a minimum of 5pc from the age of 71. For ARFs valued over €2 million, you must withdraw a minimum 6pc annually, regardless of your age. You can withdraw more from your ARF than these minimum drawdown requirements but be careful as if you take too much income each year from your ARF, it may not last as long as you need it to.

Be mindful that withdrawals from an ARF are treated as income and taxed under the Pay As You Earn (PAYE) system. The amount of tax you must pay on your annual ARF drawdowns will depend on a number of things, including what other sources of income you have and whether or not you are jointly assessed for income tax purposes with your spouse, if applicable.

If you are lucky enough to live into your nineties, this would potentially give you enough time to take a certain amount of investment risk with your money to generate the required returns.

Investing your ARF in a well-diversified portfolio which delivers good investment returns should help prevent a scenario where your ARF runs out of money into retirement. It is advisable to get independent financial advice from a Financial Broker before deciding where to invest and consider the investment risk you are carrying as you move closer to your retirement. Being overly cautious with your ARF investments – such as by purely investing your ARF in cash or low-risk low-return funds – would not stand to you if your retirement spans 25 years or more and so could see your ARF run out of money. It is very important to choose pension investments that are likely to outperform inflation over time – otherwise, inflation will 'eat' into your pension savings and returns, and ultimately reduce how far your money will go in retirement.

Another thing to be mindful of are the charges on your ARF – such as advisory and fund management charges - as these could also eat into your pension fund. Keep charges to a minimum if you can. With some investment funds, charges can be higher than the norm, particularly if the fund is actively managed. The higher charge may be worth paying if the fund has a history of performing better than others, or if the fund allows you invest in asset classes not available elsewhere. Be aware though that funds with higher charges aren't necessarily better performing and furthermore, past performance is no guarantee of future results. A Financial Broker can also help you review the charges of your existing plan and consider if there may be better value in other funds.

Regularly check in on your ARF so you know how it is performing and how sufficiently resourced the fund is. A big advantage of ARFs is that in the event there is still money in your ARF when you die, this can be left to your next of kin or family. It is important however that you specify in your will that you want your ARF to be left to your spouse and children – or whoever else you wish to pass it onto. Otherwise, the ARF will slide into the residue of the estate, and it may not be distributed as you had intended it to be.

ENDS

Notes to the Editor:

About Royal London Ireland:

Royal London Ireland has a history of protecting its policyholders and their families, and it is committed to continue to do so for a long time to come. Our heritage in Ireland is 190 years starting when the Caledonian Insurance Company's first office opened on Dame Street, Dublin 2 in 1834. Today, Royal London Ireland is owned by The Royal London Mutual Insurance Society Limited – the UK's largest mutual life insurance, pensions and investment company, and in the top 30 mutuals globally, with assets under management of €197 billion, 8.5 million policies in force, and over 4,400 employees. Figures quoted are as at 30 June 2024. Royal London Ireland's office is based at 47-49 St Stephen's Green, Dublin 2.