

Acorn Life PENSION GLOSSARY (based on legislation as at October 2019)

Acorn Life Managed Growth Fund: This fund invests predominantly in equities. It is suitable for investors who are willing to accept a high level of expected volatility for the prospect of a higher expected long-term. This fund does not provide capital security. The Managed Growth Fund is managed by HSBC Global Asset Management (UK) Limited, the global investment solutions provider of the HSBC Group, one of the largest financial institutions in the world.

Acorn Life Managed Fund: This fund invests in a mix of equities and fixed-interest bonds, with a higher proportion of equities. It is suitable for investors who are willing to accept a medium-high level of expected volatility for the prospect of a higher expected long-term return than that offered by fixed-interest bonds solely or deposits. This fund does not provide capital security. The Managed Fund is managed by HSBC Global Asset Management (UK) Limited, the global investment solutions provider of the HSBC Group, one of the largest financial institutions in the world.

Acorn Life Cautiously Managed Fund: This fund is invested mainly in bonds denominated in euro, issued by governments, agencies, supranationals and corporates. There is also a smaller level of investment in other asset types e.g. equities and cash. It is suitable for investors who are willing to accept a low level of volatility for the prospect of a higher expected return than that offered by deposits. Bonds provide greater capital security than equities but may go down as well as up in value. Bonds do not protect against inflation in the medium to long term. The Cautiously Managed Fund is managed by HSBC Global Asset Management (UK) Limited, the global investment solutions provider of the HSBC Group, one of the largest financial institutions in the world.

Acorn Life Deposit Fund: This fund invests in deposits and cash only, for the minimum level of risk and volatility available but with limited potential for growth. Deposits generally provide the highest level of capital security but may go down as well as up in value. Deposits do not protect against inflation in the medium to long term.

Equities: Equities are shares in the ownership of a company. Equity funds pool investor's money to buy a range of shares in various companies from around the world.

Fixed-Interest Bonds: Fixed-Interest Bonds are investments sold by governments and companies as a way of borrowing money. In return for investor's cash, the government or company promises to pay a fixed rate of interest over a specific period plus a return of the investor's cash at the end of the period.

Volatility: Volatility is the relative rate at which the value of an investment moves up and down. If the value of an investment moves up and down rapidly over short time periods, it has high volatility. Equities have high expected volatility and are therefore more suitable for long-term rather than short-term investment. Fixed-interest bonds are considered to have low volatility.

Unit-Linked: This means that the contributions you pay into your policy are used to purchase units in the fund(s) you have chosen. The value of your policy depends on the value/price of these units, which is calculated every working day in accordance with the value of the underlying investments i.e. equities, fixed-interest bonds and/or deposits.

Personal Pension Plan: This is a pension plan where contributions paid within specified limits may attract tax relief. Funds accumulate in the pension fund free of income tax and capital gains tax on any investment income or gains. Retirement benefits may be accessed from age 60 onwards and must be taken by age 75. Up to 25% of the value of the pension fund at retirement may be taken as a lump sum. The balance of the fund must be used to purchase an annuity, an ARF or AMRF.

Lifetime Limit: Lump sums payable from pension plans are tax free subject to not exceeding the Lifetime Limit. The Lifetime Limit is currently €200,000 and includes all retirement lump sums paid from all pension arrangements since 7 December 2005. Tax is payable on retirement lump sums paid in excess of the Lifetime Limit.

Eligibility for a Personal Pension Plan: In order to be eligible to take out a Personal Pension you must have relevant earnings (taxable income) and be one of the following: Self-employed, Sole trader or, In non-pensionable employment.

Net Relevant Earnings: Net Relevant Earnings consist essentially of income arising from a trade or profession or non-pensionable employment, less deductions which would be made in computing total income for tax purposes such as losses and capital allowances. Rental Income is not classed as net relevant earnings.

Access to Funds: Pensions are savings for retirement and, therefore, the proceeds of a personal pension plan cannot be accessed prior to retirement.

Annuity: A guaranteed income payable for the life of the policyholder.

Approved Retirement Fund (ARF): A fund for retirement savings accumulated in a pension savings product such as a personal pension plan, PRSA or company pension plan. Any investment growth earned by funds in the ARF may accumulate free of income tax and capital gains tax. Funds in an ARF may be accessed at any stage. Withdrawals from an ARF are taxed as income.

Eligibility for ARF: Funds for investment in an ARF or AMRF must come from a revenue approved pensions product, such as a personal pension plan, a PRSA or a company or executive pension plan. You are eligible to invest your retirement fund in an ARF if (i) you have guaranteed pension income for life of more than €12,700 a year or (ii) you have already invested €63,500 in an AMRF or annuity or (iii) are over age 75. If you do not meet these criteria your funds may be invested in an AMRF.

Approved Minimum Retirement Fund (AMRF): A fund for retirement savings accumulated in a pension savings product such as a personal pension plan, PRSA or company pension plan. Any investment growth earned by funds in the AMRF may accumulate free of income tax and capital gains tax. Aside from a single withdrawal in each tax year of no more than 4% of the value of your AMRF, the capital in an AMRF cannot be accessed prior to age 75. Any withdrawals from an AMRF are taxed as income. An AMRF can be transferred to purchase an annuity at any stage. Any payment from an Acorn Life AMRF within 5 years of the investment are subject to a surrender penalty – full details are given in the policy documents.

Distribution: A withdrawal from an ARF or AMRF. The minimum withdrawal from the Acorn Life ARF or Acorn Life AMRF is €500. Distributions are taxed as income in the hands of the policyholder.

Imputed Distribution: For ARFs where the policyholder is age 60 or over, an imputed distribution is calculated each year based on a percentage of the value of the ARF on 30th November. Tax is due based on the amount of the imputed distribution. If total withdrawals during the year exceed the imputed distribution no further distributions are required, otherwise a balancing distribution will be made.

Defined Contribution Pension Scheme: This refers to a type of pension scheme where the fund value at retirement depends on the accumulated value of contributions paid to the scheme. You are entitled to avail of the ARF/AMRF option upon retirement.

Defined Benefit Pension Scheme: This refers to a type of pension scheme where the benefits at retirement are calculated according to a formula. Generally, it is not possible to avail of the ARF/AMRF options for benefits accrued under a DB scheme. The option may be available in respect of AVCs paid to a DB scheme or for 5% Directors provided the scheme rules allow the option.

Benefit Crystallisation Event: The taking of retirement benefits or transfer out of Ireland of pension benefits.

Standard Fund Threshold (SFT): With effect from 1 January 2014, the SFT is €2 million. Benefits taken in excess of the SFT are subject to income tax at the marginal rate. All benefits crystallised on or after 7 December 2005 are included in determining whether a tax charge applies.